Igniting the next boom

Bye-bye tax returns

A standard deduction for lower, simpler, and fairer taxes

Blueprint Institute

Contents

About this paper

This paper forms part of our *Igniting the next boom* series, where we propose tax and fiscal policy reforms to ignite a new era of rapid growth. We took a hit through the pandemic, and have rebounded strongly. But a V-shaped recovery won't be enough. In 2019, our GDP per capita grew just 0.6%, and since 2013, it's averaged just 0.9%. But during the preceding half-century, it averaged a full 2%. With *Bye-bye tax returns*, we propose a straightforward and achievable tax reform—a standard deduction—that would lift billions of dollars worth of dead weight off our shoulders every year. Our policymakers must exploit every opportunity, including this one, to get our economy booming again. This is their blueprint.

Acknowledgements

Thank you to the various experts who have been consulted on the development of this work. In particular, to Blueprint Institute's Research Committee and tax policy experts for their technical advice. The views expressed in this paper are those of the authors alone.

Attribution

This report may be cited as: Beal, E., D'Hotman, D., Hamilton, S. Heeney, L., Lamont, K. Bye-bye tax returns: A standard deduction for lower, simpler, and fairer taxes. Blueprint Institute; 2021.

April 2021

About the Authors

Emma Beal
Researcher

Emma has a Bachelor of Advanced Finance and Economics (First Class Honours) from the University of Queensland. As part of her Honours, she investigated the commercial viability of large-scale battery energy arbitrage in the Australian market. In her studies, she was awarded one of six international Women in Business Scholarships by Zonta Club for demonstrating outstanding potential within the field. Emma previously worked for the QIC's Global Infrastructure team and in Deloitte's Energy Financial Advisory team.

Daniel D'Hotman
Director of Research & Operations

Daniel is a Rhodes Scholar and medical doctor currently completing his PhD at the University of Oxford. With a strong interest in business and innovation, Daniel was awarded one of two undergraduate scholarships in the Asia-Pacific by the Boston Consulting Group, undertaking health systems and private equity projects in Sweden. Daniel has published a variety of academic papers, with one of these articles selected amongst the 'Best in Philosophy' collection for 2019 by Oxford University Press.

Steven Hamilton
Chief Economist

Steven is an Assistant Professor of Economics at The George Washington University in Washington, DC, and a former economist at the Australian Treasury. He is a tax economist by training, and uses data to learn how people respond to policy changes, with a view to designing better policy. Steven holds a PhD in economics and public policy, and an MA in economics, from the University of Michigan, and a Bachelor of Economics with First Class Honours and Bachelor of Business Management from the University of Queensland.

Luke Heeney
Researcher

Luke holds a Bachelor of Advanced Finance and Economics (First Class Honours) from the University of Queensland. Luke previously worked at Grattan Institute in both their energy and health programs, where he modelled wind farm developments and published on aged care reform. Luke has also worked at Macquarie Capital, the Reserve Bank of Australia, and QIC. During his Honours, Luke developed a new method to optimise and compare the value of developments in Renewable Energy Zones.

Katelyn Lamont
Summer Research Scholar

Katelyn has a Bachelor of Laws (First Class Honours) and Bachelor of Economics from the University of Queensland. Katelyn has worked as a casual academic at the University of Queensland's School of Economics, and as a Research Assistant at the TC Beirne School of Law. As part of her Honours degree, Katelyn completed research in financial product regulation under the guidance of the Australian Law Reform Commission. Katelyn has also worked in the legal team at Hatch and as a paralegal at King & Wood Mallesons.

Summary

Australians spend $2.3 billion a year managing their tax affairs—about what we spend on Coca-Cola products. And, because it's tax deductible, a big chunk is picked up by the taxpayer. 70% of people pay an accountant to prepare their tax return—an unusually high proportion compared to other countries. The ATO costs us $3.8 billion a year to administer and enforce the tax law, employing nearly 20,000 people. That means 1 in every 300 dollars in our economy goes to the ATO or a personal tax accountant or lawyer—two sides of the same coin.

When you get your phone bill, the phone company doesn't ask you to itemise all the calls you made, on what dates, for how long, and to whom. They send you a bill. And that's exactly how our tax return process should work. We've made big leaps with pre-filling and the online myTax system, but they've hardly moved the needle in peeling people away from their tax accountants.

The single biggest impediment is our complex and open-ended system of tax deductions. In the war on tax returns, tax deductions must be the opening salvo. Three quarters of people claim tax deductions, totalling $37 billion a year. Because they aren't pre-filled, people have to keep a box of receipts to take to their accountant at tax time. We estimate this complex system costs Australians $6 billion a year in compliance costs alone.

The system is also unfair. Those who know how (and are willing) to game the system do so—and pay less tax than everyone else as a result. That means that, in order to raise a given amount of revenue, taxes must be higher on everyone else. Four in five discrepancies in tax returns are for deductions, half for work-related expenses. The Government is not a charity; taxes, by definition, are not optional. But our vague system of deductions, which affords considerable discretion to the taxpayer, makes them so.

But, of course, we already know the answer. Review after review has told us. And every day we dither, the bill racks up. No longer. Australia should introduce a $3,000 standard deduction covering work-related expenses and a range of other personal deductions. Charitable giving, super contributions, and investment expenses, like the interest on negatively geared property, would be excluded. Taxpayers could continue to itemise their deductions if they wished, so nobody would be worse off. And 11 million taxpayers would be better off.

A standard deduction would:

- give 80% of taxpayers a tax cut, typically $400–$1,000 per year;
- reduce compliance costs by $4 billion per year;
- make our tax system more progressive and stamp out gaming;
- pave the way to eliminating 7–9 million tax returns per year, saving $750 million a year in accounting and legal fees; and
- cost the budget less than $5 billion per year.

Our failure to introduce a standard deduction, despite a series of reviews recommending it, is a microcosm of our failure to enact serious tax reform in the last two decades. A new tax reform process must focus on tangibly improving people's lives. On simplifying our tax system, cutting away the red tape that makes our lives more difficult. And on stamping out gaming, which undermines people's faith in the system. All other things equal, simpler is better.

Tax deductions are more trouble than they’re worth

Tax deductions make sense in theory

Our tax system allows people to use certain expenses they incur to reduce their taxable income and thus the amount of tax they pay. We call these deductions. In Australia, this includes certain work-related expenses, donations to charities, fees paid to tax agents, investment expenses such as financial advice and interest, among others. Three-quarters of Australian taxpayers claim at least one deduction, with deductions totalling $36.8 billion. The average total deduction is $2,576, with half of taxpayers claiming less than $674 (see Figure 1).

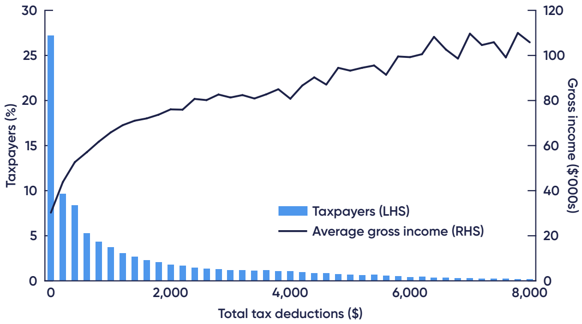


Figure 1 Distribution of deductions and average gross income by deductions, 2017-18

Source ATO, Blueprint Institute analysis

Many deductions are, in theory at least, perfectly reasonable and defensible features of a tax system. The legitimate role of deductions is perhaps clearest in the case of a business (see box, 'Francine's new IT venture'). We tax business profits (revenue less a deduction for expenses) for good reason—doing so can collect a given amount of tax revenue from a business in the way that is least discouraging of the sorts of things we like businesses to do: invest in new equipment, hire new employees, pay their people well, and make profits that support, among other things, the superannuation savings of retirees.

This case applies also to personal income. To the extent that work-related expenses are incurred for the purpose of generating income, they have a sound conceptual basis. Whether or not to undertake study is an investment decision about your future earnings. If we tax the benefit, but don't provide some relief for the cost, you might well decide it's not worth it. And that could make us a less productive nation. Other deductions are provided to encourage socially worthy activities; the deduction for charitable donations, for example.

