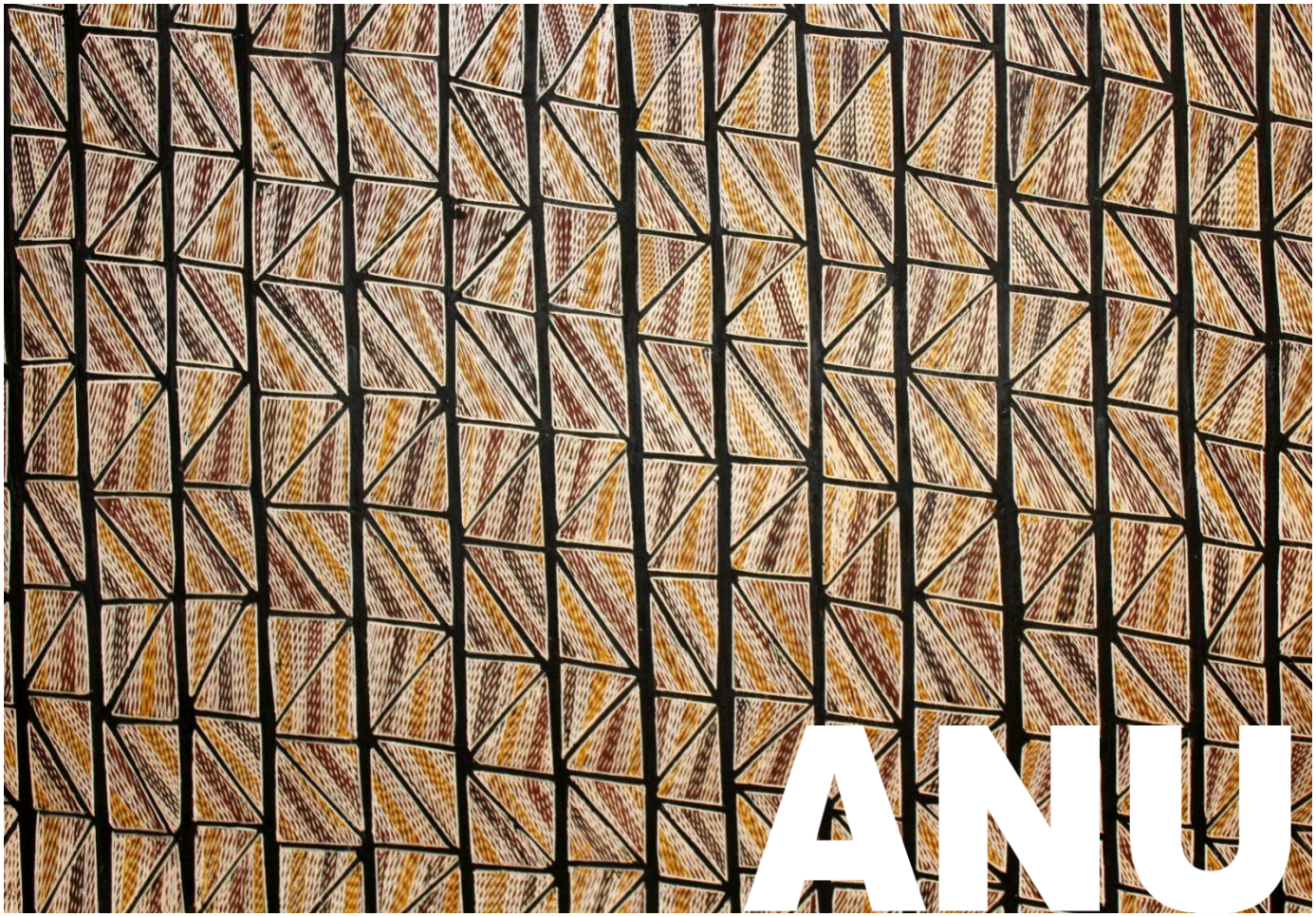
Australian National University



A FAIRER TAX AND WELFARE SYSTEM FOR AUSTRALIA[1]

BEN PHILLIPS[2]

POLIS: The Centre for Social Policy Research

POLIS WORKING PAPER
NO. 3/2025

[1] This research was commissioned by the St Vincent de Paul Society National Council of Australia Inc. and funded by St Vincent de Paul National Council, New South Wales, Victoria, Canberra-Goulburn and Tasmania. This research updates work published jointly by ANU CSRM and St Vincent de Paul Society in April 2022.

[2] Ben Phillips is an Associate Professor at the POLIS ANU Centre for Social Policy Research

Working Paper No. 3/2025
ISBN 978-0-6451416-9-6

DOI 10.25911/H5G6-EA83

POLIS: The Centre for Social Policy Research
Research School of Social Sciences
College of Arts & Social Sciences
The Australian National University

Front cover image:
Terry Ngamandarra Wilson, Gulach (detail), painting on bark, private collection © Terry Ngamandarra, licensed by Viscopy, 2016

Suggested citation: Phillips, B. (2024), A Fairer Tax and Welfare System for Australia (Working Paper No. 3/2025), POLIS: The Centre for Social Policy Research, Australian National University.

Ben Phillips is an Associate Professor at POLIS: The Centre for Social Policy Research at the Australian National University.

A Fairer Tax and Welfare System for Australia

Ben Phillips

Abstract

This research examines the Australian welfare system's inadequacies, particularly for JobSeeker and pension recipients, renters, single parents, and youth, who face high rates of poverty and financial stress. It proposes four budget-neutral reforms, primarily funded by reducing superannuation tax concessions or tightening means testing arrangements for the Age Pension and the Child Care Subsidy. These reforms could increase average household incomes by up to $3,800 annually for lower income households and reduce poverty rates by up to a third. The GST's regressive nature is highlighted, disproportionately impacting low-income households. The reforms target low income regions, enhancing equity while maintaining fiscal responsibility.

Acronyms

ABS	Australian Bureau of Statistics
ANU	Australian National University
DSP	Disability Support Pension
EIAC	Economic Inclusion Advisory Committee
GMI	Guaranteed Minimum Income
HES	Household Expenditure Survey
HILDA	Household Income and Labour Dynamics in Australia
PIT	Personal Income Tax
SIH	Survey of Income and Housing

Contents

Acronyms	**ii**
Tables	**iv**
Figures	**iv**
Executive Summary	**1**
1 Introduction	**3**
2 Summary statistics for financial stress and poverty	**4**
3 Policy Proposals to lower financial stress and poverty	**13**
4 Methodology	**16**
5 Policy Modelling Results	**18**
5.1 Electorate Results by Proposed Policy	**27**
5.1.1 JobSeeker/YA Increase	**29**
5.1.2 Major Reform, Tax Funded	**32**
5.1.2 Major Reform Welfare funded	**36**
5.1.2 GMI Tax Funded	**41**
6 Fiscal Incidence	**45**
6.1 GST and broadening the GST	**45**
6.2 GST and other Production Taxes	**49**
6.3 In-Kind Benefits	**53**
6.4 Summary of Fiscal Incidence	**55**
7 Conclusions	**57**
8 References	**60**

Tables

Table 1: Poverty and financial stress by household type (ANU PolicyMod December 2024) 5

Table 2: Top 10 gain and loss electorates, JobSeeker Increase, Australia 29

Table 3: Top 10 gain and loss electorates, Major Reform Tax Funded, Australia 32

Table 4: Top 10 gain and loss electorates, Major Reform Welfare funded, Australia 37

Table 5: Top 10 gain and loss electorates, GMI, Australia 41

Figures

Figure 1: Percentage of persons (Adults 18+) in financial stress with 95% confidence interval (HILDA) 8

Figure 2: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by family type (HILDA) 9

Figure 3: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by tenure type (HILDA) 10

Figure 4: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by Income source (HILDA) 11

Figure 5: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by age of person (HILDA) 12

Figure 6:Household After-Housing Poverty by main source of income, Dec 2025, ANU PolicyMod 19

Figure 7: Household After-Housing Poverty (living standard adjusted) by main source of income, Dec 2025, ANU PolicyMod 21

Figure 8: Household After-Housing Poverty (living standard adjusted) by tenure, Dec 2025, ANU PolicyMod 22

Figure 9: Household After-Housing Poverty (living standard adjusted) by family type, Dec 2025, ANU PolicyMod 23

Figure 10: Financial Impact by household living standard quintile, Dec 2025, ANU PolicyMod 24

Figure 11: Financial Impact by household Income quintile, Dec 2025, ANU PolicyMod 25

Figure 12: Winner and Losers by Financial living standards quintiles, ANU PolicyMod 26

Figure 13: Financial Impact by age of household head, Dec 2025, ANU PolicyMod 27

Figure 14: Financial Impact by Wealth Quintile, Dec 2025, ANU PolicyMod 28

Figure 15: Sydney Electorate Financial Impacts from JobSeeker Increase Policy 30

Figure 16: Melbourne Electorate Financial Impacts from JobSeeker Increase Policy 30

Figure 17: Brisbane Electorate Financial Impacts from JobSeeker Increase Policy 31

Figure 18: Australia Electorate Financial Impacts from JobSeeker Increase Policy 31

Figure 19: Sydney Electorate Financial Impacts from Major Reform tax funded Policy 33

Figure 20: Melbourne Electorate Financial Impacts from Major Reform Tax Funded Policy 34

Figure 21: Brisbane Electorate Financial Impacts from Major Reform tax funded Policy 35

Figure 22: Australia Electorate Financial Impacts from Major Reform tax funded Policy 36

Figure 23: Sydney Electorate Financial Impacts from Major Reform Welfare Funded Policy 38

Figure 24: Melbourne Electorate Financial Impacts from Major Reform Welfare Funded Policy 39

Figure 25: Brisbane Electorate Financial Impacts from Major Reform Welfare Funded Policy 40

Figure 26: Australia Electorate Financial Impacts from Major Reform Welfare Funded Policy 41

Figure 27: Sydney Electorate Financial Impacts from GMI 42

Figure 28: Melbourne Electorate Financial Impacts from GMI 43

Figure 29: Brisbane Electorate Financial Impacts from GMI 43

Figure 30: Australia Electorate Financial Impacts from GMI 44

Figure 31: GST Policy Options, Share of Household Expenditure by Household Income Quintile 46

Figure 32: GST Policy Options, Share of Household Disposable Income by Household Income Quintile 48

Figure 33: GST Policy Options with CPI Welfare Compensation, Share of Household Disposable Income by Household Income Quintile 49

Figure 34: All Taxes, Share of Household Gross Income by Household Income Quintile 51

Figure 35: All Taxes, Share of Household Gross income by Living Standard Quintile 52

Figure 36: Average superannuation taxation impact as a share of disposable income by quintile 53

Figure 37: All Benefits, Share of Household Gross Income by Household Income Quintile 54

Figure 38: All Benefits, Share of Household Gross Income by Living Standard Quintile 55

Figure 39: All Taxes and Benefits, Share of Household Gross Income by Income Quintile 56

Figure 40: All Taxes and Benefits, Share of Household Gross Income by Living Standard Quintile 57

Executive Summary

This research paper was commissioned by the St Vincent de Paul Society National Council of Australia. Its purpose is to highlight the inadequacy of the Australian welfare system for some groups, in particular working age recipients, and analyse how certain taxation and superannuation reforms could fund significant improvements in the financial position of Australians most in need.

Those at the greatest risk of deep poverty and financial stress are identified to be persons receiving JobSeeker payments and working age pensions, defined in this paper as including Disability Support Pension, Parenting Payments (Single) and Carer Payments. Other groups also linked to poverty and financial stress are renters, single parents and young persons.

In *A Fairer Tax and Welfare System (2025)*, four budget neutral proposals are outlined. Three of the four proposals generate revenue by moderately reducing superannuation taxation concessions. One proposal generates budget savings by changing eligibility thresholds for the assets test of the Age Pension and the Child Care Subsidy. We propose these savings be used primarily to increase working age payments. This is because poverty and financial stress rates are highest for households relying on JobSeeker, those on other government payments, single parents, lone persons and renters. Meanwhile, tax concessions for high-income earners cost the budget around $50 billion annually (Commonwealth of Australia (2024). Yet working-age payments such as JobSeeker and Youth Allowance remain well below the poverty line despite recent increases.

The four models proposed are progressive and reduce inequality, as most gains go to the bottom two income quintiles, with annual increases of between $1,550 and $3,800 per household. Gains also remain positive across moderate income households. Replacing the current superannuation tax system of a mostly flat 15 per cent rate with no tax on income for retirees with a progressive, but still substantially discounted tax rate would increase actual superannuation balances for over 90 per cent of retirees in Australia. A small, high wealth cohort would have moderately lower superannuation balances.

The reforms would have greatest impact in regions with high welfare reliance and lower household wealth. For instance, outer suburban areas and regional and remote electorates are among the biggest winners, especially in Western Sydney, outer Melbourne, Brisbane's fringe, the Northern Territory, and parts of South Australia and Tasmania.

The spending associated with these models is between about 3 and 7.5 per cent of the current welfare budget and less than 1.5 per cent of the overall Federal Budget and follows similar recommendations by the Economic Inclusion Advisory Committee. These outlays are highly targeted and provide the best available return on that investment in terms of poverty reduction and could lower poverty by up to a third.

The paper finds that the GST is regressive relative to disposable income. Currently the GST constitutes 5.4 per cent of disposable income for low-income households and 2.6 per cent for high-income households. If the GST is increased to 15 per cent, this increases to 8 per cent for low-income households and 4 per cent for high-income households. If the GST base is broadened, it increases again to 7.9 per cent for low-income households and 3.5 per cent for high-income households.

Adding CPI based compensation still leads to low-income households being worse off on average. And progressivity is worsened for middle-income households, who are less likely to benefit from welfare payment indexation. Further, CPI indexation alone would not fully compensate low-income households and other forms of compensation would be required (such as lower personal income taxation, changes to family payments or lower taxes elsewhere). Production taxes are also highly regressive for low-income households. Overall, the tax system as a whole is progressive but including a broader range of tax (including production and GST taxes) lessens that progressivity other things equal.

1 Introduction

"The proposed changes are targeted to benefit persons who have the greatest financial need and would be paid for by those most able to accommodate a modest additional contribution.

The Australian tax and social security system has evolved slowly over recent decades and its main features have remained largely intact. For individuals, the system comprises a progressive personal income tax system, tightly targeted welfare payments (social security) operating alongside an economy with a relatively high minimum wage and a retirement income system that combines the age pension and a contributory and compulsory superannuation system.

The St Vincent de Paul Society's first-hand experience of assisting Australians living in poverty informed the methodology underpinning this research. This paper identifies where the current systems are not working optimally and models a range of policy changes that would help address some of the disparity that exists within the current tax and social security system. The suggested policy changes are, by design, not revolutionary, yet identifiably beneficial to those most in financial need.

The paper sets out four separate, but related, policy proposals. The changes focus on shifting policy toward a stronger safety net for those who rely on the social security system with the aim of lowering poverty and the associated risks of financial stress. The additional expenditure is funded through modest increases in personal income taxation for those on higher incomes. The suggested changes to the tax system focus on moderate reductions in superannuation tax concessions.

The proposed policy options are but four of any number of options available to policy makers. We do not suggest these are the only or best options. However, they provide an example of what can be achieved with relatively modest changes to the existing system and total expenditure on supporting low income Australians. The proposed changes are targeted to benefit persons who have the greatest financial need and would be paid for by those more able to accommodate a modest additional contribution.

The suggested policy changes to welfare payments broadly follow our optimal policy modelling methodology to minimise the required increase in taxation and maximise the reduction in poverty and financial stress (Phillips 2018). Optimal policy modelling is an algorithm developed by ANU to ensure that for a given change in social security expenditure, the changes to payment rates are set to minimise poverty and financial stress – essentially providing the best value allocation of funds with respect to lowering poverty and financial stress.

The policy changes suggested are modelled using the ANU microsimulation model of the Australian tax and transfer system - PolicyMod. This is a detailed model incorporating most elements of the Australian tax and transfer system for individuals and is based on an updated version of the Australian Bureau of Statistics (ABS) 2017-18 Survey of Income and Housing (SIH).

2 Summary statistics for financial stress and poverty

To gain an understanding of which groups in our society face the most financial disadvantage we consider their after-housing poverty rates and financial stress position[3]. This analysis helps guide our suggested policy changes by showing which groups are in most need of further financial assistance. The poverty rates estimated in this paper are 'after-housing' in that they deduct housing costs from disposable income (gross income – personal income tax paid). Our poverty line is set at 50 per cent of the median of this 'after-housing' income measure[4].

Table 1 shows the poverty rates and financial stress rates for different household types. The poverty rates relate to 'after-housing' income. Poverty rates are an imperfect measure of disadvantage but still provide a reasonable assessment of which groups are more likely to be disadvantaged by serious financial stress. The poverty rates are estimates for December 2024 using the ANU PolicyMod model of the Australian tax and transfer system. The table Includes three separate metrics, after-housing poverty, after-housing poverty (living standard adjusted) and financial stress.

The adjusted form of poverty is the same as after-housing poverty except that any household not in the bottom 40 per cent of the predicted living standard distribution is excluded from poverty. Financial stress has been estimated as the probability of a household having 3 or more forms of financial stress. The adjusted version attempts to remove the issue of households with low Income but high living standards. High living standards can coincide with low Incomes (or after-housing Income) for a range of reasons but the most common reason is a household with a high level of wealth.

When considering poverty, Table 1 shows that single parent families are much more likely to live in poverty than other family types. This is particularly the case for financial stress and the adjusted poverty form. However, the number of persons in poverty is still dominated by couples with children as a result of many more people living in such household types.

[3] After-housing poverty is based on household disposable income with housing costs deducted. Households with after-housing income less than half the median are in poverty. After-housing disposable income is 'equivalised' or adjusted to a per adult basis using the OECD modified methodology where the first adult has a weighting of 1, subsequent adults 0.5 and children under 15 years of age 0.3.

[4] Income is adjusted for household size and composition using the Modified-OECD equivalence scale which adjusts the income to a 'per adult' basis. The first person in a household has a score of 1, subsequent adults 0.5 and children under 15 years of age 0.3. The bottom 2 percent of the income distribution has been excluded from poverty as recommended by the ABS. Such incomes (weekly estimates) may be an unreliable guide to the typical income of such households. As an example they may represent a low or negative week of income for a business.

Table 1: Poverty and financial stress by household type (ANU PolicyMod December 2024)

Family Type	Poverty (after-housing) Rate %	Poverty (after-housing) Persons (000s)	Poverty (living standard Adjusted) Rate %	Poverty (living standard Adjusted) Persons (000s)	Financial Stress (3+ forms)^
Couple, Kids	12.0	1,227	10.1	1,028	10.9
Couple Only	9.9	693	4.5	311	6.8
Lone Person	26.4	735	18.0	500	14.1
Single Parent	37.2	904	32.7	796	34.1
Other	6.9	370	6.0	319	14.5
Main Source of Income					
Wages and Salaries	7.8	1,458	6.7	1,259	10.9
Business	31.2	372	18.9	225	9.6
Working Age Pension	38.3	402	37.1	390	41.1
Age Pension	23.2	610	12.2	321	10.4
JobSeeker/YA	66.5	482	53.7	389	51.8
Other Government	68.8	284	66.9	276	42.6
Other	10.7	315	3.2	93	5.0
Tenure Type					
Own Outright	8.3	602	3.2	233	6.2
Mortgage	12.2	1,486	9.7	1,176	10.1
Renter	23.1	1,808	19.4	1,518	23.2
Other	7.6	32	6.2	27	12.6
Age					
15 to 24	22.0	169	13.3	102	28.2
25 to 34	7.3	279	5.5	208	12.7
35 to 44	15.9	1,048	14.4	948	15.1
45 to 54	16.0	945	13.3	786	16
55 to 64	12.9	567	10.6	464	13.9
65 to 74	15.9	504	10.3	327	9.8
75+	13.6	418	3.9	119	5.3
Total	14.2	3,929	10.7	2,954	12.7

^Predicted in PolicyMod using ABS Survey of Income and Housing 2019-20 based regression model

Families where the main source of income is other government income or JobSeeker Allowance have the highest chance of being in poverty at 68.8 per cent and 66.5 per cent respectively while those with wages and salaries are the least likely at 7.8 per cent[5]. Working age pensions (such as disability support or Carer Payment or Parenting Payment Single) also have a high poverty rate at 38.3 per cent. The adjusted form of poverty tells a similar story for working age payments (including JobSeeker payments) but the poverty rate for business is considerably lower. Estimated financial stress rates tell a similar story by source of Income with JobSeekers and working age payment recipients the most likely to have high rates of financial stress. Age pensioner households have

[5] Other government income could include sources such as family tax benefit which may be the case for some families with children.

relatively high rates of after-housing poverty but their typically high level of wealth lowers their adjusted poverty rates and financial stress rates to around 12 and 10 per cent respectively.

Renter households tend to have rates of poverty and financial stress that are considerably higher than other tenure types. Around 23.1 per cent of renters are in poverty while around 19.4 per cent are in adjusted poverty (so that only households with low living standards are in included). Mortgagor households have rates of poverty and financial stress that are below the national average and those who own their house outright have the lowest rates of financial stress and poverty.

Poverty rates and financial stress tend to be higher for very young households but then dip for households headed by persons aged 25 to 34 years. The relationship is less clear for middle aged households up to 65 years. Financial stress tends to be lower for older age groups particularly beyond the age of 65 while poverty rates are lower for the oldest age group (75+).

Household poverty rates and numbers in poverty are not always relatable as often households with small 'rates' of poverty are far more numerous than households with high poverty rates. For example, most people in poverty (on any metric) are households with wages and salaries as the main source of income even though their rate of poverty is the lowest. Such a result implies that it is important to remember that when developing policy with the aim of lowering poverty or financial disadvantage, the focus shouldn't be only on groups that have high rates of poverty as this cohort may be relatively small in number.

Poverty rates are a useful guide to a relative lack of financial resources, but they are not without their problems. Simple monetary poverty lines ignore the many other factors beyond income (and sometimes housing) that make up financial living standards. Older Australians often have relatively low incomes either due to poor financial returns in a given year or that they are drawing down their super at only the minimum rate. Some households access their super through a lump sum approach or via an income stream. As a lump sum is not regular income, these households may appear to have a low income and may be defined as in 'poverty' but still have quite considerable means via their superannuation account. For some, the distinction between income and wealth is blurred and simple poverty measures may not take this into account well.

Financial stress has been measured in each wave of HILDA since 2001 (up to 2023). Financial stress is a more direct way of measuring financial disadvantage by asking persons about their financial stress points. The HILDA survey asks respondents (aged 15 years or older) if they experienced a range of financial stresses. The specific question asked is “Since January [relevant year] did any of the following happen to you because of a shortage of money?” with the following list provided:

- Could not pay electricity, gas or telephone bills on time
- Could not pay the mortgage or rent on time

- Pawned or sold something
- Went without meals
- Was unable to heat home
- Asked for financial help from friends or family
- Asked for help from welfare / community organisations.

In addition, the HILDA survey includes the question "Suppose you had only one week to raise $4,000 for an emergency. Which of the following best describes how hard it would be for you get that money?" with response options:

- I could easily raise the money
- I could raise the money, but it would involve some sacrifices (e.g., reduced spending, selling a possession);
- I would have to do something drastic to raise the money (e.g., selling an important possession); or
- I don't think I could raise the money.[6]

These measures more directly relate to the financial living standards of households and overcome many of the issues found with simple monetary poverty measures. These measures are not without their own issues. Financial stress can be the outcome of poor financial management or financial literacy rather than the outcome of a lack of money. For example, it may be that older persons have less financial stress than younger people as a result of more experience managing money. As is often the case with statistical analysis, it is advisable to consider a range of statistics rather than focussing on one statistic alone.

Figure 1 shows that financial stress has generally come down since HILDA was first run in 2001. Stress picked up again after the global financial crisis and has remained relatively stable between 2013 and 2023. There is evidence that financial stress declined through the COVID years but has picked up again in 2023 most likely as a result of recent strong inflation. Figure 1 shows financial stress results for both 'any stress' and '3+ forms' of financial stress. Any stress implies that the responding adult has experienced any of the potential 8 measures of financial stress. 3+ forms relate to the person experiencing at least 3 forms of financial stress. For this report we have a strong focus on the latter and more serious '3+ forms' of stress since our interest is considering the adequacy of the welfare system where financial stress is often quite acute and deeper financial stress is something that policy settings should help avoid. Over the past 10 years (to 2023) the HILDA data shows that around 30 per cent of persons experience some form of financial stress, while closer to 10 per cent experience the

[6] In waves 9-19 this question was whether the respondent could raise $3,000 for an emergency. From wave 20 the question was whether the respondent could raise $4,000 for an emergency.

deeper (3+) forms of financial stress. The increase in financial stress in 2023 is not particularly large but is statistically significant.

