

# The impact on households of tax cuts and lifting Newstart Allowance



April 2019

## About ACOSS

The [Australian Council of Social Service \(ACOSS\)](https://www.acoss.org.au) is a national advocate for action to reduce poverty and inequality and the peak body for the community services sector in Australia. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

## Summary

The government has foreshadowed income tax cuts in its 2019-20 Budget. These would either bring forward, or add to, the \$140 billion in tax cuts already legislated last year, which attracted widespread criticism for skewing income gains to high income-earners.<sup>1</sup>

For this reason, it seems unlikely the government would bring those tax cuts forward without offering more tax cuts for taxpayers on lower incomes and/or increasing social security payments. The Howard government often supplemented its tax cuts with one-off 'bonus' payments for social security recipients and older people too wealthy to receive a pension. An obvious criticism of that approach is that gains for people receiving social security were token and temporary whereas the eight successive tax cuts had a lasting impact on household incomes and the government budget, resulting in budget deficits and spending cuts.<sup>2</sup>

To ease poverty among those on the lowest incomes, ACOSS advocates a \$75pw increase in the \$283pw Newstart Allowance for single people, which has not increased in real terms for 25 years.

To inform debate over measures that may be announced in the Budget, we have modelled the impact of five policy options on the distribution of income among Australian households:<sup>3</sup>

- (1) Bringing forward 'Stage 2' of the already legislated tax cuts (due to commence in 2022) to 2019-20;
- (2) Bringing forward both 'Stage 2' and 'Stage 3' (due to commence in 2024) of those tax cuts;
- (3) Reducing the 19% marginal tax rate to 17.5%;
- (4) Reducing the 32.5% marginal tax rate to 31.5%;
- (5) Increasing Newstart and related allowance payments for single people by \$75pw.

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<sup>1</sup> Once the tax cuts are fully implemented in 2024, a taxpayer on \$200,000 a year gains \$227 per week.

<sup>2</sup> <https://www.acoss.org.au/wp-content/uploads/2018/05/ACOSS-submission-to-Personal-Income-Tax-Plan-Bill-2018.pdf>

<sup>3</sup> The modelling in this analysis was conducted using the STINMOD+ Online model provided by NATSEM at the University of Canberra. All views and opinions are those of the authors, not of NATSEM or the University of Canberra. <https://stinmod.canberra.edu.au/>



## Key findings

- *Bringing forward the Stage 2 tax cuts* has very little benefit for the lowest 40% of households while the largest gains (a 0.8% to 0.9% average increase in disposable income) go to the top 20%. This policy increases overall income inequality (increasing the gini coefficient from 0.353 to 0.354). Average gains in disposable income for households with less than \$2,000pw are less than \$5pw, compared with \$42pw for households with more than \$4,000pw.
- *Bringing forward both Stage 2 and 3 tax cuts* has very little benefit for the lowest 40% of households while the gains for the top 20% are substantial (a 1.2% to 1.9% average increase in disposable income). This further increases income inequality (raising the gini coefficient from 0.353 to 0.356). Average gains for households with more than \$4,000pw to \$104pw, reflecting the increase in the top tax threshold to \$200,000 per annum.<sup>4</sup>
- If the government decides to cut the 19% tax rate to 17.5% to provide more support for people on lower incomes, this would still offer little benefit to the lowest 30% of households since *around one in three households have incomes too low to pay income tax* (they include, for example, pensioners, unemployed people and very low-paid workers). Households on less than \$1,000pw would gain an average of less than \$5pw, compared with \$7pw for a household on \$2,000pw and \$9pw for one on \$4,000pw. The largest gains (0.5% of disposable income) go to households in the middle 20%. Those in the top half of the income scale would receive a similar average increase in disposable income to those in the lower half. This seemingly 'progressive' tax policy would neither increase nor reduce overall income inequality (leaving the gini coefficient at 0.353).
- If the government decides instead to cut rates a little higher up the scale, *reducing the 32.5% tax rate to 31.5%*, this would offer little benefit to the lowest 40% of households. Households on less than \$1,500pw would gain an average of less than \$5pw, compared with \$12pw for a household on \$3,000pw and \$15pw for one on \$4,000pw. The largest gains (0.5% of disposable income) would go – not to those in the middle – but to households in the top 20% (an average increase of 0.4% to 0.5% in disposable income). In contrast, the middle 20% would gain an average of just 0.1% to 0.2%. This policy would increase income inequality (raising the gini coefficient from 0.353 to 0.354).
- This demonstrates that tax policies intended to 'target' low and middle-income households often benefit people higher up the income scale. Many people over-estimate median or 'middle' incomes because they forget that people who rely mainly on social security or a part-time wage (rather than full time wages) have much lower incomes.
- If the government remembers that people on the lowest payments – *allowance payments such as Newstart and Youth Allowance* – are struggling financially and lifts those payments for single people and sole parents by \$75pw, then almost all of the gains would flow to the lowest 10% of households by income, whose disposable incomes would rise by an average of 6.1%.

