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SUPPLEMENTARY MATERIAL

Australians may pay more taxes than Americans, but here's what they get for their money[1]

Jonathan Blumberg | @YoniBlum

2 Hours Ago

Australians and Americans both like complaining about how much they pay in taxes. A Gallup poll found that 57 percent of Americans think their federal income tax bill is too high. A Per Capita survey pegged the number of similarly discontented Australians at 45 percent.

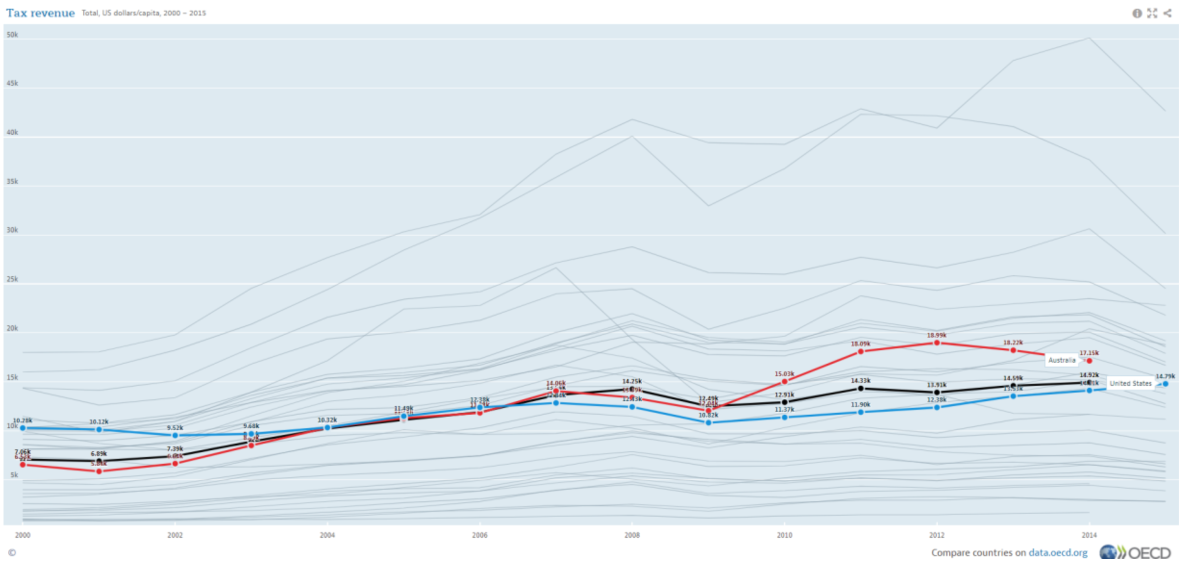
That's a 12 percent difference despite the fact that "Australians pay slightly more than what the average American pays," Brendan Coates, a fellow at the Grattan Institute, an independent Australian public policy think tank, tells CNBC Make It.

Though Aussies may have gripes, they don't seem too bothered by them. This year's World Happiness Report from the United Nations placed Australia, along with Norway, Denmark and other high-tax, high-benefits countries, among the top 10 happiest countries in the world.

What Australians pay in taxes

According to the Organization for Economic Cooperation and Development (OECD), which analyzes the tax burdens of 35 countries, Australians paid on average $17,146 USD per capita in 2014 in "total tax revenue," while Americans paid $14,115 USD per capita. So, on average Australians pay about $3,000 more than Americans a year.

[1] https://www.cnbc.com/2017/11/29/australians-may-pay-more-taxes-than-americans-but-they-get-more-too.html



OECD (2017), Tax revenue (indicator). doi: 10.1787/d98b8cf5-en (Accessed on 26 October 2017)[2]

Both countries veer close to the OECD average, which was $12,911 USD. Residence of high-tax, high-benefits countries like Norway, in contrast, pay rates of over $30,000 USD.

What Australians get for their taxes

A recent United Nations study ranked Australia to have the second best quality of life in the world, after accounting for "three basic dimensions of human development": life expectancy at birth, mean and expected years of schooling and standard of living, which was measured by income. In the same study, the U.S. came in at No. 8.

There are a number of reasons for that contrast. One is Australia's effective, accessible health care system, which even President Trump has praised.

It is single-payer, which means "a public agency handles health care financing while the delivery of care remains largely in private hands." Under this set up, the Australian government can pay significantly less than what U.S. residents pay, while still offering effective treatments.

According to the OECD, in 2016, Australia paid 9.6 percent of the nation's GDP on health care, while the U.S. paid over 17 percent. The per capita health spending in the U.S. is over $9,000. In Australia, it's under $5,000.

https://data.oecd.org/chart/50Xo *OECD (2017), Health spending (indicator). doi: 10.1787/8643de7e-en (Accessed on 26 October 2017)*

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2 https://data.oecd.org/chart/50Xn

The Australian medical system is not without its issues. As is the case in many countries, affluent people have more and better access to care. The life expectancy of indigenous populations is approximately 70 years of age, whereas for non-indigenous citizens it's 84. And, like the U.S., the country also has a rising population of seniors that may require policy changes to be appropriately dealt with.

Still, among 11 high-income nations, the Aussie health care system ranked second in the world, just behind the United Kingdom's, while the U.S.'s system is ranked 11th, or last, according to a report from the Commonwealth Fund.

