

A Better Tax and Welfare System for Australia (Draft Only)

Research Report for Saint Vincent De Paul Society

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POLIS: ANU Centre for Social Policy Research

Introduction

- Aim of the project?
 - To identify those groups within the existing welfare system with the greatest financial need
 - Alter existing welfare system to improve their financial position using ‘optimal policy modelling’
 - Fund increased expenditure over the forward estimates through tax increases or cut expenditure
 - The goal is develop policy change that has some chance of being politically viable in the medium term and doesn’t require wholesale changes. Eg not UBI
 - Hope to inform policy and stimulate discussion.

What are microsimulation models?

- Models that simulate policy change (in this case welfare and tax) at the micro or unit record level (persons/households)
- Who uses these models? – Government, academia, private sector
- Simulates government programs, demographic and economic change
- Based on microdata (ABS household surveys in this case)
 - Records of individual people or households
 - Usually large – thousands of records
 - Sample surveys or administrative data
- Allow detailed assessment of impact of change
 - On individuals, or groups of individuals
 - On whole population
 - On government budgets
- A key benefit is the distributional analysis of a package of reform – not just individual pieces of reform.
- Modelling here does not include behavioural change (standard budget modelling)

After-Housing Poverty Rates 2025 (PolicyMod)

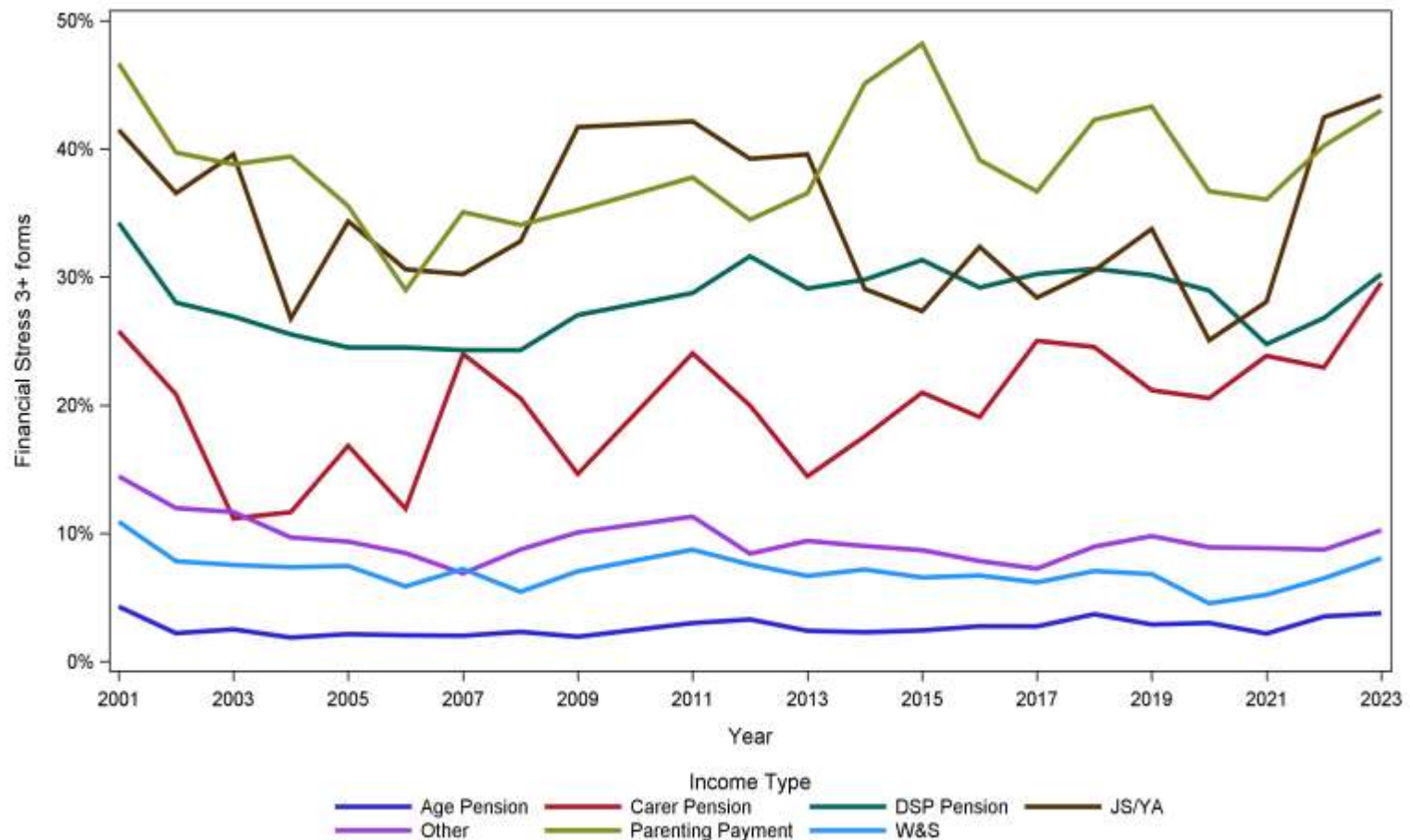
Family Type	Poverty (after-housing)		Poverty (living standard Adjusted)		Financial Stress (3+ forms)
	Rate %	Persons (000s)	Rate %	Persons (000s)	
Couple, Kids	12.0	1,227	10.1	1,028	10.9
Couple Only	9.9	693	4.5	311	6.8
Lone Person	26.4	735	18.0	500	14.1
Single Parent	37.2	904	32.7	796	34.1
Other	6.9	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

