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Stop worrying about how much you matter

Peter Bregman

For many years – almost as long as he could remember – Ian* owned and ran a successful pub in his small town in Ireland. Ian was well-known around town. He had lots of friends, many of whom he saw when they came to eat and drink, and he was happy.

Eventually, Ian decided to sell his establishment. Between his savings and the sale, he made enough money to continue to live comfortably. He was ready to relax and enjoy all his hard work.

Except that almost immediately, he became depressed. That was 15 years ago and not much has changed.

I've seen a version of Ian's story many times. The CEO of an investment bank. A famous French singer. The founder and president of a grocery store chain. A high-level government official. And these are not just stories – they're people I know (or knew) well.

They have several things in common: They were busy and highly successful. They had enough money to live more than comfortably for as long as they lived. And they all became seriously depressed as they got older.

What's going on?

The typical answer is that people need purpose in life and when we stop working we lose purpose. But many of the people I see in this situation continue to work. The French singer continued to sing. The investment banker ran a fund.

Perhaps getting older is simply depressing. But we all know people who continue to be happy well into their nineties. And some of the people who fall into this predicament are not particularly old.

I think the problem is much simpler, and the solution is more reasonable than working, or staying young, forever.

People who achieve financial and positional success are masters at doing things that make and keep them relevant. Their decisions affect many others. Their advice lands on eager ears.

In many cases, if not most, they derive their self-concept and a strong dose of self-worth from the fact that what they do and what they say – in many cases even what they think and feel – matters to others.

Think about Ian. If he changed his menu or his hours of operation, or hired someone new, it directly affected the lives of the people in his town. Even his friendships were built, in large part, on who he was as a pub owner. What he did made him relevant in the community.

Relevancy, as long as we maintain it, is rewarding on almost every level. But when we lose it? Withdrawal can be painful.

As we get older, we need to master the exact opposite of what we've spent a lifetime pursuing. We need to master irrelevancy.

This is not only a retirement issue. Many of us are unhealthily – and ultimately unhappily – tied to mattering. It's leaving us overwhelmed and over-busy, responding to every request, ring and ping with the urgency of a fireman responding to a six-alarm fire. Are we really that necessary?

How we adjust – both within our careers and after them – to not being that important may matter more than mattering.

If we lose our jobs, adjusting to irrelevancy without falling into depression is a critical survival skill until we land another job. If managers and leaders want to grow their teams and businesses, they need to allow themselves to matter less so others can matter more and become leaders themselves. At a certain point in our lives, and at certain times, we matter less. The question is: Can you be OK with that?

How does it feel to just sit with others? Can you listen to someone's problem without trying to solve it? Can you happily connect with others when there is no particular purpose to that connection?

Many of us (though not all) can happily spend a few days by ourselves, knowing that what we're doing doesn't matter to the world. But a year? A decade?

Still, there is a silver lining to this kind of irrelevancy: freedom.

When your purpose shifts like this, you can do what you want. You can take risks. You can be courageous. You can share ideas that may be unpopular. You can live in a way that feels true and authentic. In other words, when you stop worrying about the impact of what you do, you can be a fuller version of who you are.

That silver lining may be our anti-depressant. Enjoying the freedom that comes with being irrelevant can help us avoid depression and enjoy life after retirement, even for people who have spent their careers being defined by their jobs.

So what does being comfortable with the feeling of irrelevancy – even the kind of deep irrelevancy involved in ending a career – really look like? It may be as simple as doing things simply for the experience of doing them. Taking pleasure in the activity versus the outcome, your existence versus your impact.

Here are some small ways you might start practicing irrelevancy right away:

- Check your email only at your desk and only a few times a day. Resist the temptation to check your email first thing in the morning or at every brief pause.
- When you meet new people, avoid telling them what you do. During the conversation, notice how frequently you are driven to make yourself sound relevant (sharing what you did the other day, where you're going, how busy you are). Notice the difference between speaking to connect and speaking to make yourself look and feel important.
- When someone shares a problem, listen without offering a solution (if you do this with employees, an added advantage is that they'll become more competent and self-sufficient).
- Try sitting on a park bench without doing anything, even for just a minute (then try it for five or 10 minutes).
- Talk to a stranger (I did this with my cab driver this morning) with no goal or purpose in mind. Enjoy the interaction – and the person – for the pleasure of it.
- Create something beautiful and enjoy it without showing it to anyone. Take note of beauty that you have done nothing to create.

