



# LET'S BUILD A FAIRER AUSTRALIA!

## Who we are

St Vincent de Paul Society is a lay Catholic charity with over 45,000 members and volunteers and 3,000 employees operating in Australia. Our people are locals who help all people in need in their communities. We are a registered charity, regulated by the Australian Charities and Not-for-profits Commission (ACNC).

Our work is informed by the teachings of our founder, Frederic Ozanam. Our Mission and Values draw on Catholic Social Teaching principles and we follow the Society's Rule which sets our international charter.

## What we do

Through our conferences and centres located in community, emergency relief is provided to help people cover everyday basics, such as food, accommodation, utilities, clothing, transport, medical and educational costs. We also provide social support by lending an ear and connecting people with other networks and services, depending on their needs.

Our policy positions are approved by the Society's National Council. Our advocacy is informed by the experiences of those we assist and by our members, through the National Council's Social Justice Advisory Committee and the Vincentian Refugee Network.

We advocate for policies and funding that improve people's lives. We do so in a way that aligns with our charitable purpose and is politically non-partisan.

## Why it's important

Through generous donations, sales through the Society's retail shop network, and some government funding, we are able to distribute over \$50 million each year in emergency relief. Additionally, we provide short-term, emergency and longer-term community housing options, meals, clothing, and support services.

While providing material support to people, we also empower them to achieve their full potential.

Our 2022 Federal Election Statement, [A Fairer Australia](#), has been updated to cover social justice priorities related to Australia's First Nations Peoples, People Seeking Asylum, Secure Work, Combatting Homelessness and Increasing Affordable Housing and Income Support, Poverty and Debt.

This booklet summarises research commissioned on ways to improve the fairness of Australia's taxation and welfare systems.

More information is also available on our website.

Our service to others, and advocacy on their behalf, is inspired by the words of St Vincent de Paul:

*Deal with the most urgent needs... Teach reading and writing, educate with the aim of giving each the means of self-support. Intervene with authorities to reform structures... there is no charity without justice.*

*St Vincent de Paul Society National Council of Australia acknowledges the traditional custodians of country throughout Australia; recognises their continuing connection to land, waters and culture and community; and pays its respect to elders past, present and emerging.*

# LET'S BUILD A FAIRER AUSTRALIA!

## A FAIRER TAX AND WELFARE SYSTEM

SEPTEMBER 2023



### Summary

In November 2021, the St Vincent de Paul Society National Council commissioned the ANU's Centre for Social Research & Methods (CSRМ) to model reforms to the Australian tax and welfare systems. The aim was to reduce the poverty gap by increasing working age payments and Commonwealth Rent Assistance. In late 2022, CSRМ updated its modelling, incorporated the 2023 Budget announcements and analysed changes in poverty and financial stress rates by statistical area (SA3) for three options.

### Why change is needed

The Federal Budget has recorded a surplus of about \$20 billion in the 2022-23 financial year, with predicted smaller deficits and lower debt over the forward estimates. Australia has benefitted from elevated commodity prices. Unemployment is low and wage growth has started to pick up.

However, Australia is also facing a range of growing economic pressures arising from global uncertainty, persistent inflation and higher interest rates, which are slowing the economy. Global growth over 2023 and 2024 is predicted to be the weakest in over two decades, excluding the pandemic and the Global Financial Crisis. This is estimated to slow Australia's real GDP growth to 1½ per cent in 2023-24, rising to 2¼ per cent in 2024-25.<sup>1</sup>

The current cost of living and housing crises are likely to continue for some time, adversely affecting the most vulnerable in our community. And, as the proportion of working-age Australians shrinks and people live longer, leading economists are calling on the Australian Government to consider taxation reforms to fund the ballooning bill for critical services.<sup>2</sup>

At a cost to the budget of \$45 billion a year, or about 2 per cent of GDP, super tax breaks will soon exceed the cost of the Age Pension. Two-thirds of their value benefit the top 20 per cent of income earners. Retirees with large superannuation accounts pay much less tax per dollar of super earnings than younger workers do on their wages.<sup>3</sup> Modelling by the Parliamentary Budget Office indicates that

negative gearing and capital gains tax cuts are expected to cost the budget around \$20.4 billion in revenue forgone in financial year 2032-33.<sup>4</sup>

Tax systems are effective at reducing inequality. There are adverse economic and social consequences in societies where there is a widening gap between rich and poor. Social problems include poverty and instability, and countries that have less equal distribution of income have slower growth. Decreasing inequality improves wellbeing and the economic growth of a country, increasing employment and incomes.<sup>5</sup>

Countries with higher levels of taxation are correlated with higher income per capita and other improved measures of wellbeing, such as average life expectancy.<sup>6</sup> Australia is one of the highest income countries in the world but one of the lowest taxed nations in the OECD. If we want to meet community demand for high quality public services, then Government revenue needs to be expanded.