The quality of life in Australia is also boosted by programs that directly benefit average families, such as paid leave. New parents get 18 weeks of time off. The U.S., meanwhile, is the only developed country in the world that does not guarantee any paid leave.

The country also boasts a more generous system of income-based student loan repayments for college grads. "In Australia, graduates don't have to start making payments for their college educations until they reach a salary equivalent to $39,152, at which point they're charged 4 percent of their total earnings," The Atlantic reports.

This way, if you don't find a job with a decent salary immediately after college, you don't have to worry about paying your loans back yet. Nor do you have to worry about paying interest.

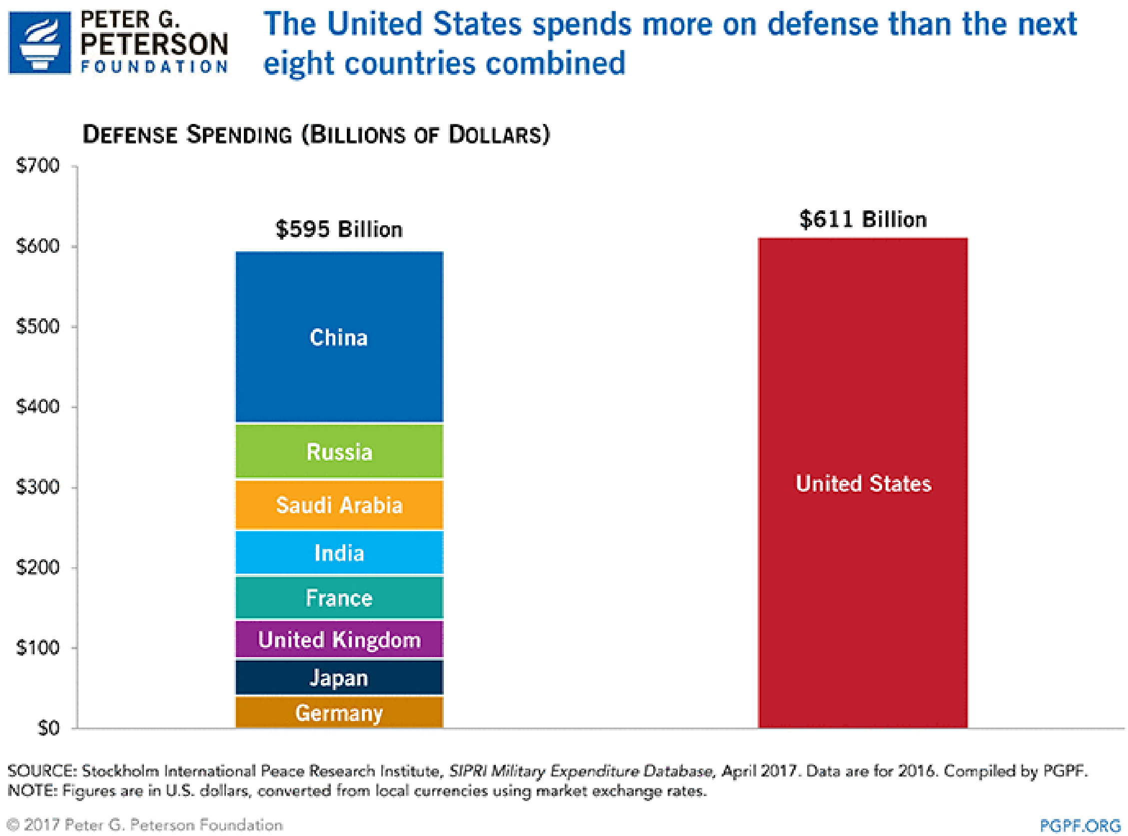
"By contrast, in most of the American plans, income-based repayments typically kick in at $17,820 — and take a minimum of 10 percent," according to The Atlantic. Plus, students do pay interest, and it usually compounds.

The result in the U.S. is a $1.3 trillion debt crisis that is only getting worse. In 2016, the average American college graduate left with $37,172 in debt, 6 percent more than the previous year, reports Rolling Stone.

What Americans get for their taxes

Americans enjoy a strong national defense. Of all discretionary spending in the U.S., the military counts for about half.

At $611 billion in 2016, the Peterson Foundation points out, this is more than the next eight countries combined. Australia spends around $30 billion a year on defense, or about 6 percent of its budget.



The U.S. also spends a significant amount on health care and benefits for some of its citizens. In the fiscal year 2016, the Pew Research Center reports, "The federal government spent just under $4 trillion, and about $2.7 trillion – more than two-thirds of the total – went for various kinds of social insurance (Social Security, Medicaid and Medicare, unemployment compensation, veterans benefits and the like)."

Many of the programs covered by discretionary spending are intended to help the most vulnerable. These include "the early childhood education program Head Start (included in Housing & Community), Title I grants to disadvantaged schools and Pell grants for low-income college students (Education), food assistance for Women, Infants and Children (WIC), training and placement for unemployed people provided by Workforce Investment Boards (in Social Security, Unemployment and Labor)," reports the National Priorities Project.

