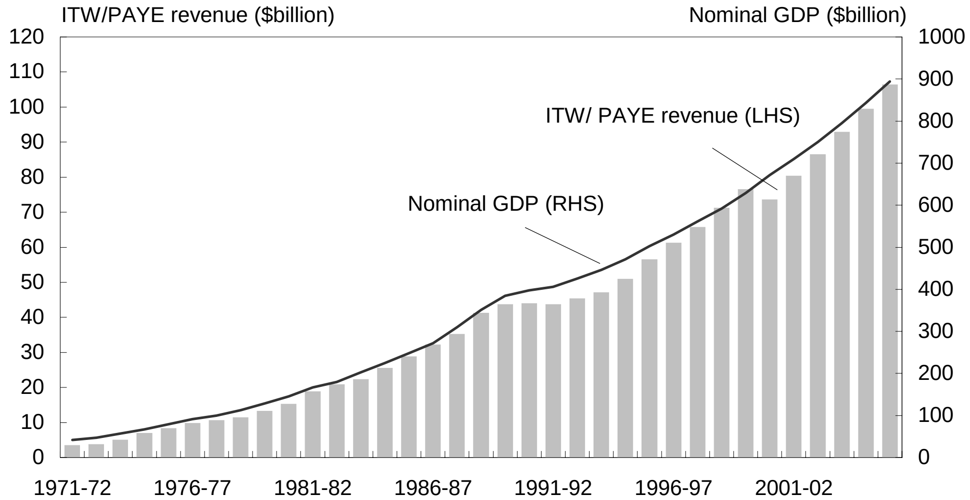
Appendix D: Key drivers of taxation revenue growth

GDP is composed of compensation of employees, the profits of incorporated (companies) and unincorporated sectors (small business, primary producers and investors), and indirect taxes less subsidies. Historically, each of these components has generally grown at around the same rate as nominal GDP.

Compensation of employees

The compensation of employees is taxed directly by the Commonwealth through the Income Tax Withholding (ITW) system. Compensation of employees and ITW withheld from employees have historically grown at around the same rate as nominal GDP (Chart D1).

Chart D1: Taxes levied on the compensation of employees



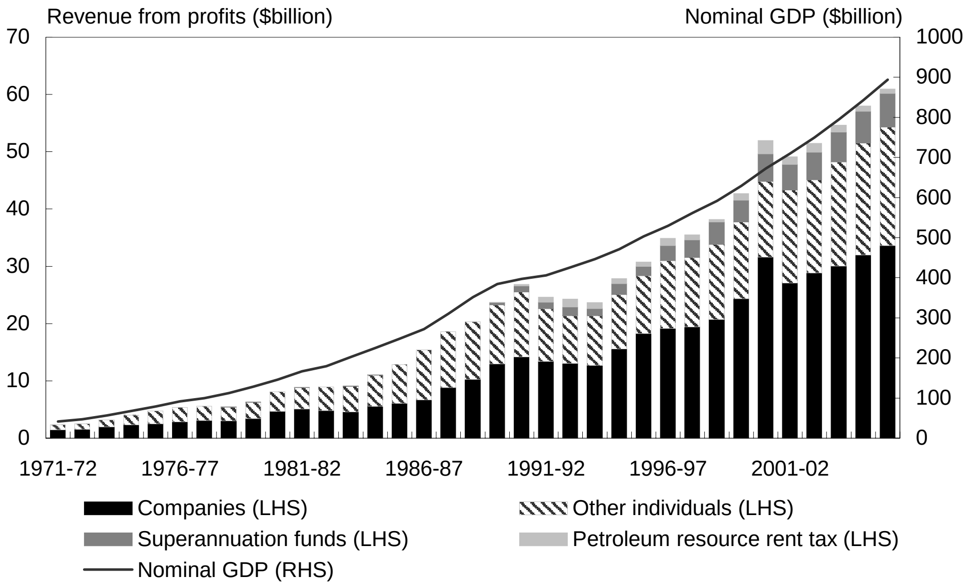
Source: ABS Cat. No. 5206.0 and Commonwealth of Australia Budget Paper No.1 (various).

Profits

The two main sources of taxation revenue from profits are company tax and personal tax from individuals other than that collected through the ITW system. Company income tax is levied on the incorporated sector, while personal income tax is levied on the unincorporated sector — the unincorporated sector comprises small business, primary producers and investors. There are several other smaller taxes levied on profits, including Petroleum Resource Rent Tax and tax on superannuation funds.

Growth in profits and the taxes levied on them have generally grown in line with nominal GDP over the last 30 years (Chart D2).

Chart D2: Taxes levied on profits

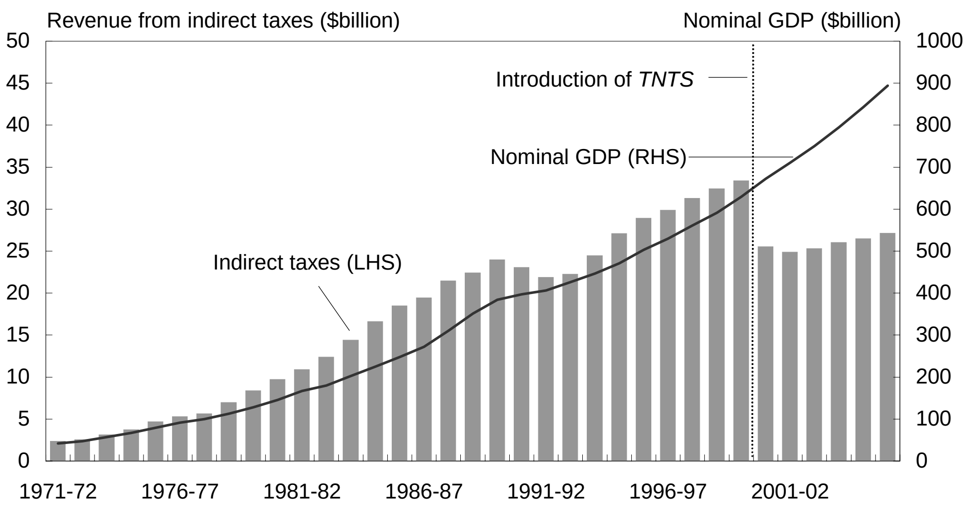


Source: ABS Cat. No. 5206.0 and Commonwealth of Australia Budget Paper No.1 (various).

Indirect taxes

Indirect taxes are taxes which are not levied on income, and include excise duty, customs duty, wine equalisation tax and luxury car tax. The broad drivers of indirect tax are production, consumption and imports. It is assumed that indirect taxes will grow at the same rate as nominal GDP (Chart D3).

Chart D3: Indirect taxes



Source: ABS Cat. No. 5206.0 and Commonwealth of Australia Budget Paper No.1 (various).

The introduction of *The New Tax System* resulted in a reduction in the level of Commonwealth indirect taxes because of the abolition of wholesale sales tax and the transfer of GST revenue to the States.