

Korea-Australia Tax Symposium 2022



Left to Right, TTPI Director, Professor Robert Breunig, Ambassador of the Republic of Korea to Australia, Mr Jeong-sik Kang, President of the Korea Institute of Public Finance, Dr Jae-Jin Kim

This two-day event was held on 25 and 26 August 2022 at the Crawford School of Public Policy. The event was generously funded by the Australia-Korea Foundation of the Department of Foreign Affairs and Trade (DFAT), organised and run by the Tax and Transfer Policy Institute (TTPI) at the Australian National University (ANU) and supported by the Korea Institute of Public Finance (KIPF). This invite-only event brought together academics from Australia and South Korea, and policymakers from the Australian Taxation Office (ATO), the Department of Prime Minister & Cabinet (PMC), the Australian Treasury, the Department of Finance and the Organisation for Economic Co-operation and Development (OECD).

The event is a continuation of a six-year partnership between tax policy academics and practitioners in Australia and Korea. The 2022 Tax Symposium was the fourth in-person meeting since 2017. A strong partnership between TTPI and KIPF has emerged through these events and both organisations are committed to continuing the collaboration into the future.

The participants presented new research findings in the field of empirical public finance and discussed tax and transfer policy challenges in both countries. Attendees provided a very strong positive evaluation of the event. Participants remarked that the quality of the research and discussions was particularly high. The small setting, with each session having between 15 and 25 people, contributed to an environment of engagement and conversation. All participants felt that their participation was highly valuable and useful in their work.

The event was opened with welcome remarks by Mr Jeong-sik Kang, Ambassador of the Republic of Korea to Australia, and Dr Jae-Jin Kim, President of Korean Institute of Public Finance. Both welcome remarks emphasized the importance of the international exchange of knowledge and ideas for a prosperous future. They also emphasised the shared common values between our two countries, how our commitment to democracy and transparency has led to increased well-being in both Korea and Australia and the importance to the world community of increasing our mutual understanding and collaboration and promoting these values.

The first session featured presentations on the impact of the earned income tax credit and the child tax credit on labour supply of mothers with young children in Korea by Jeehyun Ko (KIPF), and on the evaluation of wage subsidies as part of Australia's JobKeeper payment by Timothy Watson (ANU, Treasury). Preliminary findings from Jeehyun Ko's work indicate that while tax credits may have increased labour supply of mothers with young children, the observed effects are mainly driven by differences between recipients and non-recipients. The work by Timothy Watson indicates that the JobKeeper program saved around 800,000 jobs with the cost per job-year saved over the program period of around \$112,000.

The second session included presentations by Anna Zhu (RMIT University) on the economic and well-being effects of a new qualification based on the application of machine learning models to data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, and by Dawoon Jung (KIPF) on forecasting tax revenues in Korea. The empirical findings of Anna Zhu's paper indicate that an additional qualification later in life increases weekly gross earnings by about 8 percent. Dawoon Jung's presentation focused on the method used by KIPF to forecast national tax revenue in Korea, including a discussion of key variables and relevant regression-based on microsimulation models.

Dawoon Jung's presentation was followed by an in-depth presentation on forecasting tax revenue in Australia by Scott Richards (Treasury), together with a discussion of underlying macroeconomic forecasting issues by Sarah Brown (Treasury). The session focused on the discussion of relevant methodologies and data issues.