But "in theory" is the rub. In practice, no policy should ever be designed on the basis of a single dimension of conceptually pure efficiency. A modern understanding of tax system design accounts for the many dimensions of social costs imposed by the tax law. And right at its centre are the myriad ways our simple theories can break down in the real world. Find your nearest tax lawyer, and they'll gladly tell you all about that. Australia's complex system of itemised deductions—among the most open-ended in the world—generates two big forms of waste in practice.

In order to exploit deductions, taxpayers have to jump through a lot of hoops. They have to keep track of all of their receipts, and then collate all of that information at tax time. To do so, many seek the help of tax lawyers and accountants—smart people who might be much more productive elsewhere. And, indeed, tax preparation costs are themselves tax deductible (!), so taxpayers end up picking up around a third of the tab. And this whole system must be administered by the ATO—again sucking up endless resources that could be more productive elsewhere.

The other form of waste is much of the deductible spending itself. For deductions to fulfil their conceptual purpose, they must generate taxable income. But, for many expenses, it's simply impossible to distinguish between legitimate expenses and personal consumption. Indeed, for many deductions, the law explicitly allows for a majority of the expense to be incurred for the purpose of personal consumption. The Government should have no role in subsidising people's personal consumption choices. Doing so involves a double whammy of waste: the taxes needed to pay for the subsidy waste valuable resources, and the subsidies themselves then generate wasteful over-consumption.

This also has the unfortunate effect of generating what economists call horizontal inequity: two people in otherwise similar circumstances pay very different amounts of tax, in this case because one of them knows how to exploit the system. This should receive far more attention in public discussions around fairness. It undermines the integrity of the tax base, and the faith of the citizenry in its government. The more your tax system is gameable, the worse a tax system you have.

So, ultimately, what we have is a trade-off. On one hand, we want to provide tax relief to encourage certain activities. On the other hand, doing so generates a lot of waste. In practice, while the former shouldn't be ignored, the latter is overwhelming. Based on all of the available evidence, our current tax system simply doesn't make the right trade-off.

Francine's new IT venture

Francine runs an IT business that currently generates $800,000 in revenue from an operation with costs of $500,000. She's doing quite well for herself. Francine is considering expanding her operations, including leasing additional office space, purchasing equipment, and hiring new employees. Doing so would double her current cost base to $1 million, but she expects it to generate an additional $700,000 in revenue.

Should Francine undertake the expansion? Of course, she should! The additional revenue of $700,000 exceeds the additional cost of $500,000, netting additional profits of $200,000. What effect do taxes have on her decision? Well, if we consider the company tax rate of 30% on profits, she'll pay $60,000 in tax, so her after-tax profits come down to $140,000—still clearly a net gain. Note that, by levying taxes on profits rather than revenues, we have allowed Francine to deduct her expenses.

What if we didn't? If we levied tax on her revenues rather than profits, then she would pay $210,000 in tax on her new expansion. But, remember, the expansion would only have generated additional profits of $200,000. So the expansion would now run at a loss. It wouldn't be worth her undertaking it—the new investment in equipment and additional workers simply wouldn't happen.

Not because the tax rate was too high, mind you. Rather, it's because she wasn't allowed to deduct her expenses when calculating her tax liability. The company tax rate on profits could have doubled, and her investment would still have been worthwhile. But without a deduction for expenses, the corporate tax killed her investment, and all of the social benefits it otherwise would have generated.

The key lesson here is that deductions for expenses that generate new taxable income make an income tax less distortive. This means we can raise a given amount of tax revenue without unduly destroying economic activity, and all the good things it brings. But, in practice, even for businesses, this story doesn't quite translate to reality, for a variety of reasons.

For example, how can we be sure that the expenses a business deducts really do generate additional taxable income, rather than simply a form of untaxed consumption for the manager of the business? It would be a mistake for the taxpayer to implicitly subsidise that. This kind of "agency cost", as economists call it, can weaken the strong theoretical case for allowing all expenses to be fully deductible, even in the ideal case of a business. This is why, under US tax law, businesses may only deduct 50% of their meal expenses—incidentally, a limit President Donald Trump sought to overturn soon before leaving office.

Our complex deductions system costs us billions

Around 70% of taxpayers use a tax agent. This has been remarkably stable over the past decade, with only a very modest decline recently following improvements in online filing (see Figure 2). Half of people spend more than $175 a year to manage their tax affairs. These costs add up, with Australians spending around $2.3 billion each year—about what they spend on Coca-Cola products! After more than a decade of very rapid real growth in tax agent fees, they've declined moderately in recent years, perhaps in response to competition from the ATO's myTax online filing system (see Figure 3). Amazingly, these costs are tax deductible—the Government is subsidising services that are necessary because of the Government's own red tape.

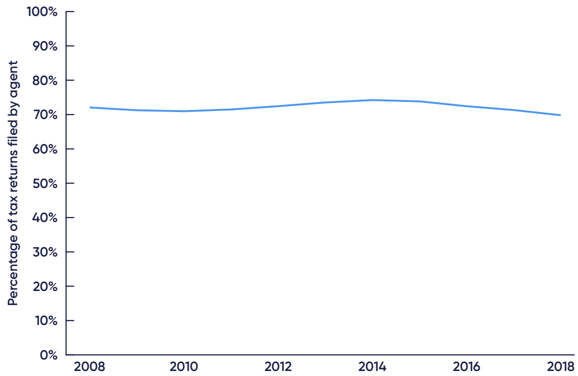


Figure 2 Percentage of individual taxpayers filing through a tax agent

Source ATO 2017-18; ATO 2011-12, Blueprint Institute analysis

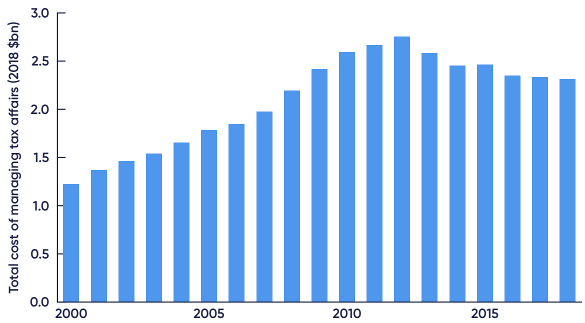


Figure 3 Annual cost of managing tax affairs since 2000, in 2018 dollars

Source ATO 2017-18; ATO 2012-13; ATO CPI; Blueprint Institute analysis

But tax deductions aren't just a hassle for tax agents. For most deductions, claimants must keep receipts or log their activity so they can provide evidence in the event they're audited. These records must be maintained for five years. In some limited instances, people don't need to have evidence to substantiate their deductions. These include $300 in total work-related expenses, $50 for phone and internet expenses, and $10 in bucket donations. The ATO also allows taxpayers to claim an hourly rate for home office expenses instead of itemising, which has been increased in response to the COVID-19 pandemic.

The compliance cost of itemising deductions is significant. Research in the US—where the tax system is similarly cumbersome, and a similar proportion of tax filers use a tax agent—pegs the cost at around 0.7% of annual income. Put differently, on average people would be willing to work 10 to 15 additional hours in order to avoid complying with the rules around deductions. This cost rises with income, consistent with the greater opportunity cost of time. And it doesn't depend on whether the taxpayer files electronically or uses a tax agent, suggesting it's associated with record keeping rather than filing. Across all Australian deduction claimants, this compliance burden adds up to $6 billion a year—the value of the entire annual production of Australia's dairy industry.

Compliance with the tax law must also be enforced. And the more complex the law, the more resources required to generate a given degree of enforcement. The ATO is the second-largest civilian federal department, with 18,368 staff and an annual budget of $3.8 billion. The ATO incurs costs in assessing, monitoring, and enforcing compliance with the rules around deductions. Strikingly, the ATO's Random Enquiry Program indicates that nearly 80% of individual tax returns require one or more amendments. But the ATO only amends 2-3% of individual tax returns.

Such a stark difference between the number of returns that require amendment and those that are actually amended suggests the cost of auditing overclaimed deductions is prohibitively high. The vast majority of problematic returns are left unamended. It also means the current administrative process is not only expensive, but ineffective. We should design tax policy that shrinks the resource sink that is the ATO.

How does our tax return burden compare with that of other countries?

Australia has comparatively high rate of tax agent use, with nearly 70% of Australian taxpayers engaging a tax agent to lodge their return. Additionally, all taxpayers in Australia must file tax returns. This is uncommon among developed economies. While data is not available for all nations in the OECD, the data that is available paints a worrying picture.