Summary of poverty rates (PolicyMod)

- Overall poverty rate 14.2% (3.9m persons)
- Lowers to 10.2% for **adjusted** poverty rate or 2.95m persons
- Overall rate of serious financial stress 12.7% (modelled)
- 45% of poverty in Australia exists with mostly welfare dependent households (so existing welfare system has limitations with regard poverty reduction)
- Working age payments high to very high rates of poverty
- 66% for JobSeeker dependent households and 52% in financial stress
- Mostly low income/low wealth
- Poverty spread across all ages
- Single parents and lone persons higher than couples
- Renters 23% compared to owners with mortgage 12% and own outright 8%
- Poverty rates defined as half median of disposable income – housing costs.
(Adjusted for household type and size)

A better measure of financial disadvantage – financial stress (3+ measures) HILDA.



In Australia **broadly** who is (on average) doing well vs not so well?

- Poorly?
 - Single parents, renters, young Australians (under 50), working age welfare recipients
- Well?
 - Older Australians, home owners, couple only families, age pensioners (!)

‘Modest’ Proposal (\$4b pa) for 25/26

- Expenditure
 - JobSeeker single rate to EIAC proposed rate (90% of the age pension +\$240pf or 30% increase.
 - Couple rate up to \$780pf from \$730pf.
 - Youth Allowance increased in proportion with JobSeeker max rate increase
- Tax
 - Apply a 22.2% discount to an individual’s top marginal tax rate (including super income)
 - Eg if your top marginal rate was 32% you’d pay a flat rate of tax on super of 10% which would generally be a discount to current superannuation taxation (15%).

‘Major – Tax Funded’ Proposal (\$9.2B pa)

- Expenditure

- JobSeeker + \$240pf (90% of age pension single rate) = \$1002pf
- DSP payment + \$100pf singles and couples
- Parenting Payment increased to age pension rate \$1045pf up to \$1150pf
- CRA +15% to original EIAC +40% recommendation
- 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) – new evidence that younger kids cost a similar amount to older kids.
- Higher payments to non-age pensions reflects higher cost of living and lower wealth levels and financial living standards)

- Tax

- Superannuation tax on income and contributions shifted to a progressive basis (marginal tax – 20 percentage points) – lower and most middle-income persons ahead, high income persons a little behind.

‘Major – Expenditure Funded’ Proposal (\$9.2B pa)