Figure 1: Percentage of persons (Adults 18+) in financial stress with 95% confidence interval (HILDA)

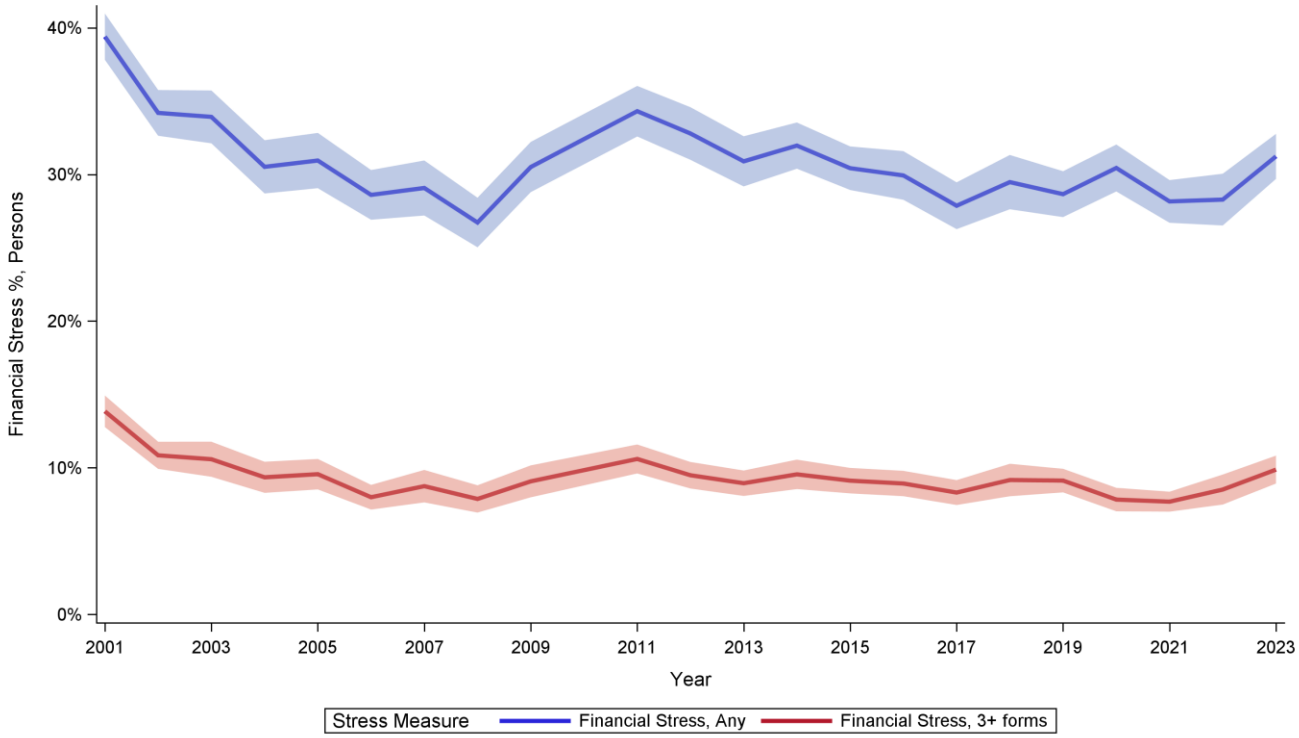


Figure 2 shows the deep financial stress rates for different family types. As for the poverty results in Table 1 it is estimated that single parent families face the highest rates of financial stress with rates typically between 30 and 40 per cent - well above rates for any other family type. Couple only families have negligible rates of financial stress while couples with children also have relatively low rates of financial stress. Lone persons tend to have rates of financial stress between 10 and 20 per cent.

The most pronounced falls in stress were for single parents between 2001 and 2006 - likely driven by strong employment growth particularly for women. Financial stress rates increased for single parents beyond 2006 possibly in response to lower welfare payments, particularly the gradual shift for many single parents from Parenting Payment to the less generous JobSeeker payment. Future HILDA surveys will help gauge whether the recent reversal of that policy (for children between the age of 8 and 12) has lowered financial stress for single parents.

Figure 2: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by family type (HILDA)

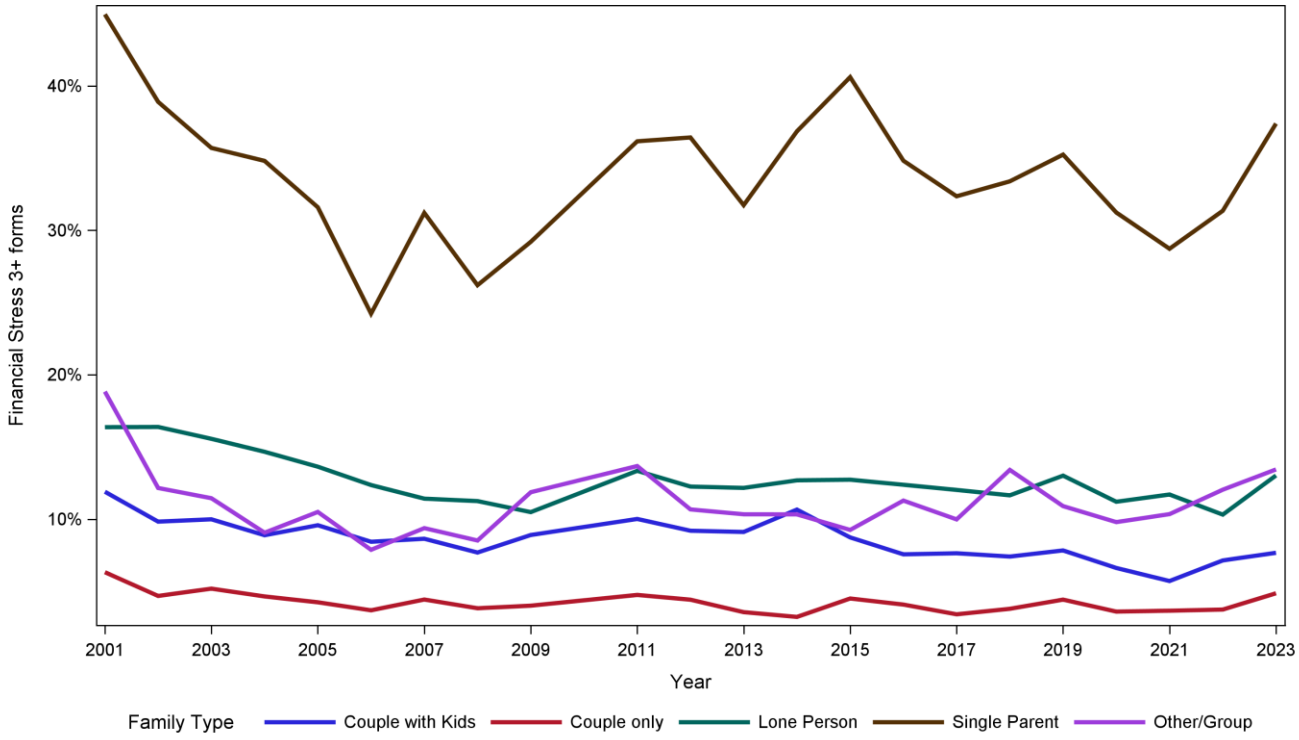


Figure 3 shows that financial stress rates are much higher for renters than homeowners (regardless of whether they own the house outright or not). Renters have typically had financial stress rates (3+ forms) that are triple that of mortgagors, while those who own outright have very little financial stress. It is interesting to note that financial stress rates for mortgagors have not significantly increased with higher interest rates in the latest HILDA survey (2023) and likewise only moderately lowered in the previous three years when interest rates were much lower than those in 2023. This suggests that small to medium changes in interest rates don't have a substantial impact on this more serious form of financial stress. Changes observed in interest rates may well alter discretionary spending levels but they do not appear to have a dramatic impact on serious financial stress.

Renter financial stress has increased in 2022 and 2023 in HILDA suggesting a likely link between higher rents and financial stress. With that said, current rates of financial stress are not dissimilar to rates observed over the last couple of decades for renters. Regardless of changes in renter financial stress the important point to note is that renters have much higher rates of financial stress than home owners.

Figure 3: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by tenure type (HILDA)

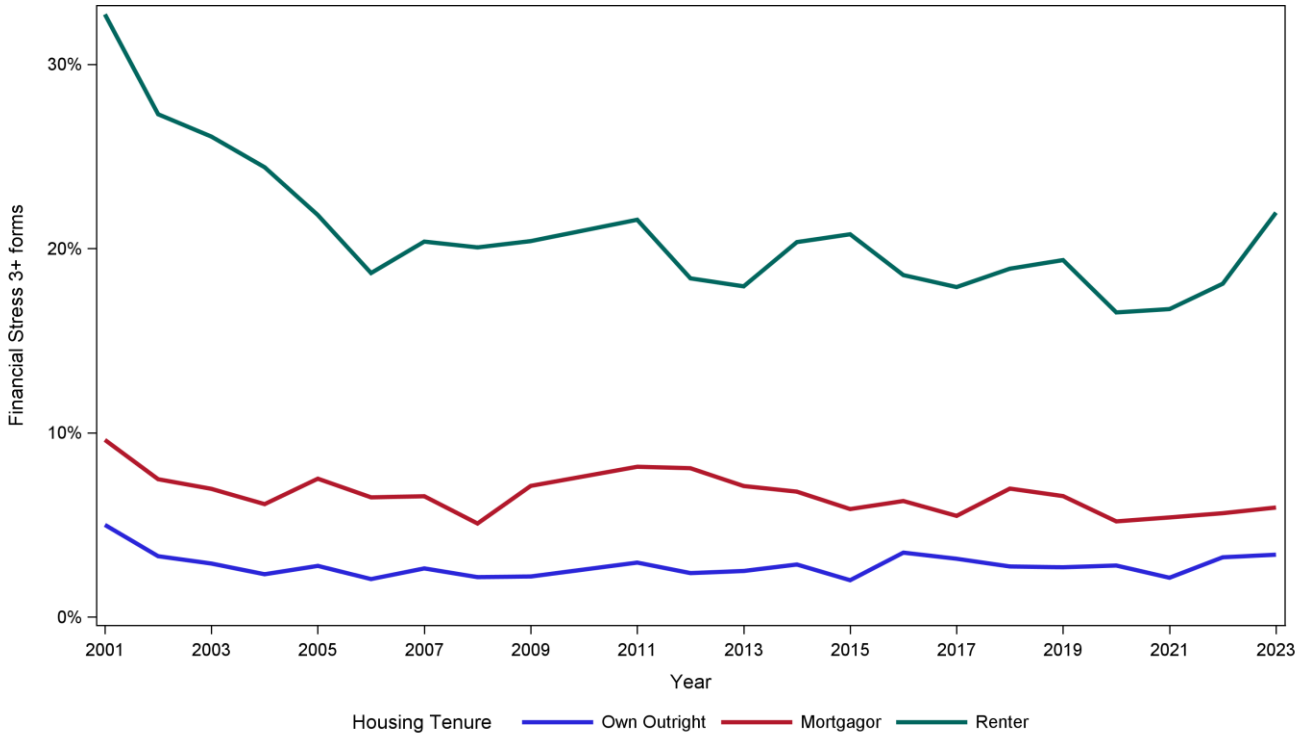


Figure 4 outlines financial stress amongst persons with different sources of income. Income in Figure 4 is defined differently to Table 1 where 'main sources of income' was chosen for the household. Income is categorised in Figure 4 depending on firstly, your type of welfare payment (regardless of whether it is your main form of Income) and secondly, in the absence of a welfare payment, whether you have wages or other income (and ranked in that order).

Figure 4 shows that financial stress rates for working age payments are typically much higher than those for wages, other income or the age pension. Remarkably, those on the age pension have the lowest financial stress rates. This is likely driven by a range of factors such as higher wealth, lower cost of living for older persons, lower or no housing costs and potentially better money management than younger people.

There is considerable variation from year to year for the working age welfare payment persons and this relates most likely to often fairly small sample sizes rather than actual changes in financial stress. A few observations on the welfare payment groups;

1) JobSeeker recipient financial stress declined in 2020 with the near doubling of the JobSeeker payment and has since increased dramatically to be the payment with the highest rates of financial stress;

2) Parenting payment, in spite of a higher base payment than JobSeeker, has typically had higher rates of financial stress than any other payment (although it is very close with JobSeeker);

3) working age welfare payment recipients have much higher rates of stress than non-welfare recipients and age pension recipients, and

4) JobSeeker and Parenting Payment recipients typically have financial stress rates that are around 5 times higher than wage earners and about 10 times higher than age pension recipients.

The overall modest reduction in financial stress through the HILDA sample years (2001 to 2023) was mostly of benefit to those receiving wages, other income and the age pension. Financial stress amongst working age recipients has not changed substantially through this period. Those on the Disability Support Payment (DSP) have benefited from welfare payment increases that are matched to wages and also the one-off increase due to the Harmer reforms in 2009. However, it could be expected that the population of DSP recipients has moved towards the more disadvantaged recipients over time as the payment eligibility rules tightened over the last decade.

Figure 4: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by Income source (HILDA)

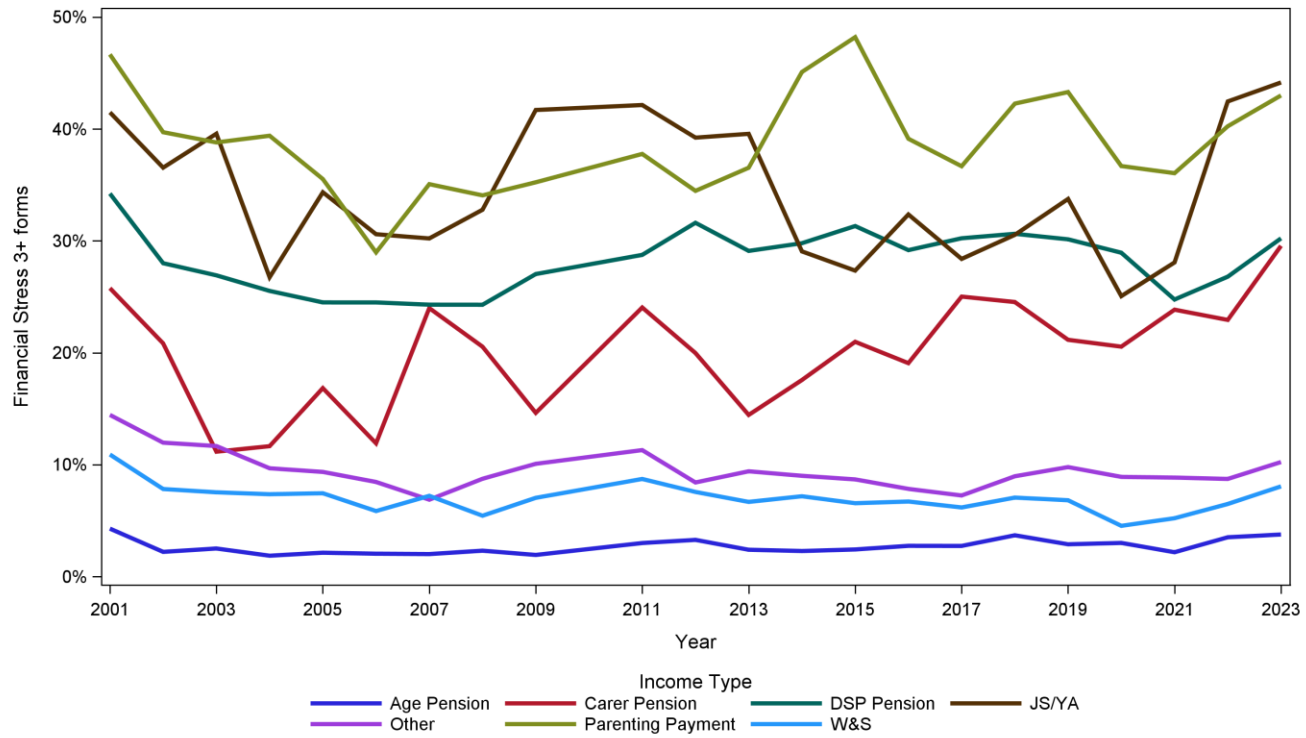
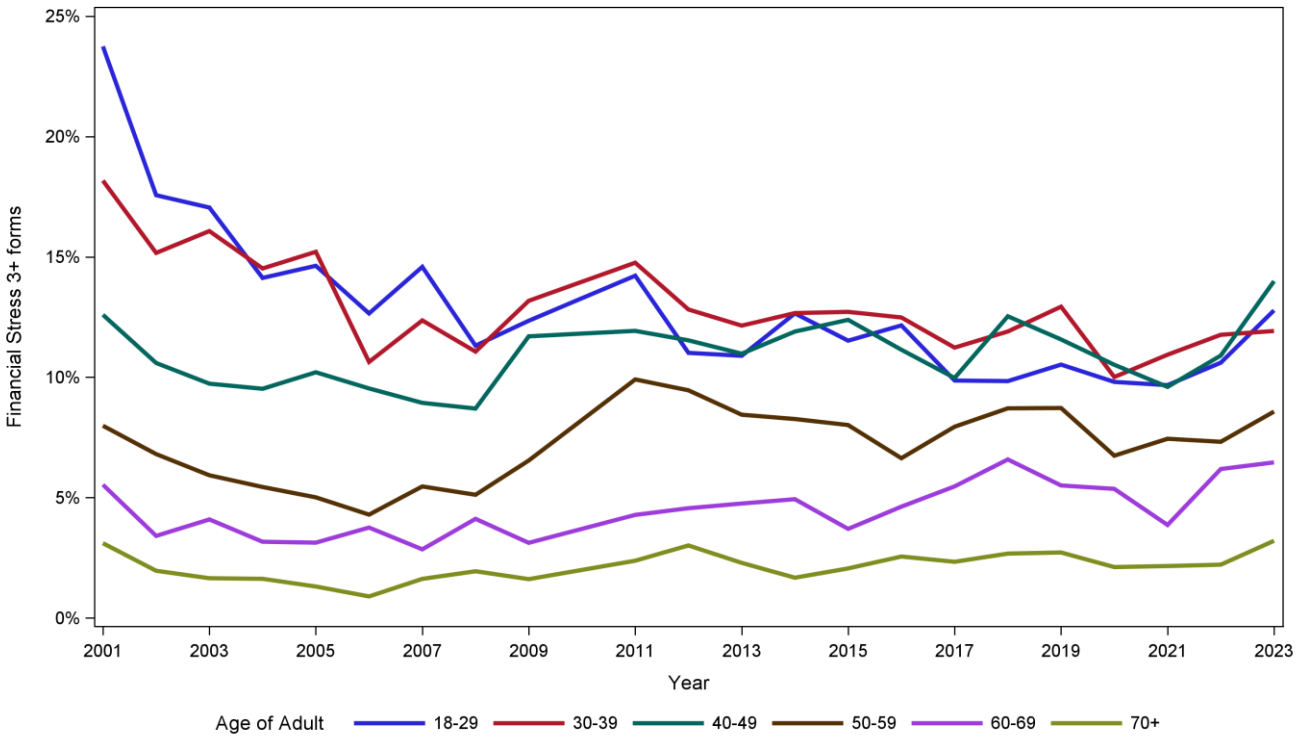


Figure 5 shows that financial stress is much lower for persons who are over the age of 50. There is little difference between persons of different ages under 50 but beyond the age of 50 financial stress

lowers dramatically. Financial stress for persons aged over 70 years is typically about 20 per cent of that of persons aged under 50. There are likely to be many drivers of this and they include older persons having more wealth, lower cost of living with children no longer dependent, lower housing costs and, for some, less ability or interest in some forms of spending such as travel and recreational activities.

Figure 4 and Figure 5 raise challenging questions regarding Australia's approach to retirement through superannuation and pensions. We currently require younger Australians to put aside at least 12 per cent of their wages and salaries for superannuation. We also tax those contributions, and any income earned on superannuation very lightly. The contributions during accumulation years (usually under the age of 60) are the years of greatest financial pressure but they are also the years of greatest taxation liability and substantial superannuation contributions. The current cohort of retirees, many of whom have not contributed to superannuation to anything like the extent to that expected of future retirees, have financial stress rates that are very low. It is reasonable to question the value of such light taxation on retirees and the practice of setting substantial superannuation contributions during our working age years. The current superannuation settings (other things equal) will mean substantially larger retirement savings and even greater financial stress disparity between younger and older generations.

Figure 5: Percentage of persons (Adults 18+) in financial stress (3 or more forms) by age of person (HILDA)



The results above indicated some important facts that provide the basis for suggested policy changes to improve financial living standards of Australians. The following groups appear to have abnormally high rates of financial stress and adjusted poverty rates:

1) Single parents;

2) Younger Australians (persons under 50);

3) Renters; and

4) Working age welfare recipients.

The policies suggested below will direct greater support to these groups. Providing greater support to certain groups necessitates finding greater revenue from other groups and it makes sense to target groups that are both doing well but also less likely to be incentivised to work less as a result of greater taxation. The groups identified as generally doing (on average) better than others include:

1) Older Australians (60 years and over);

2) Home owners (particularly those who own outright);

3) Couple only families; and

4) Age pensioners.

There is likely some cross-over between these groups with many older Australians being 'couple only families' and likewise for outright homeowners. For this particular policy exercise in this section we are not looking to overhaul the existing system or propose entirely new policies, rather the interest is in modest reform that doesn't cost substantial amounts of money but benefits those in the greatest financial stress/poverty.

3 Policy proposals to lower financial stress and poverty

Four policy proposals are defined here to consider what impact such policies could have on financial stress and poverty. The proposals range from a modest policy change with just an increase to the JobSeeker payment and related payments to two more substantial policies making a range of welfare payments more generous. A final option is to introduce a Guaranteed Minimum Income (GMI) which ensures a minimum income to all households of at least equal to the before housing poverty line. Each policy is fully funded either through an increase in tax or a reduction in other welfare payments. The modest approach of a simple increase in the JobSeeker payment is designed to overcome the most pressing issue in the welfare system currently - the very low rate of the JobSeeker and related payments such as Youth Allowance for either full-time students or young unemployed persons. The

more substantial proposals offer a more complete range of welfare payment increases and therefore have more broadly based effects on poverty and financial stress. The GMI option is one that completely alters the existing social security system by ensuring households have a minimum income level in line with the poverty line. Not surprisingly, the larger the expenditure the more substantial the reduction in poverty. The more substantial proposals cost the budget more and require greater funding through the tax system or greater offsets via lower spending elsewhere.

The tax funding mechanism used throughout the policy options involves applying a tax rate to superannuation contributions and earnings equal to the recipient's top marginal personal income tax rate minus a discount. In the JobSeeker proposal below, a 22 percentage point discount is applied to superannuation taxation. For example, if a person's top marginal tax rate was 47 per cent (including the Medicare levy) then the rate of tax applied to contributions and earnings in the superannuation system would be 25 per cent. This would generally result in an increased superannuation liability relative to current policy (15 per cent tax for most).

Someone with a top tax rate of 21 per cent would pay a zero rate of tax and would in most cases pay less superannuation tax than currently the case. Taxing superannuation in this way continues to provide substantial superannuation concessions to all individuals but increases the progressivity of taxation relative to the current system that is largely a flat tax of 15 per cent on the vast majority of account holders. Phillips (2023) shows that such an approach makes little difference to the final superannuation balances of the vast majority of account holders but a modest increase in superannuation taxation for those with the very highest holdings does moderately lower superannuation concessions (and increase tax revenue) in a substantial enough way to pay for the proposals in this paper. In a distributional sense the gains are substantial enough that even a person in the 90th percentile of expected superannuation balances at retirement would be better off with a 20 per cent discounted tax rate (to their top marginal tax rate). Only those with very high superannuation balances would retire with lower balances. A helpful benefit of such an approach is that many lower income/wealth account holders will pay less superannuation tax and retire with a moderately larger superannuation balance.

'Modest' JobSeeker proposal would:

a) increase the JobSeeker allowance payment to 90 per cent of the Age Pension for both singles and couples.

b) increase related allowance payments such as Youth Allowance and Parenting Payment Partnered in line with the per cent increase in JobSeeker payment.

c) link JobSeeker and related payments to the indexation of the Age Pension.

The proposal could be funded through a reduction in superannuation tax concessions of $4 billion per year. This involves providing a tax concession that is a 22.2 per cent discount to an individual's current top marginal tax rate to superannuation earnings and contributions. This increases tax by around $4 billion per year in 2025-26 which funds the increased expenditure in welfare.