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<sup>4</sup> This is less than the \$227 a week gain for an *individual* taxpayer on \$200,000 noted above, as their household income is often split between partners and adult children, diluting the benefit of high-end tax cuts.



- This is the single most effective policy to immediately reduce poverty and inequality in Australia today. It is the only one of the five options modelled here to *reduce* household income inequality (lowering the gini coefficient from 0.353 to 0.351).

## ACOSS' position on tax cuts and the 2019 budget

ACOSS believes it is the wrong time for more tax cuts on top of the \$144 billion already legislated. We oppose further tax cuts at this time.

As this ACOSS analysis shows, most households in the lowest 40% by income - which includes many pensioners, people locked out of paid work, and low paid workers – get **no benefit from tax cuts**.

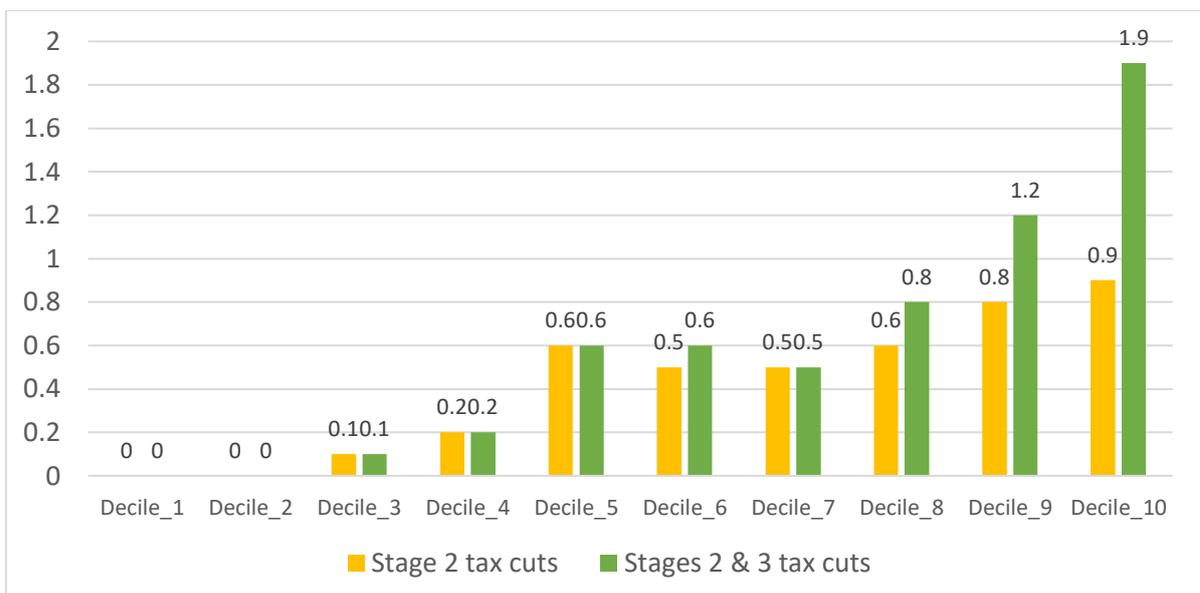
Instead, we call on the government, and all parties, to increase Newstart and related allowance payments and invest in essential services.

We also advocate removal of Stage 2 and 3 of the legislated tax cuts (due to commence in 2022 and 2024), which the budget can't afford and mainly benefit high income earners. Stage 2 and 3 mainly benefit the top 20% of individual taxpayers, delivering to them \$11 billion per annum in tax cuts of up to \$227 per week (for those on \$200,000 and above). This is three times cost of increasing Newstart.

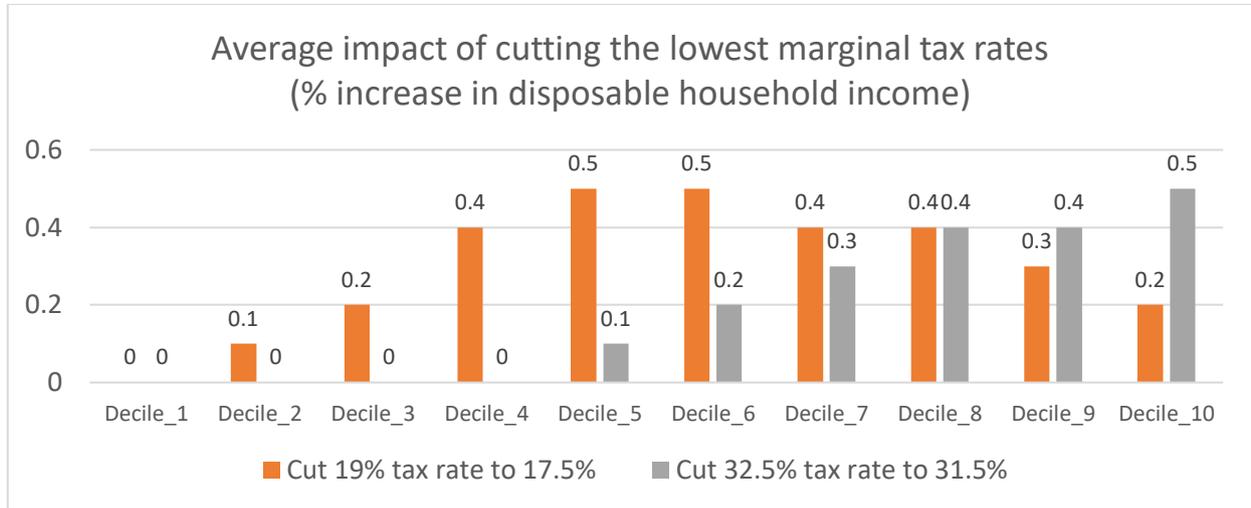
More tax cuts now mean funding cuts to essential services such as health, education and disability services that are vital to low-income households.