- Expenditure

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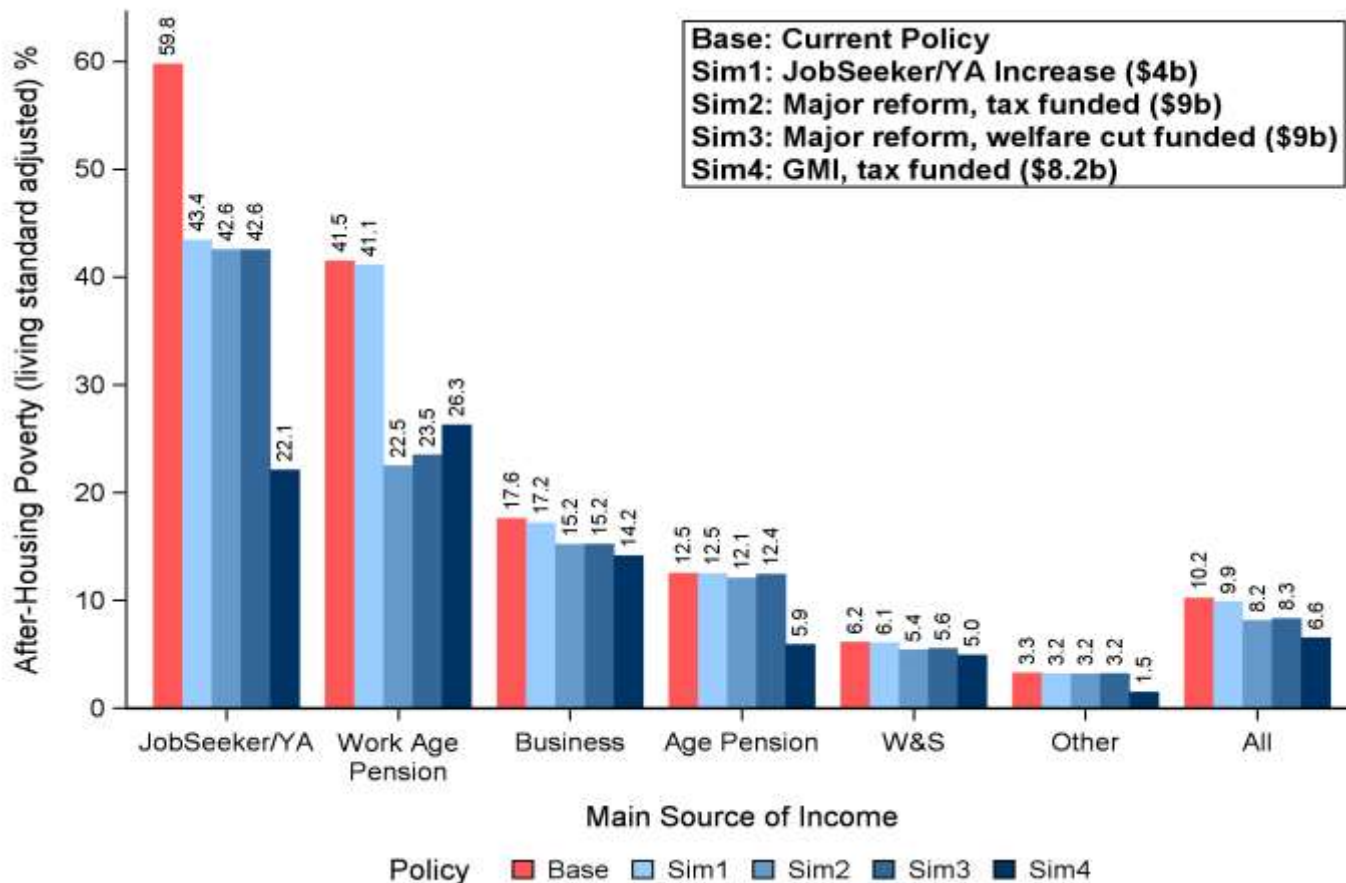
- Expenditure Cuts

- full rate pension threshold for a couple homeowner would be lowered from \$470,000 to \$200,000
- Tighten means testing for childcare from a linear scale between \$80K and \$530K to \$65K and \$300K.