In the UK, around a third of taxpayers file a tax return. The other two-thirds neither file a return nor engage a tax agent—their tax return is simply pre-filled. In New Zealand, the story is similar, with under a third of taxpayers filing returns—New Zealand's tax authority automatically assesses returns for the remaining taxpayers. Both the UK and New Zealand have designed systems that reduce the burden of taxes on people's lives.

Many other countries have simplified their tax systems to minimise the burden on employees at tax time. In Austria, the Czech Republic, Germany, Ireland, and Italy, taxpayers generally do not have to file tax returns. The same is true in Japan, the Slovak Republic, Korea, Turkey, Luxembourg, Mexico, the Netherlands, and Poland—as long as an employee has no deduction claims. Several other nations send a pre-filled tax return to taxpayers for confirmation. While Australia has taken steps to expand pre-filling, most taxpayers still have to complete a return to claim deductions.

Even among countries where most taxpayers still need to file tax returns, our rate of tax agent use is high. In Canada, all taxpayers must file tax returns. But only 57% of these tax returns are filed by agents—significantly less than in Australia. In Spain, only 24% of tax returns are filed by agents; while in Belgium, the rate is just 18%. There are many possible reasons for this discrepancy, but surely the globally unique open-endedness of our claimable deductions plays a role.

Tax deductions subsidise consumption

A work-related expense is deductible to the extent 'it is incurred in the gaining or producing of assessable income'. The expense need not be wholly—nor even mostly—necessary to generate income in order to be lawfully used to offset income. Faced with this vague definition, even an honest taxpayer can face difficulties in correctly distinguishing and apportioning between income-producing and consumption expenses. And, indeed, sometimes these expenses simply can't be separated as a practical matter.

The ATO Random Enquiry Program is intended to identify the incidence of misreporting via a random audit of around 1,000 individual tax returns. The program estimates the tax gap (the gap between tax paid by individuals and the tax that legally should be paid by them) at $8.3 billion, which is over 5% of the total tax collected. Incorrect deductions for work-related expenses make up just over half of this gap by dollar value. And, of course, that doesn't include the portion of the value of deductible expenses lawfully claimed that are still really consumption for the claimant.

Of the 3,505 discrepancies adjusted by the ATO in individuals' tax returns, 79% related to deduction items. More specifically, 48% of necessary adjustments related to work-related expenses. The highest rates of adjustments are typically for 'other expenses'—such as incorrect claims relating to home office, mobile phone, and internet costs. Common reasons for adjustments include a lack of relationship between the expense claim and income generation, and overestimates of deduction amounts (see Figure 4).

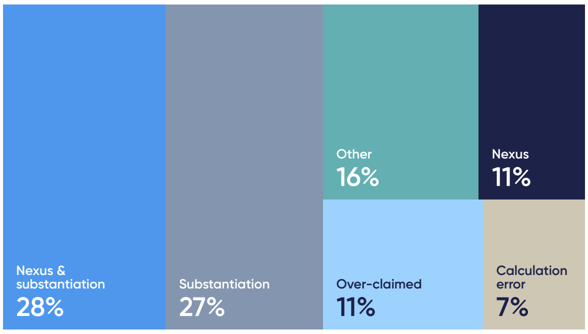


Figure 4 Reason for work-related expense adjustments

Source ATO

Note Nexus is a lack of connection between the expense and income-generating activity. Substantiation is a lack of evidence for the expense.

The inability to distinguish legitimate expenses provides ample cover for those who wish to game the system. Claiming a tax deduction for consumption rather than an income-generating activity transfers a subsidy to you from other taxpayers. And the benefit of doing so gives you a strong incentive to consume more than you otherwise would. The two best-selling vehicles in Australia are the Toyota Hilux and Ford Ranger. They're reliable utes with lots of productive uses. But how many fewer utes would be sold in Australia each year if they could only be claimed as a tax deduction when used exclusively for work?

Academic research by our Chief Economist confirms the responsiveness of deductible expenses to their tax benefits in the Australian context. When given a specific, strong tax incentive to reduce their taxable income (either by raising deductions or lowering gross income), the response of deductions was around ten times greater than that of gross income. This response was largely accounted for by work-related expenses. Given the degree to which their tax-deductible status distorts the use of deductions, there is a strong case for reducing the degree to which people can claim them.

In upcoming, related work, our Chief Economist demonstrates that when taxpayers are offered a one-off tax incentive to raise their deductions, the effects continue long after the incentive goes away. This observed "stickiness" of tax deductions suggests tax deductibility is even more distortive than originally thought. One explanation is that taxpayers may "set and forget" their deductions, simply re-entering the same information as last year regardless of their actual circumstances.

Our system of deductions is also, quite simply, unfair. Those who know how (and are willing) to game the system do so—and pay less tax than everyone else as a result. This is known as 'horizontal inequity'. Its natural consequence is that, in order to raise a given amount of revenue, taxes must be higher on everyone else.

The Government is not a charity; taxes, by definition, are not optional. But our vague system of deductions, which affords considerable discretion to the taxpayer, makes them so. In addition to being inefficient and morally wrong, this also can have the rather pernicious effect of undermining what economists call 'tax morale'—the intrinsic willingness to pay tax. Starving the beast might sound all well and good in theory, but it's no way to live in a civilised society. The greater is tax morale, the more efficiently we can raise the revenue we need to support our critical public services. Indeed, the lower we need to set tax rates in order to satisfy our revenue requirements. And the greater the support for our other critical public institutions that are held together by little more than norms. To have a society with integrity, we need a tax base with integrity too.

Many countries have moved to a standard deduction

In the US, a standard deduction applies to all taxpayers, with the amount depending on personal circumstances. From 2018, the US increased the standard deduction to nearly double its previous level, and correspondingly removed personal allowances and some allowable deductions. 90% of US taxpayers are now better off claiming the standard deduction than itemising—even with deductibility of mortgage interest on the family home.

France, Germany, Belgium, Poland, and Spain also use standard deductions in varying forms. In Japan, a standard deduction is available for low-income earners, and is calculated proportionately to income. The UK does not have a standard deduction per se. But it has a higher tax-free personal allowance that is typically GBP12,500 (AU$22,500) and can be higher depending on personal circumstances.

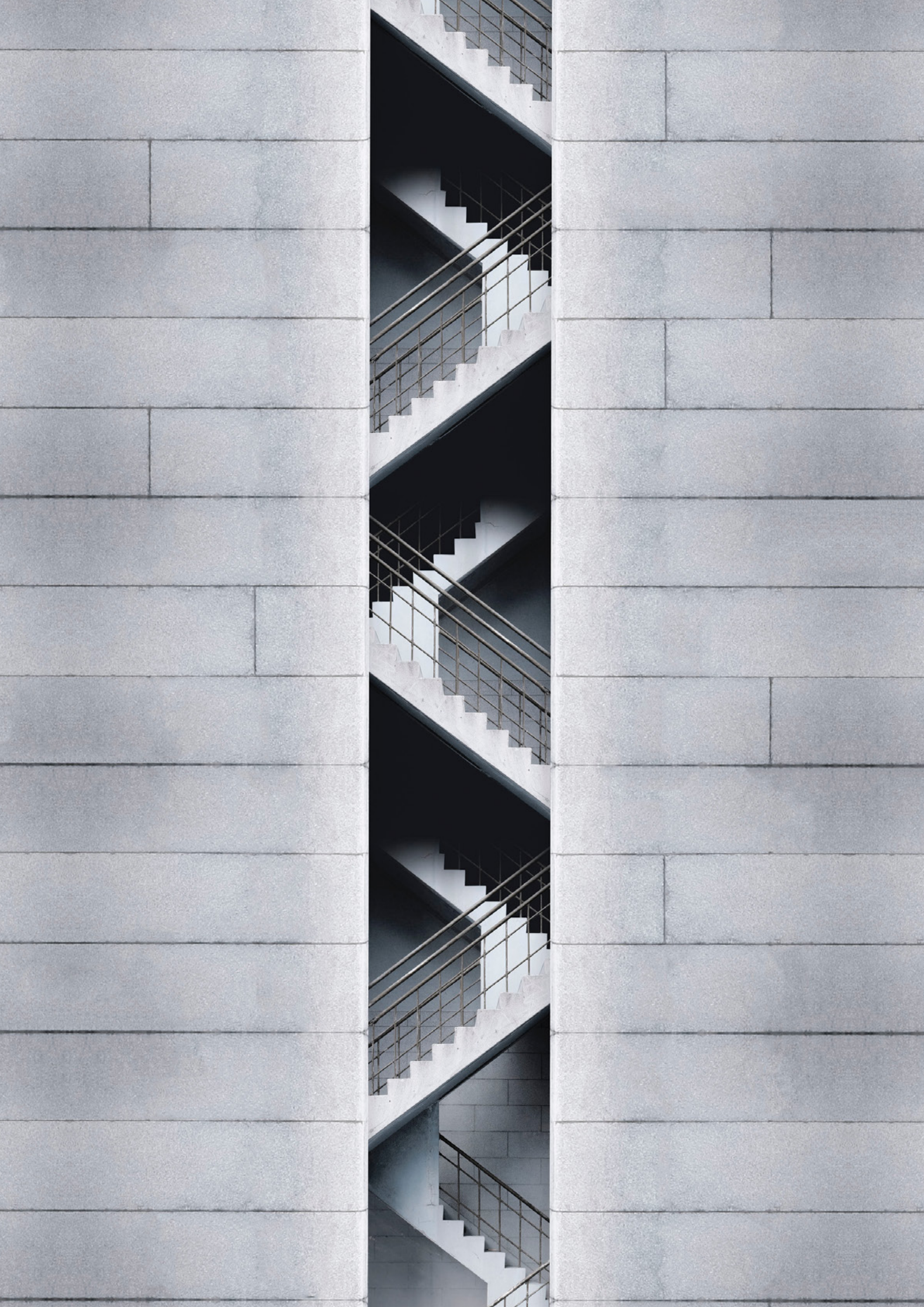
Canada and Italy have systems of tax credits instead of deductions. These systems consist of a personal income tax credit that directly reduces tax payable, rather than reducing taxable income. The basic personal income tax credit in Canada is AU$1,943–2,089. A tax credit of 15% of employment income to a maximum of AU$197 also applies. In Italy, the employment income tax credit starts at AU$2,922 and decreases with income. Many taxpayers are also eligible for other credits depending on personal circumstances.