Notice what happens when you pay attention to the present without needing to fix or prove anything. Notice how, even when you're irrelevant to the decisions, actions, and outcomes of the world around you, you can feel the pleasure of simple moments and purposeless interactions.

Notice how, even when you feel irrelevant, you can matter to yourself.

*Not his real name.

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What goes on during reporting season?

Hugh Dive

For equity analysts in Australia, Christmas comes twice a year, every February and August when the majority of Australian listed companies reveal their semi-annual profit results. At this time companies also provide guidance as to what growth in profit, revenue, profit margins or dividends that shareholders can expect over the following financial year. This can be a stressful time for a fund manager. When companies reveal unpleasant surprises, the company's stock price tends to get sold down hard. Alternatively, it can be very pleasant when the company reports a good result which validates the investment case for originally owning their shares.

This is how we approach the reporting season and what goes on during a typical day. It's not all convivial lunches with management teams in the boardroom of an investment bank overlooking Sydney harbour.

Before reporting season

In the lead up to reporting season, Aurora reviews all the stocks in the portfolio and considers the key factors and financial metrics that investors will be looking for on results day and we compare our forecasts to the consensus analyst forecasts. What we are trying to do here is to identify which companies are performing ahead of expectations and more importantly which companies have the potential to disappoint. The majority of Aurora's funds seek to be positioned through either physical equity holdings or derivative positions to take advantage of corporate news flow that causes volatility in a stock price.

On the day

Generally companies post their financial results with the ASX around 9am. This gives investors an hour to digest the facts and figures before the stock exchange begins trading at 10am. During this period we will be combing through the profit and loss, balance sheet and cash flow statements comparing our forecasts to what the company actually delivered. Also it is important to compare how a company has performed against their peer group. For example, in isolation Westpac reporting a slight decline in net interest margin (NIM) and modest lending growth could signal a great result if both ANZ and NAB have reported big declines in both categories.

In many cases company management also gives earnings guidance or an outlook statement which is dissected in minute detail, for changes in tone and language, much like students of Renaissance literature interpreting the meanings in Donne's Holy Sonnets. With some companies it can take a while to digest the finer details of the financial accounts.

Company management will then formally present their results to shareholders on a conference call or in person during the morning generally between 9am and midday. These presentations are directed towards the institutional investment community and are effectively closed to the media and public. These meetings can take between one and two hours, as the management team gives greater detail on the factors that contributed to the profit result and explain any potentially contentious issues.

The most informative part is always the Q&A session, which gives investors the opportunity to gauge how confident management are in tackling the more contentious issues coming out of their financial accounts. Typically it will only be the sell side analysts asking questions of management, with the large institutional investors saving their questions for behind closed doors. The problem with this is that in addition to writing research, some sell side analysts want to protect their relationship with the company and offer soft questions for the management or avoid the hard questions when the management has made some mistakes. This is where you will see agitated fund managers asking questions in a public forum, such as “What comparative advantage does QBE have in writing Argentinean workers compensation insurance?”

Lunch with the company

After the results presentation we will generally have a quick discussion to see if there have been any fundamental changes to our thoughts and discuss the market reaction. The immediate market reaction can often be misleading, as most of the trading is being done by hedge funds or high frequency traders, rather than long-term fundamental investors. Most companies will hold a lunch for investors at one of the global investment banks, where invitation is based on the combination of how big an investor you are in the company and how much brokerage the fund manager pays that particular investment bank. These events are held in the boardroom of the bank and are fully catered, though it is rare to see anybody accepting a glass of wine with their steak or fish. Many fine bottles of wine from the cellars of the investment banks get opened, offered around the table by waiters and then returned to the sideboard.