We urge the Parliament to block any attempt to rush through more tax cuts in the final days before an election is called, and provide permanent increases to social security payments to those who need them, not one-off token 'bonuses'.

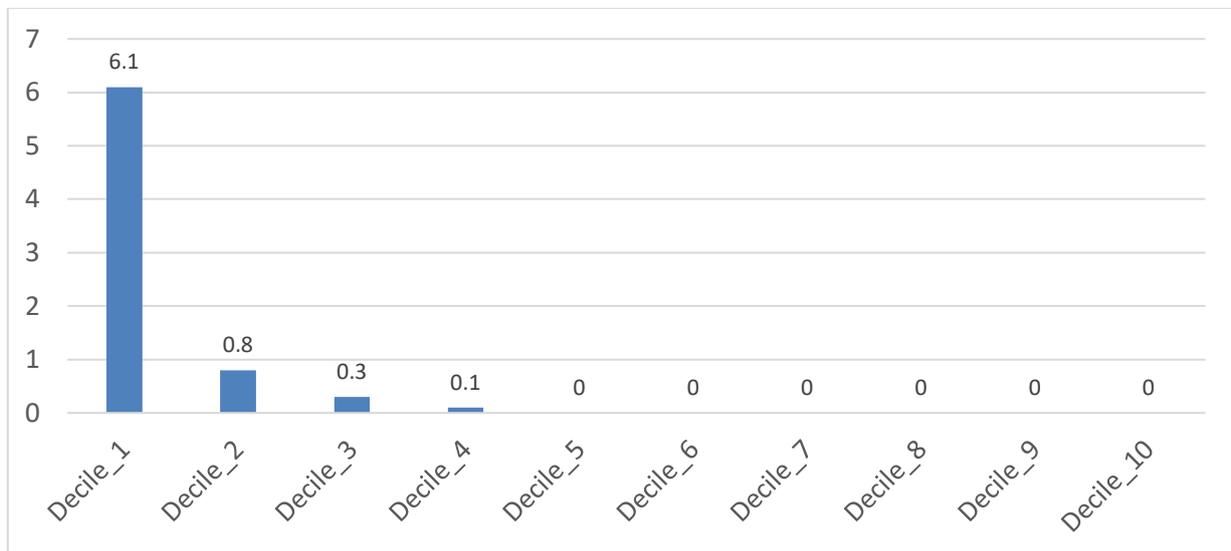
**Figure 1: Average impact of Govt's Stage 2 and 3 tax cuts  
(% increase in disposable household income)**



**Figure 2: Average impact of cutting the lowest marginal tax rates  
(% increase in disposable household income)**



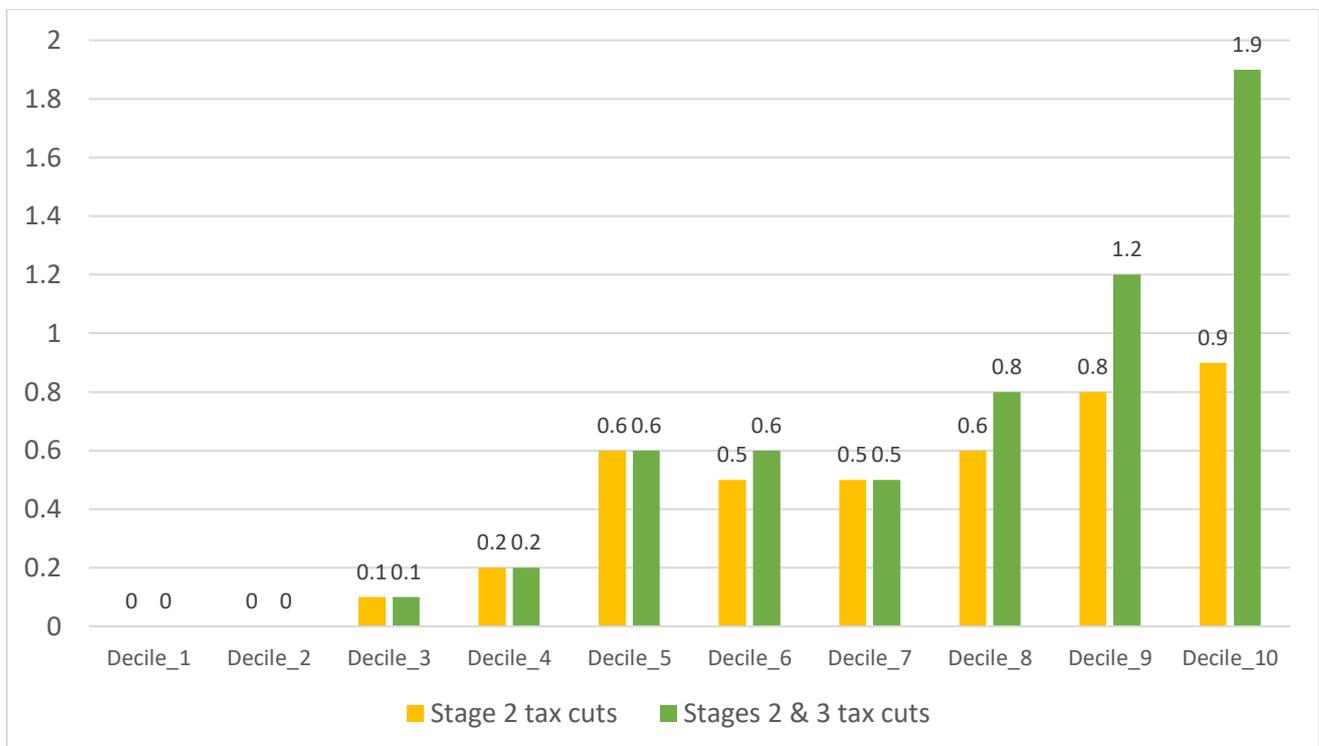
**Figure 3: Average impact of a \$75pw increase in Newstart Allowance  
(% increase in disposable household income)**