Both Italy and Canada have a narrow scope of allowable deductions. The combination of these tax credits with limited allowable deductions bears some similarities to a standard deduction system: there is limited itemisation and standard amounts are deducted. But this is done on the basis of income or particular circumstances, rather than universally.

A cross section of countries across the OECD and G20, large EU countries, and comparable economic systems in New Zealand and Israel shows this range of policy approaches (see Table 1). There is a strong international precedent for a standard deduction, with multiple examples of comparable tax systems with credits or deductions and a corresponding decrease in itemisation. Notably, standard deductions are particularly common in jurisdictions that also have a narrow scope for work-related expense claims.

Standard Deduction	Countries
No standard deduction	Mexico, Turkey, the Netherlands, Australia, the UK, Austria, Switzerland
Standard deduction or similar instruments provided, or standard deductions with the option to itemise full expenses (standard deduction as fixed nominal or percentage of earnings)	US, Japan, France, Germany, Belgium, Spain, Poland, Korea, Sweden
Tax credits provided	Canada, Italy, New Zealand, Israel

Table 1 Overview of standard deduction models in the OECD
Source PWC, Blueprint Institute analysis



A standard deduction

Our model

The Government should introduce a standard deduction of $3,000 to the personal income tax return. This would reduce tax revenues by around $5 billion per year. The standard deduction would be the default, but taxpayers would retain the option of itemising if they were to prefer to do so, though it would only be worthwhile if their deductions were to exceed $3,000. On this basis, we expect 80% of all taxpayers—around 11 million people—to go with the standard deduction.

The introduction of the standard deduction would have two effects on taxable income for those who choose to claim it. First, their taxable income would fall by $3,000. This would reduce the tax they pay according to their marginal tax rate—by $900 for someone on the 30% rate, for example. Second, they would lose their current deductions, partly offsetting that tax benefit. Those with larger deductions would receive lower net benefits. We expect taxpayers on average, at all income levels, to pay $400–600 less tax per year under the standard deduction (see Figure 5).

The personal income tax return contains a large number of allowable deductions, spread throughout the deductions, supplementary deductions, and supplementary income sections. The decision of whether to include a particular deduction in the standard deduction depends on: how widely it is used; the likelihood of it being used for consumption rather than income generation, and how difficult that is to verify; the strength of its conceptual basis as a deduction; and how easily automatic pre-filling could be accommodated.

It's important also to consider that including a high-value item in the standard deduction might induce some people who otherwise might have taken the standard deduction to itemise. This prevents them from benefiting from the reduced compliance costs the standard deduction would have brought to their other expenses.

On these bases, we propose for the standard deduction to cover all forms of work-related expenses (car, travel, clothing, self-education, etc.), the cost of managing tax affairs, and most supplementary deductions. Gifts and donations, and personal superannuation contributions would be excluded. There is a social interest in maintaining public support for charities, and a system of third-party reporting should be able to be implemented for those. Including personal super contributions would conflict with the conceptual basis of the super system as a pre-tax saving vehicle, and of course pre-filling of those is straightforward. Expenses incurred in investing in property, debt, and equity are excluded, as are business expenses.

This system could be implemented via redesigns of the personal income tax form and the online myTax system. Unless a taxpayer provided details for individual deductions, the standard deduction would apply, allowing them to skip over the deductions section of the tax form. But, ideally, this reform would form part of a broader overhaul enabling automatic preparation of taxpayers' Notices of Assessment, sparing them from the tax return process entirely. Each year, they'd receive an automatic direct debit (or a bill), just as with so many of their other services. We estimate that at least half, and perhaps up to two-thirds, of all tax returns have a reasonable prospect of being automated, saving 7–9 million people from this annual ritual. Now that's tax reform.

The standard deduction is not a new idea

There have been several investigations into Australia's tax deduction system, each emphasising the need to simplify and reduce the tax returns filed. But we have so far failed to achieve significant reform. Australia's system of deductions is not only out of step with other nations; it runs contrary to the recommendations of multiple reviews.

The 2009 Henry Review (Australia's Future Tax System) comprehensively addressed the shortfalls of the tax deduction mechanism and endorsed the economic principle that taxing net income—revenue, less costs—is most efficient. The AFTS Review recommended introducing an optional standard deduction for work-related expenses and costs of managing tax affairs, whereby taxpayers choose between claiming the standard amount, or a higher amount with itemisation and substantiation. It was at one point a policy of the Rudd Government. But as with almost all of the recommendations of the Henry Review, the proposal was never implemented.

Several reports have since revisited Australia's systemic tax deduction problems. The Government considered the issue in its 2015 Re:think Tax Discussion Paper. The paper canvassed removing work-related expense deductions entirely and providing a standard deduction, or providing an optional standard deduction. But it did not make final recommendations.

In 2017, the House of Representatives Standing Committee on Economics released a report on its Inquiry into Tax Deductibility, finding significant problems in the tax deduction system. The report reiterated that complexity and uncertainty in the work-related expenses regime results in a high compliance burden and incidence of incorrect claims. It concluded that an opt-in standard deduction would be equitable and efficient, but ruled it out due to its high cost.

Most recently, the 2018 Inspector-General of Taxation's report recommended reform of the work-related expense deduction system through the introduction of a standard deduction. This report recognised that successive inquiries have indicated a standard deduction could significantly decrease compliance costs for individuals and the ATO, and would be in line with international precedent.

When are we going to finally fix this?

Lower, simpler, and fairer taxes

A standard deduction would provide tax relief to 80% of all taxpayers. And because taxpayers can still choose to itemise, nobody can be worse off. On average, the new system would deliver around $400–600 in annual tax relief (see Figure 5). As it does so via a reduction in taxable income, a standard deduction lowers taxpayers' average tax rates, generating a stronger incentive to participate in the workforce. But to the extent the reduction in taxable income draws people down into lower tax brackets, the policy would also lower marginal tax rates, encouraging workers to work more. These effects should be stronger for women, particularly those with children. While the positive labour-supply effects would clearly be good for the economy, they would also generate additional tax revenue, helping defray the budgetary cost of the policy.

