The Australian Experience with Preferential Capital Gains Tax Treatment—Possible Lessons for Canada

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Outline

- Key features taxation CG in Australia
- Response to change in taxation
- Conclusion

Key features-1

- Asprey report recommendation in 1975 50% inclusion no indexation
- Introduced in 1985(20/09)
- Assets acquired before are not subject to CGT
- 100% inclusion in income with indexed base amount
- Rollover at death to beneficiary no deemed disposition
- No death or succession duties

Key features-2

- 1999 Ralph review
- 1999 (21/09 *discount*)
- 100% inclusion if less than 12 months holding
- 50% inclusion if 12 months+

OR

- 100% with indexation for pre 1999 assets
- 2019 proposal by Labour to include 75% but not elected

Impact of *discount*

- Times series analysis for Australia 1988-2015 by Minas, Lim, and Evans :
- *elasticity of capital gain realizations was −0.59 at a 33.9 percent tax rate and −0.64 at a 36.75 percent tax rate.*
- US results at 22% tax rate elasticity= 0,31-0,90 Australia 0,47
- There is a revenue loss from the discount: higher realisation does not compensate for it

Conclusion

- *Both Canada and Australia have compelling tax policy reasons to increase the capital gains inclusion rate. This would enhance the integrity of the tax system in both jurisdictions, and it would have benefits related to efficiency and equity. The revenue effects of a change to the inclusion rate are an additional consideration for policy makers.*
- Perhaps combine higher inclusion rate with annual(non cumulative) exempt amount ?