'Major reform, tax funded' policy proposal would:

A) Include all of the 'modest' policy proposals plus:

b) increase Parenting Payment single to the rate of the age pension.

c) increase Commonwealth Rent Assistance maximum rates by 15 per cent.

d) provide a supplementary payment to Disability Support Pension recipients of $100 pf recognizing their greater cost of living expenses relative to age pensioners.

e) raise Family Tax Benefit Part A maximum rate for children aged 0 to 12 to the same rate as older eligible children (additional $66.78 pf), and

f) re-establish the link between Family Tax Benefits and wage growth.

The proposal could be funded by applying a superannuation tax rate equal to a 20 per cent discount to an individual's top marginal tax rate to superannuation earnings and contributions. Such a discount is moderately less generous than the current system on average and increases tax by around $11.2 billion per year in 2025-26 which funds the increased expenditure in welfare.

'Major reform, welfare cut funded' policy proposal:

As per the 'major reform, tax funded' proposal, but funded through cuts to spending programs within the existing social security system. Modelled here is a lowering of the assets test for the Age Pension for singles and couples. The threshold for the full and part pension is reduced by just over a half, meaning that the full rate pension threshold for a couple homeowner would be lowered from $481,500 to $200,000. The childcare subsidy currently applies to families with an adjusted taxable income up to $530,000 per year which is the 99th percentile of adjusted family incomes for families with children. Families with income below $67,000 per year receive the maximum subsidy rate of 90 per cent (down from $85,279 in 2025-26). The proposal here lowers the subsidy rate for incomes beyond the lower income threshold to $67,000 (low income family tax benefit threshold). The child care subsidy rate would be lowered to 0 per cent for incomes beyond $300,000 per annum.

An obvious question is why cut the assets test for the Age Pension and the income threshold for childcare subsidies? Around $11.2 billion dollars in savings is required for this policy. The decision to make cuts in the pension and childcare budgets comes down to these recipients being the least

financially stressed - there age pensioners with relatively high wealth and childcare families with relatively high incomes meaning that both are estimated to have very low rates of financial stress. These groups are therefore most likely to be able to deal with some reduction in benefits.

Guaranteed minimum income approach to welfare:

The current welfare system has a complicated array of means testing, mutual obligations and other restrictions meaning that many people either miss out on welfare payments altogether or have a range of measures their welfare payments are contingent on that are arguably not beneficial or working as intended. An alternative system is to simply ensure that all Australians are guaranteed a minimum income set at roughly the current poverty line in Australia. The Guaranteed Minimum Income (GMI) would top up your income if you are below that threshold (or poverty line). If you are above that threshold, you and your family would not receive the payment. Included in 'Income' would be a deemed income from non-owner occupier housing assets. This ensures that only genuinely low income/living standard households receive the payment.

The main benefit of the GMI approach is that it ensures that all persons in Australia receive a minimum living standard which is in contrast with the current welfare system which means that many people miss out on a minimum living standard - as suggested by a poverty rate of at least 10 per cent of the population.

The downside of a GMI is such an approach will, for some people, imply a greater disincentive to work which is identified by the loss of a dollar of income for every dollar earned up until the point the GMI benefit is exhausted. With that said, the GMI is vastly less expensive compared to a universal basic income which potentially pays every adult a payment roughly equal to the poverty line regardless of the person or family means. A potential variant on the GMI is a tapered GMI where the GMI is tapered at a rate of less than 100% for every dollar earned. Naturally, such a variant does increase the cost (taxpayers elsewhere in the income distribution paying more tax and facing higher effective tax rates). Whichever approach is taken, the average incentive to work may not change greatly but the distribution likely will, with some effective tax rates increasing while others would be lower.

To fund the GMI a progressive tax is applied to superannuation earnings and contributions at a rate that is a 21 per cent discount to a person's top marginal tax rate in place of the existing tax arrangements for superannuation.

4 Methodology

For modelling the current policy world and a range of alternative policies we employ the ANU PolicyMod model of the Australian Tax and Transfer System. PolicyMod is based on the ABS Survey of

Income and Housing but updates that survey with the latest tax and welfare policies and makes a number of important updates to most dollar values in the survey such as incomes, rent paid, investment returns and changes in wealth. PolicyMod also updates the survey weights to align with the population of Australian tax, welfare and general population and labour force of today rather than those that applied in the original survey[7].

The modelling using PolicyMod is based on the current 2025-26 base population using the current personal income tax and welfare policy settings for individuals and families. This paper proposes several variations to those policy settings with the main goal of lowering poverty in Australia and improving living standards of those persons at most financial disadvantage in Australia.

PolicyMod compared the disposable income outcomes (accounting for changes also in childcare out of pocket costs and superannuation balances - neither of which are part of standard disposable income calculations). These differences are then tabulated by a range of household types to better understand not only the overall costs but the distribution of the impact on different household types. For each proposed policy the overall budget impact will be designed to be budget neutral over the forward estimates (2025-26 to 2028-29).

A later section considers the impact of changes in the Goods and Services Tax (GST) on Australian households. This analysis is based on imputing the GST (and broader versions of the GST) for households in the PolicyMod base data. This is done using regression modelling from the most recent 2015-16 Household Expenditure Survey (HES) at the detailed expenditure level. Incorporated into this modelling are the broader versions of income and tax for 'In-kind' Income and 'Production Taxes' so that a broader perspective can be understood regarding the distribution of government benefits and taxation. A number of adjustments are applied to the ABS HES so that it better reflects the GST, other production taxes and government benefits in Australia. This analysis is undertaken for two purposes in this paper to:

1) better understand the distribution of expenditure of the GST which is sometimes considered as a source of potential new revenue via either an increase in the rate of GST or a broadening of the GST or both.

2) compare the impact of an increase in GST revenue to that of increasing superannuation taxation as proposed in this paper.

[7] For more detail on the ANU PolicyMod microsimulation model of the Australian tax and transfer system see the model documentation (Phillips 2023).

5 Policy Modelling Results

The focus of policy change in this paper is to lower the financial stress of those households in most need. Typically, the households in most need in Australia are those dependent on welfare payments, and in particular, working age welfare payments. Figure 6 shows the poverty impact on households considering their main source of income.

Households whose main source of income is the JobSeeker payment or Youth Allowance payments have the highest rates of after-housing poverty at 63.6 per cent (base case for 2025-26). Working age pensioners (Disability, Carer or Parenting Payment Single) have the next highest poverty rate at 42.9 per cent. Age pensioner households have lower rates of poverty relative to other welfare recipient households at 23.6 per cent. Wage and salary households have much lower rates of poverty at 7.2 per cent, while 'other' households and business owner households have rates of 11.2 and 29 per cent respectively. Business owner households often have unpredictable weekly incomes or incomes that are low due to losses and may not always relate well to their true living standards.

The modest policy (SIM1) proposal of increasing the JobSeeker rate to the Economic Inclusion Advisory Committee's (EIAC) recommended rate of 90 per cent of the Age Pension lowers poverty mostly for JobSeeker and Youth Allowance households down to 46.9 per cent (EIAC 2025). Other household type poverty rates are largely unaffected by the increase in the payment rate. The major reform policies (either expenditure cuts or tax funded) lead to broader welfare payment poverty reductions. Working age pension poverty rates lower to around 24 per cent and there are some very minor reductions in other household type rates. There is little difference in age pension poverty rates as the policy changes generally have limited impact on age pensioner households with the exception of the modest increase in rent assistance.

The Guaranteed Minimum Income (GMI) which is estimated to cost around $8.2 billion per year achieves the largest reduction in poverty rates. The rate of poverty for JobSeeker households lowers to 23.9 per cent, well down on the current rate of 63.6 per cent. The overall rate of poverty lowers from a current rate of 13.5 per cent to 8.1 per cent. This equates to around 1.5 million fewer persons in poverty. The GMI naturally targets those households who are in poverty (before-housing) so it should be expected that this approach will lower after-housing poverty more than policies that are less well targeted. For example, the reform options that adjust existing polices such as JobSeeker or the Disability Support Policy provide additional assistance to households that are both in poverty and not in poverty so they are not as well targeted as the GMI. The GMI also provides assistance to households not in the welfare system but are relatively poor.

Figure 6:Household After-Housing Poverty by main source of income, Dec 2025, ANU PolicyMod

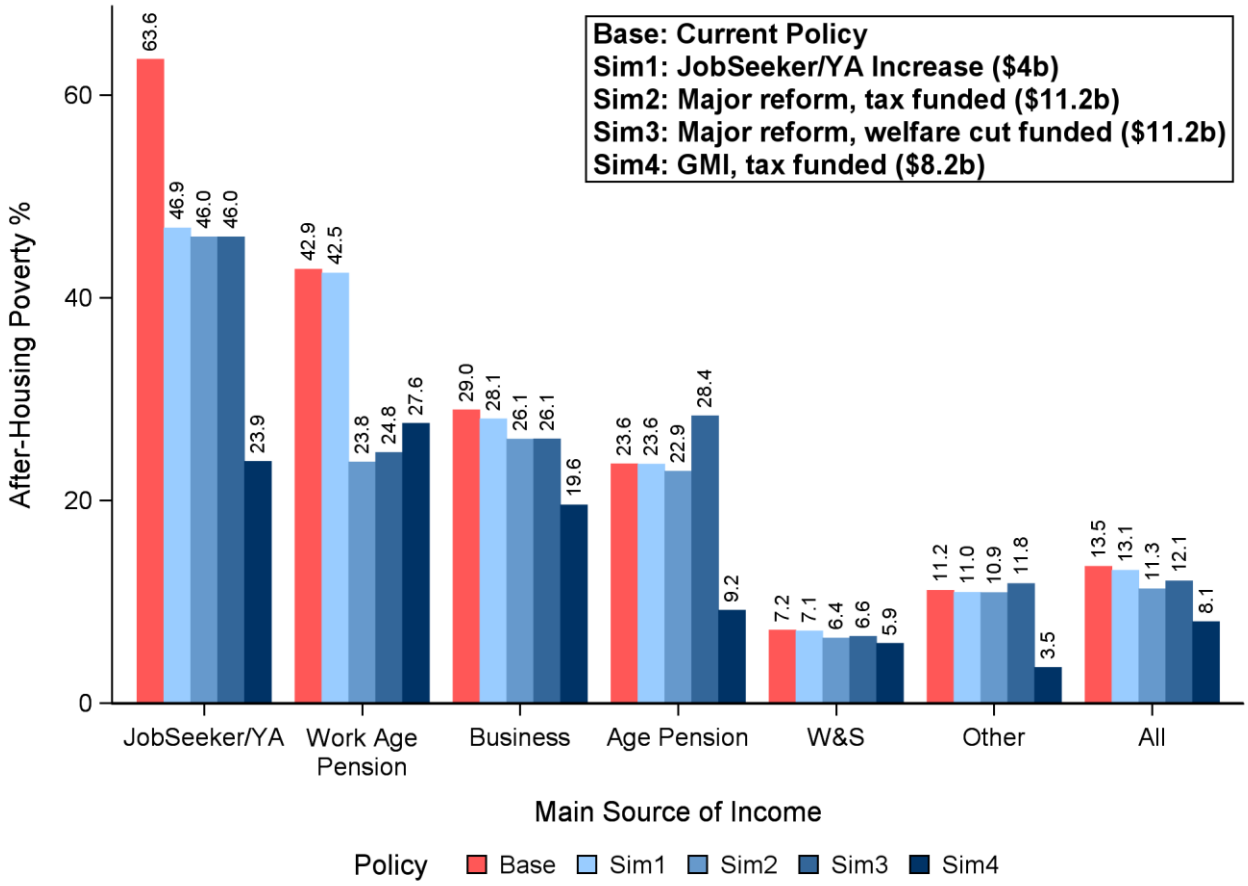


Figure 6 is based on after-housing poverty rates. A concern with the standard after-housing poverty rate and indeed the before-housing poverty rate methodology is that they tend to overstate the rate of poverty particularly amongst households with low incomes but with levels of wealth that are inconsistent with 'poverty'. This issue is most common amongst pensioners and business owners and 'other' income households. Often these types of households have relatively high levels of wealth. For example, an age pensioner couple may own their family home outright and have up to $1,317,000 (July, 2025) in assessable assets (not including the family home). This person could be defined as being in poverty but realistically is unlikely to have serious financial stress with access to substantial savings likely in the form of superannuation, shares, property, or cash in the bank.

An additional problem with standard poverty lines, particularly for older people, is that financial needs tend to decline later in life and pensioners and seniors have access to health care cards that provide substantial savings for some areas of expenditure such as health and transport costs.

To partly overcome these issues an 'adjusted' after-housing poverty line is also used in this paper where we remove any household from poverty that is not in the bottom 40 per cent of the living standard distribution. Living standard can be inferred by a household's probability of financial stress

which is associated with a range of factors such as income, wealth, age, gender, family type, disability status, state, number of persons in the household, tenure type, housing costs, education status and labour force status. Effectively the poverty rate is a hybrid of a monetary and multidimensional poverty line[8].

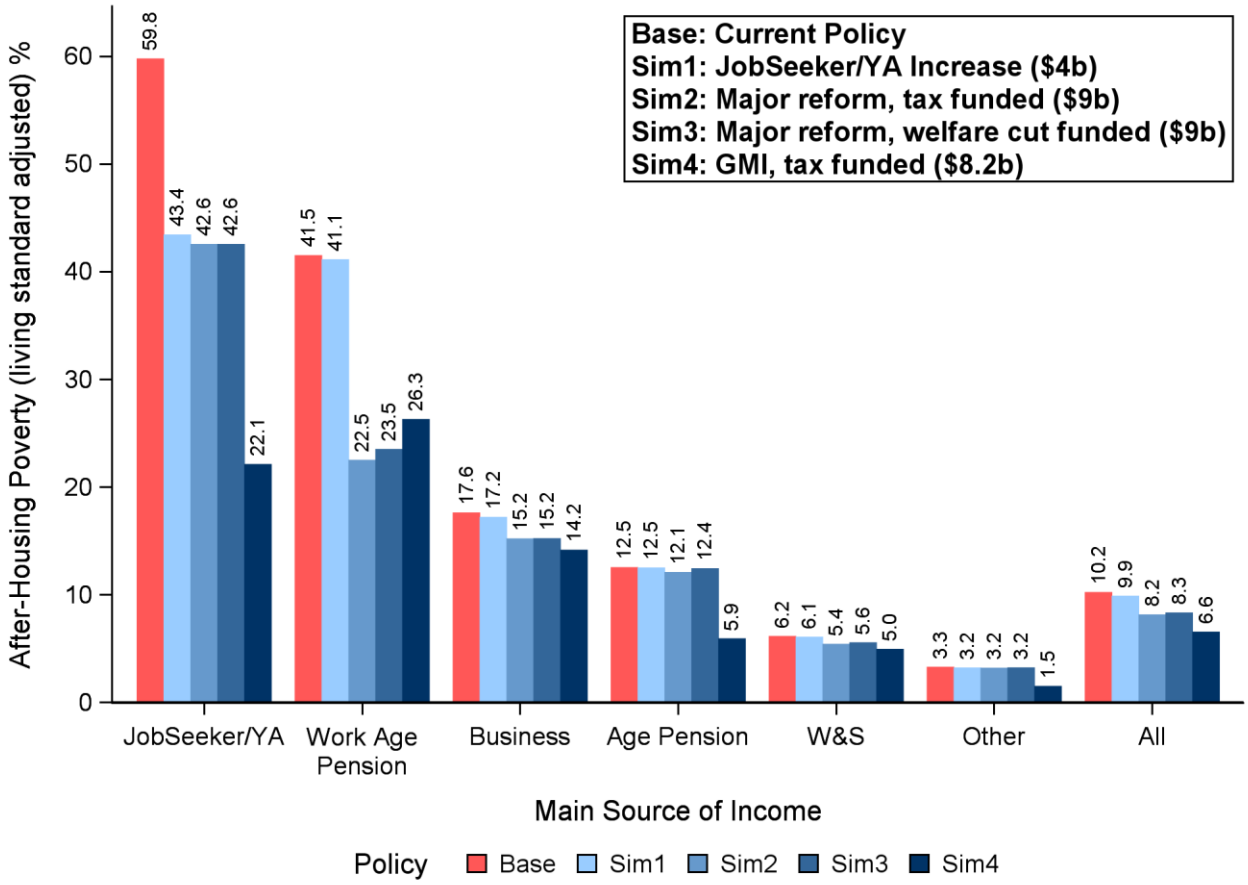
Table 1 shows the adjusted after-housing poverty rates for households of different main income sources for December 2024. Poverty rates are lower with the all household rate at 10.2 per cent compared to the unadjusted version at 13.5 per cent. In raw numbers as a share of the Australian population this means that the number of persons in poverty is lowered from around 3.9 million to 2.9 million persons. The most substantial rate reductions are for age pensioners (12.2 per cent down from 23.2 per cent) and business owner households (18.9 per cent down from 31.2 per cent). 'Other' households (such as shares, property income or superannuation income) rate of poverty is also substantially lowered from 10.7 per cent to 3.2 per cent. JobSeeker/YA household poverty rate is still easily the highest at 53.7 per cent which is down from 66.5 per cent.

Despite the reduction in poverty rates using the living standard adjustment it remains the case that some household types have substantial rates of poverty, in particular, working age welfare payment recipients. Figure 7 (showing the adjusted poverty rates) again shows that substantial reductions in poverty are possible with modest welfare payment increases. The 'Major' reform options lower poverty by around 20 per cent (from 10.2 to 8.2 per cent for SIM2 and 8.3 for SIM3). The more targeted GMI policy option lowers this rate further to 6.6 per cent - 35.3 per cent reduction in poverty.

The overall reduction in poverty in Australia from the modest (JobSeeker only) reform is around 110,000 persons. For adjusted poverty that reduction is around 95,000 persons. The modest reform only considers JobSeeker and Youth Allowance recipients. The more ambitious reform packages (SIM2 and SIM3) would remove around up to 625,000 people from poverty. On the adjusted poverty basis that reduction is around 584,000 persons. Using a GMI approach the possible reduction is greater again with an expected 1.53 million persons removed from poverty and on an adjusted poverty basis around 1.03 million persons removed from poverty. An important caveat with the GMI is that there is more scope for behavioral change such as changes in workforce participation relative to changes to the existing welfare system parameters of the other policy simulations. It could be expected the risks of lower employment are substantially weighted towards the GMI option. That risk needs to be traded off against the more substantial reduction in poverty that can be achieved at a lower fiscal cost.

[8] For more details on method for constructing a living standard index see Phillips (2022)

Figure 7: Household After-Housing Poverty (living standard adjusted) by main source of income, Dec 2025, ANU PolicyMod



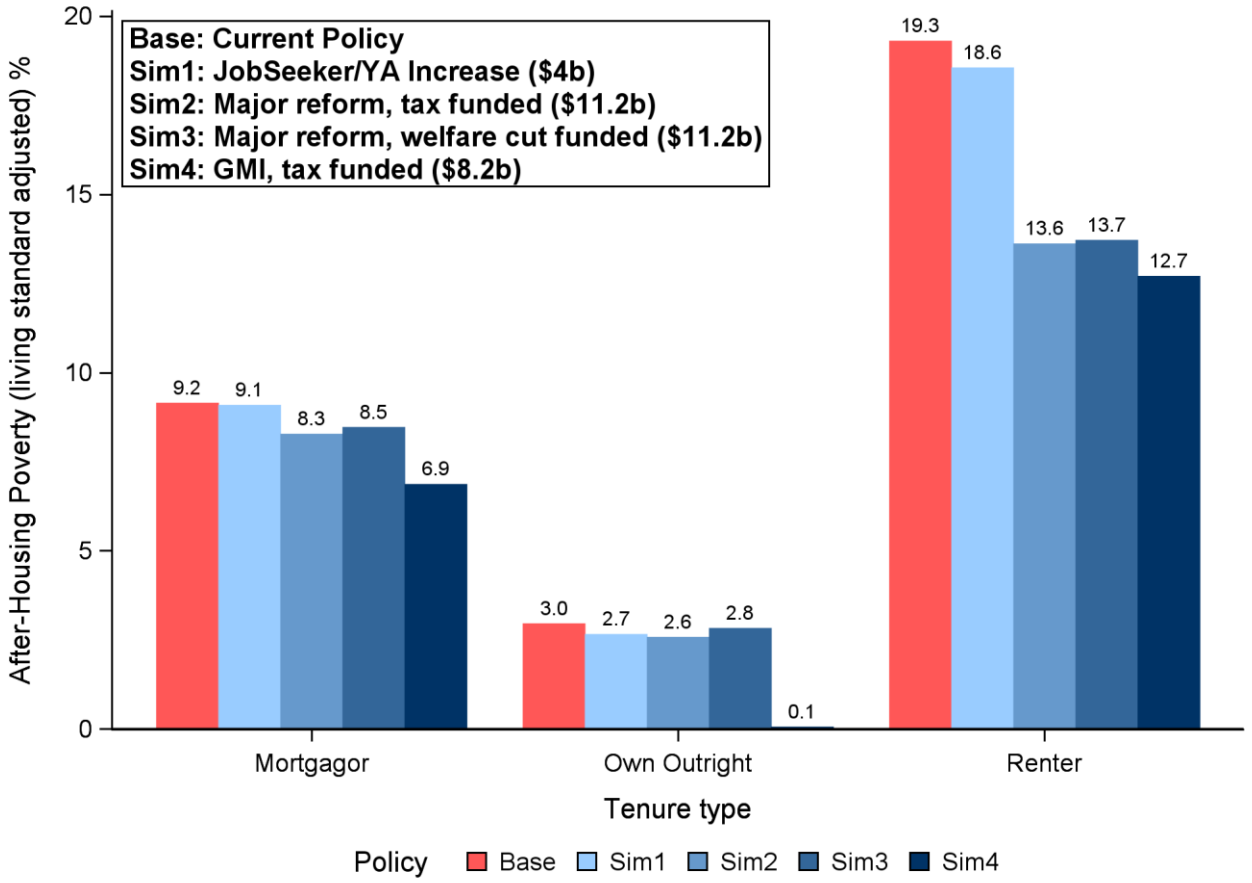
The rest of this report focuses on the adjusted poverty rate. The adjusted poverty rate is a more realistic characterisation of poverty in Australia. Like all poverty rates/lines the measure is not perfect. Not all persons estimated to be in poverty are genuinely poor and financially struggling but likewise some people not defined as being in poverty will genuinely be financially struggling and arguably should be listed as in poverty. But this measure should provide a more realistic assessment of the relative rates of financial disadvantage between different 'groups' in society.

There is often considerable interest around poverty in Australia for different forms of housing tenure, particularly households who rent and those who have a mortgage. Figure 8 shows that current rates of after-housing poverty are higher for renters, followed by mortgagors (households with a mortgage) and those who have paid off their mortgage (outright owners) have the lowest rate of poverty. The modest policy that only lifts JobSeeker and Youth Allowance to 90 per cent of the age pension has a small impact on overall poverty rates with renter poverty rates down to 18.6 per cent from a current (base) rate of 19.3 per cent for December 2025. For mortgagors the rate declined very marginally from 9.2 to 9.1 per cent. The more substantial policy changes lower poverty to as low as

12.7 per cent for renters and 6.9 per cent for mortgagors. As for the earlier figures the GMI policy has the greatest impact in lowering poverty rates.

It should be noted that the results generally don't vary between the two 'major reform' policies. It matters little whether the welfare increases are funded through tax Increases (mostly superannuation) or welfare cuts in other areas (tighter age pension means testing and childcare subsidy reductions) since those persons impacted on the funding side are most unlikely to be in poverty before or after the policy change.

Figure 8: Household After-Housing Poverty (living standard adjusted) by tenure, Dec 2025, ANU PolicyMod



The modelled policy options mostly benefit singles over couples. Both singles and single parents benefit the most with poverty reductions of around 5 and 10 percentage points respectively (Figure 9). Single parents have the highest rates of poverty with nearly one in three (32.4 per cent) in poverty compared to couple with children families at around 1 in 10 or 9.5 per cent in poverty. Again, the GMI option lowers poverty for almost all family types the most and has the largest percentage point impact for single parents where poverty rates drop from 32.4 per cent to 20.1 per cent. The gains accrue mostly to singles as they are the family types most likely to receive the payments that receive the largest increases (JobSeeker, Disability Support Payment and Parenting Payment Single). For the

GMI, these are also the payments that typically have the largest poverty gap from which the GMI is calculated.