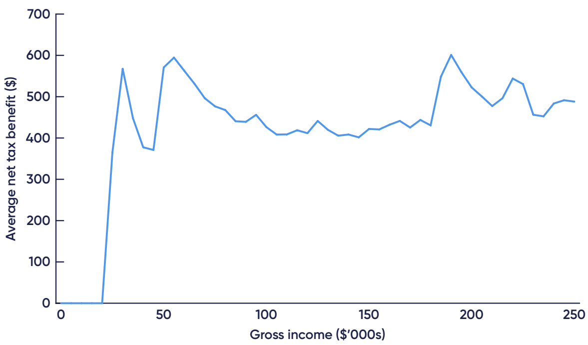


Figure 5 Average net benefit of a standard deduction across all individual taxpayers by gross income

Source ATO, Blueprint Institute analysis

While the Australian economy has fared better than almost any other during the COVID-19 pandemic, and has rebounded strongly in recent months, there is still significant weakness in many sectors. Around half a million more Australians are on welfare now than before the crisis. A standard deduction would provide 0.3% of GDP in additional economic stimulus, boosting economic activity and thus supporting the labour market recovery. This too would generate additional tax revenue, offsetting some of the budgetary cost. Macro-economically, at least, there hasn't been a better time in decades to introduce a standard deduction.

A standard deduction wouldn't only improve the quantum of support, but also the timing of that support. Under our current system, taxpayers must cover all of their deductible expenses up front, only receiving tax relief once they have filed their tax return after the end of the financial year. Under a standard deduction, withholding rates could be adjusted so less tax is taken out of paychecks each week, spreading the tax benefits evenly throughout the year. This smoothing effect would benefit many taxpayers facing liquidity constraints.

The policy would also generate massive savings in compliance costs. Based on high-quality evidence, we estimate that a standard deduction would save around $4 billion per year in compliance costs—equivalent to 10 to 15 hours of work on average for the 11 million people spared from itemising their deductions. We also estimate that the policy could pave the way to between half and two-thirds of individual taxpayers no longer filing a tax return. This would save around $750 million per year in tax preparation costs.

Furthermore, a standard deduction would significantly reduce the administrative and enforcement burden on the ATO, reducing costs and further offsetting the revenue impact of the policy. Under a standard deduction, the ATO would no longer be required to assess and audit the deduction portion of returns for those who claim it. This is likely to be a significant saving given deductions account for around 79% of required amendments. Overall, savings from lower compliance, tax preparation, administrative, and enforcement costs are likely to exceed the budgetary cost of the policy.

While a standard deduction would provide a larger absolute tax benefit to those on higher marginal tax rates, the itemised deductions it wipes away also rise with income (see Figure 5). Moreover, those on higher incomes are more likely to continue to itemise, so are less likely to gain from the policy. The net effect is that a standard deduction would provide a roughly similar tax benefit on average to workers throughout the income distribution (see Figure 5). This results in proportionately greater tax relief going to those on lower incomes (see Figure 6a). The standard deduction thus makes the current, relatively flat system of itemized deductions far more progressive (see Figure 6b). And in addition to vertical equity, the policy would also radically improve horizontal equity. Overall, it's a recipe for a much fairer tax system.

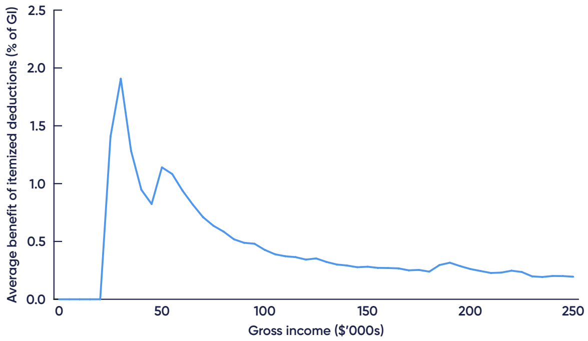


Figure 6a Average tax benefit of deductions today as a percentage of gross income.

Source ATO, Blueprint Institute analysis

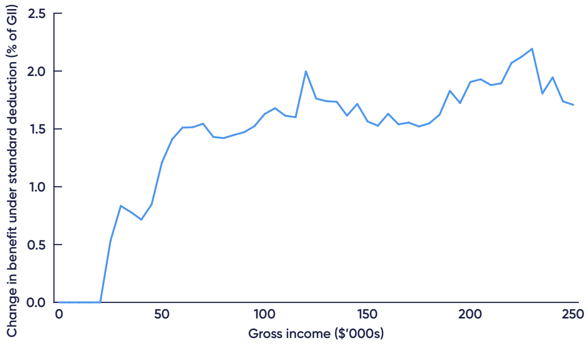


Figure 6b Change in average tax benefit due to a standard deduction as a percentage of gross income.

Source ATO, Blueprint Institute analysis

Design choices (Wonkish)

Threshold

The choice of standard deduction is a fairly standard exercise in welfare economics. Some parts of the cost-benefit analysis are more easily quantifiable than others. As the threshold is raised, more taxpayers are captured by the standard deduction, though this occurs at a diminishing rate given the heavily right-skewed distribution of deductions among taxpayers (see Figure 7a).

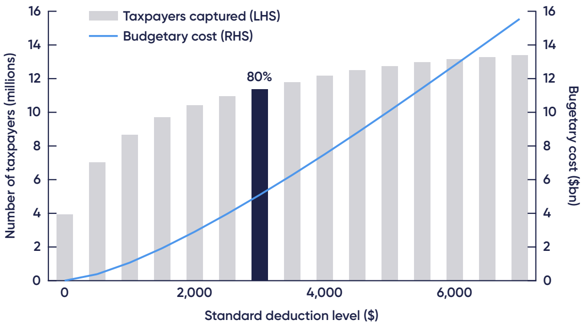


Figure 7a Taxpayers captured vs budgetary cost for different standard deductions

Source ATO, Blueprint Institute analysis

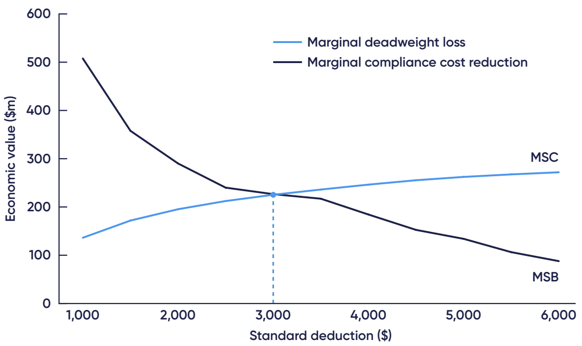


Figure 7b "Supply and demand" for different standard deductions

Source ATO, Blueprint Institute analysis

Note This figure is *not* a stylised diagram. Rather, it is derived from the true distribution of deductions, the true budgetary cost of different standard deductions, the 0.7% of income compliance cost estimate, and the 20% of revenue deadweight loss rule of thumb.

As more taxpayers are captured under the standard deduction, a series of marginal costs and benefits are generated. The primary cost is revenue, which must be recovered somehow—either by lower spending or higher taxes elsewhere, potentially at significant cost. And this revenue loss increases at an increasing rate as the threshold is raised. This is because, as the standard deduction is increased, not only must the Government extend that higher amount to new taxpayers, but also to all those already receiving it. The other cost is any efficiency loss due to eliminating deductible expenditures. The greater the merit in allowing a given expense to be deductible, the higher that cost. The more an expense can be gamed and used to support personal consumption, the lower that cost. The benefits are myriad, and described at length in the previous section. The main quantifiable one is a reduction in compliance costs.

Table 2 provides some of this information for a range of thresholds. It's important to note that the revenue loss is not a loss of real resources to the economy. Rather, it is simply a transfer from one agent to another. But moving those resources does come at some cost—collecting taxes destroys activity, for example. Economists call this a "deadweight loss" or "excess burden" of taxation. There are a wide range of available estimates of this cost, but it's common to use 20% as a rule of thumb. As we increase the standard deduction from $2,000 to $3,000, an additional 7 percentage points of taxpayers are captured, saving an additional $500 million in compliance costs. But this comes at a smaller cost of $440 million in real resources (20% of the $2.2 billion revenue loss). Beyond that point, the marginal cost exceeds the benefit (see Figure 7b).

Threshold	$2,000	$3,000	$4,000	$5,000
Taxpayers captured	73%	80%	85%	90%
Compliance cost savings	$3.5b	$4.0b	$4.4b	$4.7b
Tax revenue loss	$2.9b	$5.1b	$7.5b	$10.1b

Table 2 Comparative effects of different standard deductions

Source ATO, Blueprint Institute analysis

Of course, the unquantifiable benefits and costs will alter this analysis. Though, on the face of it, they seem likely only to further strengthen the case for a standard deduction, and one even higher than $3,000. It's exactly this kind of rigorous analytical framework combined with a high-quality evidence base that should guide our development of policy. There are, of course, many other relevant considerations. But this gives us a strong analytical foundation on which to base our recommendation of a $3,000 standard deduction.