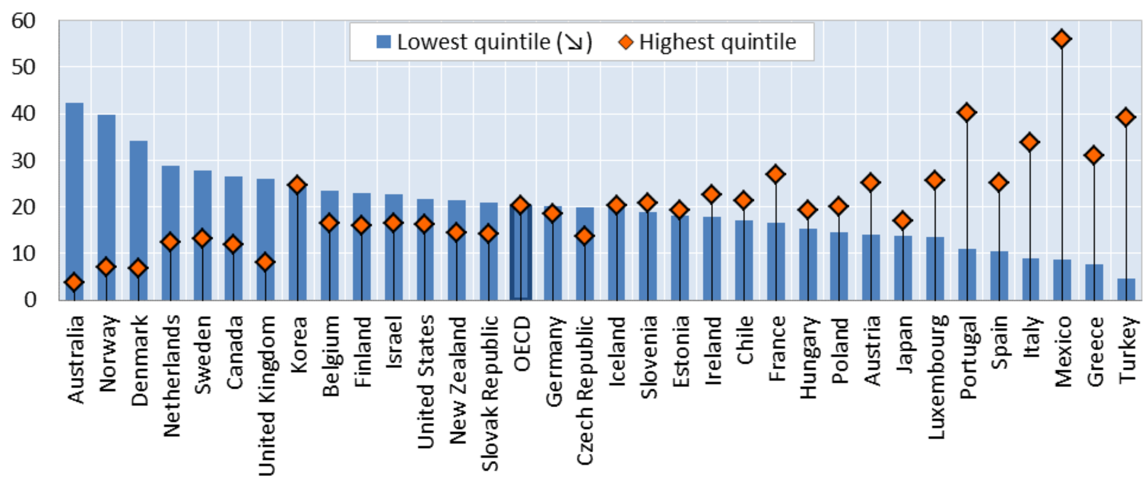
In fact, when it comes to cash benefits — meaning old-age and disability pensions, family payments and allowances, government-funded paid parental leave and unemployment benefits — the U.S. spends more, proportionally, than Australia.

"Australia was the 6th lowest spender on cash benefits in the OECD, spending 8.4 per cent of GDP, with the only countries spending less mainly being lower income like Mexico, Chile and Korea," says Coates. "In contrast, the United States spends 9.1 per cent of GDP on cash benefits."

The countries, however, distribute those benefits differently. Australia does a better job at directing resources to the citizens who need them.

How Australia uses revenue differently

"Australia has the most tightly targeted tax transfer system in the world," says Coates. "Over 40 percent of income of cash benefits are paid to the bottom 20 percent of income earners in Australia, compared to around 3 percent paid to the top 20 percent of income earners."



"In contrast, in the U.S., just 20 percent of cash benefits are paid to the bottom 20 percent," says Coates, "whereas the top 20 percent receive around 15 percent of all cash benefits."

OECD (2014), Percentage of public social benefits in cash paid to the lowest and highest quintiles, total population, OECD countries, 2011

To ensure that benefits are being apportioned fairly, Australia uses "means-testing" — a fancy way of saying the richer you are, the less you qualify for support, whether it be in the form of old age pensions or family allowances. "In Australia, close to 80 percent of government cash benefits are means-tested, compared to 27 percent in the U.S.," says Coates.

This tax transfer system has an equalizing effect on the Australian economy. In the U.S., both the rich and the poor receive considerable portions of the government's redistributed revenue. In Australia, the rich see only a little and the poor receive a lot.

Despite the fact that so much federal spending in the U.S. goes to cash benefits, more Americans are poor and inequality is worse. According to the OECD, Australia's relative income poverty rates, or "the share of the population with an income of less than 50 percent of the respective national median income," was 12 percent in 2015. The U.S. rate was 17 percent.

Consider another measure: Gini Coefficients, a globally accepted indicator of wealth distribution. With a score of 0, a country would have perfect equality, and with a score of 1, perfect inequality.

In 2014, Australia's was 0.33. The U.S.'s was 0.39. "That [difference is] actually quite a lot," says Coates.

The big picture

Ultimately, Australians pay more in taxes than Americans, but, relative to other high- and low-tax countries in the OCED, not by much. The real difference is in how that revenue is spent. Low- and middle-income Australians seem to see a lot more concrete return for what they give the government, which might explain why they are less bothered by the giving.

And, of course, the proposed GOP tax reform would further change how these countries compare. As CNBC reports, "it could be the biggest rewriting of the system in decades."

Giving Tuesday: 5 Best Tax Tips For Deducting Donations[3]

John Wasik, CONTRIBUTOR

With all of the wrangling over tax "reform" by the GOP, one piece of the tax code remains untouched for now: Charitable donations.

If you're writing checks, donating goods or other assets, though, you need to know the rules on what's deductible. The IRS is picky on what you can write off.

Every year you need to compile receipts and tally what you've given to charity. It can really add up, so it's important to get your records in order. Here are some basic rules from the IRS:

-- **Are You Itemizing?** You can't really write off charitable contributions unless you list or "itemize" them on Schedule A of your 1040 form.

In addition, if you're donating a vehicle, boat or plane, you'll need to provide yet another form -- 1098-C

-- **Are You Donating to a `Qualified' Charity?** While there are tens of thousands of non-profits, not all are charities that qualify for a tax write-off.

Political candidates and lobbying organizations, for example, don't qualify for a charitable contribution. The general rule is that the organization must be a "501 (c) 3" non-profit.