## 1. Impact of bringing forward the government's 'Stage 2 and 3' tax cuts to 2019-20

- Bringing forward the government's **Stage 2** tax cuts (detailed below) would benefit 55% of all households while 45% would not be affected. It would *slightly increase income inequality*, increasing the gini coefficient from 0.353 to 0.354.
- This would mainly benefit the top 50% of households grouped by disposable income, and especially the top 20%. The top decile would gain an average of 0.9% of disposable income, while the ninth decile would gain an average of 0.8%. (Figure 1)
- There would be little or no benefit for the lowest 40%, most of whom (including pensioners, Newstart Allowance recipients, and low-paid workers) do not pay income tax.<sup>5</sup>
- Bringing forward **both the Stage 2 and Stage 3** tax cuts (also detailed below) would benefit 55% of all households and 45% would not be affected. It would lead to a *significant increase income inequality*, raising the gini coefficient from 0.353 to 0.356.
- This would also mainly benefit the top 50% of households grouped by disposable income, and would be even more beneficial for the top 20%. The top decile would gain an average of 1.9% of disposable income, while the ninth decile would gain an average of 1.2% (Figure 4).
- Once again, there would be little or no benefit for the lowest 40% of households.

**Figure 4: Average impact of Govt's Stage 2 and 3 tax cuts  
(% increase in disposable household income)**



<sup>5</sup> Around one third of households do not pay income tax, so do not benefit from tax cuts, however they are 'targeted'.



## The Stage 2 tax cuts:

Top threshold of the 32.5% tax bracket increases from \$90,000 to \$120,000

Top threshold of the 19% tax bracket increases from \$37,000 to \$41,000

Low and middle-income tax offset ends, and Low Income Tax Offset increases from \$445 to \$645

## The Stage 3 tax cuts:

Top threshold for 32.5% tax bracket increases to \$200,000, removing the 37% tax bracket altogether.

## Dollar gains for households from bringing forward Stage 2 tax cuts to 2019-206

- There is little or no benefit in this policy for most households with incomes below \$2,000 per week (\$100,000 per year), since the main changes are to tax thresholds above \$90,000 (Table 1).
- Average gains in disposable income for households with less than \$2,000 a week are less than \$5 per week
- Average gains in disposable income for households with \$2,000 to \$4,000 a week range from \$14 to \$26 per week
- Average gains in disposable income for households with more than \$4,000 a week are \$42 per week

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<sup>6</sup> Note that, as in Figure 1, these are average gains for all households in each income group, including those who don't benefit from the changes. Those who do benefit would typically receive more. Note also, that (unlike Figure 1), households are grouped here according to *private* household income rather than *disposable* household income. Thus, for example, most recipients of maximum-rate social security payments would fall within the <\$250pw band since their social security payments are not included.