Carve-outs

The decision calculus governing how comprehensive to set the base of the standard deduction is not too dissimilar from that of the threshold. But the discrete (in or out), rather than continuous, nature of the decision variable makes things a little trickier. The more comprehensive the base, the greater the number of taxpayers captured, so the greater the compliance cost savings. Different items have different implications for compliance costs. And some have greater prospects than others for pre-filling. The effect on revenue is ambiguous: by broadening the base, you extend the standard deduction to more taxpayers (which decreases revenue), but you also eliminate more itemised deductions claimed by those currently using the standard deduction (which increases revenue).

Further, the likely balance between consumption and income generation differs across items. For example, expenses incurred in investing in rental properties, which net off gross rental income in the supplementary income section of the tax return, would not be included. These expenses are clearly income-generating, with travel expenses associated with a rental property no longer being deductible from 1 July 2017. Just 16% of Australian taxpayers claim expenses for a rental property, with 93% of rental expenses exceeding $3,000 per year. And the prospects for third-party reporting of rental income are slim. That means a claimant will have to manually submit a tax return irrespective of whether rental expenses are included in the standard deduction. It's just not worth it.

In that same vein, the interest and dividend deductions should be moved to their respective income sections and explicitly netted off against their respective income items, just as with rental income. The standard deduction should treat expenses from investments in debt, equity, and property equally, as a matter of neutrality. And, for those items at least, the nexus between the expense and income generation is far stronger than for work-related expenses.

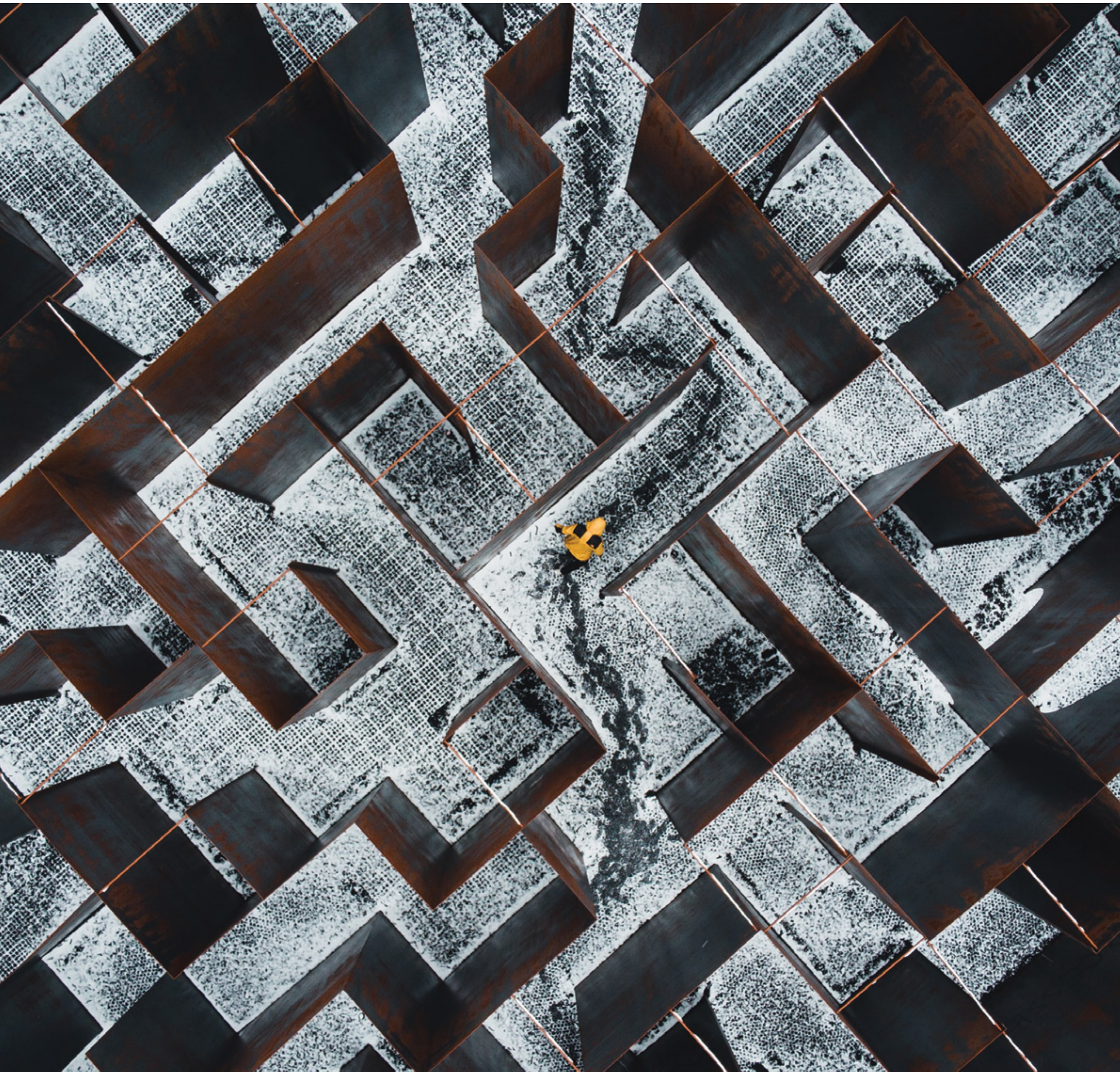
For the same reasons, the standard deduction would not apply to business income. Furthermore, the additional compliance burden for businesses is negligible. Many businesses have already established the systems necessary to comply with the tax law. Many will already have engaged an accountant, for example, in order to manage their operations. Thus the marginal reduction in the compliance cost burden of itemising deductions is likely to be negligible.

Under our proposal, charitable giving and personal superannuation contributions would not be included in the standard deduction. Providing eligible, registered charities with the ability to receive tax-deductible donations incentivises charitable giving. Where these generate positive externalities, serve as public goods, or help to defray costs otherwise borne by the Government, there is a good case for a subsidy. While tying the subsidy rate to the marginal tax rate of the giver has no sound conceptual basis, reforms to the tax treatment of charitable giving deserve a separate, well-considered process. They shouldn't be hobbled by a standard deduction process geared to other forms of deductions.

Similarly, personal contributions to superannuation should also be treated separately. Super contributions are intended to be made on a pre-tax basis to prevent income taxes discouraging retirement saving. Regardless, the average non-zero personal superannuation contribution claim is $14,317, well above our $3,000 standard deduction amount. If these contributions were no longer tax deductible, the majority of taxpayers making personal super contributions would choose to maximise their tax benefit by continuing to itemise all of their deductible expenses.

As a result, distortionary spending incentives and compliance costs would not be eliminated for this group.

We propose that a single-touch deduction reporting system be introduced for charitable donations and personal super contributions alongside a standard deduction. A single-touch system would place the onus on the charity or super fund to claim a tax benefit from an eligible donation or contribution on the taxpayer's behalf. Super funds already report employer superannuation contributions to be cross-referenced with information submissions from employers. Charities would need to gain this capability, and this would also enable greater enforcement of the rules around charitable giving. The ATO could then pre-populate the deductions section for charitable donations and personal superannuation contributions, enabling automatic issuance of a Notice of Assessment.



A single-touch system for charitable giving can build on existing infrastructure

Tax authorities, including the ATO, already make extensive use of third-party information for several types of income. In some countries, this information is used to pre-fill tax returns on the taxpayer's behalf. This has numerous benefits, including reducing asymmetric information within the reporting system, allowing for the detection of underreported income or overstated deductions, and discouraging tax evasion. Pre-populated returns also allow for faster processing, fewer tax return amendments, and improved perceptions of the tax authority.

Importantly, a single-touch system eliminates compliance costs for the taxpayer. Although this places a greater reporting burden on third parties, the relevant information is often already collected as part of normal business processes. Economies of scale mean they often have lower compliance costs than individual taxpayers.