Government policies affect the accumulation of wealth and social mobility through the tax and transfer system, superannuation policies and the treatment of housing taxes and incentives, among other things.<sup>7</sup> This is why leading economists, ex-politicians, former Treasury officials and nearly half of all Australians (in October 2022) have called for a review of the taxation system, including re-examination of the stage three tax cuts. An open letter to the Prime Minister, signed by over 100 economists and tax experts, calls for Parliament to reconsider the size, shape and timing of the stage three tax cuts to align with current economic conditions. The cuts will fuel our cost-of-living crisis and inflation and are inappropriate given the growing demands on government funds. (December 2022)

It is important that the stage three tax cuts are re-examined because they make our tax system less progressive and will cost more than \$254 billion over 10 years, of which \$117.6 billion will go to those earning more than \$180,000 a year.<sup>8</sup> We should note that wealth transfers increase absolute wealth inequality and impede social mobility. Welfare payments reduce relative wealth inequality by 20 times that of wealth transfers.<sup>9</sup>

## Modelling

The CSRM's economic modelling of 'low,' 'modest' and 'high' options aims to increase fairness by reducing the poverty gap and financial stress for households. The options in *A Fairer Tax and Welfare System in Australia* are underpinned by:

- dropping the stage 3 tax cuts
- lowering the tax threshold for capital gains from 50 per cent to 37.5 per cent
- restructuring the superannuation tax system, and
- making moderate changes to personal income taxation thresholds.

Revenue to cover the 'modest' and 'high' options is raised by replacing the flat 15 per cent tax on superannuation concessional contributions and earnings with a progressive tax, based on existing tax rates and thresholds, and with a substantial discount. The tax-free status for retiree superannuation income over the age of 60 is removed.

All three options are budget neutral and fully funded over the forward estimates (2022-23 to 2025-26), ranging from \$4 billion to \$20 billion per year. They do not require a major overhaul of systems, are progressive and significantly reduce inequality by reducing household rates of poverty and financial stress.

## Findings

The model:

- increases the tax-free threshold from \$18,200 to \$24,000 for modest and high options.
- lifts between 193,000 and 834,000 people out of poverty.
- reduces the after-housing poverty gap by between 5.1 per cent and 18.6 per cent.
- reduces households in poverty from 11.7 per cent to 8.6 per cent.
- benefits people with incomes in the bottom two quintiles (40 per cent) namely low-income and low wealth households, single parents, lone persons, renters and those relying on working age welfare payments.
- increases the superannuation balances for people of lower and middle income and wealth, including those expected to be on the age pension in retirement.

- increases
  - JobSeeker by \$176 per fortnight (pf), \$249 pf or \$338 pf
  - Parenting Payment by \$167 pf, \$238 pf, or \$351 pf
  - Disability Support Pension and Carer Payments by \$69 pf or \$249 pf
  - Family Tax Benefit A by 20 per cent, and
  - Commonwealth Rent Assistance by 25 per cent (in addition to the 15 per cent increase in the 2023 Budget).
- has the greatest impact on areas with high poverty and financial stress rates, including outer Western Sydney, suburban Greater Brisbane, and regional Australia, including Daly-Tiwi-West Arnhem, Katherine, Arnhem NT and Far North Qld.
- very modestly lowers the gap of the median superannuation balance between men and women.
- affects between 4.0 per cent and up to 39 per cent of high income, high wealth households by more than \$3,000 per year.

<sup>1</sup> Budget 2023-24. 9 May 2023. *Budget Strategy and Outlook. Budget Paper No. 1*. Accessed at: [https://budget.gov.au/content/bp1/download/bp1\\_2023-24.pdf](https://budget.gov.au/content/bp1/download/bp1_2023-24.pdf), p.1.

<sup>2</sup> Duke, J, Wright, S. 13 October 2021. *A budget reckoning: How the tax system is failing Australians*. The Sydney Morning Herald.

<sup>3</sup> Coates.B., Maloney. J., April 2023. *Super savings: Practical policies for fairer superannuation and a stronger budget*. Grattan Institute. Accessed at: <https://grattan.edu.au/report/super-savings-practical-policies-for-fairer-superannuation-and-a-stronger-budget/>

<sup>4</sup> Janda. M. 3 November 2022. *Negative gearing and capital gains tax discount set to cost the budget \$20 billion a year within a decade*. Accessed at: <https://www.abc.net.au/news/2022-11-03/negative-gearing-and-capital-gains-tax-budget-cost/101612854>

<sup>5</sup> Grudnoff, M., Richardson, D. Littleton, E. October 2022. *Raising revenue in Australia. Revenue Summit 2022*. The Australia Institute. Accessed at: <https://australiainstitute.org.au/event/revenue-summit-2022/>, p.4

<sup>6</sup> *ibid.*, p.3

<sup>7</sup> Hutchens. G. 8 December 2021. *Do inheritances increase wealth inequality? The Productivity Commission says yes and no*. Accessed at: <https://www.abc.net.au/news/2021-12-08/wealth-transfers-and-wealth-inequality-productivity-commission/100679000#:~:text=The%20Productivity%20Commission%20released%20a%20report%20on%20the%20his%20contributed%20to%20an%20increase%20in%20absolute%20wealth%20inequality>

<sup>8</sup> The Australia Institute. *Scrap the Stage 3 Tax Cuts*. Accessed at: [https://nb.australiainstitute.org.au/scrap\\_stage\\_3\\_tax\\_cuts?utm\\_campaign=Scrap+Stage+3+-+Socials](https://nb.australiainstitute.org.au/scrap_stage_3_tax_cuts?utm_campaign=Scrap+Stage+3+-+Socials)

<sup>9</sup> Hutchens. G. op.cit.