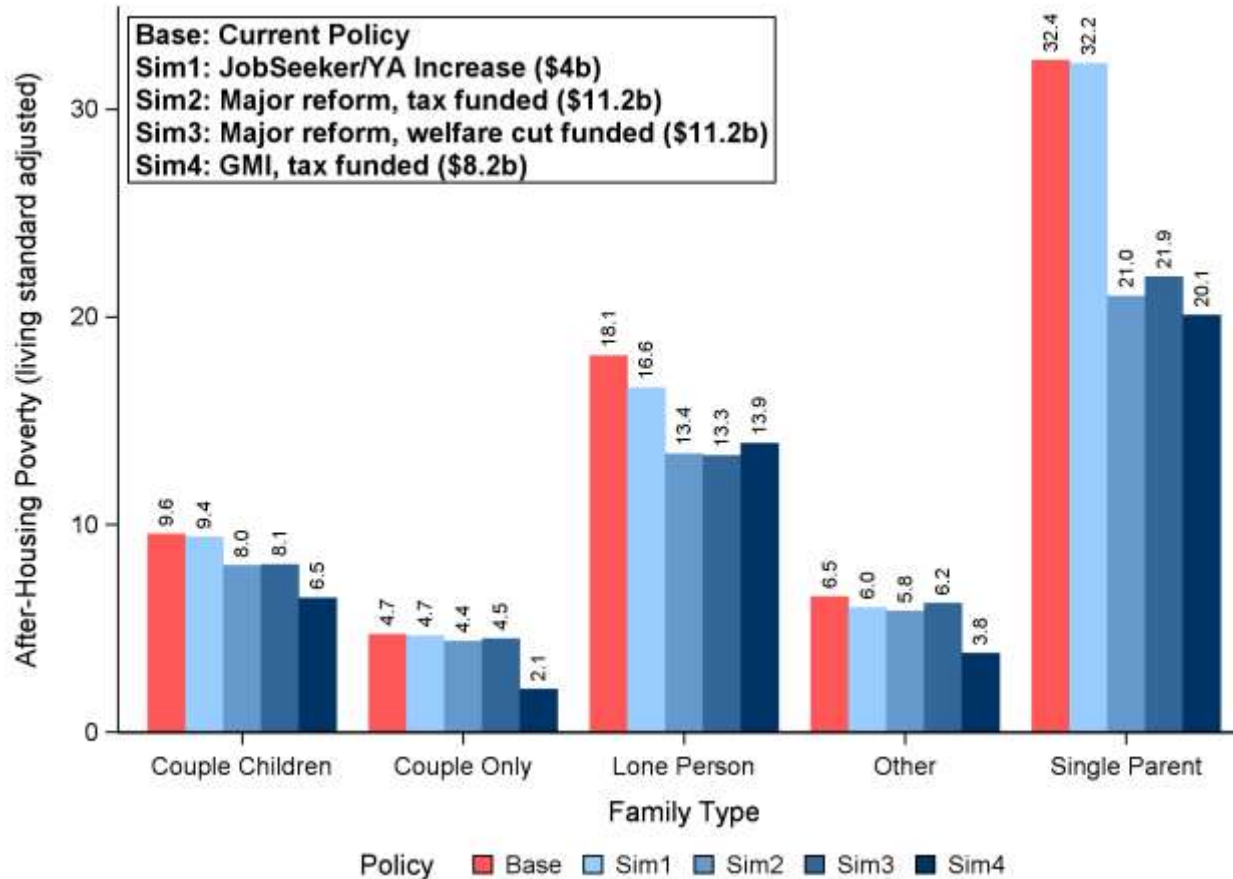
Guaranteed minimum income approach to welfare \$8.2B pa

- Expenditure
 - Any household in poverty receives a welfare payment = the poverty gap to remove poverty. Only households in 'genuine poverty' included.
 - An alternative could be operationalize this would be to include a deemed income from non-owner occupier assets.
- Tax
 - Superannuation tax on income and contributions shifted to a progressive basis (marginal tax – 20.9 percentage points)

