A FAIRER TAX AND WELFARE SYSTEM FOR AUSTRALIA

JULY 2025 | FAST FACTS

St Vincent de Paul Society NATIONAL COUNCIL of AUSTRALIA Inc. good works

Overview

- Between 3 to almost 4 million people live in poverty, depending on the definition used, in December 2024.
- 3.93 million people (14.2%) live in after-housing poverty
- 2.95 million (10.2%) in living standard adjusted poverty (which excludes those with high living standards but low incomes).
- 3.51 million (12.7%) of Australians face serious financial stress (3+ indicators, e.g. missed bills, skipped meals).
- Poverty and financial stress are highest among:
  - JobSeeker/Youth Allowance recipients: 66.5% in poverty; 51.8% in financial stress
  - Other government payment recipients: 68.8% in poverty; 42.6% in stress
  - Single parents: 37.2% in poverty; 34.1% in stress
  - Lone person households: 26.4% in poverty; 14.1% in stress
  - Renters: 23.1% in poverty; 23.2% in stress
- Meanwhile, tax concessions for high-income earners cost the budget around $50 billion annually.
- Working-age payments such as JobSeeker and Youth Allowance remain well below the poverty line ($600 per week for a single adult before considering housing costs) despite recent increases.
- The lowest 20% of households receive just 5% of all income.

The Reforms:

The paper models four policy options designed to lower poverty and financial stress, ranging from targeted JobSeeker reform to a system-wide Guaranteed Minimum Income (GMI). All options are budget-neutral, funded either through reductions in superannuation tax concessions or changes in thresholds for some welfare payments and concessions.

1. Modest JobSeeker Reform (Model 1)

Cost: $4 billion/year
Funding: Reduce superannuation tax concessions by replacing existing settings with a 22% discount off the top marginal tax rate (plus Medicare levy).

Payment Changes:

- Raise JobSeeker to 90% of the Age Pension.
- Increase Youth Allowance and Parenting Payment (Partnered) in line with JobSeeker.
- Index to Age Pension rather than CPI.

Poverty Impact:

- Adjusted poverty rate falls from 10.2% to 9.8% (↓95,000 people).
- JobSeeker poverty falls from 59.8% to 43.4%.

Distributional Impact:

- Low-income households (Q1) gain ~$870/year on average.

- High-income households (Q5) lose ~$3,120/year due to super tax changes.
- Gains concentrated in outer metro and regional electorates like Fowler and Calwell.

2. Major Reform- Tax Funded (Model 2)

Cost: $11.2 billion/year

Funding: Replace superannuation settings with a 20% discount off the top marginal tax rate.

Payment Changes:

- Includes all Model 1 changes.
- Parenting Payment (Single) raised to Age Pension rate.
- Rent Assistance ↑ 15% (in line with EAIC).
- DSP supplement: +$100/fortnight.
- FTB Part A: +$66.78/fortnight for children aged 0–12.
- Index FTB to wages.

Poverty Impact:

- Adjusted poverty rate falls from 10.2% to 8.2% (↓ 584,000 people).
- JobSeeker poverty: 66.5% → 45.4%.
- Strongest improvements for renters, single parents, and lone-person households.

Distributional Impact:

- Low-income households (Q1) gain ~$1,550/year.
- High-income households (Q5) lose ~$4,570/year.
- Biggest winners: electorates like Lingiari, Spence, and Blaxland (gains >$1,800/year).

3. Major Reform- Welfare Cut Funded (Model 3)

Cost: $11.2 billion/year

Funding:

- Tighten Age Pension asset test (e.g. homeowner couple threshold: $470K → $200K).
- Reduce childcare subsidy taper: phase out at $300K income (currently $530K cap).

Payment Changes:

- Same as Model 2.

Poverty Impact:

- Adjusted poverty rate falls from 10.2% to 8.3% (↓ 584,000 people).
- JobSeeker poverty falls similarly.

Distributional Impact:

- Low-income households (Q1) gain ~$390/year.
- Middle-income households (Q3) lose ~$300/year.
- High-income households (Q5) lose ~$470/year.
- Gains more modest but concentrated in outer metro and regional areas (e.g. Lingiari, Fowler).
- Smaller losses due to more broadly distributed funding cuts.

4. Guaranteed Minimum Income (GMI)- Tax Funded (Model 4)

Cost: $8.2 billion/year

Funding: Replace super tax concessions with a 21% discount off top marginal tax rate.

Payment Changes:

- Means-tested top-up for all low-income households (not just those on income support).
- Includes deemed income from investments.
- Removes eligibility hurdles and mutual obligations.

Poverty Impact:

- Adjusted poverty rate falls from 10.2% to 6.6% (↓ 1.03 million people).
- JobSeeker poverty plummets: 63.6% → 23.9%.

- Reaches people in poverty outside the welfare system.

Distributional Impact:

- Low-income households (Q1) gain ~$3,800/year — the largest of all options.
- High-income households (Q5) lose ~$3,970/year.

The GST

The modelling confirms that increasing or broadening the Goods and Services Tax (GST) would have a regressive impact, particularly when assessed against disposable income.

Current distribution:

- The GST accounts for 5.4% of disposable income for low-income households, compared to 2.6% for high-income households.

Proposed changes:

- Raising the GST to 15% would increase this to 8.0% for low-income households and 4.0% for high-income households.
- Broadening the base would result in similar outcomes: 7.9% for low-income and 3.5% for high-income households.

Effectiveness of compensation:

- CPI indexation of welfare payments would reduce some of the impact for lower-income groups, but would not fully offset losses.
- Middle-income households—who are less likely to receive compensation—could experience relatively greater financial strain.

Other taxes:

- Production taxes such as alcohol and tobacco excise, stamp duty and payroll tax are also regressive.
- Low-income households spend 12.1% of their gross income on these taxes, compared to 3.2% for high-income households.

Overall assessment:
While Australia's tax and transfer system is progressive overall, increasing or expanding the GST would lessen that progressivity.

Changes to superannuation taxation are significantly more progressive for low- to middle-income households than either increasing or broadening the GST.

The minimum superannuation tax change (a 20% discount off the top marginal rate) is estimated to leave at least 90% of retirees better off, due to higher long-term super balances. Only high-balance retirees would be modestly worse off.

Who Benefits- and Where?

The reforms would have greatest impact in regions with high welfare reliance and lower household wealth.

- Outer suburban areas and regional and remote electorates are among the biggest winners — especially in Western Sydney, outer Melbourne, Brisbane's fringe, the NT, and parts of SA and Tasmania.

- Electorates like Fowler, Calwell, Lingiari and Blaxland see average household gains of $1,100–$2,000 under major reform options.

- Inner-urban, high-income electorates such as Warringah, Kooyong and Wentworth see reductions due to increased super tax — reflecting a more progressive tax transfer system.

- Overall, progressive reforms redistribute support to where poverty is most concentrated: among renters, single parents, low-income individuals and JobSeeker recipients.

- The Guaranteed Minimum Income also reaches households in poverty but outside the welfare system, widening its geographic and demographic reach.