In Australia, the Single Touch Payroll (STP) system reports payroll information to the ATO at the same time that an employer pays their employees. In a similar vein, employee superannuation contributions are paid to super funds and reported to the ATO in a single transaction via SuperStream. Both these schemes reduce the income tax reporting burden for employers and employees. The information provided by employers is pre-filled into the employee's tax return on their behalf, without any additional administration costs to the employers. Given the benefits of single-touch systems, STP Phase 2 was announced in the 2019-20 Budget. This will see an expansion of tax data collected through the system and further simplification of the tax reporting system.

The information currently captured through STP and SuperStream is limited to salaries and wages, pay as you go (PAYG) withholding amounts, and compulsory and salary sacrificed superannuation contributions. The ATO also pre-fills information on welfare payments, private health insurance, and interest and dividend income received from financial institutions and large companies. While the Australian third-party reporting system is largely limited to income-related items, some OECD countries have begun introducing information reporting and pre-population for tax deductions.

Denmark provides a compelling use case for a single-touch tax deduction system for charitable donations. Since 2008, charities in Denmark have been required to report donations they receive on behalf of the donor, who receives a pre-populated tax return. This reform coincided with a doubling in the number of charitable deductions claimed and a 15% increase in the total value of claims—despite no obvious change in giving behaviour. This suggests that taxpayers were underreporting eligible charitable tax deductions and forgoing tax savings—in part to avoid hassle costs. This was particularly the case for smaller claims, where the tax benefit was not sufficient to offset the marginal compliance costs. The introduction of the single-touch scheme in Denmark eliminated these costs for charitable giving, offering a powerful example of the system's potential to simplify tax deductions and reduce the burden on taxpayers.

Tightening the rules for those who itemise

The standard deduction will eliminate the need to record or itemise work-related expenses for around 80% of taxpayers. Some taxpayers at the margin will choose the standard deduction even when their expenses surpass $3,000 to reduce their compliance costs. But around 3 million taxpayers with deductions greater than $3,000 will continue to itemise.

For these taxpayers, the complexity of work-related expense provisions poses an ongoing and significant risk of overclaiming. This is particularly so amongst high-income earners with higher deductions and relatively high marginal tax rates. Individuals from this group have a greater incentive to reduce tax liability by maximising work-related expenses. For example, a $3,000 standard deduction would not cover the depreciation from large capital assets such as new motor vehicles. Under Australia's current laws, this expense can be claimed in full as a deduction to the extent it is used in the pursuit of income-generating activities—but it's impossible to know if the fundamental motive is consumption. The system subsidises vehicles of unlimited value that might not have been purchased if it weren't for tax deductions.

The vagueness of the deduction criteria leave it exposed to intentional gaming of the system. But it doesn't have to be this way. Australia's loose requirements are out of step with comparable nations with stricter, narrower, and clearer requirements that limit expenses to those that are necessary and exclusive to income production (see Table 3).

New Zealand denies deductions for employment expenses with narrow exceptions for employment insurance and interest on borrowed investment funds. Historically, the US had similar, albeit stricter criteria, to Australia. But following the Tax Cuts and Jobs Act of 2017, which almost doubled the standard deduction, the US no longer allows work-related employee expense deductions, at least until 2025.

In the UK, work-related expenses exceeding the personal allowance can be deducted on a narrow basis with substantiation and itemisation. However, deductions are only available if the employee is obliged to incur the expense and incurs it wholly, exclusively, and necessarily for employment purposes. Canada's narrow requirements for deductions also exclude most work-related expenses. An expense must be: required by the employment contract; an annual union or professional fee; a moving expense; employment insurance; or a self-education expense.

Country	No deductions or extremely limited deductions for work-related expenses	Narrow deductions for some work-related expenses	Wider deductions for work-related expenses
Austria			✖
Australia			✖
Belgium			✖
Canada		✖	
France			✖
Germany			✖
Israel		✖	
Italy		✖	
Japan		✖	
Korea		✖	
Mexico	✖		

Country	No deductions or extremely limited deductions for work-related expenses	Narrow deductions for some work-related expenses	Wider deductions for work-related expenses
Netherlands		✖	
New Zealand	✖		
Poland		✖	
Spain		✖	
Sweden			✖
Switzerland			✖
Turkey	✖		
UK		✖	
USA	✖		

Table 3 Comparison of allowability of employment-related expense deductions

Source PWC, EY, Blueprint Institute analysis

Note This table includes all nations that are in both the OECD and the G20, the 12 largest countries in the European Union, and Israel and New Zealand. Tax policies listed apply to employees, not self-employed persons or persons carrying on a business.

To reduce distortionary activity and gaming of the system, we suggest the standard deduction be paired with tighter requirements for claiming work-related expenses for individuals. Reform should embed the principle that deductible, work-related expenses must be closely connected to income-generating activity. This goal could be achieved via a change to the *Income Tax Assessment Act 1997* that tightens work-related expense rules, as detailed below.

Current Requirement:
Currently, section 8-1 of the Income Tax Assessment Act 1997 states:
(1) You can deduct from your assessable income any loss or outgoing to the extent that:
(a) it is incurred in gaining or producing your assessable income;

Proposed Requirement:
We propose a narrower requirement:
(1) You can deduct from your assessable income an expense that:
(a) is necessary to fulfil the requirements of your employment, and
(b) is wholly and exclusively incurred in gaining assessable income.

For taxpayers who claim the standard deduction, this change has no effect. But for taxpayers who choose to itemise, it creates a tighter nexus between expense- and income-generating activity, as recommended by the Henry Review. Specific legislative deductions should also be narrowed and clarified using these criteria. There should be no changes to current legislative prohibitions on specific types of expenses; nor to requirements for individuals carrying on a business.

While tightening work-related expense criteria will leave some taxpayers worse off, the benefits of tighter expense rules outweigh the costs. Those affected are overwhelmingly high-income earners. Without reform to work-related expense criteria, many of these taxpayers will continue to overclaim deductions, even if a standard deduction were to be introduced. Overclaiming undermines horizontal equity and increases distortive economic activity. This would also generate additional revenue, which would offset some of the budgetary cost of the standard deduction. Combining a large standard deduction with narrowed criteria for additional work-related deductions strikes the right balance between accurately taxing net income, and reducing compliance costs and inefficiency.

References

Australian Taxation Office. 2012. "Summary tables – Table 4, Taxation Statistics 2011-12." Australian Government Data. https://data.gov.au/data/dataset/taxation-statistics-2011-12/resource/8273b1e0-c4cb-4351-bb58-3da3bacc4d61

Australian Taxation Office. 2013. "Individuals – Table 1, Taxation Statistics 2012-13." Australian Government Data. https://data.gov.au/data/dataset/taxation-statistics-2012-13/resource/233cbf28-6fda-4e53-bbe9-3a37a65fb742

Australian Taxation Office. 2016. "SuperStream." June 22, 2016. https://www.ato.gov.au/super/superstream/

Australian Taxation Office. 2020. "Consumer Price Index (CPI) rates." November 2, 2020. https://www.ato.gov.au/rates/consumer-price-index/

Australian Taxation Office. 2020. "Home office expenses." December 17, 2020. https://www.ato.gov.au/individuals/income-and-deductions/deductions-you-can-claim/home-office-expenses/

Australian Taxation Office. 2020. "How do deductions work." ATO Community Knowledge Base. December 18, 2020. https://community.ato.gov.au/t5/Knowledge-Archive/How-do-deductions-work/ta-p/12524#:~:text=Most%20deductions%20are%20expenses%20you,the%20value%20of%20your%20expenses.&text=Gifts%20and%20donations%20%2D%20if%20you,to%20claim%20a%20tax%20deduction

Australian Taxation Office. 2020. "Individual income tax rates." October 15, 2020. https://www.ato.gov.au/rates/individual-income-tax-rates/

Australian Taxation Office. 2020. "Individuals not in business income tax gap." October 19, 2020. https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-gap/individuals-not-in-business-income-tax-gap/

Australian Taxation Office. 2020. "Keeping a record of your donation." January 20, 2020. https://www.ato.gov.au/Non-profit/Gifts-and-fundraising/Claiming-tax-deductions/Keeping-a-record-of-your-donation/

Australian Taxation Office. 2020. "Keeping your tax records." June 15, 2020. https://www.ato.gov.au/individuals/income-and-deductions/in-detail/keeping-your-tax-records/?page=1#How_long_to_keep_your_records

Australian Taxation Office. 2020. "Phone, data and internet expenses." June 15, 2020. https://www.ato.gov.au/Individuals/Income-and-deductions/Deductions-you-can-claim/Other-work-related-deductions/Phone,-data-and-internet-expenses/