**Table 1: Bring forward Stage 2 tax cuts to 2019-20  
Average change in weekly household income**

<i>Weekly private income</i>	<i>Single</i>	<i>Single parent</i>	<i>Couple only</i>	<i>Couple with children</i>	<i>Total</i>
< \$250	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00
\$250-\$499	\$ 0.07	\$ 0.00	\$ 0.29	\$ 0.00	\$ 0.11
\$500-\$749	\$ 0.41	\$ 1.55	\$ 0.81	\$ 0.20	\$ 0.53
\$750-999	\$ 4.94	\$ 5.00	\$ 2.34	\$ 4.24	\$ 4.60
\$1,000-\$1,499	\$ 3.71	\$ 3.50	\$ 2.62	\$ 3.45	\$ 3.53
\$1,500-\$1,999	\$ 2.04	\$ 2.42	\$ 3.95	\$ 4.50	\$ 2.90
\$2,000-\$2,499	\$ 20.66	\$ 11.96	\$ 8.73	\$ 10.82	\$ 14.26
\$2,500-\$2,999	\$ 33.25	\$ 30.20	\$ 11.93	\$ 17.10	\$ 19.87
\$3,000-\$3,999	\$ 35.65	\$ 33.99	\$ 20.85	\$ 24.87	\$ 25.65
\$4,000+	\$ 35.51	\$ 37.43	\$ 42.95	\$ 43.02	\$ 41.85
<i>Total</i>	\$ 4.43	\$ 2.64	\$ 9.42	\$ 18.13	\$ 7.42

**Dollar gains for households from bringing forward Stage 2 and 3 tax cuts to 2019-20<sup>7</sup>**

<sup>7</sup> Note that, as in Figure 1, these are average gains for all households in each income group, including those who don't benefit from the changes. Those who do benefit would typically receive more. Note also, that (unlike Figure 1), households are grouped here according to *private* household income rather than *disposable* household income. Thus, for example, most recipients of maximum-rate social security payments would fall within the <\$250pw band since their social security payments are not included.



- As with the bring-forward of the Stage 2 tax cuts, gains in disposable income for households with less than \$2,000 a week are very limited, averaging less than \$5 per week (Table 2).
- The biggest winners are those with more than \$4,000 a week (\$200,000 per year), whose incomes rise by an average of \$104 per week, reflecting the increase in the top tax threshold to \$200,000.<sup>8</sup>
- Average gains in disposable income for households with \$2,000 to \$3,000 a week range from \$14 to \$25 per week.
- Average gains in disposable income for households with \$3000 to \$4,000 a week rise to \$41 per week.

**Table 2: Bring forward Stage 2 and 3 tax cuts to 2019-20**  
**Average change in weekly household income**

<i>Weekly private income</i>	<i>Single</i>	<i>Single parent</i>	<i>Couple only</i>	<i>Couple with children</i>	<i>Total</i>
< \$250	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00
\$250-\$499	\$ 0.07	\$ 0.00	\$ 0.29	\$ 0.00	\$ 0.11
\$500-\$749	\$ 0.41	\$ 1.55	\$ 0.81	\$ 0.20	\$ 0.53
\$750-999	\$ 4.94	\$ 5.00	\$ 2.37	\$ 4.24	\$ 4.60
\$1,000-\$1,499	\$ 3.71	\$ 3.50	\$ 2.62	\$ 3.45	\$ 3.53
\$1,500-\$1,999	\$ 2.04	\$ 2.42	\$ 3.95	\$ 4.50	\$ 2.90
\$2,000-\$2,499	\$ 20.80	\$ 12.07	\$ 8.78	\$ 10.86	\$ 14.34
\$2,500-\$2,999	\$ 43.89	\$ 36.40	\$ 13.29	\$ 20.10	\$ 24.40
\$3,000-\$,3999	\$ 76.42	\$ 62.30	\$ 29.01	\$ 34.65	\$ 41.13
\$4,000+	\$125.81	\$129.33	\$101.04	\$ 98.59	\$103.61
<i>Total</i>	\$ 6.78	\$ 3.70	\$ 16.48	\$ 31.83	\$ 12.35

<sup>8</sup> The gains for those high-income households that benefit the most (those whose incomes are not evenly split between partners and are not using tax shelters) are more substantial – up to \$227 a week for individual taxpayers on \$200,000 and above.