For those of you who care about the tax code, it's a "501 (c) *4*" non-profit that won't qualify for a write-off. You can check an organization's tax status here.

-- **Pay Close Attention to Market Value.** This is of particular importance when donating clothes and vehicles. You can obtain a fair market value for cars, for example, on Edmunds.com.

Why is "fair market" value important? The IRS will do a double-take if you say your donated 10-year-old car with 100,000 miles on it is worth $40,000.

-- **Collect Receipts.** The IRS wants receipts for anything worth more than $250. That means a charity must send you a letter acknowledging the gift.

Here's what the agency says you should do:

[3] https://www.forbes.com/sites/johnwasik/2017/11/28/giving-tuesday-5-best-tax-tips-for-deducting-donations/#63f299086dbb

"The statement (from a charity) must show:

1. The amount of the donation.

2. A description of any property given.

3. Whether the taxpayer received any goods or services in exchange for their gift, and, if so, must provide a description and good faith estimate of the value of those goods or services."

-- Be careful about charity events. Charities sell tickets for fundraisers and fancy dinners all the time, but you can't deduct the full cost of the tickets.

Here's where you need to ask a pointed question of the charity sponsoring the event:

"Taxpayers may receive something in return for their donation. This includes things such as merchandise, meals, and event tickets.

Taxpayers can only deduct the amount of the donation that's more than the fair market value of the item they received. To figure their deduction, a taxpayer would subtract the value of the item received from the amount of their donation."

Most charities will tell you what the deductible amount is of their merchandise or event. If not, ask them.

Is Multinational Tax Avoidance at an End?[4]

By Gary Ashton | February 12, 2016 — 4:46 PM EST

Last autumn the Group of 20 major economies endorsed a package of measures to tackle corporate tax avoidance, but some fear the plans left loopholes for multinationals to exploit.

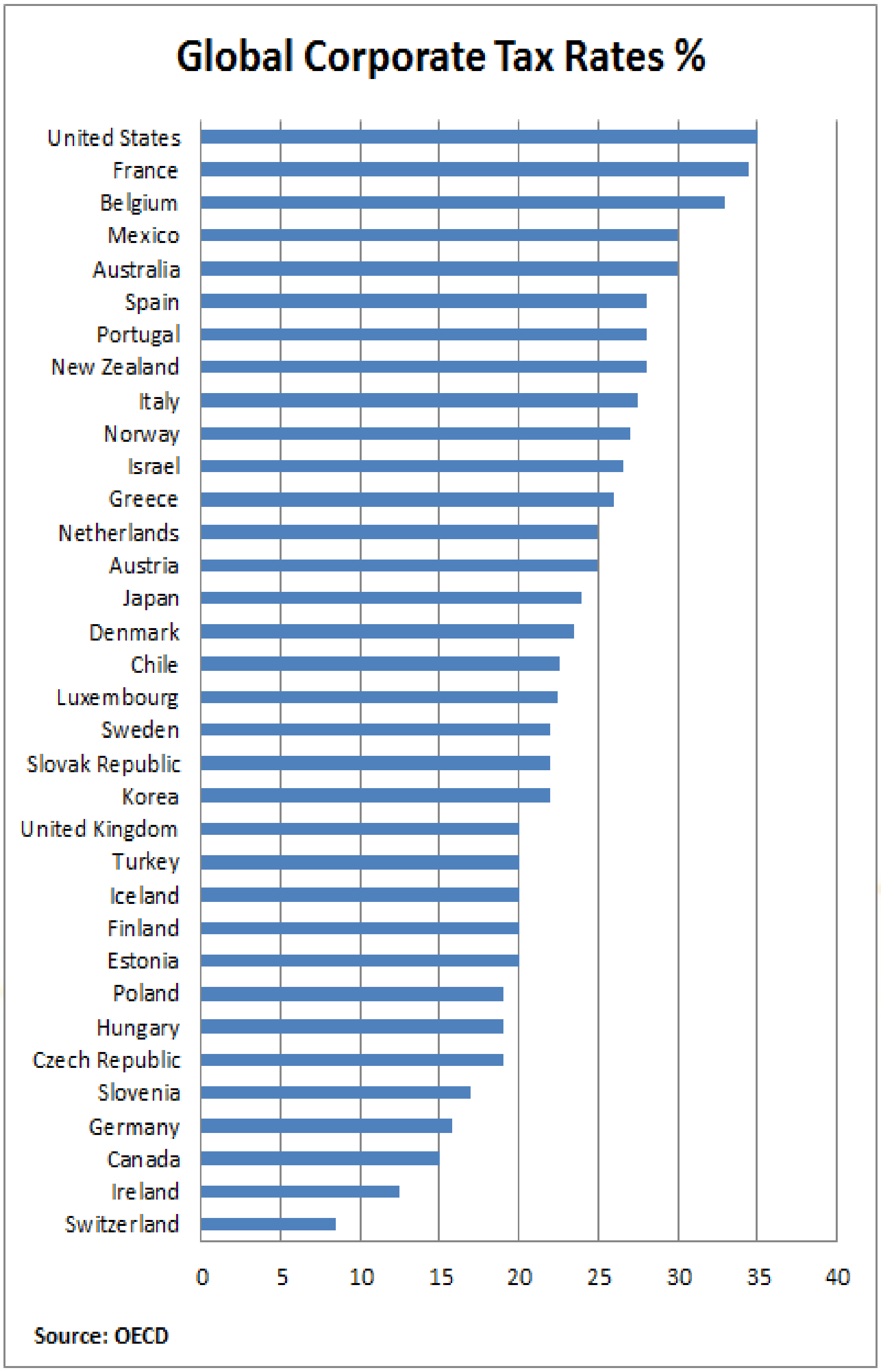
The issue of corporate tax and financial austerity cropped up in the UK again with multinational corporations reporting bumper 2015 profits in general and companies like Google (Alphabet) specifically disclosing a sum close to GBP30 billion in offshore accounts in Bermuda, according to the UK Evening Standard. It wasn't long ago that global firms such as Starbucks, Google and Amazon came under fire for avoiding paying tax on their British sales. The reminder about corporate tax payments comes at a time when junior doctors in England will go ahead with strike action, according to the BBC, as pay package talks with the government have failed to reach a solution in this time of fiscal austerity.