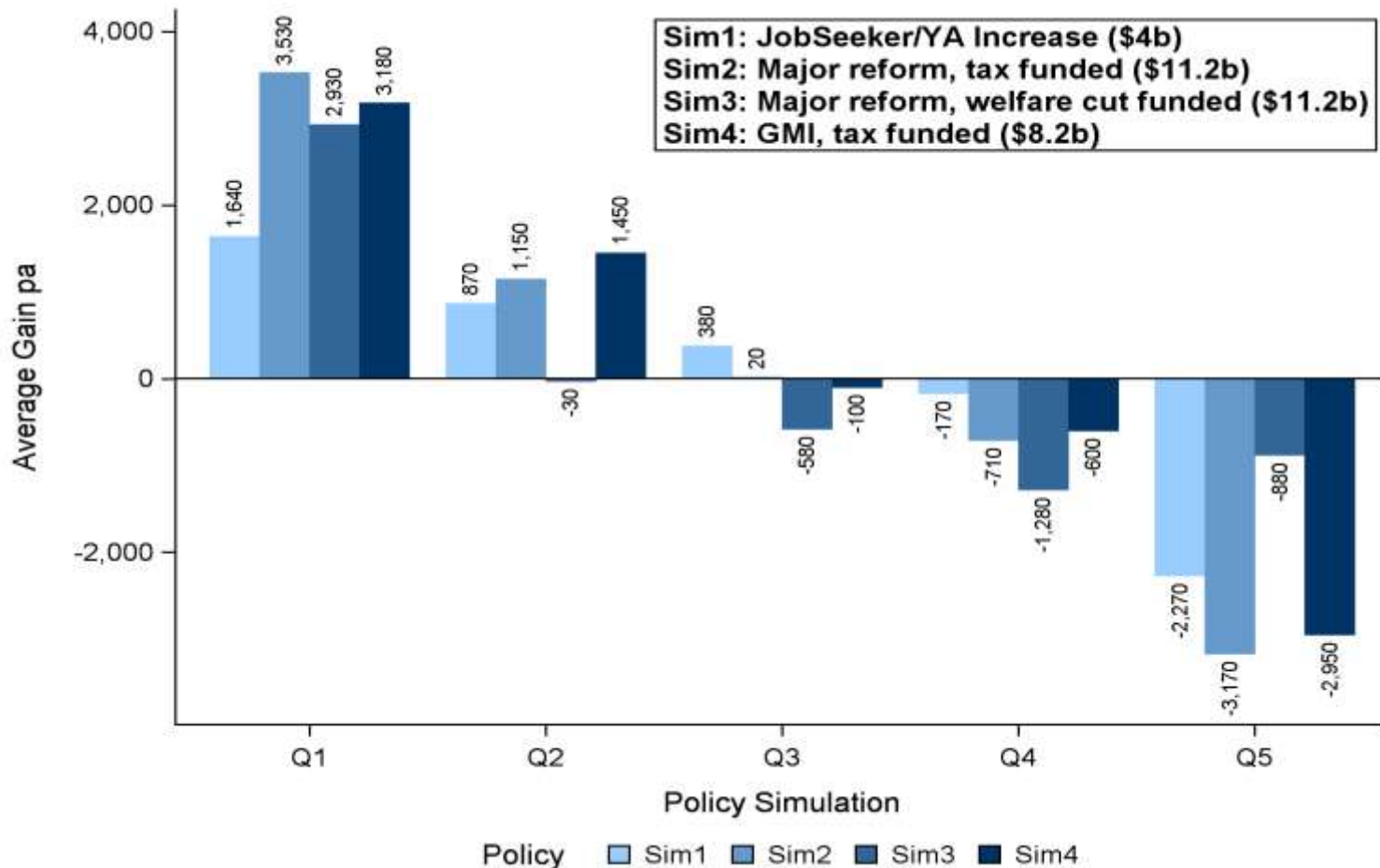
Household After-Housing Poverty (living standard adjusted) by main source of income, Dec 2025, ANU PolicyMod