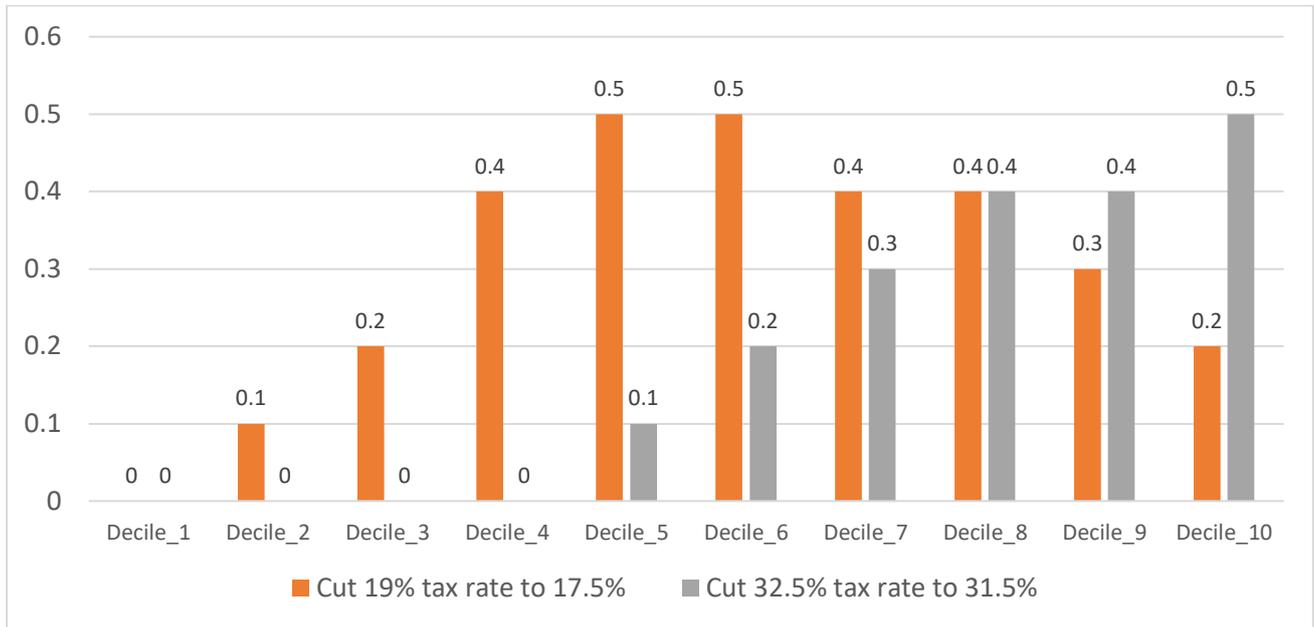


## 2. Impact of cutting the lowest tax rate from 19% to 17.5%, and the second tax rate from 32.5% to 31.5%

- In contrast to the ‘high-end’ tax cuts modelled above, two hypothetical tax cuts are modelled below: modest cuts to the two lowest marginal tax rates (the 19% and 32.5% tax rates). These would generally be regarded as ‘progressive’ tax cuts since they ‘target’ the lowest tax rates. However, their impact on *the distribution on household income* is not what would be expected of a progressive policy change.
- We then compare the impact of these two tax cuts with an increase in Newstart and related allowance payments, which has a similar budgetary cost.
- Reducing the **lowest tax rate from 19% to 17.5%** would benefit 65% of households and 35% would not be affected. It would have *no significant impact on income inequality*, leaving the gini coefficient at 0.353.
- The greatest benefit (an average increase of 0.5% in household disposable income) would go to the middle 20% of households grouped by disposable income. (Figure 2)
- The fourth (second from top) 20% would gain an average of 0.4% of disposable income, while the top 20% gains an average of 0.25%.
- There is little or no benefit for the lowest 30% of households, as the vast majority (including pensioners, Newstart Allowance recipients, and low-paid working households) do not pay income tax.
- Reducing the **second tax rate from 32.5% to 31.5%** would benefit 56% of households, and 44% would not be affected. It would *slightly increase income inequality*, raising the gini coefficient from 0.353 to 0.354.
- The greatest benefit (an average increase of 0.45% in household disposable income) would go to the top 20% of households grouped by disposable income, while the fourth (second from top) 20% would gain an average of 0.35% of disposable income (Figure 2).
- There is little or no benefit for the lowest 40% of households, as the vast majority (including pensioners, Newstart Allowance recipients, and low-paid working households) have incomes below the tax threshold (\$37,000) above which the 32.5% rate applies.
- Gains for the middle 20% are very modest, averaging 0.15% of income.



**Figure 5: Average impact of cutting the lowest marginal tax rates  
(% increase in disposable household income)**



**Table 3: Hypothetical income tax cuts**

<i>Current thresholds</i>	<i>Current rates</i>	<i>Hypothetical rates (1)</i>	<i>Hypothetical rates (2)</i>
\$0 - \$18,200	0%	0%	0%
\$18,201 - 37,000	19%	17.5%	19%
\$37,001 - 90,000	32.5%	32.5%	31.5%
\$90,001 - \$180,000	37%	37%	37%
\$90,001 - \$180,000	45%	45%	45%



## Dollar gains for households from reducing the 19% tax rate to 17.5%<sup>9</sup>

- The average gains in disposable income for households with less than \$1,000 a week are very modest, at less than \$5 per week. This reflects the modest level of tax currently paid by most of these households (Table 4).
- The value of these tax cuts increases as household incomes rise above \$1,000 a week, but not by much. The tax cuts range from \$5 per week for those on \$1,000 to \$1,500 a week to \$10 for those with more than \$4,000 a week.