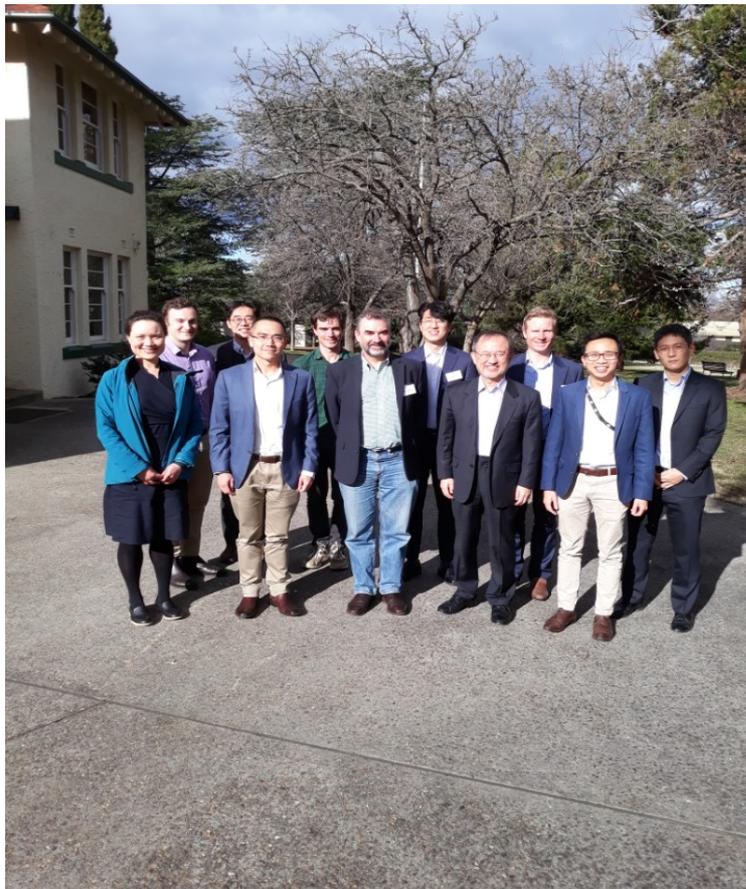


Treasury presentation

TTPI Director Robert Breunig presented evidence on the impact of private pension withdrawals during the Covid-19 pandemic on welfare tenures, followed by a presentation of evidence on income and saving responses to tax incentives for private retirement savings by Marc Chan (University of Melbourne).

Research by Robert Breunig provided strong evidence that individuals who withdrew funds from their superannuation during the most acute phase of the pandemic spend more time on unemployment benefits than those who chose not to withdraw their superannuation. The findings presented by Marc Chan indicate that higher caps increase retirement contributions considerably, with around two-thirds of this response financed by increases in earned income. The resulting gain in income tax revenue offsets the fiscal loss from tax concessions, highlighting the importance of taking income and labour supply responses into account.

Day 1 ended with a roundtable discussion of tax and transfer policy challenges in Australia and Korea. The discussion focused on differences and similarities between the two countries and paid particular attention to political challenges associated with the design of tax and transfer policies and the availability of relevant data sources for empirical research and evidence-based policymaking.



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The first session of Day 2 started with a presentation by Mathias Sinning (TTPI) who discussed results from a natural field experiment that was implemented in collaboration with the ATO and aimed to engage new entrants to the personal income tax system. A presentation by Dongik Kang (KIPF) focused on the effectiveness of designated market makers in South Korea. The findings presented by Mathias Sinning indicate that letters from the tax office affect the behaviour of new entrants to the tax system by providing information. By contrast, the type of messaging and the way in which information is presented appear to be relatively unimportant. The work by Dongik Kang shows that designated market makers increase the volatility of demand from liquidity traders with hedging needs. This increase alleviates adverse selection problems, thereby amplifying the effectiveness of designated market makers and increasing the welfare of all market participants.

The second session included a presentation by Byungjin Hong (KIPF) on taxes and capital structure in South Korea. The presentation introduced a new estimation method for marginal tax rates, shows the positive relationship between marginal tax rates and corporate debt, and demonstrates that corporate income tax rates are one of the most important factors for capital structure decisions of firms in Korea. Another presentation by Josef Manalo (Treasury) examined income displacement impacts from employer closures in Australia. Josef Manalo's research provided compelling evidence of strong, negative effects on future income for those individuals who lose jobs from their employer going out of business.

The last session of the event featured Nathan Deutscher (ANU, Treasury) who presented his work on bunching at positive, salient tax balances and the cost of reducing tax liabilities in Australia, and Andrew Carter (ANU) who examined whether the early release of retirement savings prolongs labour market participation for workers approaching retirement in Australia. Nathan Deutscher's work shows that people are much more likely to receive refunds on their tax returns than to have liabilities. They are also more likely to receive refunds with round numbers such as \$100 or \$1,000. These outcomes appear to be driven by the behaviour of tax agents. The work by Andrew Carter provides evidence of a small labour supply response, which increases after the program's initial introduction.

The participants look forward to further collaboration and engagement on key issues in another Symposium to be hosted by KIPF in 2023.



Korea-Australia Tax Symposium Day One