It is not only American companies that are coming under increased public scrutiny. Russia Today reports UK coffee chain Caffé Nero has been attacked by Members of Parliament (MPs) for tax avoidance. The story goes on to claim that despite making around £20 million a year in profits, the company pays no corporate tax in the UK, according to chartered accountant Richard Murphy of Tax Research UK. The investigative accountant also claims Vodafone avoided £6 billion in tax last year, a claim the mobile phone operator denied, but he has called on the UK parliament's Public Accounts Committee to investigate the mobile phone operator.

All this leaves the UK public asking if multinational corporations are paying their fair share of taxes, and wondering what is fair exactly?

A Fair Rate of Corporate Tax

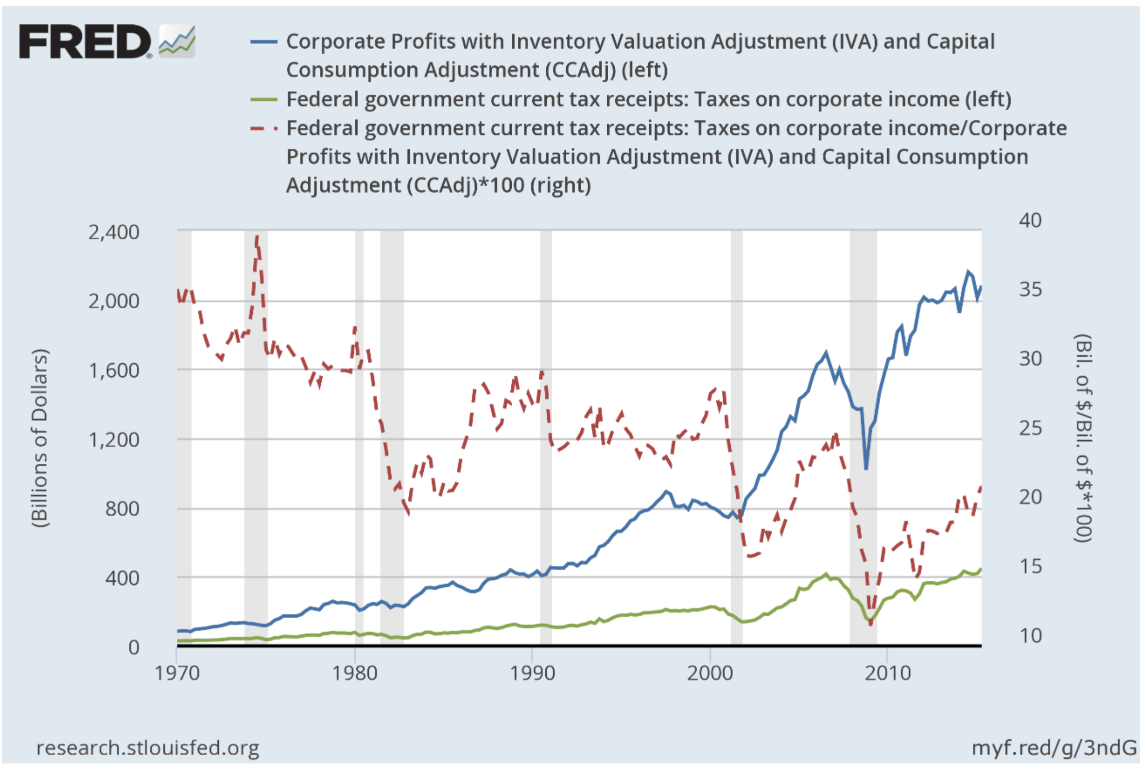
[4] https://www.investopedia.com/articles/investing/021216/multinational-tax-avoidance-end.asp#ixzz4zwGu5dHv



One couldn't help but be left with the impression that corporate tax rates around the world must be very high if companies are willing to go to such lengths to minimize their tax bills. At first glance, global corporate tax rates look quite reasonable since none are above 40%, and nearly one-third of countries have a corporate tax rate of 20% or less. Data from the Organization for Economic

Cooperation and Development - OECD shows various corporate tax rates in different countries. For example, the UK at 20% is actually in the bottom half of developed countries corporate tax rates. The U.S. at 35%, perhaps surprisingly, comes in as the country with the highest rate of corporate tax and Switzerland at 8.5% with the lowest.