Whilst this may seem to offer institutional investors an advantage over retail investors, it is rare that any new insight is gained in these events. This occurs as they are essentially a group meeting of rivals trying to understand what others think about the company and if you know the company well or have a particularly insightful question, an analyst will save that for a one on one meeting with the company. One year I attended a lunch with Fletcher Building at which the three largest shareholders (collectively owning close to 25% of the company) were present. As neither of these shareholders asked any questions, the lunch degenerated into Building Products 101, not a great use of precious time on results day. Often several large and complicated companies report on the same day, so unless an individual company has had a particularly good or bad result, it is poor time management to spend hours picking through the financial accounts of a company that has performed as expected.

Immediately afterwards

Over the following weeks, the company will then organise individual one hour meetings with their largest institutional shareholders both in Australia and overseas. Prior to these meetings it is important to be well prepared, as this is frequently the best forum to understand whether you should buy more of a company’s stock or completely sell out. During our meetings with the management teams, we will generally seek clarity (on behalf of our investors) on certain issues that we feel weren’t covered to our satisfaction at the formal presentation. Whilst some of these meetings can be quite hostile or very friendly, they are a valuable forum for both parties to give feedback on not only how our client’s capital has been managed in the past, but also as to how that capital should be employed in the future. Several times I have been in these meetings where management has raised a potential strategy which seemed aggressive and quite alarming. By institutional investors signalling that they would be unlikely to support a course of action or capital raising, these companies saved investor’s millions of dollars in investment banking fees!

After the management meetings and subsequent to reviewing the financial results of a company’s competitors we are then in a position to determine what changes (if any) are made to our valuation of the company and whether the security’s weight in the portfolio is still appropriate in light of competing investment opportunities.

Hugh Dive is a Senior Portfolio Manager at boutique investment manager Aurora Funds Management Limited, a fully owned subsidiary of ASX listed, Keybridge Capital. This article is for general education purposes.

Greece: Scylla and Charybdis

Jonathan Hoyle

In Greek mythology, Scylla was a seven-headed monster that lived on one side of the Straits of Messina, a narrow strip of water separating the island of Sicily from the Italian mainland. On the other side lay Charybdis, a deadly whirlpool that led to many a watery graveyard for passing ships.

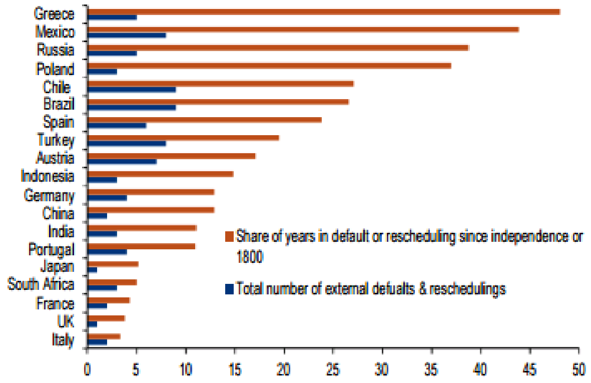
In Homer's *Odyssey*, Circe advises Odysseus to sail closer to Scylla,

"A large fig tree in full leaf grows upon it, and under it lies the sucking whirlpool of Charybdis. Three times in the day does she vomit forth her waters, and three times she sucks them down again; see that you be not there when she is sucking, for if you are, Neptune himself could not save you; you must hug the Scylla side and drive ship by as fast as you can, for you had better lose six men than your whole crew."

Modern Greece faces its own dilemma; should it too sail within reach of Scylla, the 28-headed monster that lives in Brussels to avoid Charybdis, the 'sucking whirlpool' that is the return of the drachma?

Golden Rule No. 1 in Stanford Brown's *10 Golden Rules of Investment* is Mark Twain's prophetic comment that "*history doesn't repeat itself, but it does rhyme"*. Greece isn't technically in default but the probability of it being able to repay its 340 billion euro debt load is zero. This is actually not an unusual situation for Greece as it has been in default for 48 of the past 210 years.