**Table 4: Reduce 19% tax rate to 17.5%**  
**Average change in weekly household income**

<i>Weekly private income</i>	<i>Single</i>	<i>Single parent</i>	<i>Couple only</i>	<i>Couple with children</i>	<i>Total</i>
< \$250	\$ 0.00	\$ 0.28	\$ 0.01	\$ 0.04	\$ 0.03
\$250-\$499	\$ 0.72	\$ 1.89	\$ 0.89	\$ 0.27	\$ 0.77
\$500-\$749	\$ 3.41	\$ 4.02	\$ 1.64	\$ 3.17	\$ 3.15
\$750-999	\$ 5.06	\$ 5.45	\$ 2.73	\$ 4.85	\$ 4.79
\$1,000-\$1,499	\$ 5.20	\$ 5.19	\$ 4.31	\$ 5.68	\$ 5.12
\$1,500-\$1,999	\$ 5.33	\$ 5.55	\$ 6.69	\$ 7.44	\$ 6.01
\$2,000-\$2,499	\$ 5.33	\$ 6.20	\$ 8.26	\$ 8.31	\$ 7.07
\$2,500-\$2,999	\$ 5.39	\$ 5.87	\$ 9.08	\$ 8.91	\$ 8.02
\$3,000-\$3,999	\$ 5.39	\$ 6.90	\$ 9.10	\$ 9.77	\$ 8.65
\$4,000+	\$ 5.44	\$ 6.10	\$ 9.85	\$ 10.53	\$ 9.53
<i>Total</i>	\$ 3.01	\$ 2.81	\$ 5.02	\$ 7.98	\$ 4.15

<sup>9</sup> Note that, as in Figure 1, these are average gains for all households in each income group, including those who don't benefit from the changes. Those who do benefit would typically receive more. Note also, that (unlike Figure 1), households are grouped here according to *private* household income rather than *disposable* household income. Thus, for example, most recipients of maximum-rate social security payments would fall within the <\$250pw band since their social security payments are not included.



## Dollar gains for households from reducing the 32.5% tax rate to 31.5%<sup>10</sup>

- The average gains in disposable income for households with less than \$1,500 a week are very modest, at less than \$5 per week (Table 5). This reflects the fact that taxpayers in these households generally earn less than \$37,000 a year so are not currently paying tax at the 32.5% marginal rate.
- The average value of these tax cuts increases more sharply as income rise, ranging from \$7 per week for those on \$1,500 to \$2,000 a week to \$15 for those with more than \$4,000 a week.

**Table 5: Reduce 32.5% tax rate to 31.5%**  
**Average change in weekly household income**

<i>Weekly private income</i>	<i>Single</i>	<i>Single parent</i>	<i>Couple only</i>	<i>Couple with children</i>	<i>Total</i>
< \$250	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00
\$250-\$499	\$ 0.00	\$ 0.00	\$ 0.04	\$ 0.00	\$ 0.01
\$500-\$749	\$ 0.04	\$ 0.19	\$ 0.10	\$ 0.02	\$ 0.06
\$750-999	\$ 1.17	\$ 1.54	\$ 0.62	\$ 1.03	\$ 1.11
\$1,000-\$1,499	\$ 4.20	\$ 4.44	\$ 2.12	\$ 3.17	\$ 3.85
\$1,500-\$1,999	\$ 8.51	\$ 8.47	\$ 4.72	\$ 5.42	\$ 7.19
\$2,000-\$2,499	\$ 9.89	\$ 9.85	\$ 7.27	\$ 8.33	\$ 8.73
\$2,500-\$2,999	\$ 9.89	\$ 10.03	\$ 10.30	\$ 10.52	\$ 10.29
\$3,000-\$3,999	\$ 10.04	\$ 10.63	\$ 12.93	\$ 13.21	\$ 12.47
\$4,000+	\$ 10.12	\$ 10.91	\$ 16.43	\$ 16.30	\$ 15.39
<i>Total</i>	\$ 2.78	\$ 2.30	\$ 5.38	\$ 9.35	\$ 4.27

<sup>10</sup> Note that, as in Figure 1, these are average gains for all households in each income group, including those who don't benefit from the changes. Those who do benefit would typically receive more. Note also, that (unlike Figure 1), households are grouped here according to *private* household income rather than *disposable* household income. Thus, for example, most recipients of maximum-rate social security payments would fall within the <\$250pw band since their social security payments are not included.