Figure 9: Household After-Housing Poverty (living standard adjusted) by family type, Dec 2025, ANU PolicyMod

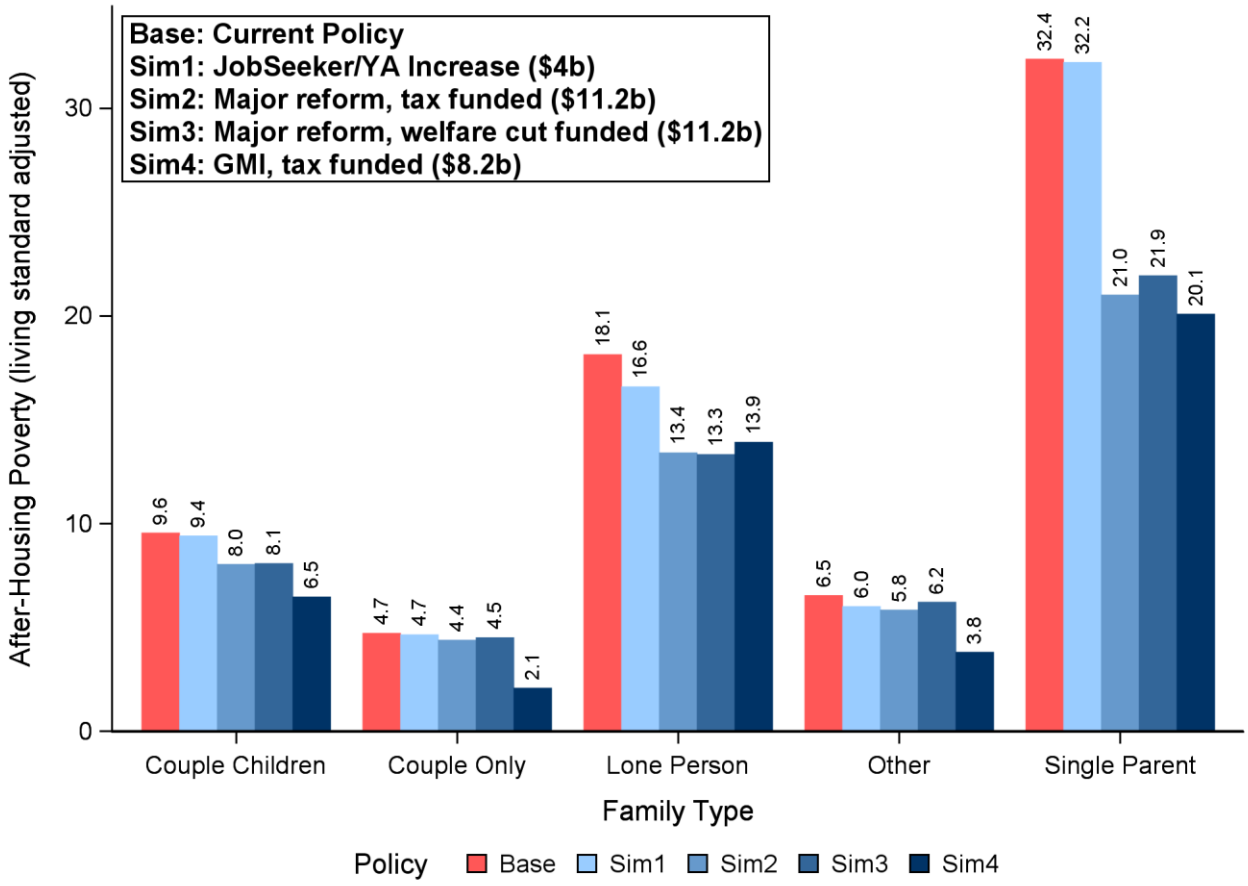


Figure 10 shows the dollar impacts by living standard quintiles. In thinking about this chart, it is important to remember that the overall household impact is neutral as the budget is balanced in all simulations. The results for all simulations clearly show that lower living standard households (Quintile 1 or Q1) receive the largest dollar gains per year. For example, the 'Major reform, tax funded (Sim2)' option provides the largest average gains for these households of $3,530 per year for 2025-26. For the same expenditure policies but welfare cut funded option (Sim 3), these households gain $2,930. For the GMI option (Sim4), they gain $3,180, while the lowest cost option (JobSeeker and Youth Allowance increase policy (or Sim 1)), increases incomes for lower living standard households by around $1,640 per year.

Low to middle living standard households (Quintile 2 or Q2) see gains of $870, $1,150 and $1,450 per year for increases to JobSeeker (Sim1), tax funded reform (Sim2) and the GMI option (Sim4) respectively. The only option that provides no significant difference to this household group is the reform funded by welfare cuts (Sim3).

Middle living standard households (Quintile 3 or Q3) see small to negligible gains for increases to JobSeeker (Sim1) and tax funded reform (Sim2). Reform funded by welfare cuts (Sim3) negatively impacts these households by around $580 per year.

The largest negative impact is for the major reform that is tax funded with an average loss of $3,170 per year for the highest living standard household (Quintile 5 or Q5). So, in summary, the most progressive impact is from the 'major reform, tax funded (Sim2)', and while the other reforms are also quite progressive, they are not to the same extent.

Figure 10: Financial Impact by household living standard quintile, Dec 2025, ANU PolicyMod

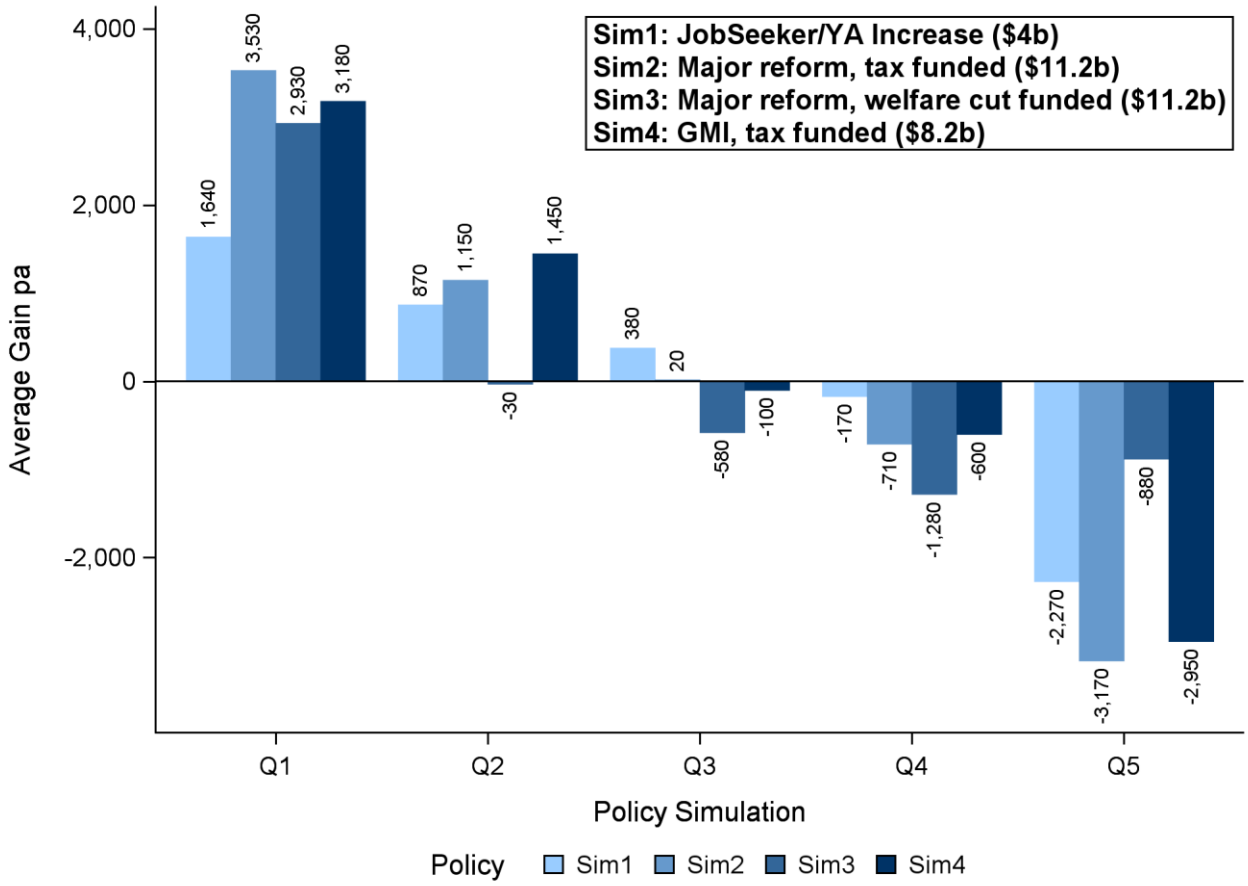


Figure 11 shows a similar analysis except the results are by income quintile rather than living standard quintiles. Again, the results are progressive with most policy options providing assistance to lower income households at the expense of higher income households and limited impact on middle income households. The most progressive option is the GMI option (Sim 4) when considered by income level. The GMI option adds, on average, $3,800 per year to household incomes for the lowest income quintile. For quintile 5 the average loss of income is $3,970 per year. The tax funded

approach to major reform (Sim 2) has a modest gain to low Income households (Q1) of $1,550, but a substantial impact to high income households (Q5) with a loss of $4,570 per year.

In dollar terms the impacts by income quintile are for some policies more positive for income quintile 2 than quintile 1 (for example, tax funded reform (Sim 2) sees low to middle income households gain $2,470 but low income households gain $1,550 per year). This may come as some surprise but the reality is that many households of working age with welfare income will be in income quintile 2. However, by living standard those households are much more likely to be quintile 1.

Figure 11: Financial Impact by household Income quintile, Dec 2025, ANU PolicyMod

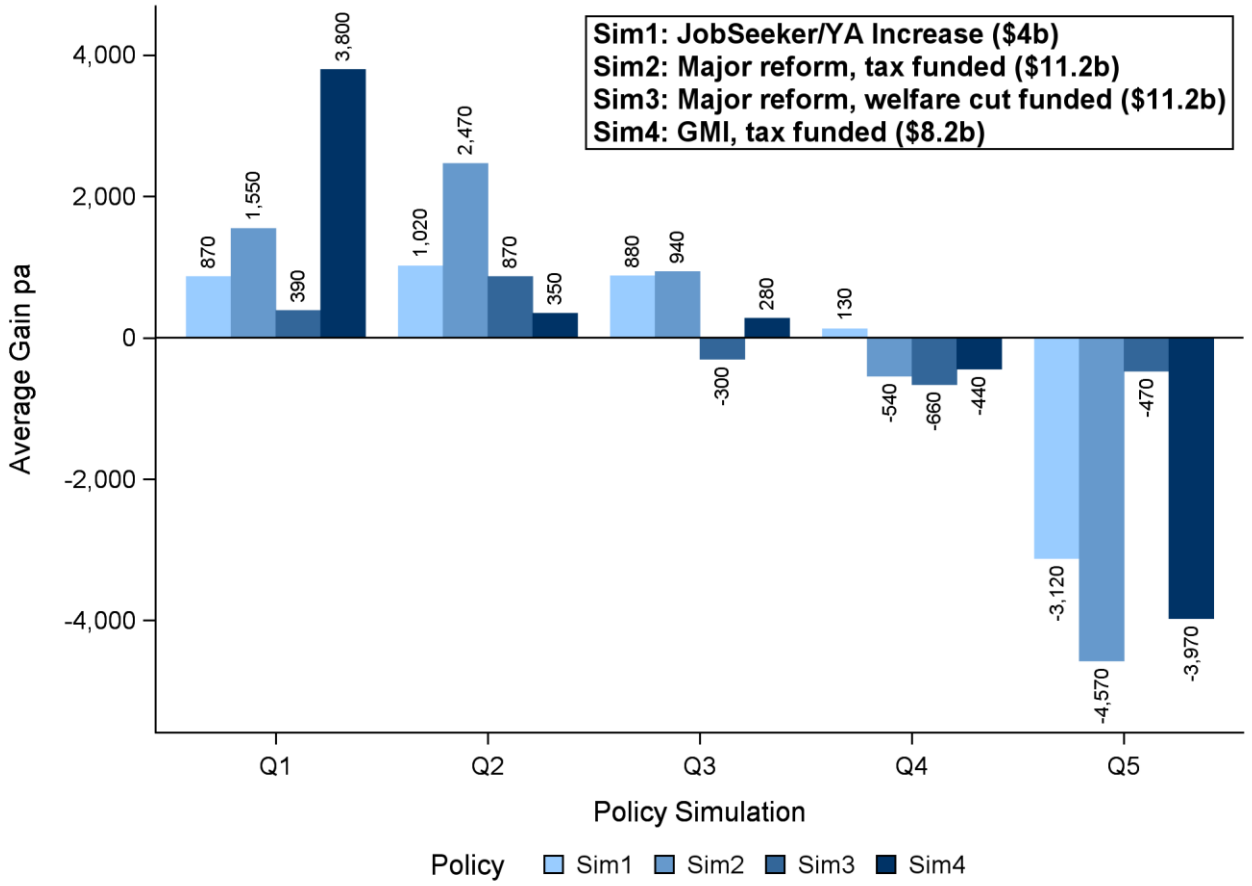


Figure 12 shows the percentage of households that are 'winners' and 'losers' by living standard quintile for each policy. For the GMI option most households would experience some impact. The results are quite progressive with low living standard households mostly 'winners' while around half middle (44 per cent) and upper living standard households (57 per cent) would be 'losers'. The GMI by definition only helps those households in income poverty (in this case living standard adjusted poverty) so it makes sense that only genuinely low income (and therefore mostly low living standard households) would benefit while the rest of the population pay for the GMI through higher taxes. The JobSeeker policy mostly only impacts low living standard household in terms of 'winners', but the

superannuation tax increase would leave around 43 per cent of the highest living standard households as 'losers'. There is a considerable difference between the major reform options. The welfare funded option has a lot more households (in Quintiles 2,3, 4 & 5) who are unaffected as only a small number of higher living standard households receive welfare payments. Around 62 per cent of the lowest living standard quintile households are better off. Around 20 per cent of quintile 4 and quintile 5 households are worse off (on average) through the required welfare cuts to fund the major reform in the 'welfare funded' option. For the tax funded option for major reform there is a clear progressive pattern of 'winners' for low living standard households (in Quintiles 1,2 & 3) and 'losers' for high income households.

Figure 12: Winner and Losers by Financial living standards quintiles, ANU PolicyMod

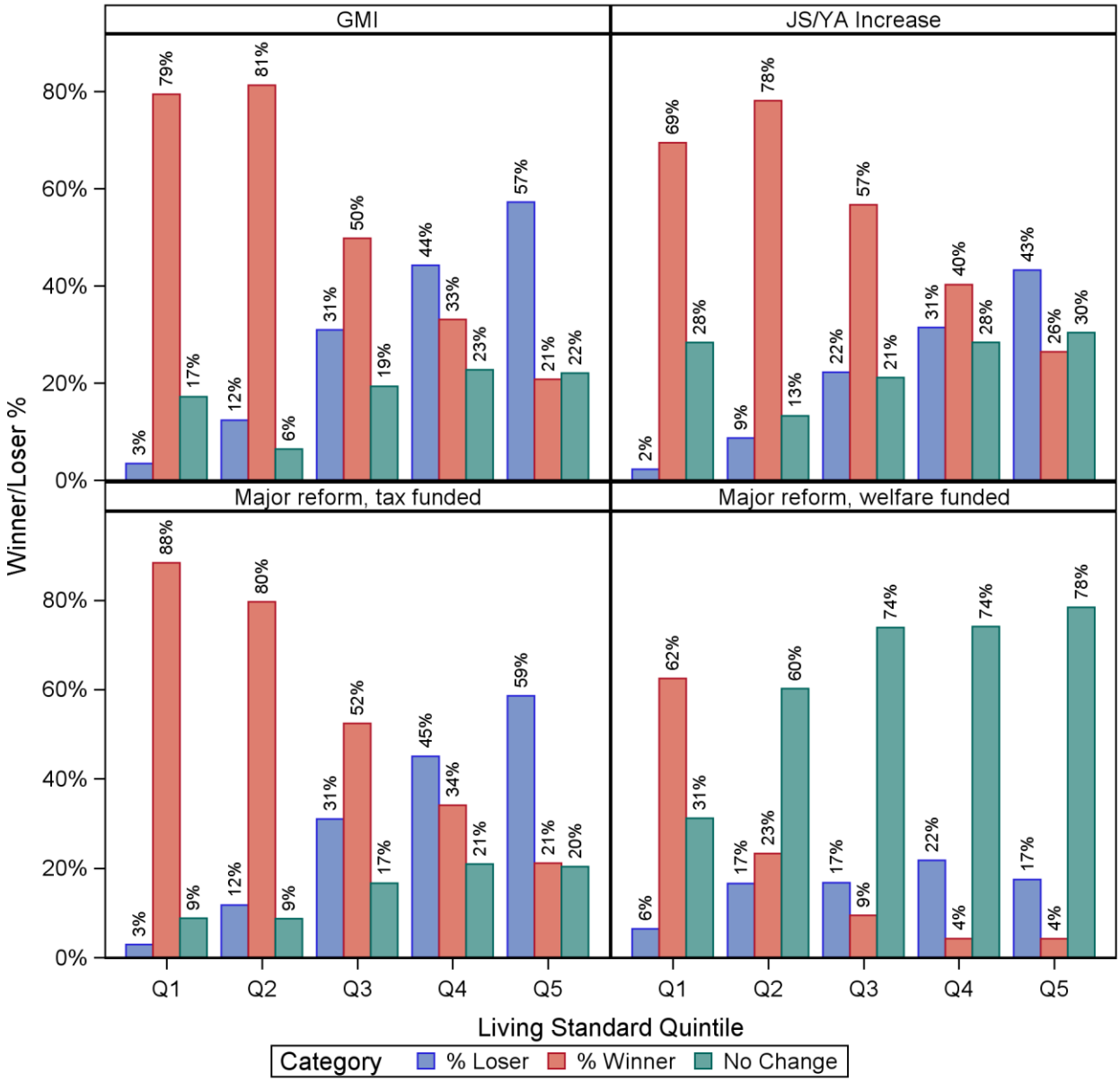


Figure 13 shows the impact of proposed policy changes by the age of the head of the household. The largest gains are for the youngest age group with substantial Increases in Income across all policy changes. In particular, the 'Major Reform' options lead to gains of over $2,000 per annum per household. Gains across age groups 25 to 54 are more modest while results are mixed for those with a household head between 55 and 64. Households with heads over the age of 65 are, on average worse off with increased superannuation tax or lower age pension entitlements.

Figure 13 shows that these reforms would go some way towards overcoming concerns of Intergenerational unfairness. The current tax system Is tilted more heavily towards working age households with retiree households paying much lower average rates of tax. The changes to superannuation would mean that older households would pay additional superannuation tax relative to the current situation where they generally pay not tax.

Figure 13: Financial Impact by age of household head, Dec 2025, ANU PolicyMod

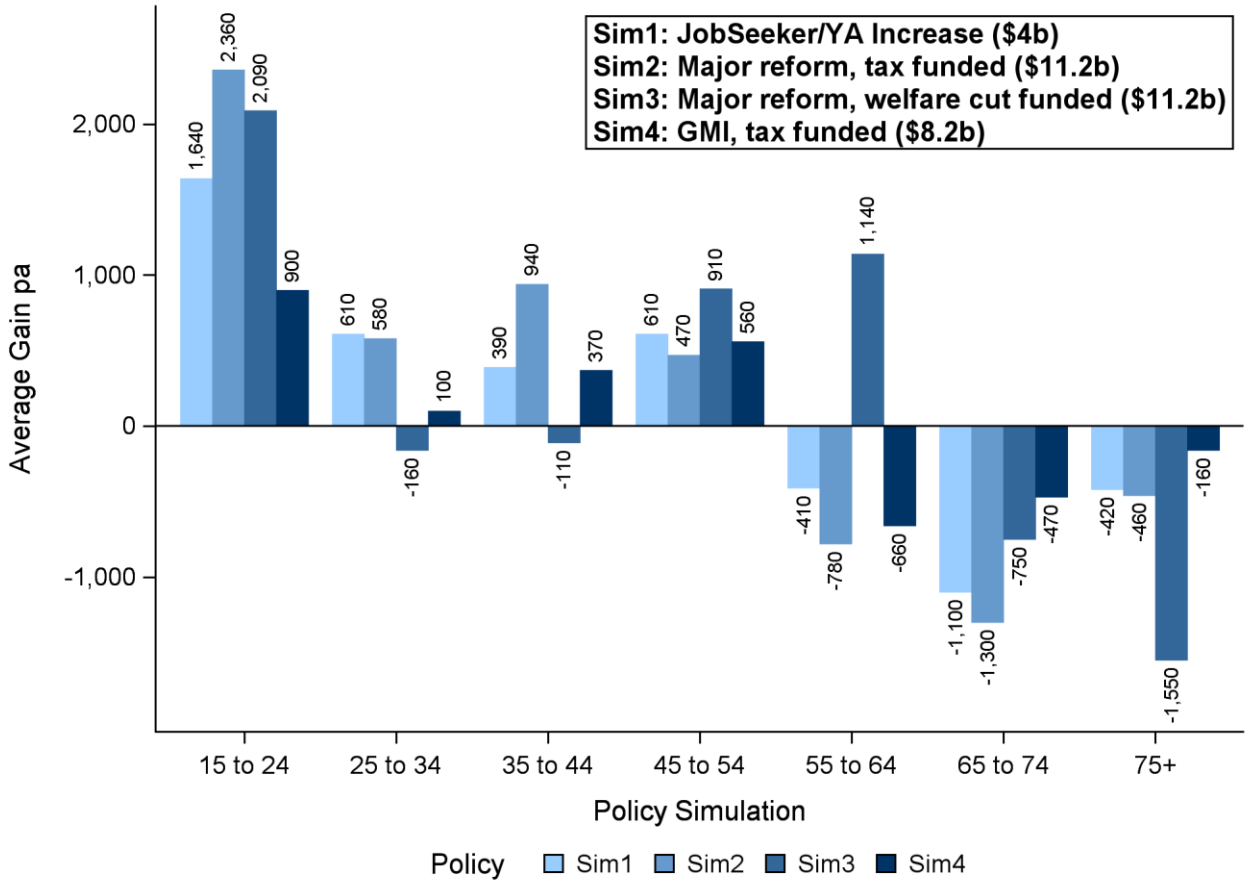
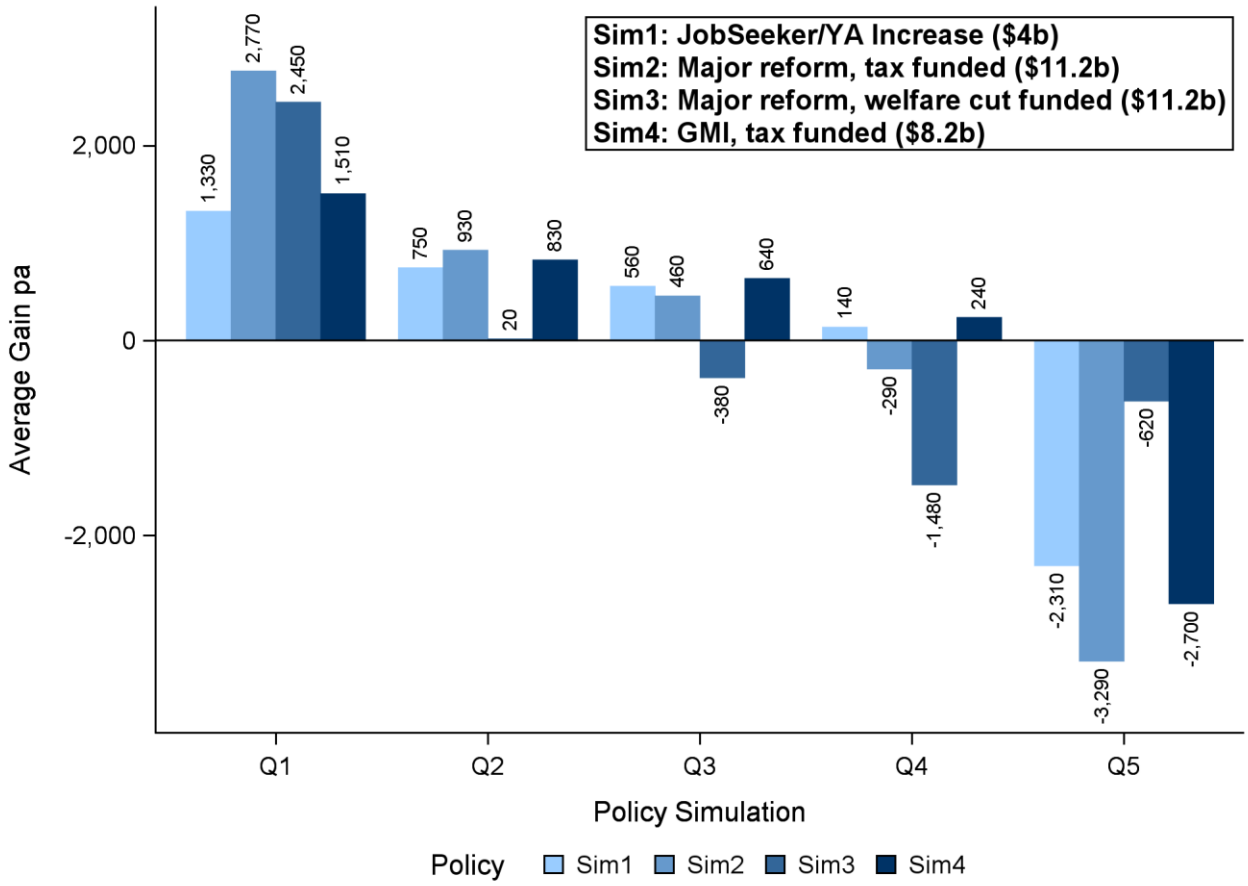


Figure 14 shows the impact of proposed policy changes by the wealth of the household. Q1 relates to households with the lowest 20 per cent of net wealth (after debts) while Q5 is the top 20 per cent of wealth households. largest gains are for the lowest wealth households with substantial Increases in Income across all policy changes. In particular, the 'Major Reform' options lead to gains of $2,770 and

$2,450 per household respectively for the major reforms (SIM2 and SIM3). Gains across middle wealth groups are more modest while the highest wealth households lose up to over $3,000 depending upon the major reform policy option. Depending upon the policy option high wealth households will lose either age pension entitlements (lower not necessarily all), childcare subsidies or pay more superannuation tax.