Chart 34 **External sovereign defaults and rescheduling 1800-2010**



Source: BoAML, carmenreinhart.com

The Greek Parliament has recently passed a much harsher austerity Budget than was rejected by its own people in a recent referendum. Prime Minister, Mr. Tsipras, elected to end austerity, has bizarrely agreed to a tightening of the austerity noose. Greece, reeling under the weight of its burgeoning debt mountain, has been given an additional 86 billion euros in debt. The IMF has said it won't participate as it believes it has no chance of ever getting repaid. And the Greek people want to stay in the euro, but reject the austerity that membership requires. In this topsy-turvy world of contradictions, catch-22s and nonsense, the Mad Hatter could not have put it any better,

"If I had a world of my own, everything would be nonsense. Nothing would be what it is, because everything would be what it isn't. And contrariwise, what is, it wouldn't be. And what it wouldn't be, it would. You see?"

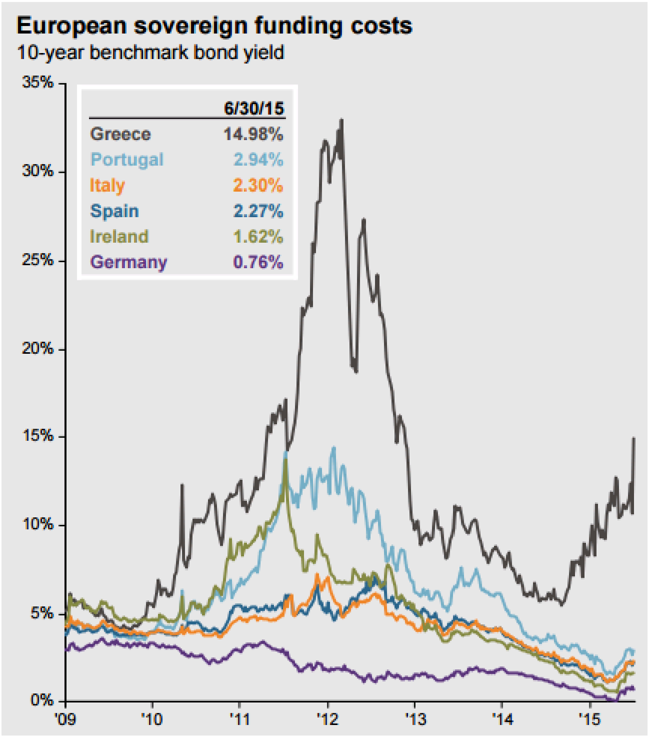
Pour encourager les autres

David Zervos, chief strategist at research house, Jeffries, never doubted the outcome,

"The Greeks now stand as poster children for European profligacy. And they are being paraded through every town in the EU, in shackles, as the bell tolls near the gallows for their leader… The Portuguese, the Italians, and Spanish are surely taking notice… With no real way to ensure fiscal discipline through the treaty, they resorted to killing one of their own in order to keep the masses in line."

There has always been widespread support in Europe for the Union, but the single currency has never been popular. The euro was the price demanded by France for the re-unification of Germany in 1990; such was their fear of a strong neighbour to the east. The French believed that binding Germany into the corset of monetary union would curb her power. What a colossal mistake.

Whilst tragic for Greece, the fallout for investors across the globe is not going to resemble a 'Lehman moment' – even in the worst case of a messy Greek exit from the single currency. There are four key reasons for our complacency. First, Greece is very small, accounting for just 0.25% of the global economy; the European banking system is now much less exposed to a Greek default, having swapped its Greek debt with the IMF and the Eurozone; the other vulnerable European economies of Portugal, Spain, Italy and Ireland are in much better economic shape than during the last Eurozone sovereign debt crisis in 2011; and finally, Europe has now established robust defence mechanisms with sufficient firepower to handle future crises. These include a bailout fund called the European Stability Mechanism (despite being expressly banned by the Maastricht Treaty), cheap funding for banks from the European Central Bank, and the ECB's mammoth Quantitative Easing program, which has so far contained any rise in bond yields of the peripheral countries (see chart below).