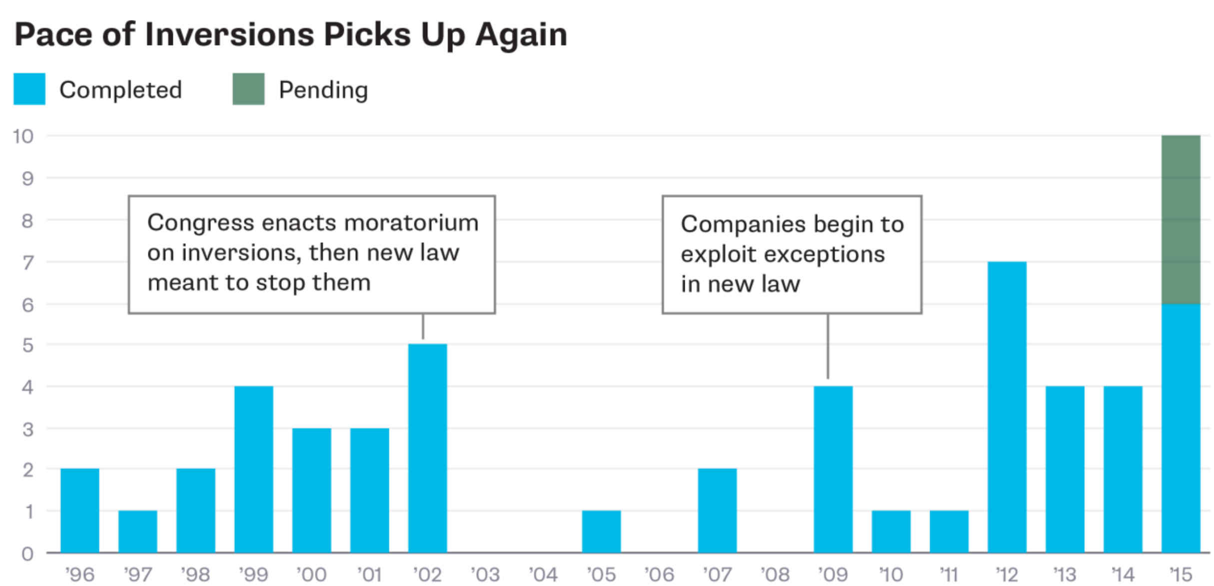
Tax Avoidance in the U.S.



Just because the U.S. has the highest nominal rate of corporate tax does not mean U.S. companies are more heavily taxed now than they were a few years ago. Data from the St. Louis Federal Reserve Bank shows the downward trend in U.S. corporate taxes over the last 40 years. The blue line in the chart below shows net corporate profits (profits adjusted for business costs such as inventory and capital expenditure) are over $2 trillion as of mid-2015. At the same time, the green line shows federal government corporate tax receipts are over $400 billion, but the rate of U.S. corporate tax as a percentage of profits, the red dotted line, is now about 21.5% as of June 2015. This is a low number by historical standards. Granted this rate is higher than it was during the depths of the financial crisis, but the downward trend since 1970 is clear to see.

U.S. Tax Inversion

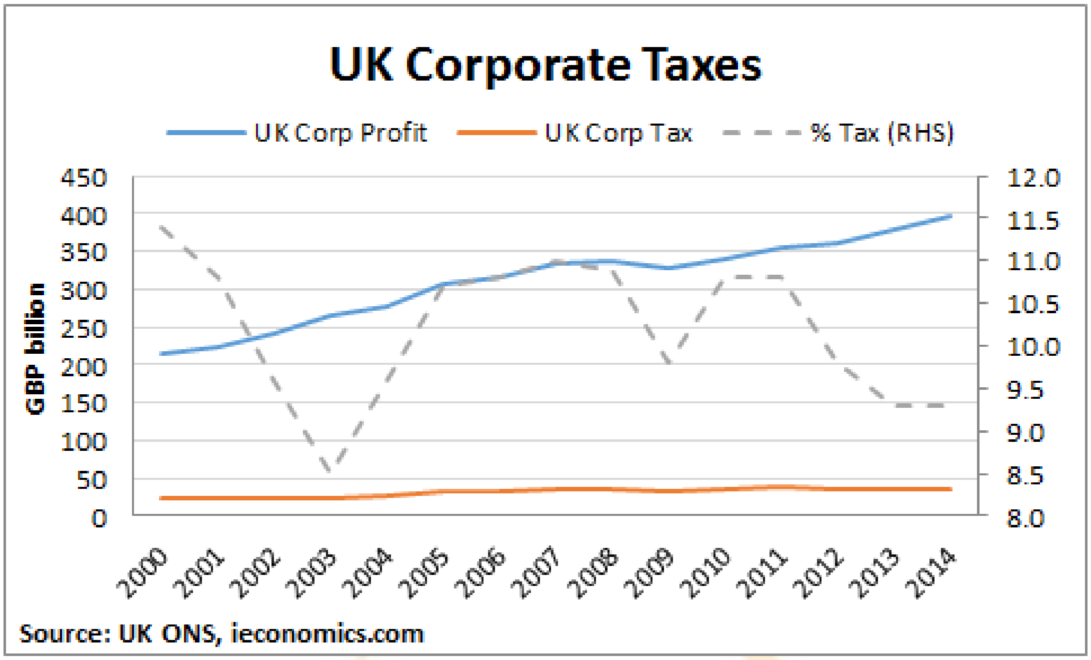
U.S. companies are going to great lengths to avoid corporate tax. One, in particular, is the practice of re-incorporation in low-tax countries, commonly called "tax inversion". Investopedia describes tax inversion as "re-incorporating a company overseas in order to reduce the tax burden on income earned abroad. Corporate inversion as a strategy is used by companies that receive a significant portion of their income from foreign sources, since that income is taxed both abroad and in the country of incorporation. Companies undertaking this strategy are likely to select a country that has lower tax rates and less stringent corporate governance requirements." This practice is picking up again. Data from Bloomberg shows 2015 could be a record year for U.S. corporate tax inversion, once all the data is collected.