Australian Taxation Office. 2020. "Snapshot - Table 4, Taxation Statistics 2017-18." Australian Government Data. July 16, 2020. https://data.gov.au/data/dataset/taxation-statistics-2017-18/resource/54952043-7fc2-463a-b189-9cf84779e961?inner_span=True

Australian Taxation Office. 2020. "Rental properties and travel expenses." July 1, 2020. https://www.ato.gov.au/General/Property/Residential-rental-properties/Rental-properties-and-travel-expenses/

Australian Taxation Office. 2020. "Snapshot - Table 5, Taxation Statistics 2017-18." Australian Government Data. July 17, 2020. https://data.gov.au/data/dataset/taxation-statistics-2017-18/resource/37e6a189-3410-440d-9d91-1e98d01c1732

Australian Taxation Office. 2020. "Trends and latest findings, Random Enquiry Program." October 19, 2020. https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-gap/individuals-not-in-business-income-tax-gap/?page=2#Findings_from_the_random_enquiry_program

Australian Taxation Office. 2020. "Work-related expenses." July 2, 2019. https://www.ato.gov.au/Tax-professionals/Your-practice/Tax-and-BAS-agents/Risk-assessment/Work-related-expenses/

Australian Taxation Office. 2021. "Single Touch Payroll." February 4, 2021. https://www.ato.gov.au/business/single-touch-payroll/

Australian Taxation Office. n.d. "Individual Sample File". Accessed March 2018. https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2017-18/?anchor=Individualssamplefiles#Individualssamplefiles

Australian Treasury Tax White Paper Task Force. 2015. Re:think Tax discussion paper. Canberra: Commonwealth of Australia. https://treasury.gov.au/sites/default/files/2019-03/c2015-rethink-dp-TWP_combined-online.pdf

Australian Treasury. 2019. "Part 2 Expense Measures," in Budget Paper No. 2, Budget 2019-20. Canberra: Commonwealth of Australia. https://budget.gov.au/2019-20/content/bp2/download/bp2_expense.pdf

Australian Treasury. 2020. "Part 2: Staffing of Agencies," in Budget Paper No. 4, Budget 2020-21. Canberra: Commonwealth of Australia. https://budget.gov.au/2020-21/content/bp4/download/bp4_08_part_2_-_staffing.pdf

Benzarti, Youssef. 2020. "How Taxing Is Tax Filing? Using Revealed Preferences to Estimate Compliance Costs." American Economic Journal: Economic Policy, 12, no. 4: 38-57. http://www.doi.org/10.1257/pol.20180664

Canada Revenue Agency. 2021. "Do you have to file a return?" January 18, 2021. https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/you-have-file-a-return.html

Coca-Cola Amatil. 2020. 2019 Annual Report. https://www.ccamatil.com/getmedia/5be1f5e9-db5b-44cc-8ea6-fe9d174222ce/2019annualreport.pdf

Commissioner of Taxation. 2020. Commissioner of Taxation annual report 2019-20. Canberra: Australian Taxation Office. https://www.transparency.gov.au/annual-reports/australian-taxation-office/reporting-year/2019-20-41 Or https://www.ato.gov.au/uploadedFiles/Content/CR/Downloads/Annual_Report_2019-20/annual_report_2019-20.pdf

Dairy Australia. 2020. "Australian Dairy Industry In Focus 2020." November 19, 2020. https://www.dairyaustralia.com.au/en/industry-statistics/industry-reports/australian-dairy-industry-in-focus#.YIU4q-gzaUk

Department of Social Services. 2021. "JobSeeker Payment and Youth Allowance recipients - monthly profile." Australian Government Data. April 16, 2021. https://data.gov.au/data/dataset/jobseeker-payment-and-youth-allowance-recipients-monthly-profile

Ernst & Young. 2020. Worldwide Personal Tax and Immigration Guide 2019-20. https://assets.ey.com/content/dam/ey-sites/ey-com/en_am/tax-and-law/ey-2019-20-worldwide-personal-tax-and-immigration-guide.pdf

Gillitzer, Christian and Skov, Peer. 2018. "The Use of Third-Party Information Reporting for Tax Deductions: Evidence and Implications from Charitable Deductions in Denmark." Oxford Economic Papers 70, no. 3: 892-916. https://doi.org/10.1093/oep/gpx055

Government of Canada. 2021. "All deductions, credits, and expenses." February 22, 2021. https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/deductions-credits-expenses.html

H&R Block. n.d. "Can I Deduct Unreimbursed Employee Expenses?" H&R Block. Accessed April 25, 2021. https://www.hrblock.com/tax-center/filing/adjustments-and-deductions/unreimbursed-employee-expenses/

Hamilton, Steven. 2018. "Optimal deductibility: Theory, and evidence from a bunching decomposition". https://dx.doi.org/10.2139/ssrn.3125568

Heckscher, Dean. 2021. "The Best-Selling Utes in Australia." Canstar Blue. July 7, 2021. https://www.canstarblue.com.au/vehicles/best-selling-utes/

Henry, Ken. 2009. Australia's future tax system. Canberra: Commonwealth of Australia. https://treasury.gov.au/review/the-australias-future-tax-system-review/final-report

HM Revenue and Customs. 2019. "Over 93% of taxpayers file tax returns by the deadline," press release. February 1, 2019. https://www.gov.uk/government/news/over-93-of-taxpayers-file-tax-returns-by-the-deadline

HM Revenue and Customs. 2020. "Table 2.1 Number of individual Income Tax payers." June 26, 2020. https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age

Income Tax Assessment Act 1997 (Commonwealth) https://www.legislation.gov.au/Details/C2021C00112

Inspector-General of Taxation. 2018. The Future of the Tax Profession. Canberra: Commonwealth of Australia. https://www.igt.gov.au/news-and-publications/reports-reviews/future-tax-profession

Keane, Michael. 2011. "Labor Supply and Taxes: A Survey." Journal of Economic Literature 49, no. 4: 961-1075. https://www.aeaweb.org/articles?id=10.1257/jel.49.4.961 https://doi.org/10.1257/jel.49.4.961

New Zealand Inland Revenue. n.d. "Types of individual expenses." Accessed April 25, 2021. https://www.ird.govt.nz/income-tax/income-tax-for-individuals/types-of-individual-expenses

New Zealand Treasury. 2015. Guide to Social Cost Benefit Analysis. https://www.treasury.govt.nz/sites/default/files/2015-07/cba-guide-jul15.pdf

New Zealand Treasury. 2020. "Who pays income tax…and how much?" May 14, 2020. https://www.treasury.govt.nz/information-and-services/financial-management-and-advice/revenue-expenditure/revenue-effects-tax-changes/who-pays-income-tax

OECD. 2004. Tax Administration in OECD Countries: Comparative Information Series (2004). Paris: OECD Publishing. https://www.oecd.org/tax/administration/CIS-2004.pdf

OECD. 2019. "Return Filing." Tax Administration 2019: Comparative Information on OECD and Advanced and Emerging Economies. https://data.rafit.org/regular.aspx?key=62831420

OECD. 2019. Tax Morale: What Drives People and Businesses to Pay Tax? Paris: OECD Publishing. https://doi.org/10.1787/f3d8ea10-en

Okun, Arthur. 2015. Equality and Efficiency: The Big Tradeoff. Washington: Brookings Institution Press. https://www.jstor.org/stable/10.7864/j.ctt13wztjk

Pricewaterhouse Coopers. Worldwide Tax Summaries. Website. Accessed April 25, 2021. https://taxsummaries.pwc.com/

Standing Committee on Economics. 2017. Report on the inquiry into tax deductibility. Canberra: Commonwealth of Australia. https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/Taxdeductibility/Report

Tax Policy Centre. 2020. "How did the TCJA change the standard deduction and itemized deductions?" Tax Policy Centre Briefing Book. May 2020. https://www.taxpolicycenter.org/briefing-book/how-did-tcja-change-standard-deduction-and-itemized-deductions

United Kingdom Government. n.d. "Claim tax relief for your job expenses." Accessed April 25, 2021. https://www.gov.uk/tax-relief-for-employees

United Kingdom Government. n.d. "Income Tax rates and Personal Allowances." Accessed April 25, 2021. https://www.gov.uk/income-tax-rates

Blueprint Institute