Source: FactSet, IMF, Tullett Prebon, J.P. Morgan Asset Management.

The disastrous experiment that was the European Single Currency will serve as a classic case study for generations of future Business School graduates. The lesson learnt is that economics always trumps politics, no matter how hard you wish it wasn't so. If only we had all listened to the great economist, Milton Friedman, who in 1997, two years prior to the establishment of the single currency, had this to say,

"The drive for the Euro has been motivated by politics not economics. The aim has been to link Germany and France so closely as to make a future European war impossible, and to set the stage for afederal United States of Europe. I believe that adoption of the Euro would have the opposite effect. It would exacerbate political tensions by converting divergent shocks that could have been readily accommodated by exchange rate changes into divisive political issues. Political unity can pave the way for monetary unity. Monetary unity imposed under unfavorable conditions will prove a barrier to the achievement of political unity."

The image at the start of this article depicts Greece sailing within reach of Scylla (the euro), to avoid Charybdis, the 'sucking whirlpool' that is Grexit. But have we mixed our monsters? Returning to the drachma would give Greek businesses an immediate competitive boost, albeit with much associated turmoil, and buy the country precious time to make necessary reforms. Perhaps Grexit is the modern-day Scylla, resulting in the loss of six years, whilst the whirlpool of Charybdis represents the continued membership of the European single currency and a lost generation. In this case, it's better the devil you don't know.

Jonathan Hoyle is Chief Executive Officer at Stanford Brown. Any advice contained in this article is general advice only and does not take into consideration the reader's personal circumstances.

A misplaced focus on high yielding stocks in retirement

David Bell

A lot of people seem to view high yielding stocks as the silver bullet for retirement plans. I'm less sure. In many circumstances the focus on income can be flawed, risky and difficult to implement. Return and risk are key to any investment decision.

There are two possible sources of economic return from any asset: income and capital gain. In Australia income and capital gains are taxed differently but this is a non-issue for assets in an account-based pension.

The focus on income has manifested itself lately in equities with the logic being as follows: a high yielding stock, especially one with franked dividends, may be able to meet all the necessary income requirements in the drawdown phase, leaving the capital pool untouched (but importantly variable in value) for uses such as one off discretionary spends, aged care admission, or bequests.

This may well prove the case but it doesn't mean this is the best retirement investment strategy. There are clear challenges to this line of thinking, real world realities to face up to, and risks to consider.

Challenges to the income-focused model

These days, transaction costs are very low, removing an impediment to realising capital gains to fund retirement spending. Consider the following two scenarios:

	Stock A	Stock B
Yield	6%	2%
Change in Price	2%	6%
Total Return	8%	8%

Is there any reason why, if we assume negligible transaction costs, a retiree should prefer Stock A to Stock B? To meet retirement spending requirements, we would account for our income and make a decision of what to do with our capital. From a transaction cost and tax perspective there appears little difference. One may say that it is more convenient to invest in Stock A as the income payment is received and so an active decision to sell down is not required (perhaps there is a behavioural reason why people are hesitant to sell assets in retirement). However, there is a situation where the dividend income may prove too high or the timing (dividends twice per year) doesn't match our spending plans, requiring an active reinvestment decision (which could also prove to be behaviourally difficult). Capital allocation decisions are largely unavoidable.

Risk cannot be ignored in retirement. Even if a stock generates a high yield, it can still be a volatile stock. One school of thought is that price variability is irrelevant if income levels are secure and high. I find this notion hard to accept, even if someone has very high asset levels.

Consider the case of a retiree with low assets:

- The yield may not provide sufficient income, or indeed too much income, creating the need to sell down or reinvest. Any need to sell down to meet spending requirement shortfalls breaks the foundations of the income model, which is based on the ability to hold on to the pool of dividend generating stocks

Consider the case of a retiree with high assets:

- The income from dividends may meet all of the retiree's spending needs. While there may be some cash left over the reinvestment risk does not critically impact on future retirement cash flow which is assumed to be secured through future dividend payments. However the size of the capital pool to meet discretionary spending and bequests could be highly variable.