Source: Bloomberg

Tax Avoidance in the UK

This is not just a U.S. phenomenon either. UK companies also adopt various practices to reduce corporate tax. As a result, data from the UK Office of National Statistics and ieconomics.com show UK companies (ex-financials) with a rate of corporate tax payment trending down since the financial crisis in 2008 despite rising profits. In fact, as of the end of 2014, UK companies haven't paid such a low rate of tax since the economic recovery following the dot-com bust in the early 2000s.



According to the BBC, companies in the UK have long had complicated tax structures, but a recent spate of stories has highlighted a number of tax-avoiding firms that are not seen to be playing their part. Everything these companies are doing is legal; it is avoidance and not evasion. But using tax minimization techniques like transfer pricing are increasingly frowned upon by the UK tax authorities.

The Bottom Line

The tide of global public opinion is visibly turning against corporate tax avoidance. Even a few years ago news of a company minimizing its corporation tax would have been more likely to be inside the business pages than on the front page. Today, however, such issues attract headlines. European Economic Affairs Commissioner Pierre Moscovici perhaps summed it up best when he said, "This is a reaction of people who cannot stand anymore that they pay their fair share of taxes, that they contribute to fiscal consolidation while companies, especially multinationals, can avoid tax," according to Reuters. Only time will show if the G20's corporate anti-tax avoidance measures have any real teeth.

Offshore tax havens: how do they work? What can be done about them?[5]

Can they ever be legitimately used? Exactly how big is the problem? And what can governments actually do about it?

Ben Chu Economics Editor @Benchu_

Monday 6 November 2017 11:45 GMT

Another massive leak of information from a tax haven law firm – dubbed the Paradise Papers – has shone a spotlight on the questionable ways in which wealthy individuals and big companies structure their finances.

But how do tax havens actually work? Can they ever be legitimately used? Exactly how big is the problem? And what can governments actually do about it?

How do tax havens actually work?

There are actually multiple ways tax havens facilitate tax avoidance, and it's important to grasp the differences.

One of the primary methods is corporate profit-shifting.

This is where a multinational company registers its headquarters in a low-corporation tax jurisdiction and then books its profits there, rather than in the country in which it actually makes its sales.

This is what firms such as Google and Facebook have been doing in order to lower their global corporation tax bills.

But what about personal taxes?

An individual could simply become a resident of a low-tax country in order to pay a lower rate of tax on their income.

This is what racing drivers and globe-trotting sportspeople generally do.

[5] http://www.independent.co.uk/news/business/analysis-and-features/offshore-tax-havens-how-do-work-what-done-change-paradise-papers-panama-bermuda-caymans-turks-caicos-a8039916.html

But there are also ways in which individuals can remain living in a non-tax haven, such as the UK, and still benefit from tax havens.

If an individual keeps their assets in a trust in an offshore tax haven they can legally avoid paying capital gains in the country in which they are resident.

What is a trust?

This is where an individual puts their assets "in trust" to be managed by nominally independent third parties (or "trustees") for the benefit of named beneficiaries, which can include the individual who put the assets into trust in the first place.

The income can be paid out by the third parties to the beneficiaries regularly, or sporadically, depending on the decisions made by the third parties.

Once it is received by the beneficiaries, the income is subject to income tax. But while it is in the trust the assets are not subject to capital gains and the income on the investments is not taxed.

A major tax advantage is that the beneficiary of a trust is also not subject to inheritance tax on the value of the assets when the person who put the assets into trust for them dies.

So who are these trustees?

They can be local officials in the tax haven, or partners in a local law firm, or accountancy firm, appointed by the individual who put their assets into trust.

Given the likelihood of those trustees being influenced by the previous owner of the assets when it comes to income disbursements the scope for abuse of the arrangement is obvious.

But aren't there legitimate uses of tax havens?

Historically, mutual investment funds, which attract investors from around the world, have registered themselves offshore to avoid the risk of double taxation of their surpluses.

This isn't necessarily a problem so long as the beneficiaries of the fund do pay income tax on the money they receive from the fund in their home country.

When it comes to off-shore trusts, some argue that they are necessary to safeguard the privacy of beneficiaries. There are some circumstances where one can imagine this is a legitimate argument.

Yet the problem is that privacy can be so easily abused to facilitate illegal personal tax evasion and other crimes such as money-laundering.

How big is the problem?

Corporate tax avoidance is significant.