Figure 14: Financial Impact by Wealth Quintile, Dec 2025, ANU PolicyMod



5.1 Electorate Results by Proposed Policy

The ANU PolicyMod model can estimate the impacts of policy at a regional level. The following sections present results by Commonwealth electorate level using the 2021 ABS Census CED geography. PolicyMod obtains estimates for regional estimates by synthetically creating a household file for each region (CED). The household file is no different to the current PolicyMod basefile except that the PolicyMod weights are replaced with a set of weights for each CED such that the weights for each CED conform to the population totals and characteristics of the CED rather than all of Australia. A reweighting routine (ABS Gregwt) is used to benchmark the original basefile data to a large number

of ABS Census demographics and other data sources such as Data.gov.au CED welfare statistics and regional superannuation statistics[9].

5.1.1 JobSeeker/YA Increase

The JobSeeker and Youth Allowance and related payments was increased to 90 per cent of the age pension rates. The total cost was around $4 billion per year for 2025-26. The payment increase was funded by an equal increase in taxation on superannuation taxation. Table 2 shows that the policy shift has a strong distributional impact with some electorates (CEDs) gaining by as much as $1,310 per year from 2025-26. Several outer suburban electorates in major capital cities, particularly Sydney, do well. Likewise, Inner City Sydney electorates do the worst, on average. High income and wealth electorates such as Warringah, Bradfield, Mackellar and Wentworth all lose by around $2,000 per year or more.

Table 2: Top 10 gain and loss electorates, JobSeeker Increase, Australia

Rank	*Electorate*	*Region*	*Largest Gain*	*Electorate*	*Region*	*Largest Loss*
1	Fowler	Syd	1,310	Warringah	Syd	-2,390
2	Blaxland	Syd	1,210	Bradfield	Syd	-2,010
3	Calwell	Mel	1,210	Mackellar	Syd	-2,000
4	Spence	Ade	1,120	Wentworth	Syd	-1,970
5	Lingiari	NT	1,120	North Sydney	Syd	-1,860
6	McMahon	Syd	1,080	Kooyong	Mel	-1,750
7	Werriwa	Syd	960	Goldstein	Mel	-1,610
8	Watson	Syd	840	Berowra	Syd	-1,530
9	Chifley	Syd	810	Curtin	Per	-1,440
10	Fraser	Mel	800	Mitchell	Syd	-1,170

The maps in Figure 15 to Figure 17 show that for Australia's largest capital cities (Sydney, Melbourne and Brisbane) the results are similar for each city with a clear pattern that inner suburban suburbs are impacted negatively by the modest increase in superannuation taxation. These electorates tend to have relatively fewer JobSeeker recipients so the impact of the policy is mostly felt through the increase in superannuation taxation. The main positive impacts are felt in electorates that are more likely to have JobSeeker recipients. These regions tend to be outer suburban electorates such as Fowler and Blaxland in South West Sydney.

[9] For more details on the regional microsimulation modelling technique see Phillips (2024).

Figure 15: Sydney Electorate Financial Impacts from JobSeeker Increase Policy

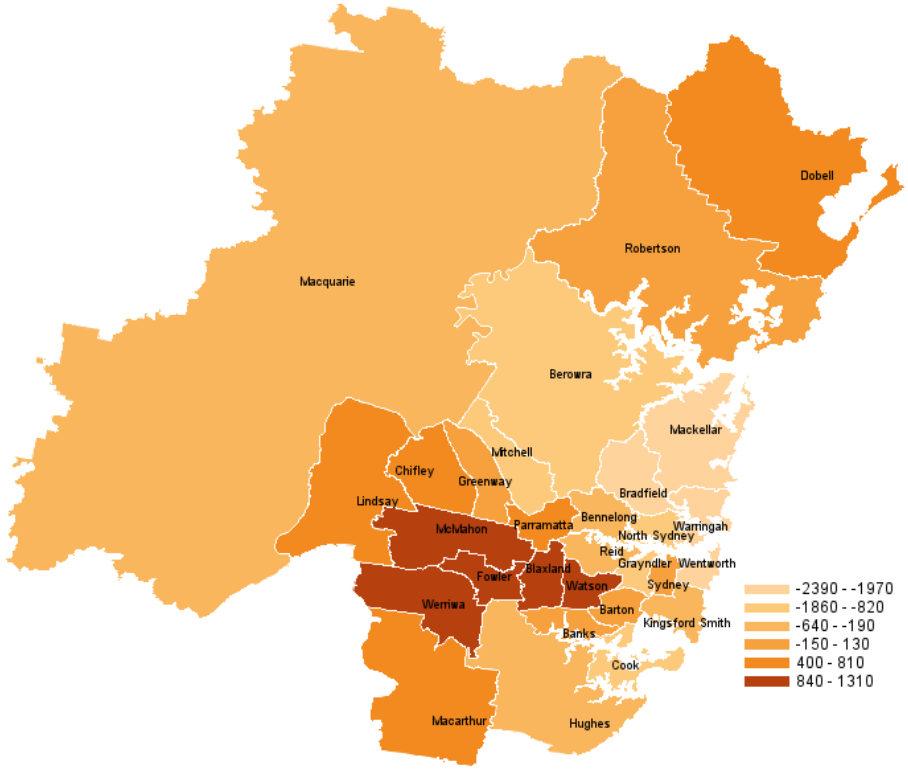


Figure 16: Melbourne Electorate Financial Impacts from JobSeeker Increase Policy

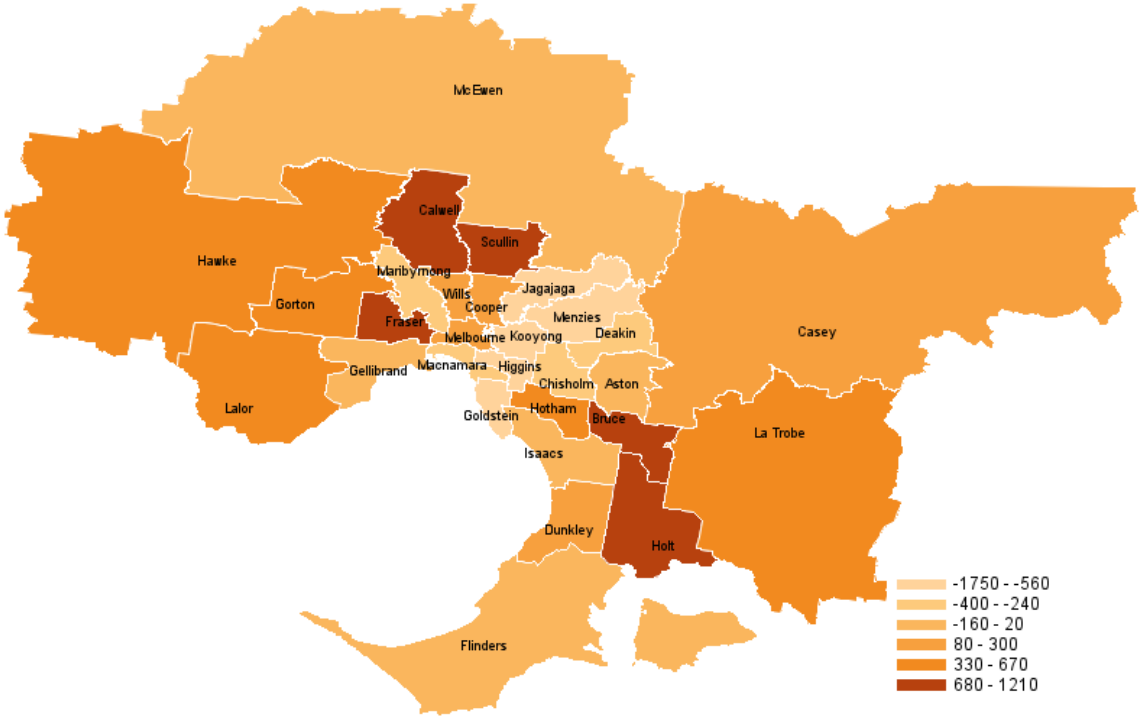


Figure 17: Brisbane Electorate Financial Impacts from JobSeeker Increase Policy

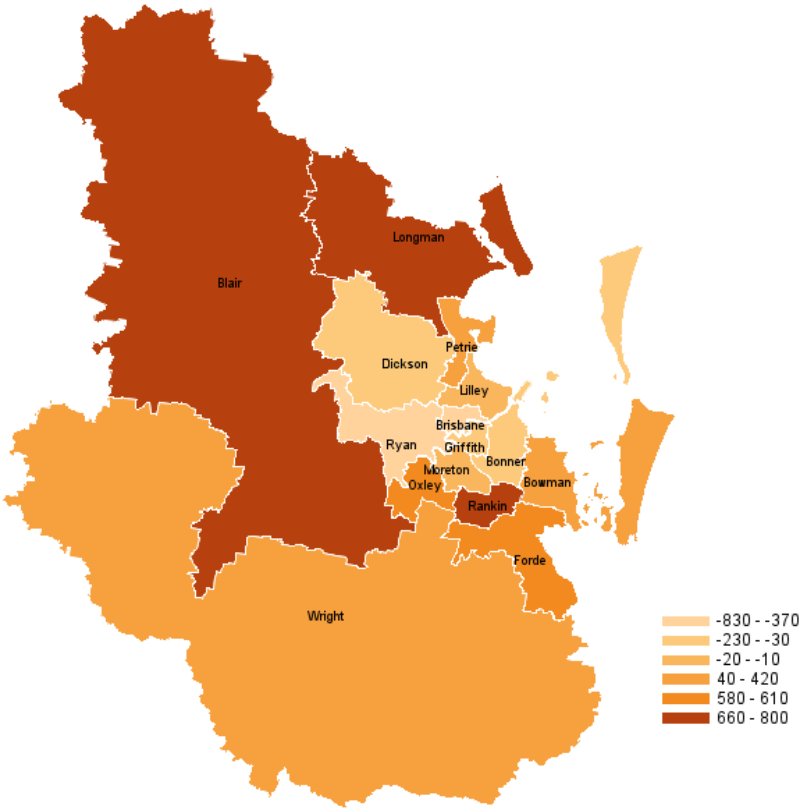


Figure 18: Australia Electorate Financial Impacts from JobSeeker Increase Policy

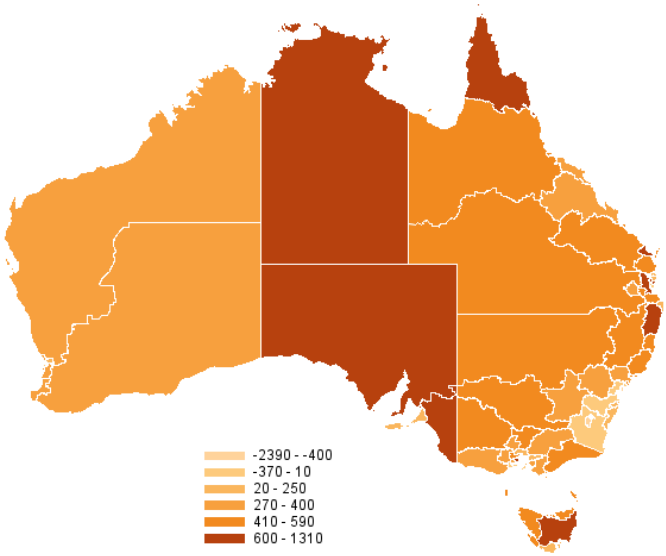


Figure 18 shows that for Australia there are larger gains in many regional and remote areas relative to some of the more urban areas. This relates to households in urban areas which tend to have

higher superannuation balances and are less likely to receive the JobSeeker payment. It should be remembered that Australia is highly urbanised so while large land areas of Australia may gain by this policy, the number of people impacted in these large land areas is considerably lower than in urban areas.

5.1.2 Major Reform, Tax Funded

The major reform tax funded proposal provided substantial increases to JobSeeker and related payments along with a range of other more modest increases to working age payments, family payments and CRA. These payment increases cost the budget $11.2 billion in 2025-25 and are offset by increases in taxation on superannuation through a new progressive tax applied to superannuation contributions and earnings which lower superannuation tax concessions by around 20 per cent on current levels.

Table 3 shows that the major regions to benefit would be typically lower region areas of outer suburban major capital cities and some more remote areas of Australia, such as Lingiari. The major electorates to be worse off through the increase in superannuation taxation are the wealthy electorates of Sydney and Melbourne. Seven of the top 10 most negatively impacted electorates are in Sydney including the high income/wealth electorates of Warringah, Wentworth and Bradfield.

Table 3: Top 10 gain and loss electorates, Major Reform Tax Funded, Australia

Rank	*Electorate*	*Region*	*Largest Gain*	*Electorate*	*Region*	*Largest Loss*
1	Spence	Ade	1,940	Warringah	Syd	-3,330
2	Fowler	Syd	1,860	Wentworth	Syd	-2,910
3	Lingiari	NT	1,850	Bradfield	Syd	-2,890
4	Calwell	Mel	1,760	Mackellar	Syd	-2,800
5	Blaxland	Syd	1,610	North Sydney	Syd	-2,690
6	McMahon	Syd	1,460	Kooyong	Mel	-2,520
7	Werriwa	Syd	1,370	Goldstein	Mel	-2,330
8	Blair	Bri	1,340	Berowra	Syd	-2,250
9	Rankin	Bri	1,280	Curtin	Per	-2,070
10	Chifley	Syd	1,240	Mitchell	Syd	-1,770

Figure 19 shows the results for the major reform tax funded policy for Sydney. A clear pattern results with the lower income south western suburbs well ahead, with several ahead by more than $1,000 per year, on average. The electorates in Sydney with the most negative outcomes are in the wealthy

electorates around the inner parts of Sydney and harbour-side electorates. Warringah has the largest impact in Sydney being around $3,300 per household worse off on average as a result of the superannuation tax increases. The electorate with the largest household gain was the electorate of Fowler with an average gain of $1,860 per year.

Figure 19: Sydney Electorate Financial Impacts from Major Reform tax funded Policy

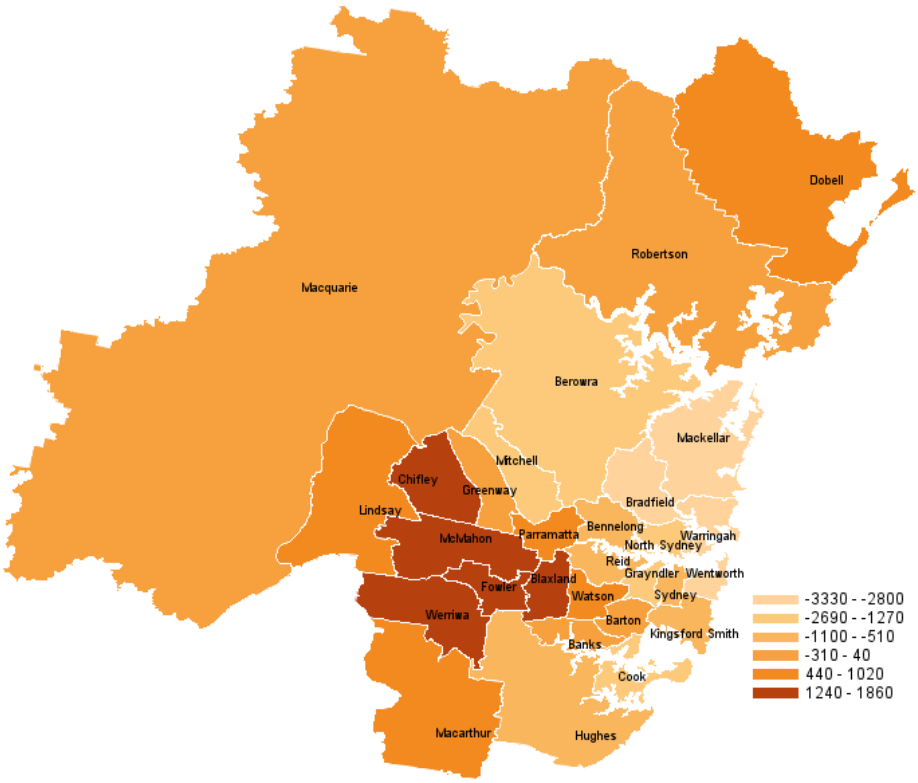


Figure 20: Melbourne Electorate Financial Impacts from Major Reform Tax Funded Policy

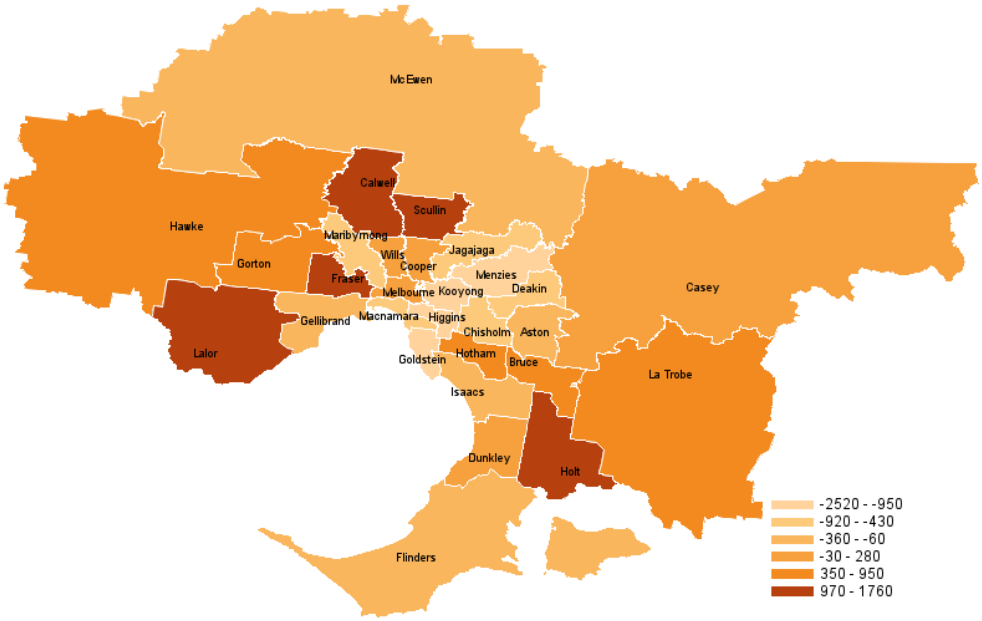


Figure 20 shows the impact for Melbourne electorates. Like Sydney, inner regions of Melbourne tend to have larger negative impacts although, unlike Sydney, the impacts are not as substantial which is likely related to Melbourne electorates tending to have lower income and wealth levels. The larger gains in Melbourne are also in the outer suburbs which tend to be lower income, more likely to benefit from welfare payments and less likely to have substantial superannuation balances. The largest beneficiary electorate is Calwell while the most negatively impacted is Kooyong.

Figure 21: Brisbane Electorate Financial Impacts from Major Reform tax funded Policy

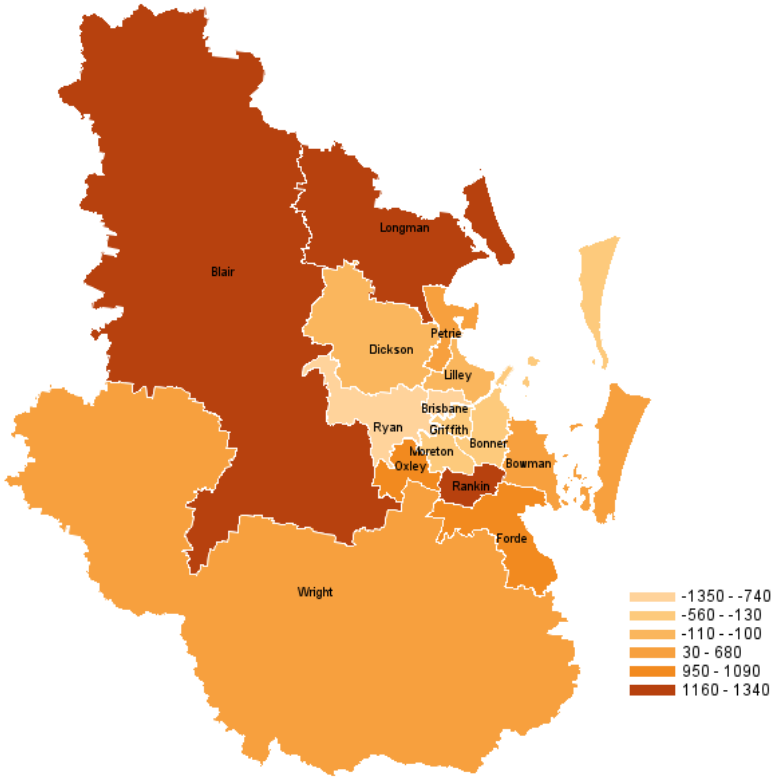
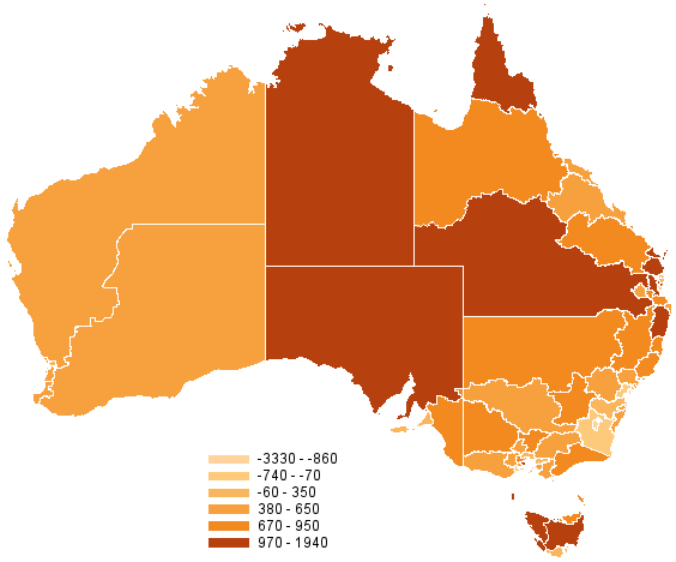


Figure 21 shows the impact for Brisbane electorates. Inner regions of Brisbane tend to have larger negative impacts. The larger gains in Brisbane are in the outer suburbs which tend to be lower income, more likely to benefit from welfare payments and less likely to have substantial superannuation balances. The largest beneficiary electorate is Blair while the most negatively impacted is Ryan.

Figure 22 shows that for Australia there are larger gains in many regional and remote areas relative to some of the more urban areas. This relates to households in urban areas tending to have higher superannuation balances and being less likely to receive the JobSeeker payment.

Figure 22: Australia Electorate Financial Impacts from Major Reform tax funded Policy



5.1.2 Major Reform, Welfare Funded

The major reform welfare funded policy has a broadly similar impact to that observed in the previous section where the welfare increase was tax funded. The extent of losses is much more modest though with the largest beneficiary electorate gaining $2,160 (Lingiari) compared to the most negatively impacted electorate of Moore at just -$650 per year per household. The likely reason for this is that unlike superannuation taxation, age pension and childcare reductions are more broadly distributed across the income and wealth distribution relative to the superannuation tax impact.