Volatility cannot be ignored for low balance retirees (as they will likely need to sell down to meet retirement needs) or for their high balance counterparts (as surely they have some preferences around the size of their account balance which supports one-off spends and bequests). At best, a yield focus is based on some brave assumptions, or less polite, it is a flawed strategy.

Support for income-focused model

There are some investment-based principles which could lend more support to an equity-income focused approach, including:

- The market, due to the presence of offshore participants, undervalues franking credits
- Growth strategies, funded by companies reinvesting their equity into opportunities perceived to be unattractive, may not prove successful, and so paying out earnings as dividends is a good strategy
- The market may have a behavioural bias to overvalue growth (a 'hope' bias or a potential thrill of being associated with a successful growth stock) and higher yielding stocks may be undervalued hence attractive.

The above points are views and opinions, not facts; they are highly debated in industry and academia because each one suggests that in some way markets are inefficient. One would need to have strong conviction to use these points as the basis for a retirement strategy.

Retirement drawdown patterns

Retirement strategies cannot be designed without considering real world complexities. The most relevant here is the type of retirement drawdown vehicle. Consider the difference between SMSF's and the account-based pension products provided by super funds:

- An SMSF could effectively implement a dividend-yield based retirement strategy, particularly if the SMSF had only one member so that the income level could be targeted appropriately
- A super fund solution would have multiple leakages. The account-based pension asset pool is subject to constant change (inflows from assets being transitioned from super) and payments (different levels to different members). Super fund products typically run to prescribed cash targets and so much of the dividend payments received would be reinvested

For an SMSF, a dividend yield strategy could be implemented as part of a retirement plan but for a super fund account-based pension solution, there would be much slippage as there are other significant cash flows which would break the path between dividend receipt and member payout. If a super fund account-based pension had a strong focus on equity income, it should really only be based on their market views.

(A post-script to the above paragraph is that if an SMSF implemented such a strategy through investing in a unit trust then they also need to be careful. A unit trust may focus on dividend yield but the distribution to investors can be impacted by other factors such as the flow of funds in and out of the trust.)

If the retirement strategy is built on the foundation of equity income, there needs to be great confidence in the quality and sustainability of that income. If the dividend stream stumbles, the financial plan tumbles: planned income is no longer available and a capital loss would be likely.

Not a silver bullet strategy

In summary, focusing on dividend yield as a retirement strategy can be dangerous. Risk and return is much more important than income in liquid markets with low transaction costs. Focusing on dividend yield alone is flawed as it ignores the preferences of the individual regarding their capital reserves. There are investment-based views as to why high-yielding stocks are attractive, but these are views not facts. SMSF's can implement a yield-based retirement strategy if they want to, but should be careful with how they implement (directly versus unit trust products), while for the account-based pensions offered by super funds a strategy based on equity yield should only be based on investment views. Individuals should seek financial advice, but challenge their adviser if they recommend a strategy purely based on equity income.

David Bell is Chief Investment Officer at superannuation fund Mine Wealth & Wellbeing (formerly AUSCOAL Super). He is also working towards a PhD at University of NSW.

Watch SMSF borrowing rules for separate assets

Monica Rule

The superannuation law allows SMSFs to borrow to acquire assets. The law, referred to as a 'limited recourse borrowing arrangement' (LRBA), is complex. You need to establish a separate trust structure (known as a 'bare trust'), separate trustee, and you must ensure that the purchase documents and loan contracts are correctly worded. You also need to do things in the appropriate order to comply with the superannuation law, the income tax law as well as stamp duty obligations. SMSF trustees should not attempt to enter into LRBAs without first consulting with a reliable SMSF specialist.