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



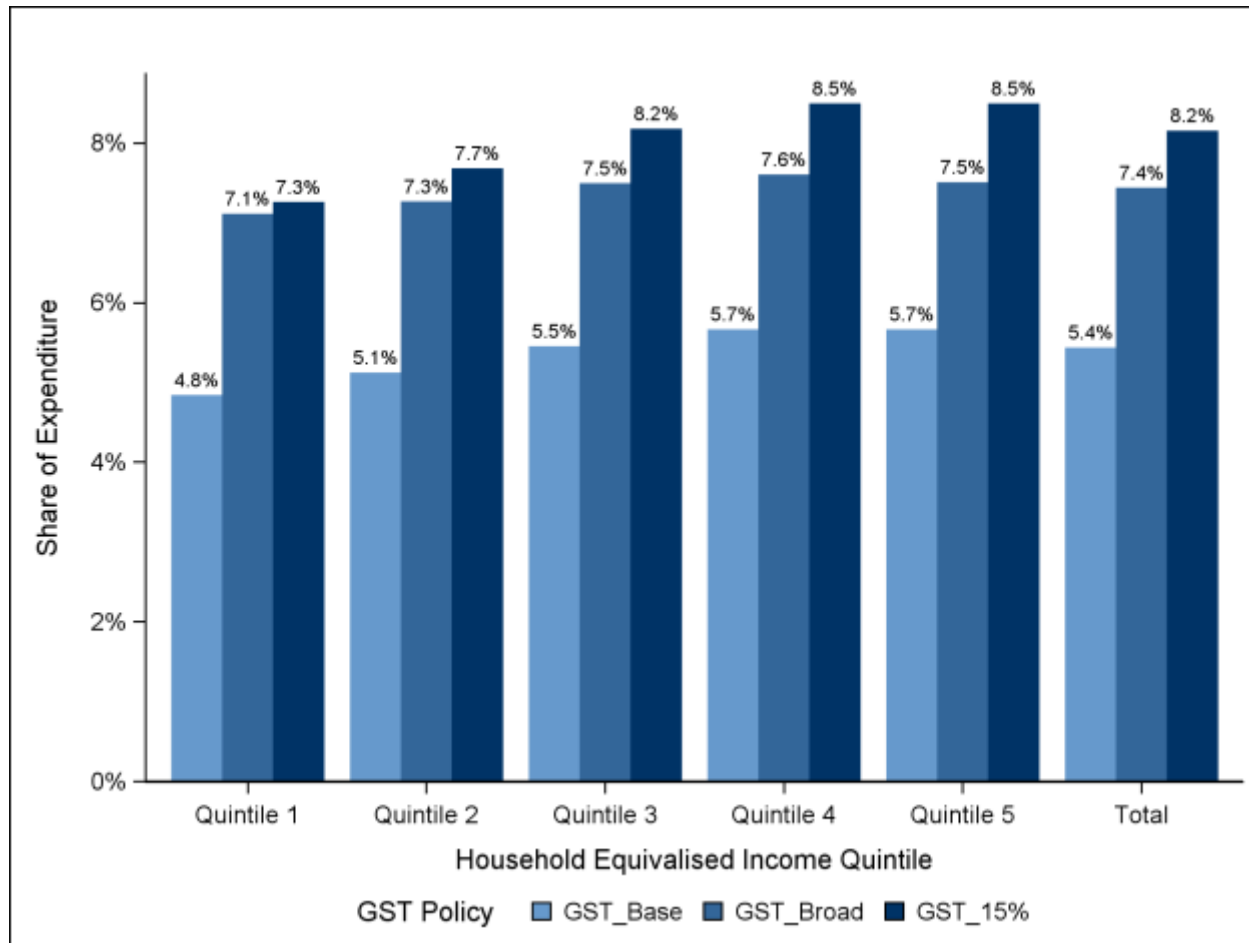
Financial Impact by household living standard quintile, Dec 2025, ANU PolicyMod