Table 4 shows that the major regions to benefit would be typically lower Income region areas of outer suburban major capital cities and some more remote areas of Australia such as Lingiari. The major electorates to be worse off through the decrease in higher asset pensioner and childcare families are typically high income/wealth areas of Sydney and Melbourne. The impact is not so Sydney-centric with a broader spread amongst the major capital cities and regions of Australia.

Table 4: Top 10 gain and loss electorates, Major Reform Welfare funded, Australia

Rank	*Electorate*	*Region*	*Largest Gain*	*Electorate*	*Region*	*Largest Loss*
1	Lingiari	NT	2,160	Moore	Per	-650
2	Fowler	Syd	1,310	Flinders	Mel	-640
3	Spence	Ade	1,250	Jagajaga	Mel	-560
4	Calwell	Mel	1,160	Hughes	Syd	-550
5	Blaxland	Syd	1,140	Berowra	Syd	-530
6	Werriwa	Syd	980	Mackellar	Syd	-520
7	McMahon	Syd	950	Tangney	Per	-480
8	Rankin	Bri	870	Mitchell	Syd	-480
9	Blair	Bri	830	Casey	Mel	-460
10	Oxley	Bri	770	Mayo	Ade	-450

Figure 23 shows the results for the major reform tax funded policy for Sydney. A clear pattern results with the lower income south western suburbs well ahead, with some by more than $1,000 per year, on average. The electorates in Sydney with the most negative outcomes are in the wealthy electorates around the inner parts of Sydney and harbour-side electorates. Hughes has the largest impact in Sydney being around $550 per household worse off on average as a result of the changes to the assets test for the age pension and income threshold for childcare concessions. The electorate with the largest household gain is the electorate of Fowler with an average gain of $1,310 per year.

Figure 23: Sydney Electorate Financial Impacts from Major Reform Welfare Funded Policy

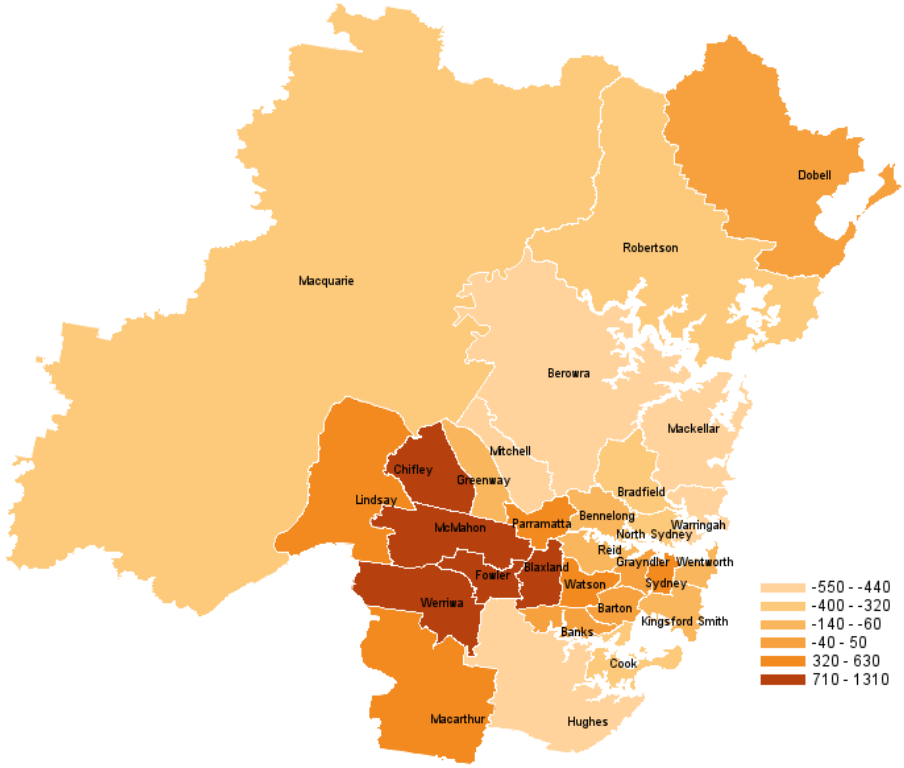


Figure 24 shows the results for major reform welfare funded policy for Melbourne. A clear pattern results with the lower income outer suburbs ahead with Calwell the largest 'gain' electorate up by $1,160 per year, on average. The electorates in Melbourne with the most negative outcomes are in the wealthy electorates around the inner east and south east parts of Melbourne. The most negatively impacted electorates are Flinders and Jagaja with average losses around $550 per year on average.

Figure 24: Melbourne Electorate Financial Impacts from Major Reform Welfare Funded Policy

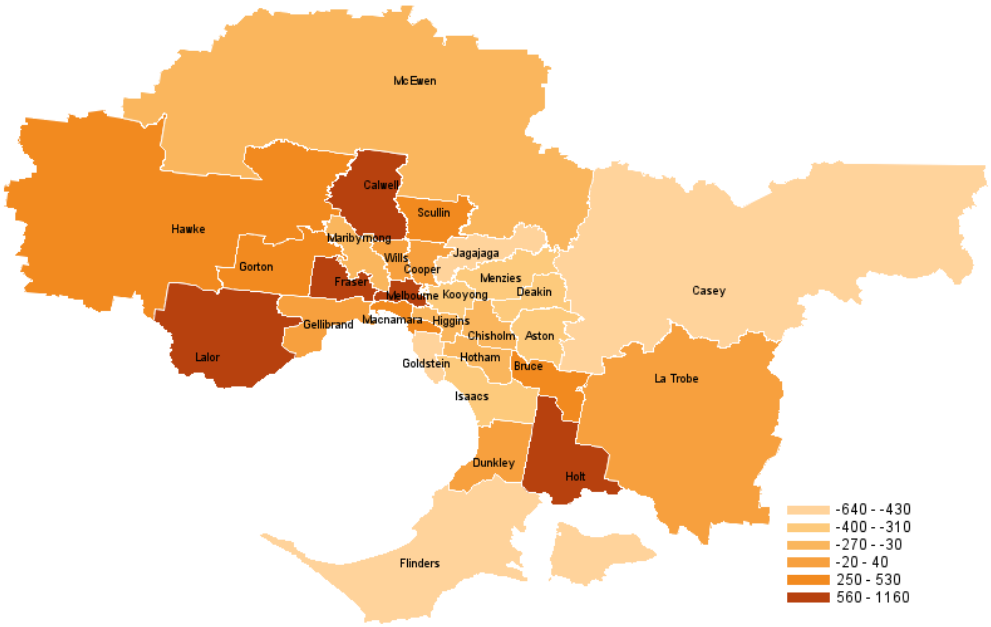


Figure 25 shows the results for major reform welfare funded policy for Brisbane. Brisbane has a relatively small impact from the reforms compared to the more extreme relativities particularly of Sydney. The largest gain electorate is Rankin with an average gain of $870 per year per household. The most negatively impacted was Bowman at -$360 per household per year. The small impacts are likely driven by the gains being offset by the losses, meaning that a diversity of households within electorates such that households that gain welfare payments live alongside households that are worse off through lower childcare age pension payments.

Figure 25: Brisbane Electorate Financial Impacts from Major Reform Welfare Funded Policy

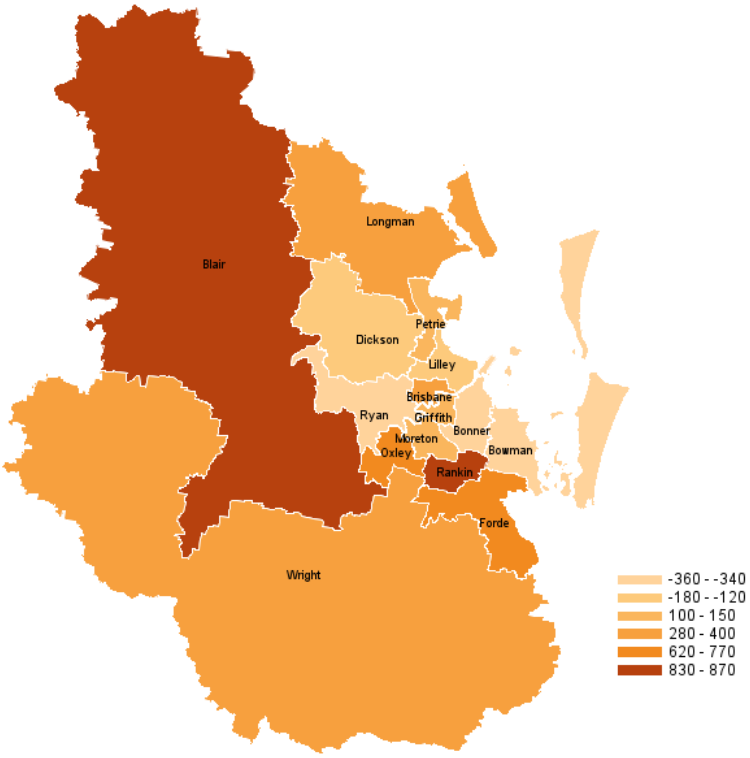
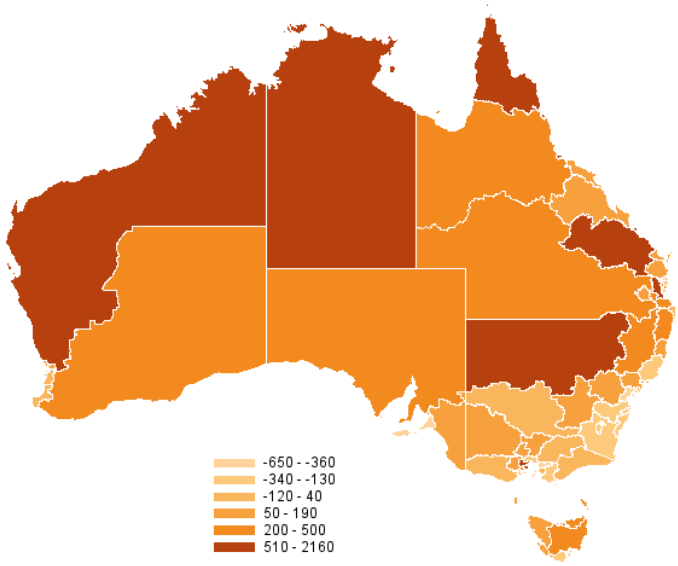


Figure 26 shows that for Australia there are larger gains in many regional and remote areas relative to some of the more urban areas. This relates to households in urban areas which tend to have higher wealth and income levels and are therefore more likely to be impacted by reductions in asset testing and higher income childcare subsidies than gain via increases to working age welfare payments such as JobSeeker or Parenting Payment.

Figure 26: Australia Electorate Financial Impacts from Major Reform Welfare Funded Policy



5.1.2 GMI Tax Funded

The GMI policy provides a payment to households in poverty (adjusted for living standards) equal to the depth of poverty in each household. That payment is funded through an increase in superannuation taxation applied on a progressive basis. The results are most similar to the 'major reform tax funded' policy with a large number of outer suburban electorates, particularly Sydney with 5 of the most positively impacted electorates and 7 of most negatively impacted electorates. The largest gain was in the electorate of Blaxland ($1,790) and the most negatively impacted, Warringah (-$2,770). The only non-capital city electorate in the top 10 lists below is Grey in South Australia.

Table 5: Top 10 gain and loss electorates, GMI, Australia

Rank	*Electorate*	*Region*	*Largest Gain*	*Electorate*	*Region*	*Largest Loss*
1	Blaxland	Syd	1,790	Warringah	Syd	-2,770
2	Calwell	Mel	1,450	Wentworth	Syd	-2,440
3	Fowler	Syd	1,440	North Sydney	Syd	-2,220
4	Watson	Syd	1,380	Mackellar	Syd	-2,210
5	Spence	Ade	1,340	Bradfield	Syd	-2,150
6	McMahon	Syd	1,170	Kooyong	Mel	-1,940
7	Werriwa	Syd	1,090	Goldstein	Mel	-1,810
8	Grey	RSA	1,010	Berowra	Syd	-1,770

Rank	*Electorate*	*Region*	*Largest Gain*	*Electorate*	*Region*	*Largest Loss*
9	Braddon	Tas	940	Curtin	Per	-1,720
10	Scullin	Mel	930	Grayndler	Syd	-1,450

Figure 27 shows the results for major reform tax funded policy for Sydney. A clear pattern results with the lower income south western suburbs well ahead with Blaxland the largest gainer at $1,790 per year, on average. The electorates in Sydney with the most negative outcomes are in the wealthy electorates around the inner parts of Sydney and harbour-side electorates. Warringah has the largest impact in Sydney being around $2,770 per household worse off on average as a result of the superannuation tax increases.

Figure 27: Sydney Electorate Financial Impacts from GMI

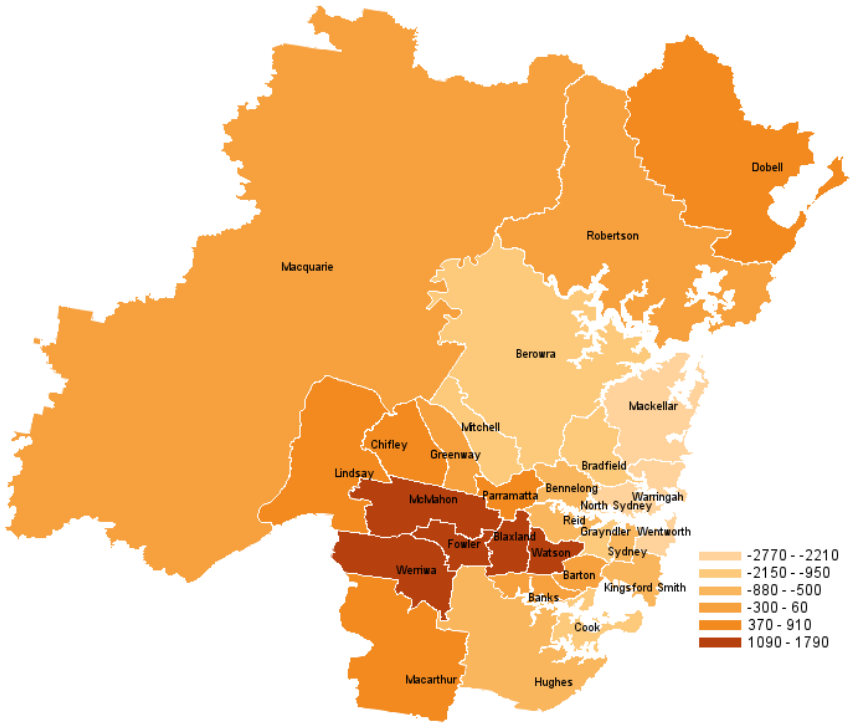


Figure 28 shows the impact for Melbourne electorates for the GMI policy. Like Sydney, inner regions of Melbourne tend to have larger negative impacts although, unlike Sydney the impacts are not as substantial which Is likely related to Melbourne electorates tending to have lower income and wealth levels. The larger gains in Melbourne are also in the outer suburbs which tend to be lower income, more likely to benefit from welfare payments and less likely to have substantial superannuation

balances. The largest beneficiary electorate is Calwell ($1,450) while the most negatively impacted is Kooyong (-$1,940).

Figure 28: Melbourne Electorate Financial Impacts from GMI

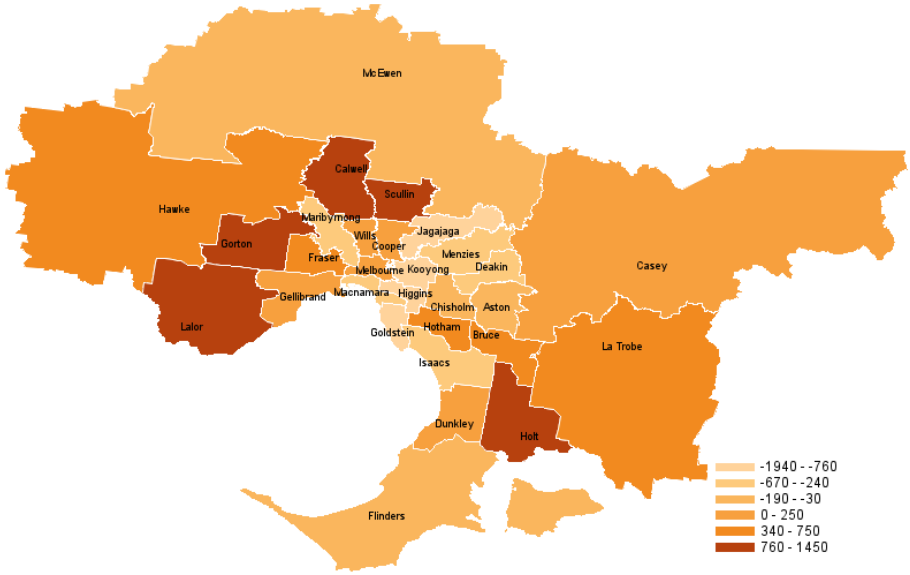


Figure 29: Brisbane Electorate Financial Impacts from GMI

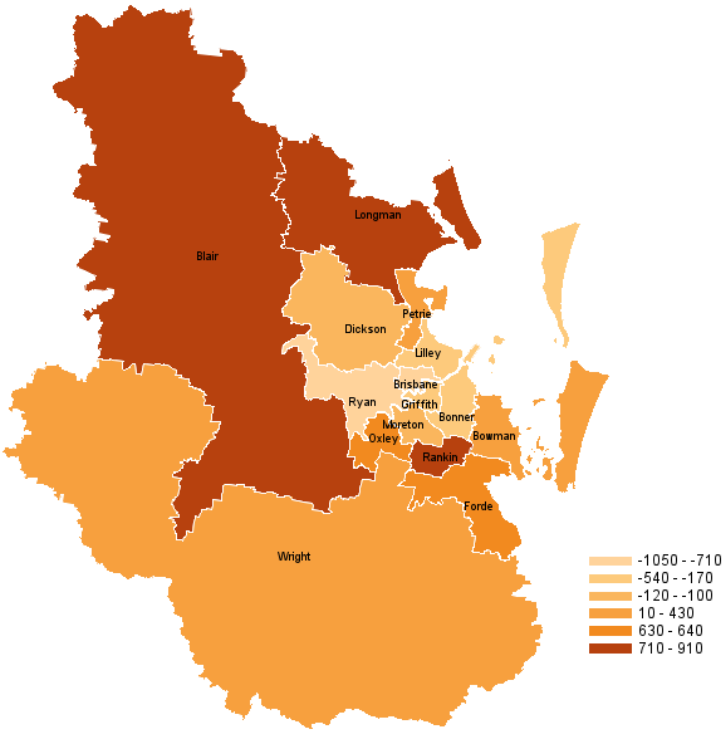
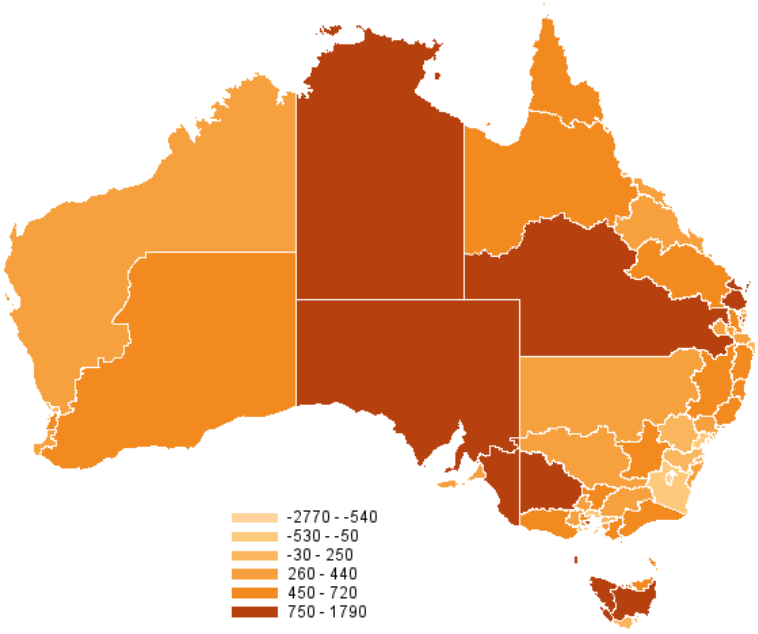


Figure 29 shows the impact for Brisbane electorates. Inner regions of Brisbane tend to have larger negative impacts. The larger gains in Brisbane are also in the outer suburbs which tend to be lower income, more likely to benefit from welfare payments (in this case the GMI) and less likely to have substantial superannuation balances. The largest beneficiary electorate is Rankin ($910) while the most negatively impacted is Ryan (-$1,050). Relative to Sydney and Melbourne, Brisbane has less variation in gains and loss electorates likely driven by less extreme wealth and income disparities.

Figure 30 shows that for Australia there are larger gains in many regional and remote areas relative to some of the more urban areas. This relates to households in urban areas tending to have higher superannuation balances and being less likely to receive the JobSeeker payment.

Figure 30: Australia Electorate Financial Impacts from GMI



6 Fiscal Incidence

6.1 GST and broadening the GST

Australia's Goods and Services Tax (GST), introduced in 2000, is a 10 per cent value-added tax applied to most goods and services, with some exemptions like fresh food, healthcare, and education. Debates about expanding its base (applying it to currently exempt items) or increasing its rate often centre on economic efficiency, equity, and fiscal sustainability.

Arguments for expanding the base or increasing the rate centre around boosting government revenue, addressing fiscal pressures from an aging population, rising healthcare costs, and budget deficits. It has been argued that a broader GST base enhances economic efficiency by reducing distortions—exemptions create complexity and favour certain sectors, skewing consumer behaviour. A higher GST may also reduce reliance on sometimes considered less efficient taxes, like stamp duties or income taxes, which discourage work or investment.

Arguments against expanding the base or increasing the rate are premised on the position that a higher or broader GST is regressive, and disproportionately affects low-income households who spend a larger share of their income on consumption. Exemptions like fresh food and healthcare were designed to protect vulnerable groups and removing them could exacerbate inequality. It may also be argued that GST increases can dampen consumer spending, potentially slowing economic growth.

The debate over potential GST changes generally comes down to a debate over improved economic efficiency trading off additional inequality. Proponents would also emphasise potential improvements to fiscal sustainability of a GST with its relatively predictable and growing revenue stream even with an ageing society. Any reform would require careful design, including compensation for low-income groups, to mitigate regressive impacts.

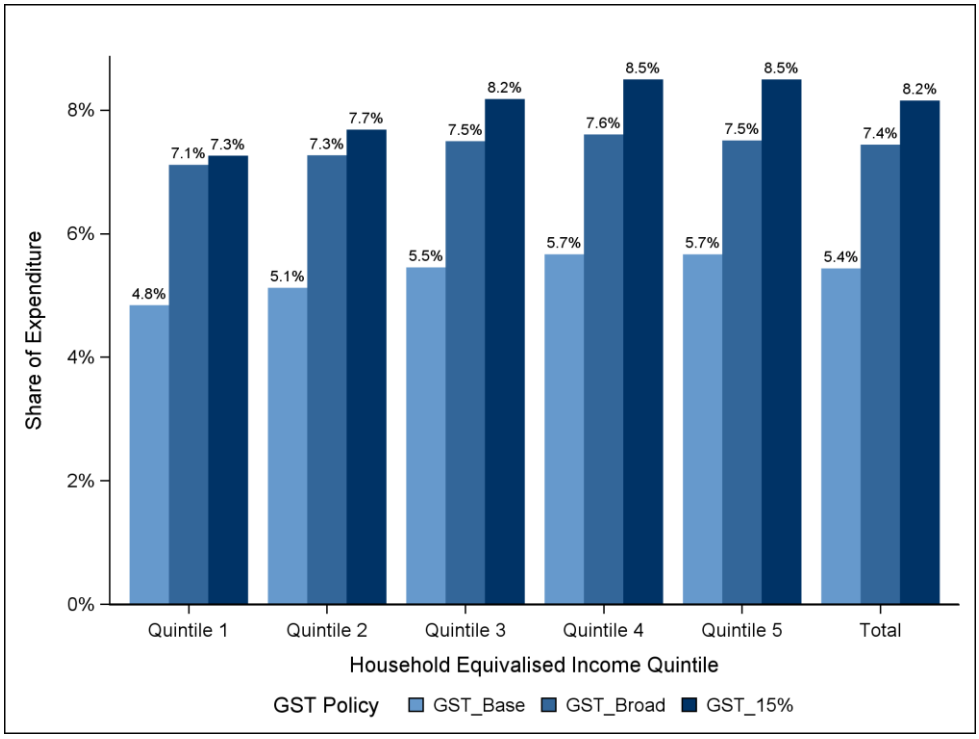
This section considers the equity implications of increasing a GST from 10 per cent to 15 per cent and broadening the base of the existing GST to most goods and services rather than the current selected goods and services only. A challenge when considering the equity implications of the GST is the decision of what to compare the GST expenditure to. Comparisons can be made with gross income, disposable income (after personal income tax) or expenditure. The results can vary quite substantially. We have chosen to use both expenditure shares and the share of disposble income. Expenditure shares and income shares are likely to be quite similar for lower income households as their income and expenditure is typically similar. Higher income households often 'save' money so their income is larger than their expenditure which will mean that GST expenditure shares will be higher than income shares for these households. Higher income households are in a much better position to save money relative to lower income households. Saving could include simply spending less than you earn or 'spending' money on capital goods such as new dwellings where the equity element is considered saving rather than expenditure.