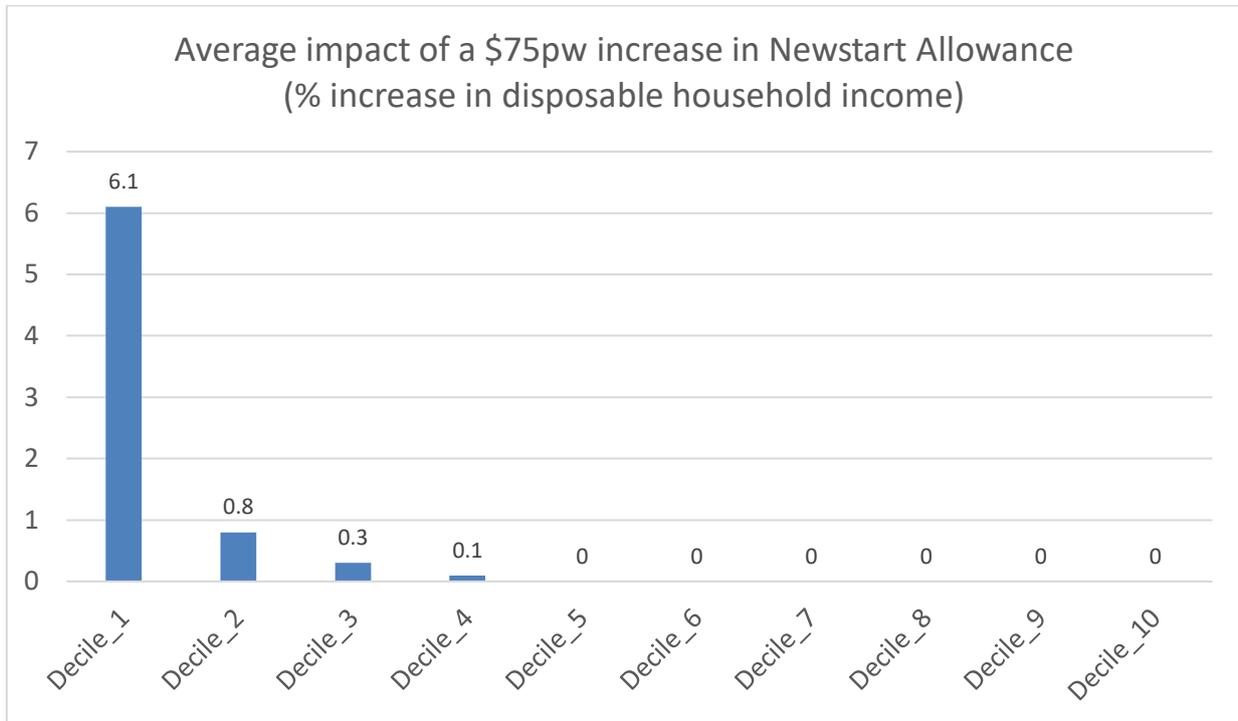
### 3. Impact of increasing Newstart and related allowance payments for single people by \$75 per week in 2019-20

- Increasing the *maximum single rate of Newstart Allowance*, Youth Allowance (for young people living away from the family home) and related allowance payments by \$75 a week is a more tightly targeted than the tax cuts discussed above, benefiting 6% of households, while 92% would not be affected.
- It would *significantly reduce income inequality*, lowering the gini coefficient from 0.353 to 0.351.
- The benefits of this policy (an average increase of 6.1% in household disposable income) would be heavily concentrated on the poorest households in the lowest 10% by income (Figure 6).<sup>11</sup>
- The average gain in household disposable income for the second decile is 0.8% and for the third decile it is 0.3%.
- Above the lowest 40%, the income gains are not significant, reflecting the tight targeting of these payments to people at risk of poverty.

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<sup>11</sup> This is the average gain for all households in the lowest 10%, not all of whom receive Newstart Allowance. Clearly, the average gains for those households that include single people receiving those payments would be much greater (close to \$75 a week, depending on family income).

**Figure 6: Average impact of a \$75pw increase in Newstart Allowance  
(% increase in disposable household income)**



### **Dollar gains for households from increasing Newstart and related allowances for single people by \$75 a week<sup>12</sup>**

- The average gains in disposable income are concentrated in households with incomes below \$750 per week
- Those whose income is below \$250 a week (who are likely to be mostly single person households) gain an average of \$10 a week (Table 6).<sup>13</sup>
- Those whose income is between \$250 and \$500 a week (including many sole parent families) gain an average of \$7 a week.
- Those whose income is between \$500 and \$750 a week (again including many sole parent families) gain an average of \$4 a week.

<sup>12</sup> Note that, as in Figure 1, these are average gains for all households in each income group, including those who don't benefit from the changes. Those who do benefit would typically receive more. Note also, that (unlike Figure 1), households are grouped here according to *private* household income rather than *disposable* household income. Thus, for example, most recipients of maximum-rate social security payments would fall within the <\$250pw band since their social security payments are not included.

<sup>13</sup> The maximum gain for those who benefit is \$75pw, but not all households in this income group receive single rates of Newstart and related allowance payments.



**Table 6: Increase Newstart and related payments for single people by \$75 a week  
Average change in household income (\$ per week)**

<i>Weekly private income</i>	<i>Single</i>	<i>Single parent</i>	<i>Couple only</i>	<i>Couple with children</i>	<i>Total</i>
< \$250	\$ 13.36	\$ 4.93	\$ -0.07	\$ -1.50	\$ 10.24
\$250-\$499	\$ 8.05	\$ 18.33	\$ 0.58	\$ -0.63	\$ 6.62
\$500-\$749	\$ 4.24	\$ 11.26	\$ -0.51	\$ -3.80	\$ 3.54
\$750-999	\$ 0.45	\$ 0.09	\$ -0.63	\$ -3.90	\$ 0.14
\$1,000-\$1,499	\$ 0.00	\$ -0.30	\$ 0.25	\$ -0.31	\$ -0.01
\$1,500-\$1,999	\$ 0.34	\$ -0.04	\$ 0.00	\$ -0.38	\$ 0.12
\$2,000-\$2,499	\$ 0.00	\$ -0.28	\$ -0.02	\$ -0.19	\$ -0.08
\$2,500-\$2,999	\$ 0.00	\$ 0.00	\$ 0.00	\$ -0.06	\$ -0.02
\$3,000-\$3,999	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
\$4,000+	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<i>Total</i>	\$ 5.42	\$ 4.01	\$ -0.02	\$ -0.36	\$ 3.44