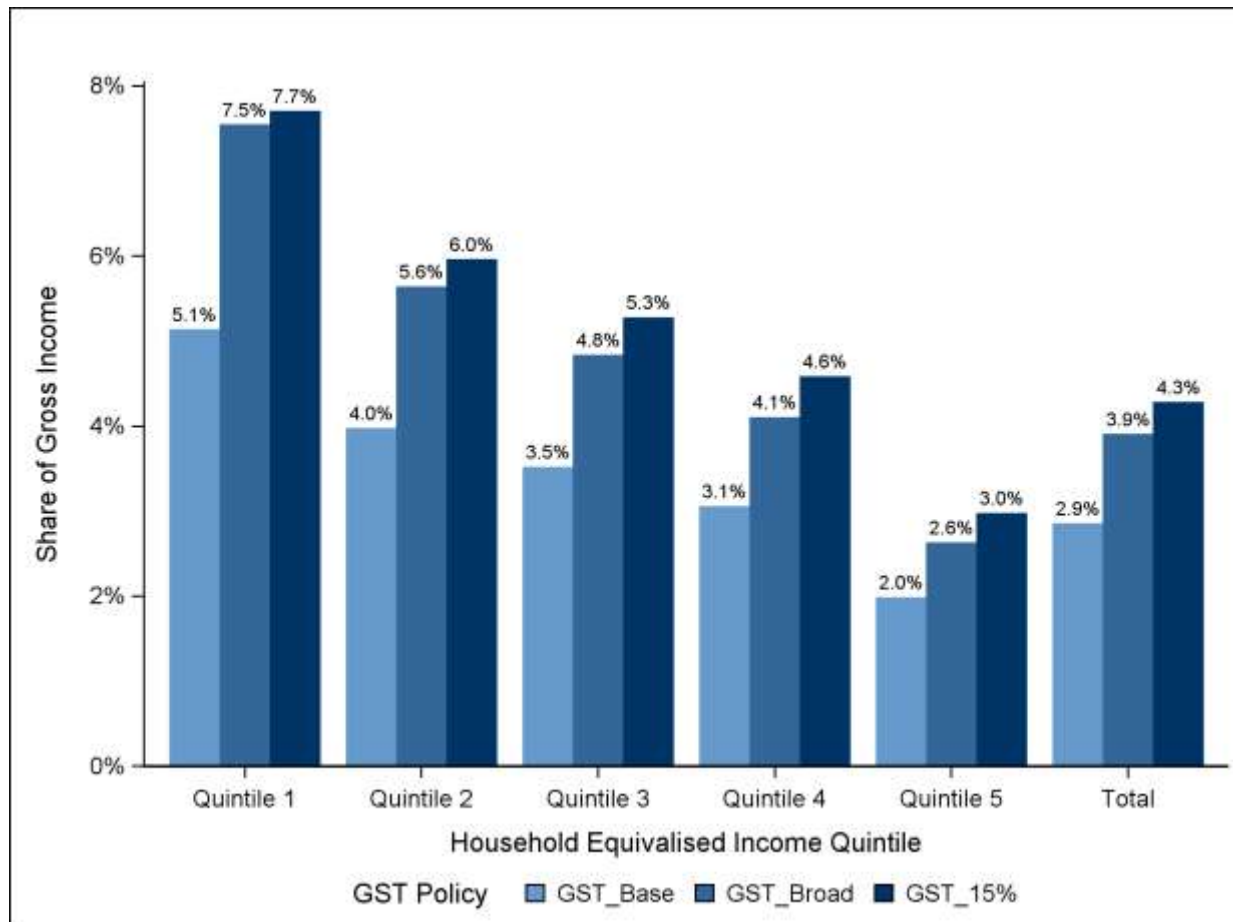


Superannuation Tax or GST – Distributional Impacts

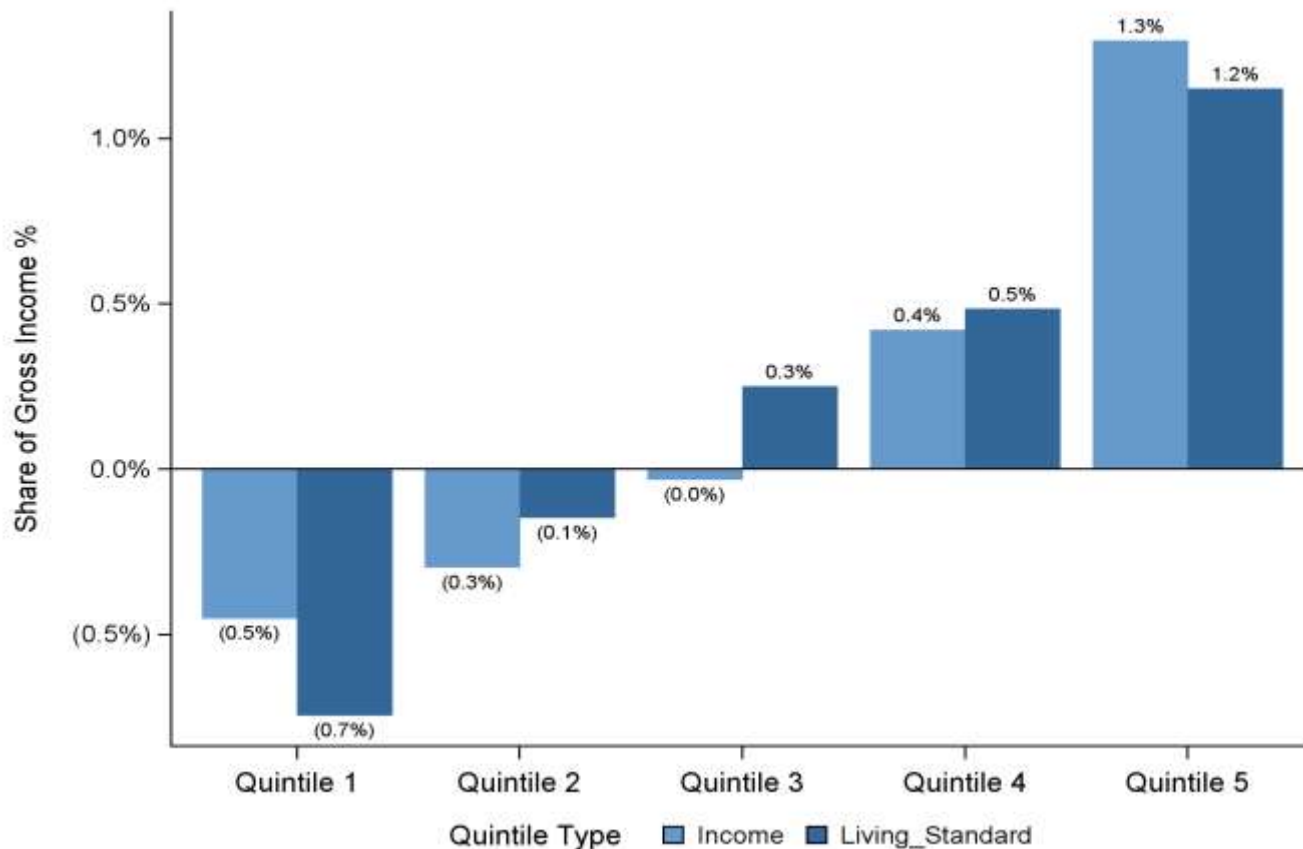
GST as a share of expenditure, Household Income Quintile