Figure 31 shows the distributional impact of the current GST (Base) relative to that of an expanded GST (GST_Broad and GST_15%). The base result shows that the GST is broadly proportional across the income distribution - possibly slightly progressive if anything. The average share of expenditure that is GST revenue is around 5.4 per cent for all households but slightly higher for the top income quintile

(5.7 per cent compared to 4.8 per cent for the bottom quintile). The share is considerably lower than the headline rate of GST (10 per cent) due to Australia's GST not applying to a large number of goods and services such as fresh food, health, and education and some elements of housing such as rents.

Expanding the GST to 15 per cent on the current base of GST items has a simple linear impact with all shares increasing by 50 per cent. The overall share of GST spending would increase to 8.2 per cent, up from 5.4 per cent. Expanding the base of the GST to a broader base of goods and services we estimate increases the share of GST expenditure to 7.4 per cent. This result is based on an assumption that rents and some government charges such as rates would not be subject to a broad-based GST. The broader GST does alter the distribution of payments relative to expenditure with a moderate relative decline in progressivity compared to the current GST or 15 per cent version of the current GST.

Figure 31: GST Policy Options, Share of Household Expenditure by Household Income Quintile



Considering the GST relative to disposable income shows a considerably different distributional impact compared to the expenditure based metric (Figure 32). Relative to disposable income the impact of the GST is highly regressive. For the base GST the bottom income group's share is 5.4 per cent while the top group's is just 2.6 per cent. This result stems from the bottom income group spending (on average) more than their disposable income and the fact that high income households, on average, spend a lot less than they earn so any GST impact will be relatively less than lower income households.

Expanding the GST to 15 per cent has a simple linear increase in share. The more interesting result is the broadening of the base where again the result only adds to the regressive result with low income households (quintile 1) GST share increasing to 7.9 per cent while the highest income household

share increasing to 3.5 per cent. The difference in progressivity is clear but not substantial. Overall, relative to disposable household, the share of GST is 3.6 per cent which increases to 4.9 per cent for the broad version of GST and 5.3 per cent for a 15 per cent GST.

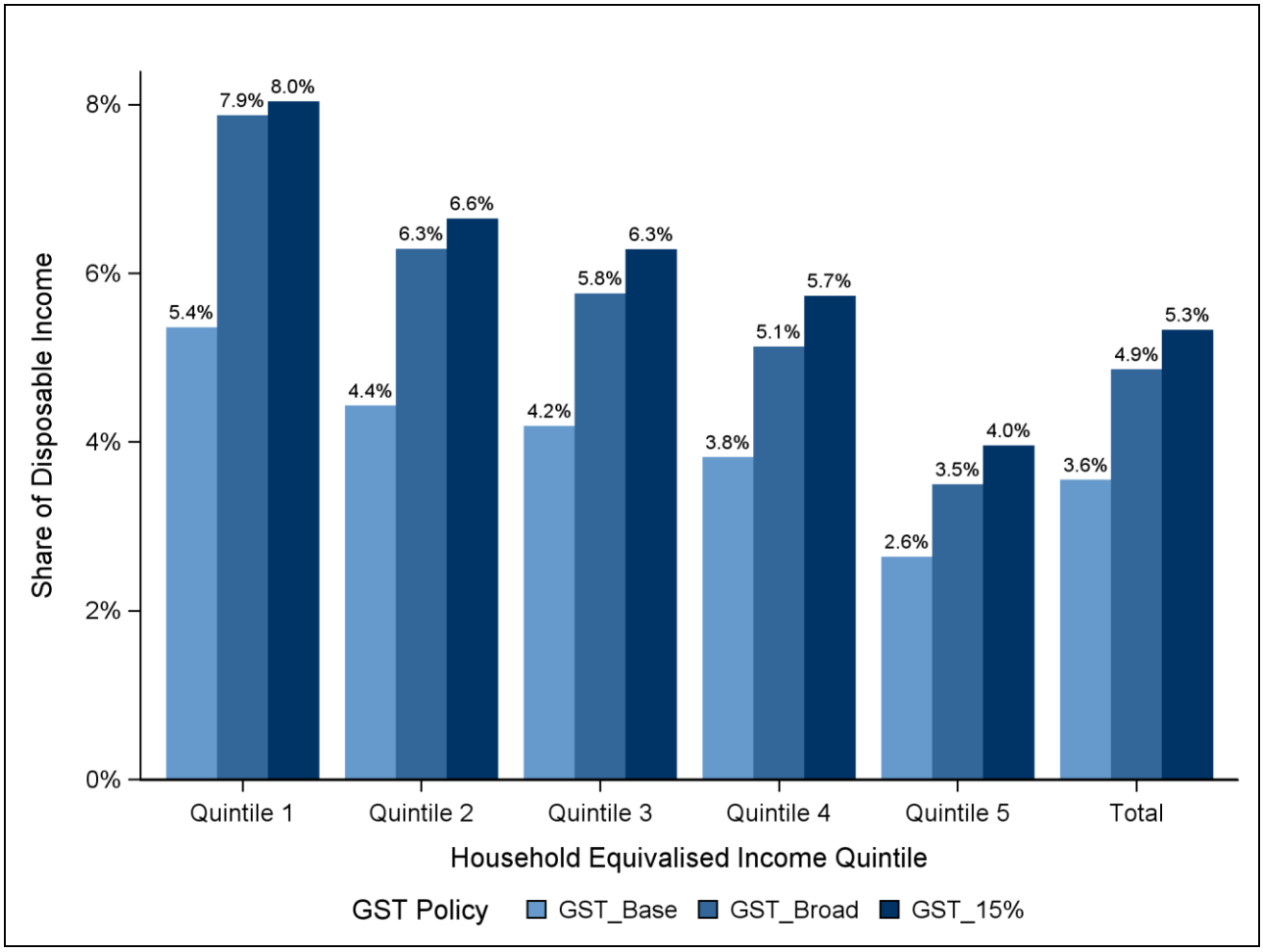
It should be noted that there are challenges in estimating GST from PolicyMod (based on the ABS expenditure survey from 2015-16). These Include:

1) PolicyMod does not perfectly update data between the 2015-16 survey and 2025. In particular, there may be some distributional changes in expenditure patterns that a simulated expenditure survey for 2025 is unable to pick up.

2) There are conceptual differences between the ABS expenditure survey and a national accounts expenditure estimate both in terms of scope of expenditure and the underlying population. For example, the national accounts include the not-for-profit sector and non-private dwellings which the ABS survey does not.

3) Survey data from the ABS tends to under-state expenditure in some areas such as alcohol and tobacco. PolicyMod attempts to correct for these discrepancies. Overall, expenditure (and to a lesser extent income) is lower in the ABS surveys than those estimated in the national accounts.

Figure 32: GST Policy Options, Share of Household Disposable Income by Household Income Quintile



Overall, the two approaches yield quite different results with the expenditure approach suggesting that the GST is close to proportional while the disposable income approach suggests that the GST is strongly regressive. It would still be the case that higher income households would pay more GST regardless of the approach taken in dollar terms as higher income households spend considerably more than lower income households.

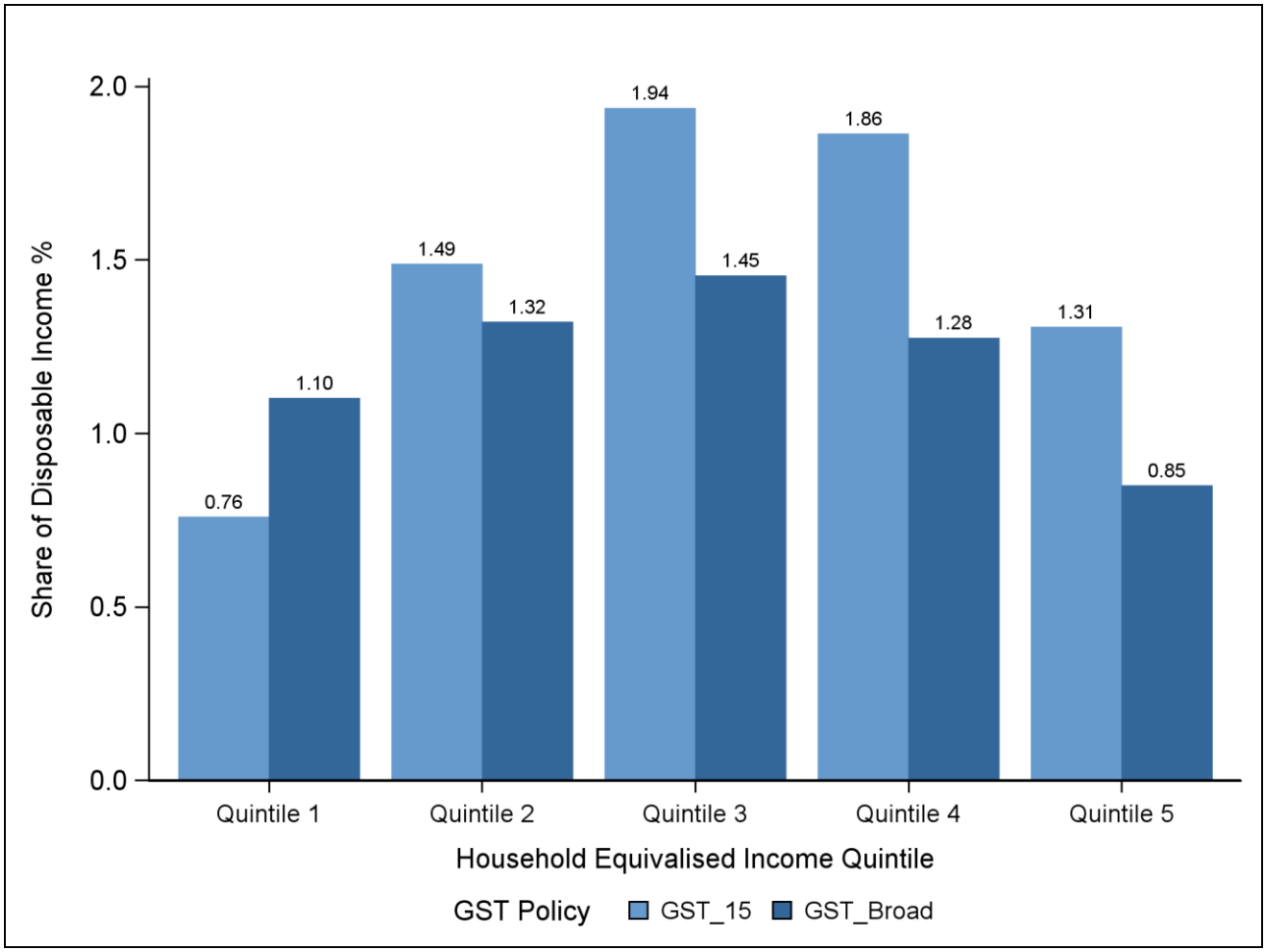
A GST with a higher rate or broader coverage would impact welfare payments through CPI Indexation. Figure 33 shows the impact of the GST after indexation of welfare payments has been applied. The regressive nature of Figure 30 is much reduced with the impact on lower income households now comparable (in per cent terms) with higher income households. Middle income households, who mostly won't benefit from welfare payment indexation, will be impacted more so than low or high income households.

A further result from Figure 31 Is that, even after compensation through CPI Indexation to welfare payments a broadening of the GST is a more regressive tax outcome than Increasing the rate to 15 per cent alone. The broader GST results in a moderately regressive outcome (post CPI compensation)

while the 15 per cent rate applied to the current base is a moderately more progressive outcome than the existing tax arrangement.

Figure 33 also shows that CPI Indexation alone does not fully compensate low income households (on average). Any government intent on fully compensating low income households would need to implement a broader range of tax and welfare measures specific to the GST. The 2000 GST introduction achieved such compensation through a mix of welfare indexation, changes to family payments, lower personal income taxation and a change in the tax mix through the removal of some indirect taxes such as sales tax.

Figure 33: GST Policy Options with CPI Welfare Compensation, Share of Household Disposable Income by Household Income Quintile



6.2 GST and Other Production Taxes

While low income households usually pay little or no income tax it is the case that they do pay a range of other taxes. We've already discussed the GST but there are a range of other taxes (production taxes) defined by the ABS that is paid by households. Such taxes include stamp duty, alcohol and tobacco excise, payroll tax and land tax. The ABS calculates these taxes indirectly using

their input-output tables to calculate their price impacts on the goods and services households purchase in the 2015-16 Household Expenditure Survey (HES).

The impacts from the 2015-16 survey are imputed onto the 2025 PolicyMod expenditure basefile using a regression methodology where we model the expected impact of these taxes (GST and other production taxes). The model is based on a log-log model where variables such as the log of income and wealth, age of household head, gender, family type, state, and tenure type form the basis for a prediction of expenditure/tax. Ideally, there would be a more up to date ABS data source but given the 10 years that have passed since the ABS survey was run it seemed more plausible to apply a model based approach to more current data than rely too heavily on the evidence directly from the old survey results. The results should be considered indicative only as the original ABS survey doesn't capture the full range of taxes and fundamentally is based on a population from 10 years ago and not all elements of change since the HES are likely to have been picked up. In our view, the results are still relevant and it is unlikely that the general distributional story is dramatially wrong.

Figure 34 considers all the major areas of tax in aggregate relative to gross household income by income quintile. Gross income is used here, instead of disposable income, as it usually makes more sense to compare personal income tax paid to gross income. We can see quite clearly that overall Personal Income Tax (PIT) dominates with an average of 19.6 per cent of gross income. Next largest is production taxes (ex GST) at 5.1 per cent and the GST at just 2.9 per cent. Combined together these taxes are mildly progressive with the lowest income househods spending around 21.4 per cent of income on these taxes while the top income group spends around 30 per cent of income on these combined taxes.

Within this aggregate story there is considerable variation by the type of tax. Personal Income Tax is disproportionately paid by high income households with the top group paying 24.8 per cent of income on PIT while the lowest income groups (quintile 1) pays only 4.1 per cent. Middle income (quintile 3) pays 16 per cent.

The GST has been discussed earlier with a regressive impact relative to gross household income. Production taxes outside of the GST are highly regressive with low income households spending 12.1 per cent of gross income on production taxes compared to middle income at 6.2 per cent and high income households at just 3.2 per cent. The overall picture presented in Figure 32 is that while it is true that high income households pay a higher rate of taxation when we consider all taxes rather than just income taxation, lower income households also pay a fairly substantial share of gross income on tax.

Figure 34: All Taxes, Share of Household Gross Income by Household Income Quintile

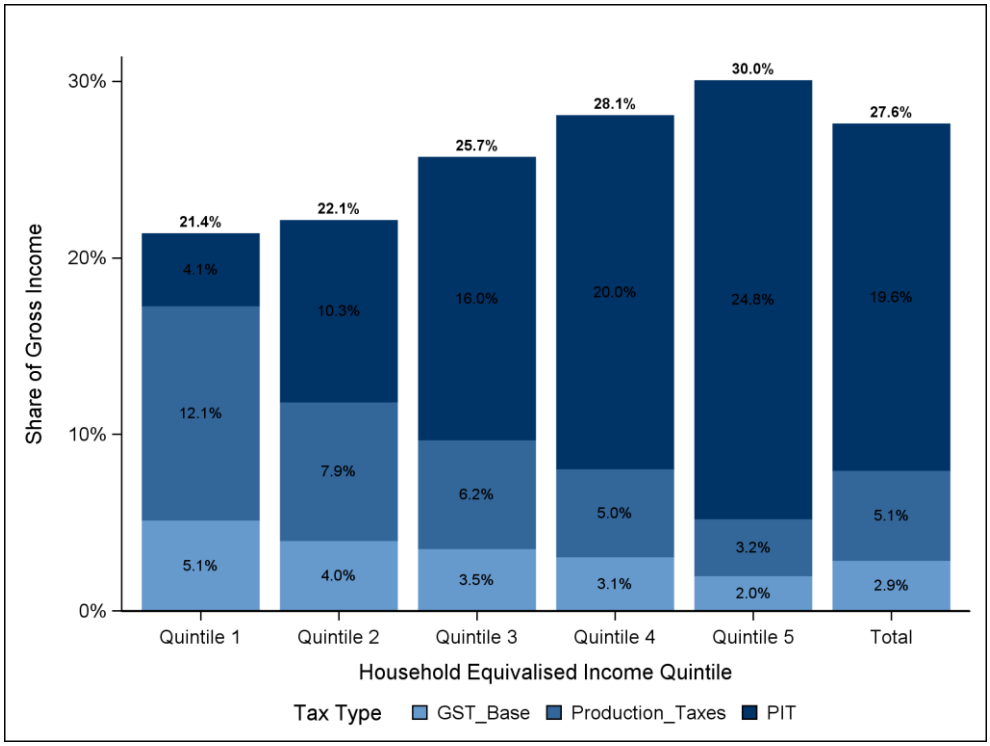
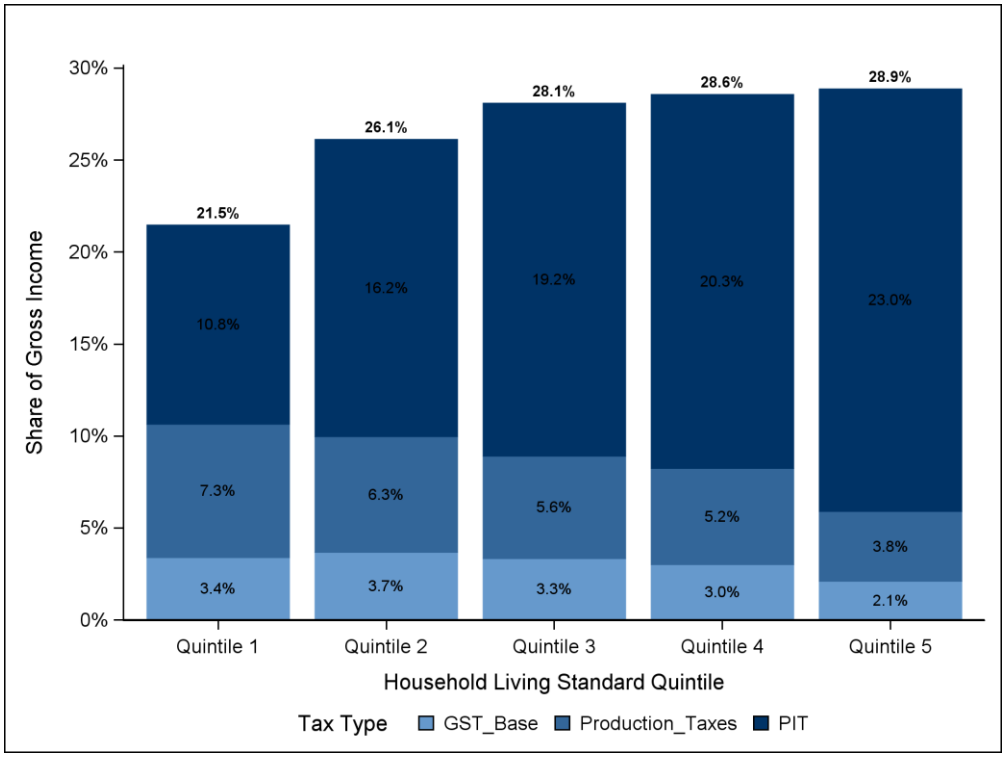


Figure 35 provides a somewhat different perspective on the distributional impact of taxation on households, this time by living standard quintiles rather than household income quintiles. As discussed earlier the living standards quintile provides a broader perspective on economic welfare than income alone. Arguably, living standards is a more realistic perspective on the actual economic welfare position of households.

The overall picture is one that is only very slightly less progressive. Of more interest is the quantities within each tax. Personal Income Tax becomes a larger share for the lowest living standard households (relative to Figure 32's income quintiles) while production taxes and GST are reduced as a share of gross income. The PIT share is higher for the high living standard quintile relative to lower living standard households. It is also the case that PIT is a much higher share of tax than production or GST taxation for these higher living standard households.

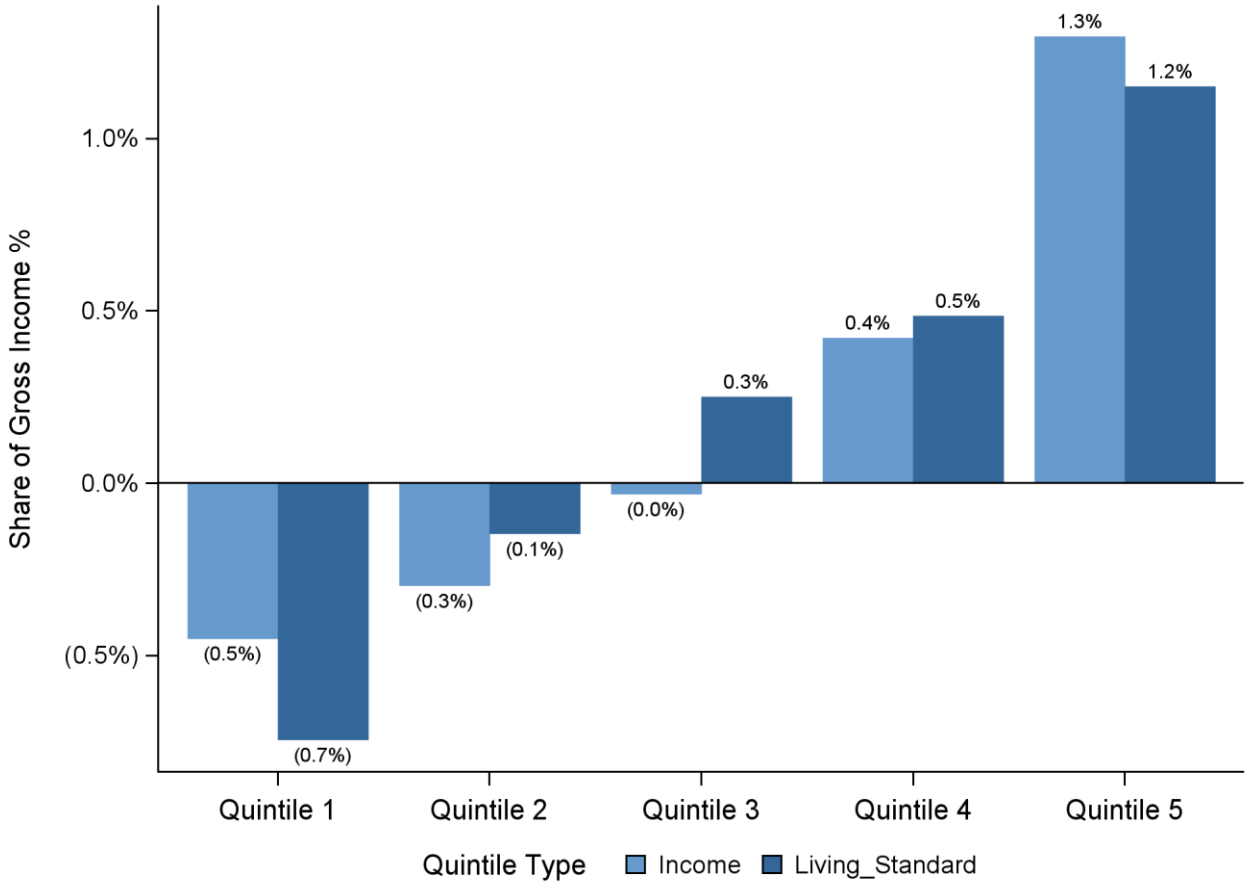
Figure 35: All Taxes, Share of Household Gross income by Living Standard Quintile



6.3 Superannuation Tax Change Distributional Impact

The changes to superannuation taxation under the 'major reform, tax funded' proposal involve applying a higher rate of superannuation tax, namely a 20 per cent tax discount to an individual's top marginal tax rate. This rate of tax replaces the flat rate of 15 per cent for most income and contributions. Figure 36 shows the distributional impact of this replacement form of superannuation taxation. The chart shows a very progressive outcome with low and middle income (and living standard) households better off while higher quintile households are worse off (on average). The estimated $11.2 billion in additional revenue per year translates to an increase in tax of 1.2 and 1.3 per cent of disposable income for the two quintile measurements (income and living standards). The bottom quintile households are better off by 0.5 and 0.7 per cent of disposable income. The average impact for middle income households is negligible. The results in Figure 36 are in stark contrast with the regressive outcome for additional taxation from increasing or broadening the GST (see Figure 32). The GST impact was substantial for all income groups, but substantially larger for low and middle income households than higher income households.