Understanding 'single acquirable asset'

Under a LRBA, an SMSF can only borrow to acquire a 'single acquirable asset'. The term 'acquirable' is important because if an SMSF purchases an asset from a related party of the members of the SMSF, it can only be an asset that is permitted under the law, such as listed securities and properties that are exclusively used in a business. If the asset is owned by an unrelated party, then it can be anything as long as the acquisition is in accordance with the SMSF's trust deed and its investment strategy.

For real estate, a single asset is a property on one title. If the property is on two titles, it is treated as two separate assets, unless there is a unifying physical object attached to the land which is permanent in nature, not easily removed, and is significant in value relative to the value of the asset. If there is also a requirement under a law of a State or Territory that the two assets must be dealt with together, then it will be treated as a single asset. Be very careful with commercial and primary production properties in particular, as I have met clients wanting to purchase car yards and farms where the businesses are conducted on land spread over multiple titles where there were no restrictions in selling these titles separately. In order to purchase the properties, more than one LRBA needed to be established. This means, more than one bare trust needs to be established where each bare trust only holds one property title.

Trustees should also be wary of advice that encourages them to use multiple trustees for bare trusts. I have seen SMSF trustees who have been advised that where there are multiple LRBAs and multiple bare trusts, they need to have a different trustee for each bare trust. This advice is incorrect. You can have the same trustee to act as the trustee of all the bare trusts.

If the acquirable asset is listed shares, it needs to be a collection of identical shares that have the same market value, and were purchased in one single transaction at the same price. If the shares were purchased over a number of different transactions at different times and at different prices then more than one LRBA and more than one bare trust need to be established.

Some SMSF trustees believe it is a requirement for the bare trust to be a corporate trustee. This is also incorrect. The law does not state that the trustee must be a corporate trustee. An individual can act as the trustee of the bare trust as long as the same individual does not act as the trustee of the SMSF. I should point out that some lending institutions prefer the trustee of the bare trust to be a company; however, it is not a legal requirement.

I have assisted clients who have established LRBAs incorrectly due to incorrect advice received from professionals who do not fully understand the law. Although we resolved some issues, the initial bad advice cost clients a lot of stress and money.

Monica Rule is an SMSF specialist and author of 'SMSFs and Properties'. See www.monicarule.com.au. This article provides general information only and does not take into account your individual objectives, financial situation or needs.

FactCheck: Is 50% of all income tax in Australia paid by 10% of the working population?

Ben Phillips

"50% of all income tax in Australia is paid by 10% of the working population." – Federal Treasurer Joe Hockey, interview with Fran Kelly on ABC RN Breakfast, July 27, 2015.

According to the 2015-16 Federal Budget, Australians paid around A$176 billion in personal income taxation in the 2014-15 financial year (Table 5 of Budget Paper 1). The Treasurer, Joe Hockey, claims that around 50% of this taxation is paid by the top 10% of the working age population as ranked by their income.

NATSEM's STINMOD model of the Australian tax and transfer system can be used to evaluate the accuracy of such a claim.

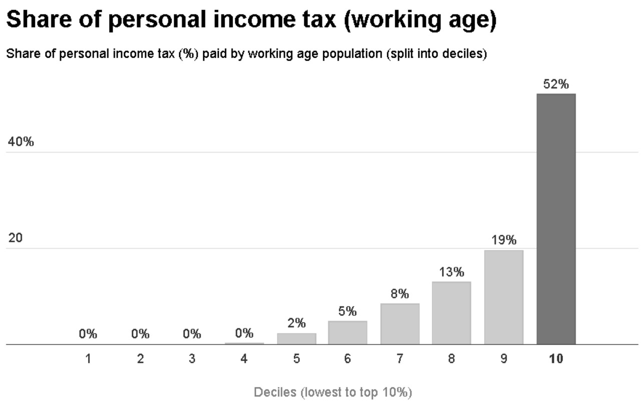
STINMOD, which stands for Static Incomes Model, is NATSEM's model of taxation and government benefits. It simulates the taxation and government benefits system and allows us to evaluate current and alternative policies and how they would affect different family types on various income levels.