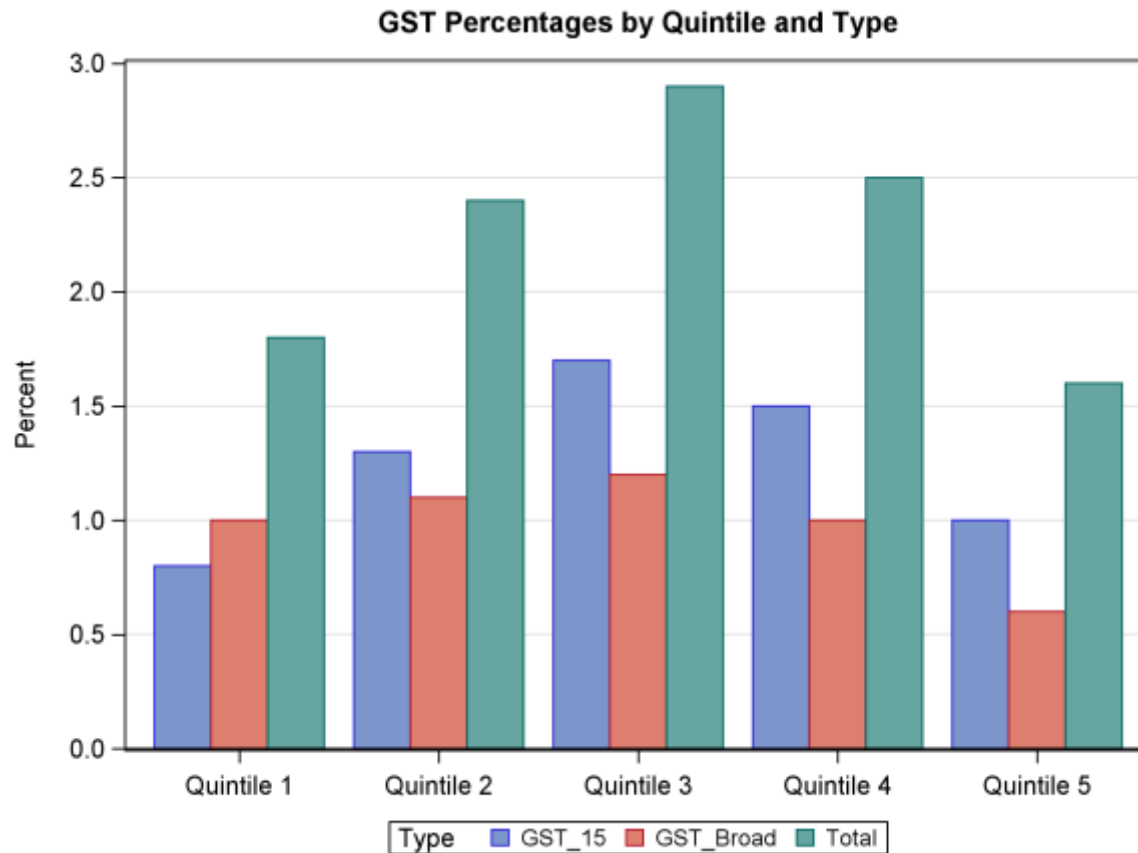
GST as a share of gross income, Household Income Quintile



Proposed superannuation tax as a share of gross income, Household Income Quintile



GST % impacts (disposable income) after welfare indexation compensation.



Conclusions

- The greatest rates of poverty are found amongst working age welfare recipients (JobSeeker, DSP, Parenting Payment, Carer), Single parents, low-income renters, younger persons.
- SVDP propose three simple policy options (GMI more complex) that raise some or all working age payments, rent assistance, FTB
- Genuine poverty can be reduced by up to 600,000 persons from such increases in payments. (GMI 1m persons)
- Superannuation tax proposal increases progressivity and potentially increases most people's super balance at retirement
- GST a flat tax against expenditure, regressive against income but including CPI compensation more like a flat tax against income
- Unlike superannuation taxation a GST expansion would likely require further compensation beyond CPI for welfare recipients.
- Broadening possibly less regressive than current GST. (not much tho)