Figure 36: Average superannuation taxation impact as a share of disposable income by quintile



6.4 in-Kind Benefits

The previous section focussed on taxes while this section considers government benefits in a broader sense than cash payments alone. The ABS considers a wide range of benefits that are called 'in-kind' in that they are not paid in the form of cash payments, rather they are provided directly to the households either for free or subsidised. Again, the underlying survey from the ABS is based on the 2015-16 Household Expenditure Survey which is now around 10 years old. With important changes in economic and demographic profiles since that survey, we have imputed the results of this survey onto our PolicyMod basefile using the same methodology as discussed in the previous section. An important caveat is that the ABS survey doesn't cover all areas of government spending, such as defence, but does cover a substantial share of government spending. It is also important to remember that the numbers estimated don't attempt to model or account for important changes in government spending and services. For example, these estimates will not account for changes in disability spending that have occurred after the 2015 survey with the ramping up of the National Disability Insurance Scheme. Future ABS publications would be expected to include such spending but

modelling such changes is beyond the scope of this research. With those caveats in mind, it should still be expected that the estimates in this research provide a reasonable basis for understanding the incidence of government benefits across the income and living standard distribution.

Figure 37 shows the highly progressive nature of government spending, both cash and in-kind benefits by the household income distribution. Cash payments make up 8 per cent of gross income while non-cash or 'in-kind' benefits make up a much more substantial 25.8 per cent of gross income. Non-cash benefits are not included in gross income so it can be the case that for some households, non-cash benefits may exceed their gross income. Non-cash benefits comprise 94.4 per cent of gross income for low households compared to only 8.8 per cent for high income households. The major driver of this result is not so much that low income households necessarily benefit more in a level sense, but they have substantially lower incomes.

Regarding cash benefits, where a comparison is more meaningful as it is a direct component of income, the share is very substantial for the bottom quintile (67.7 per cent) compared to virtually nothing for the top income quintile (0.3 per cent). Middle income households only receive 4.8 per cent of gross income in the form of welfare cash payments.

Figure 37: All Benefits, Share of Household Gross Income by Household Income Quintile

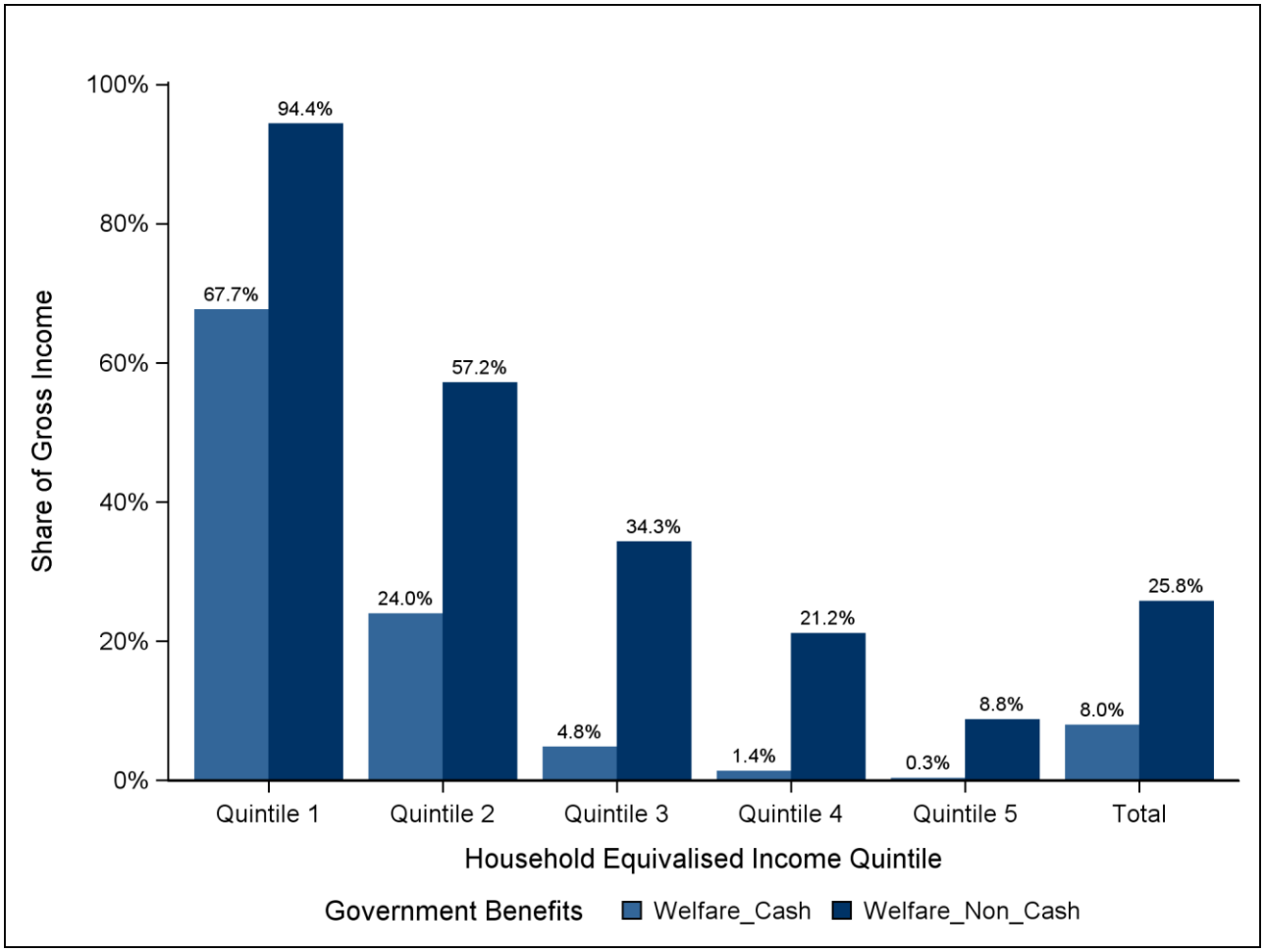
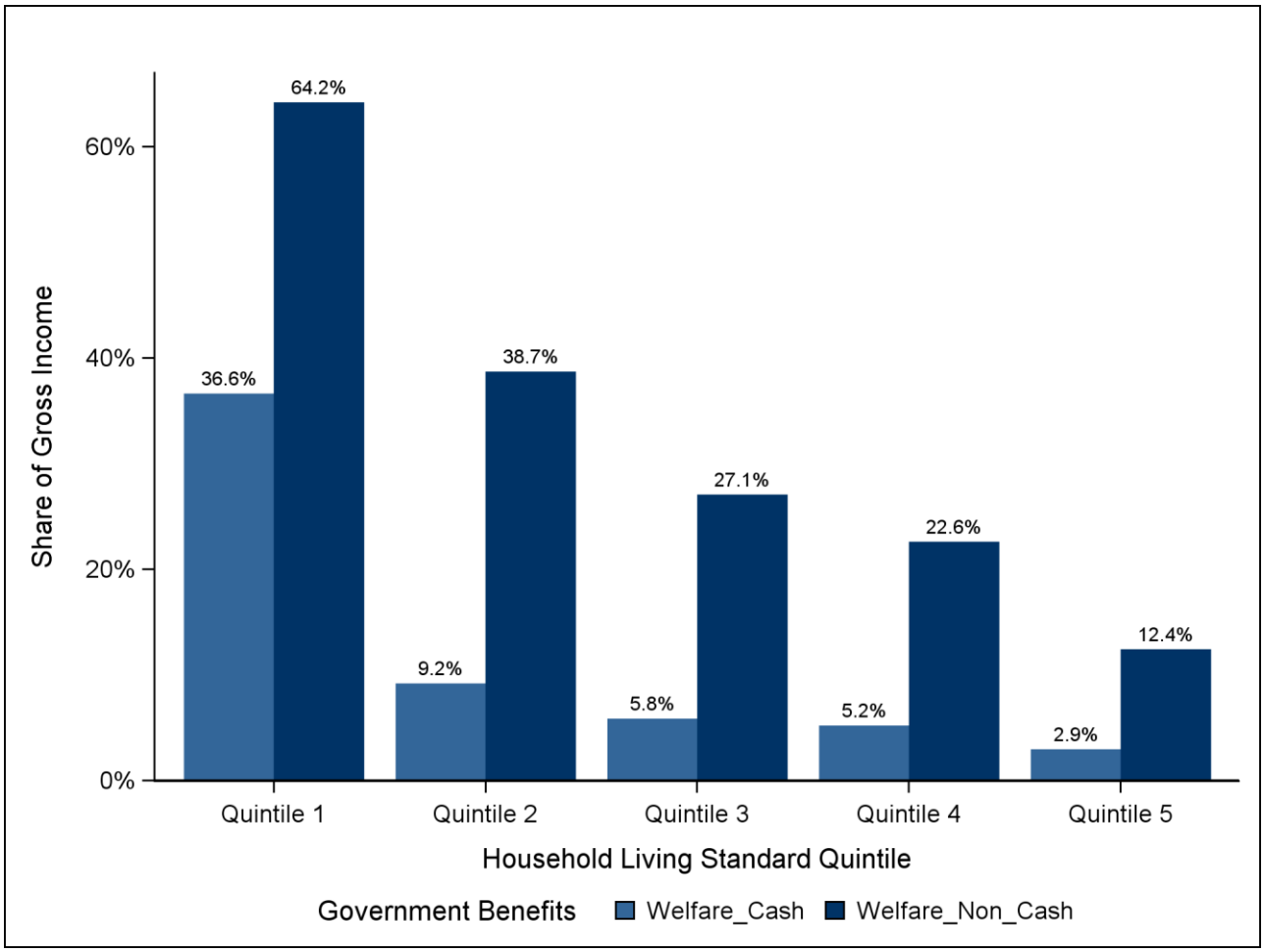


Figure 38 shows the same information as Figure 37 except that the households are grouped by living standard quintiles. Both cash and non-cash benefits are again distributed in a very progressive manner with benefits, as a share of income, directed mostly to low income households. The degree is somewhat muted relative to Figure 37 though. The lowest living standard quintile's non-cash benefits are lower at 64.2 per cent while the top quintile's is a slightly more substantial at 12.4 per cent. Cash benefits are also highly progressive but this time the bottom quintile's share is lower at 36.6 per cent and the top quintile is higher at 2.9 per cent. Effectively both charts show a similar story but the differences relate to the distribution of living standard likely being not as divergent as that of household incomes.

Figure 38: All Benefits, Share of Household Gross Income by Living Standard Quintile



6.5 Summary of Fiscal Incidence

Figure 39 shows that the overall impact of government spending and taxation is highly progressive. While not directly comparable to income, the impact of both benefits and tax are heavily skewed towards lower income households with government benefits net of taxation worth around 146.8 per cent of gross income for low income households. For middle income families it is 16.0 per cent while high income families it is -27.9 per

cent. The overall impact is +7.7 per cent with the caveat that you would expect over the longer term tax and spending to balance out and that the ABS' coverage of both benefits and taxation is imperfect and incomplete.

Figure 39: All Taxes and Benefits, Share of Household Gross Income by Income Quintile

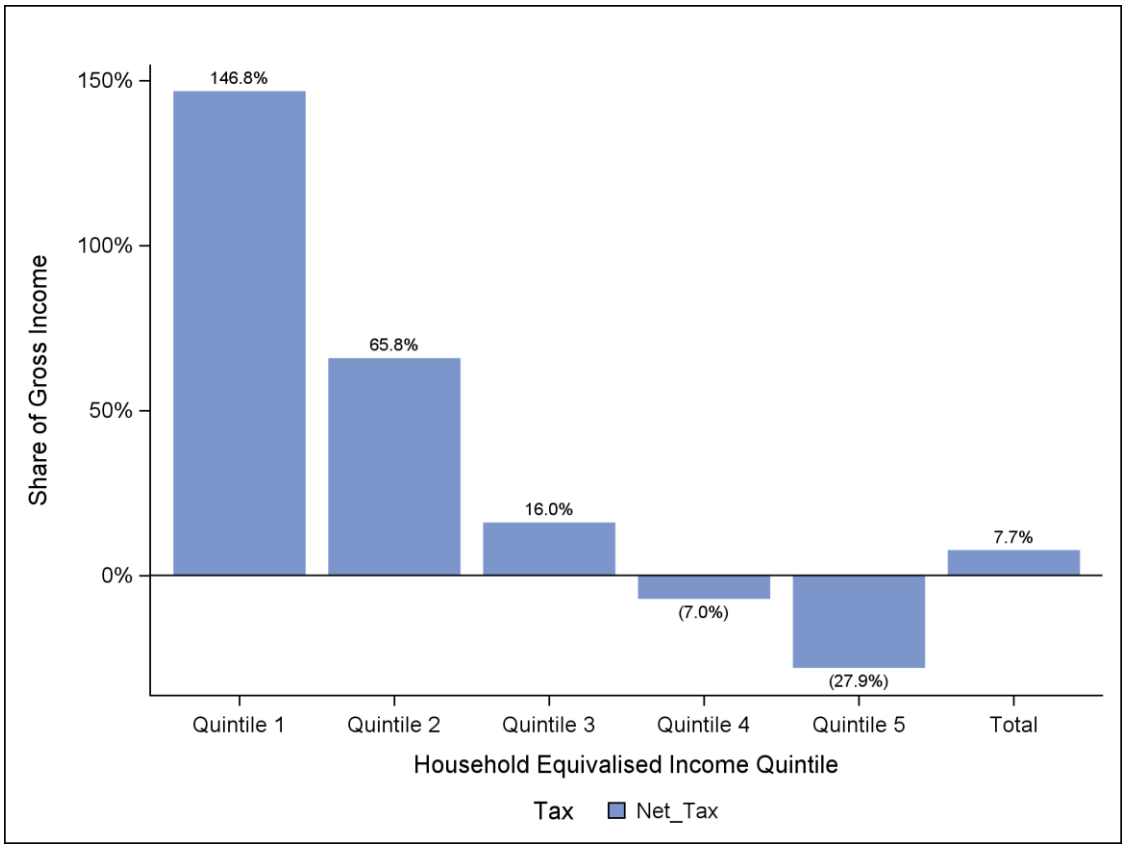
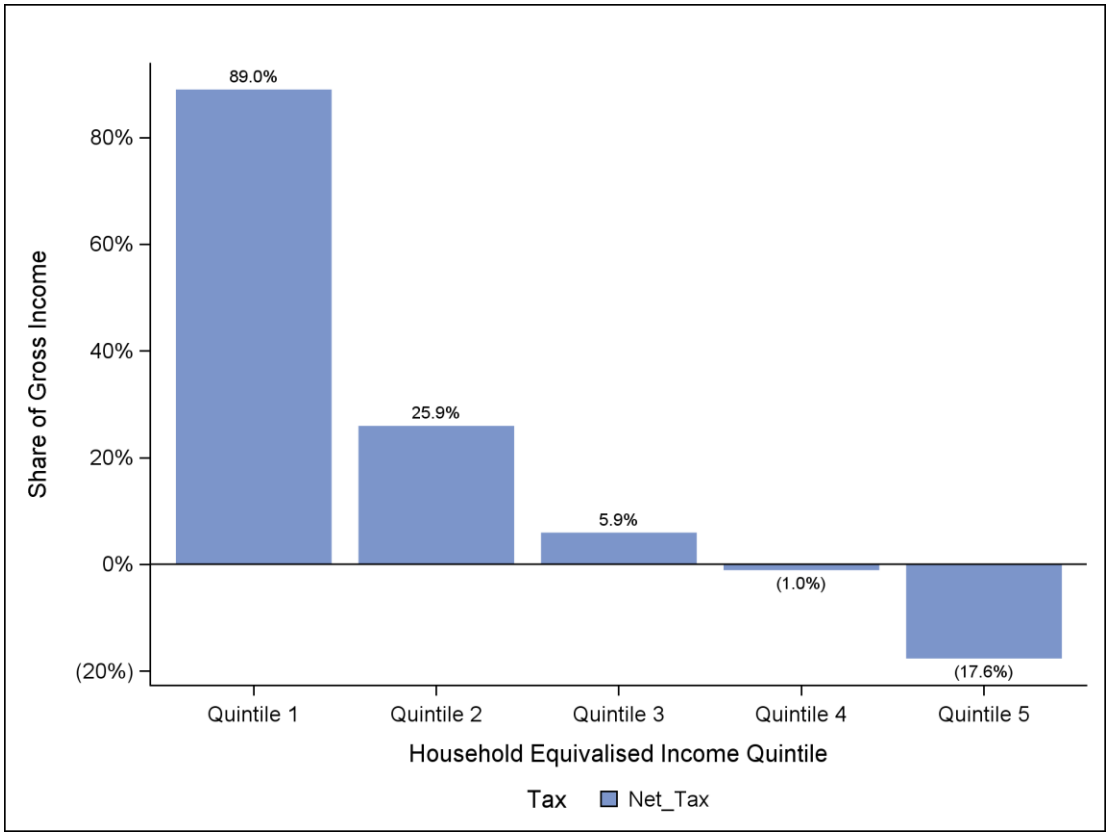


Figure 40 shows that the progressivity by living standards is not quite as dramatic as shown for income quintiles. However, it remains the case that low living standard households, as a share of income, gain substantially more from their interaction with government than higher income households.

Figure 40: All Taxes and Benefits, Share of Household Gross Income by Living Standard Quintile



7 Conclusion

This report provides a range of policy options that are both practical and affordable to government. The first three proposals provide government with options that stay within current design principles of the welfare system at only a modest cost to government.

The first option is the most modest with a $4 billion per year increase to JobSeeker and related payments (largely to singles only). The payment increase is in line with the EIAC recommendation to increase JobSeeker to 90 per cent of the Age Pension.

The second and third options increase JobSeeker but also a range of other welfare payments that go mostly to working age welfare recipients in the area of Single Parent Payments, disability and family tax benefits for low income families with children. This option nearly triples the additional expenditure with around $11.2 billion in additional spending per year on welfare payments.

Options 1 and 2 are both funded through an increase in superannuation taxation that modestly increases superannuation taxation but in a progressive manner that would mostly only negatively impact higher income and higher wealth households. Option 3 is funded by lowering the assets test threshold for the Age Pension and the upper income threshold for child care subsidies.

The fourth option is a major departure from existing welfare payments with a replacement that provides a Guaranteed Minimum income (GMI). The GMI is a welfare payment that provides just enough money to ensure that any household's income is topped up so that they are not in poverty. The total cost of this policy is around $8.2 billion per year and is funded through increased superannuation taxation. The relatively small increase in expenditure is possible due to the highly targeted nature of a GMI. The cost of the GMI is in stark contrast to a universal basic income which costs hundreds of billions of dollars (even after removing the existing welfare system) due to its untargeted nature.

The other policies, while also lowering poverty, will provide some additional welfare to families who are technically not in poverty or if they are in poverty, their additional payment takes their income above the poverty line. Previous research has shown that taking a discount to the top marginal tax rate of at least 20 percentage points will mean that at least 90 per cent of persons retire with at least as high, or a higher superannuation balance.

Using our adjusted poverty rate the cheapest option (increase JobSeeker and related payments only) lowers poverty across all households from 10.2 per cent to 9.8 per cent. The rate of poverty for JobSeeker and related payment households drops from 59.8 per cent to 43.4 per cent. Overall, around 95,000 persons are taken out of poverty. The more substantial reform options (2 & 3) of the existing welfare system lower poverty across all households further to 8.2 and 8.3 per cent, taking around 590,000 persons out of poverty. The GMI (option 4) lowers poverty even further by 1.03 million persons to 6.6 per cent.

The financial stress analysis suggests that the households facing the greatest financial issues in Australia has changed little over this century (since 2000). The most likely households to struggle financially include single parents, low income renters, and working age welfare recipients. The welfare payment policies proposed in this paper are designed to boost the incomes and living standards of these households with payments that are largely directed towards such families.

The regional analysis shows that all of the proposed policies benefit low income outer suburban and regional and remote areas of Australia. The proposals boost their incomes by as much as $3,300 per year, per household. For some of these electorates the average increase in incomes would be up to around 5 per cent. Households directly benefiting from the proposed policies would typically gain much more than this amount with gains to some households likely to be as high as 30 per cent.

The policies are funded and that funding for 3 of the four policies is through reductions in superannuation tax concessions. This approach taken was to increase the overall tax revenue from superannuation which is currently subject to tax concessions of around $50 billion per year. Lowering these tax concessions impacts higher income and wealth households and has very little impact on low and often middle income and middle living standard households. An alternative funding arrangement considered in this research is to lower asset test thresholds for pensioners and to lower income thresholds for high income families with children in childcare. Whether funding welfare payment increases through superannuation tax increases or welfare cuts to high living standard households yields a similar result with substantial reductions in poverty and little impact on low and middle living standard households. The main regions negatively impacted are high income and high wealth regions in inner city and well-located regions of the major capital cities.

The reforms go some way to alleviating Intergenerational challenges and wealth Inequality with all proposed policies particularly beneficial to low wealth and younger households. The burden of welfare Increases is largely on older, high wealth households.

Further analysis is undertaken on the tax incidence of the GST, other taxes such as production taxation and government benefits (both cash and non-cash). We find that the GST is largely proportional relative to expenditure but is regressive relative to disposable income with low income households spending a larger share of their income on the GST. Expanding the GST changes little with regard to equity although broadening the base tends to worsen equity moderately as it lowers progressivity of the current GST system. Including CPI based compensation still leads to low income households being worse off on average. From a progressivity perspective the impact relative to disposable income is similar between low and high income but middle Income households would be most impacted in a relative sense.

Production taxes are quite regressive with regard to both expenditure and income. Overall, we find that the tax system as a whole (including the very progressive personal income tax) is progressive but including a broader range of tax (including production and GST taxes) greatly lessens that progressivity. Overall, all income levels, on average, pay a share of tax that is above 20 per cent of their income level.

From tax we get benefits. These government benefits are distributed very progressively with low income households receiving much more in benefits than higher income households relative to their income level. Partly this reflects their much lower incomes rather than receiving substantially less in benefits in level terms.

This research provides a set of policy prescriptions that are affordable and with the exception of the GMI are a straightforward expansion of existing policies. The expansion of spending would be between about 3 and 7.5 per cent of the current welfare budget and less than 1.5 per cent of the overall Federal Budget. These relatively small additional outlays follow similar recommendations by the Economic Inclusion Advisory Committee (EIAC). These outlays are highly targeted and provide the best available return on that investment in terms of poverty reduction and could lower poverty by up to a third.

The current welfare system in Australia is undeniably well targeted towards those who need the most assistance. There are few areas of the welfare system where there is much scope for making expenditure savings. The main problem with the current system is that there are a few areas where the existing system does not provide an adequate social safety net. The clearest example of this is the JobSeeker payment and related payments such as Youth Allowance. Recipients of these payments tend to have relatively high housing costs and, being of working age, tend to have higher expenses than those on the Age Pension yet their payment is usually at least 30 per cent (or more) lower than the Age Pension.

The balance between workforce incentives and an adequate safety net is not appropriate for JobSeeker and Youth Allowance and the pendulum needs to swing back towards adequacy. Some other payments, such as Parenting Payment and Disability Support Payments while more generous than JobSeeker in their current form also have households with very high rates of financial stress indicating that more assistance should be provided by government. This report models the basic requirements for fixing these issues and finds that the

overall expenditure required is relatively modest and, if needed, can be financed through a relatively small number of households paying moderately more superannuation tax.

8 References

Commonwealth of Australia (2024) *Tax Expenditures and Insights Statement 2024-25*

Economic Inclusion Advisory Committee (2025) *Economic Inclusion Advisory Committee*, 2025 Report to Government.

Phillips, B (2022) *Household Financial Stress and Financial Wellbeing in Australia,* Research Note 2/22 Research Report for UnitingCare Australia.

Phillips, B., Webster, R., Joseph, C. *A Fairer Tax and Welfare System for Australi a,* CSRM Research Note, ANU.

Phillips, B., Joseph, C., Webster, R., PolicyMod: Microsimulation Model for the Australian Tax and Transfer System December 2023, ANU CSRM Other Publication.