STINMOD is based on ABS survey data (Survey of Income and Housing) which provides a statistically reliable and representative snapshot of household and personal incomes and demographics.

Since the survey is a few years old, NATSEM adjusts the population in accordance with population and economic changes since the survey.

STINMOD is not publicly available, but as a NATSEM researcher, I was able to use the model to check Hockey's claim against the evidence. STINMOD is benchmarked to taxable incomes data from the latest Australian Tax Office taxation statistics on the distribution of tax payments by income.

When I restricted the STINMOD base population to the working age population only (aged 18 to 65) and rank these people by their taxable income, I found that the top 10% (those with taxable incomes beyond $102,000 per annum) do pay around 52% of all personal income taxation.



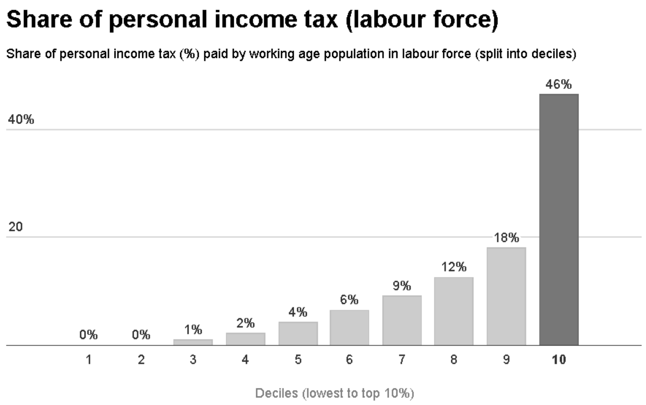
Source: NATSEM Get the data

Different measures, similar result

Since high income earners usually have greater scope for minimising tax through deductions, such as negative gearing, we can use an alternative income measure called "total income from all sources" to rank personal incomes. On this ranking, the share of personal income taxation paid by the top 10% drops to 50.5%.

Australia's personal income taxation system is strongly progressive, with higher income earners paying both a higher marginal tax rate and average tax rate compared to lower income earners. According to STINMOD, the 90th percentile of working age taxable income is $102,000 per year, while the median taxable income is $39,000 per year. The average tax rate of the 90th percentile is 26.7% while that of the median tax payer is less than half that at 12.3%.

This analysis does include a large number of people who are of a working age but not in the labour force - around 21% of this population (2.9 million persons). These people are not in the labour market for a range of reasons such as disabilities, students, young parents or through personal choice or a range of other reasons. Removing these people from the analysis reduces the tax share to 46% paid by the top 10%.



Source: NATSEM Get the data

In 2014-15, personal income taxation made up around 47% of all tax received by the federal government. Other taxes are paid to state and local government. While personal income taxation is highly progressive, the incidence of these other taxes tend to be less progressive, or indeed mildly regressive. One example is the GST, which makes up around 14.4% of federal taxation receipts.

Verdict

The Treasurer's statement that the top 10% of incomes from working age persons pay 50% of personal income tax is correct. This reflects the progressive nature of Australia's personal income tax system, which is applied to a society that features significant income inequality.

The progressive nature of income taxation in Australia plays a very significant role in altering the distribution of disposable income (after-tax) and provides Australia with a more equal distribution of disposable income.

Review

The FactCheck seems reasonable and correct. It benchmarks the ABS household income and expenditure survey against the official ATO Taxation Statistics, and then confines to working age (18 to 65), to test the Treasurer's claim.

There were about 12.8 million individuals filing tax returns in 2012-13. The ATO Statistics in its '100 persons' picture of Australian taxpayers, explains that the top three taxable incomes paid 27% of all net tax and the top nine taxable incomes paid 47% in total - pretty close to the working age estimate.

I agree with the author that the FactCheck demonstrates Australia's progressive income tax system, which has long been considered fair.

Australia has a high tax-free threshold of $18,200 so many working age low earners pay very little income tax. In contrast, New Zealand taxes from the first dollar of income.

And many working age people pay no income tax simply because they are unable to find a job, as Australia has an adjusted 6% unemployment rate.

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