At the end of 2016 the giant US technology companies alone were estimated by Moody's Investors Service to have $1.84 trillion (£1.4 trillion) of cash held offshore.

This is essentially profits that firms such as Apple, Microsoft and Google registered outside the US, and most of which is piled up in tax havens.

But personal tax avoidance is bigger.

The calculations of the economist Gabriel Zucman – analysing discrepancies in countries' national accounts – suggest that around $7.6 trillion, or 8 per cent of global wealth, is held offshore. That's up 25 per cent over the past five years. Not all of that money will be held off-shore in order to dodge tax in a morally questionable way. But it's fair to assume that a large proportion of it is.

The Tax Justice Network campaign group estimates that corporate tax avoidance costs governments $500bn a year, while personal tax avoidance costs $200bn a year.

Didn't David Cameron promise to clamp down on all of this?

The previous Prime Minister did implement a series of "automatic exchange of information" agreements between the UK and the tax authorities of various tax havens designed to prevent the possibility of evasion.

But campaign groups say that this effort was a lot less impressive as a crackdown than the fanfare suggested.

And the new system hinges on an unrealistic level of cooperation from law firms and accountants in tax havens. Cameron also actually fought a proposal from the European Union that there should be public transparency over the beneficiaries of offshore trusts.

The previous government's "diverted profits tax", designed to curb corporate tax avoidance by the likes of Google, was also grossly over-sold by ministers as a viable solution to multinational profit shifting.

So what needs to be done?

On corporation tax avoidance, there are broadly two potential solutions.

One would be for governments around the world to collaborate and agree to tax a multinational's profits on the basis of a fair international formula, based on their sales, investments and employee numbers in various countries.

This would effectively shut down tax havens, where no substantive economic corporate activity actually takes place.

The other solution is for governments to unilaterally tax a multinational's revenues, while making allowance for its local costs, investments and exports.

This was something that US Republicans were pressing for earlier this year, although the plan has now been ditched.

And on personal tax?

Here a major part of the solution is to go down the route that David Cameron blocked: to demand full and public transparency on the beneficiaries of offshore trusts.

Acting in concert, the governments of the EU could bring serious pressure on many tax havens to comply.

Many tax havens such as the Cayman Islands and Bermuda are also British crown dependencies, giving the UK Government itself considerable leverage if it chose to exert it.

Meghan Markle could face a big tax bill if she drops U.S. citizenship[6]

American actress Meghan Markle could become the latest high-profile person to renounce U.S. citizenship.

Ceding your American status can cost you, depending on your tax status with the Internal Revenue Service.

Lorie Konish | @LorieKonish
Published 19 Hours Ago. Updated 14 Hours AgoCNBC.com

Relinquishing your U.S. citizenship can come with a hefty price tag.

Because the United States is one of the only countries to tax based on U.S. citizenship, even Americans living abroad must pay U.S. taxes. That can make it tempting for expatriates to renounce their citizenship and skirt U.S. tax rules. Doing so comes at a price.

A record number of Americans are giving up their citizenship, according to the U.S. Treasury Department. Last year, 5,411 individuals either gave up their citizenship or terminated long-term residency. That's a 26 percent increase from 2015.

The list of individuals who have given up their citizenship includes high-profile names like Facebook co-founder Eduardo Saverin and musician Tina Turner.

The list may gain one more boldface name with Meghan Markle, the American actress who is engaged to Britain's Prince Harry. The announcement of the couple's engagement this week included news that Markle plans to become a British citizen.

The administrative process involved in giving up your citizenship is simple, said Joshua Ashman, a co-founder and partner at Expat Tax Professionals, which provides professional tax services to U.S. expatriates. But the tax considerations to wade through are more complicated, he said.

You must make an appointment at a U.S. embassy, sign the appropriate forms and take the Oath of Renunciation. You also must pay a $2,350 administrative processing fee. Once your application is approved, which can take several months, you are given a Certificate of Loss of Nationality.

You must also notify the Internal Revenue Service through Form 8854 that you have expatriated, which can trigger a potentially bigger liability: The exit tax.

[6] https://www.cnbc.com/2017/11/29/meghan-markle-may-face-big-tax-bill-if-she-renounces-u-s-citizenship.html

The exit tax is aimed at individuals who are renouncing their citizenship for tax-related purposes, Ashman said.

You may or may not be subject to the tax based on your average annual net income tax for the past five years, whether you complied with your federal tax obligations during that time or whether your net worth is $2 million or more. Your net worth is calculated including everything from investment accounts to real estate to other assets like art work and other personal property, including assets held overseas, Ashman said.

The exit tax can operate similar to a capital gains tax, he said. Say you bought a home in London for $1 million, and it is now worth $3 million today. As a U.S. citizen, you would be on the hook for capital gains taxes on the sale of that property. The exit tax looks at the asset's value and assesses taxes as if it were sold.

There are moves that individuals can make to move assets out of their possession in order to fall below the threshold, Ashman said.

But be warned that giving up your U.S. citizenship can also trigger other taxes, he said, for example, if you give a gift to someone in the U.S.

Not everyone who renounces their citizenship is doing so for financial reasons.

"There's a lot of regular people who exit every day," Ashman said, including individuals who may have been born in America, but have spent most of their lives in another country. "You hear a lot of anti-Trump rhetoric as well."