



Australian
National
University



2024 COMMONWEALTH BUDGET ANALYSIS AND LIVING STANDARD TRENDS IN AUSTRALIA

BEN PHILLIPS AND MATTHEW GRAY

POLIS: The Centre for Social Policy
Research
ANU College of Arts & Social Sciences

POLIS RESEARCH REPORT
NO. 01/2024

Research Report No. 01/2024

DOI

For a complete list of POLIS publications see <https://csrcm.cass.anu.edu.au/research/publications>

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

Front cover image:
Tracey Nearmy/ANU

Suggested citation:
Phillips, M. and Gray, M. (2024), 2024-25 Commonwealth Budget Analysis and Living Standards, (XXX Paper) POLIS: The Centre for Social Policy Research, The Australian National University. <https://doi.org/>

Ben Phillips is an Associate Professor at POLIS: The Centre for Social Policy Research at the Australian National University.
Matthew Gray is Professor and Director of the Centre for Social Policy Research (POLIS) at the Australian National University.

2024 Commonwealth Budget Analysis and Living Standard Trends in Australia

Ben Phillips and Matthew Gray

Abstract

The major household financial measures in the 2024 Commonwealth Budget are modelled using the ANU PolicyMod model of the Australian tax and welfare system. Results provide average household financial impacts across different income and financial wellbeing levels. The policy settings for the latest budget are also compared with those just prior to the election of Labor in 2022 to better understand the distributional impact of the new Labor government. To better understand 'cost of living pressures' financial living standard trends are provided for 26 different household types since just prior to COVID up to December 2023 and projections provided based on budget assumptions up to December 2024. The Economic Inclusion Advisory Committee (EIAC) provided 22 recommendations to government in the lead up to the budget and the paper estimates the impact that selected measures would have on the finances of a range of households and different regions around the country.

Contents

Abstract	ii
Contents	iii
Tables	iii
Figures	iv
Introduction	1
Main budget policies modelled	1
Methodology	3
Budget 2024 Only Results	4
Combined impact of October 2022-23, 2023-24 and 2024 Budgets	6
Financial living standards	8
The Economic Inclusion Advisory Committee (EIAC) progress	14
Conclusion	19
References	21

Tables

Table 1. Income thresholds and marginal tax rates under current policy settings, Coalition Stage 3 tax cuts and 2024-25 Budget measures	2
Table 2. Top 5 SA3 EIAC recommendation financial impact on household disposable income, \$ per annum	18
Table 3. Bottom 5 SA3 EIAC recommendation financial impact	18

Figures

Figure 1. Budget 2024-25 impact on disposable household income, %	5
Figure 2. Budget 2024-25 impact on disposable income, \$million per annum	6
Figure 3. Budgets Oct 2022-23, 2023-24 and 2024-25 combined impact on disposable income, % (2024/25)	7
Figure 4. Budgets Oct 2022-23, 2023-24 and 2024-25 combined impact on disposable income, \$million per annum (2024/25)	7
Figure 5. Living Standard Index (2019=100)	8
Figure 6. Living Standard Index (2019=100), by income quintiles	9
Figure 7. Main Source of Income, Living Standards Index (2019=100)	10
Figure 8. Tenure Type, Living Standards Index (2019=100)	11
Figure 9. Age of Household Head, Living Standards Index (2019=100)	11
Figure 10. Financial Wellbeing Quintiles, Living Standards Index (2019=100)	12
Figure 11. Family Type, Living Standards Index (2019=100)	13
Figure 12. Average Rate of Personal Income Tax by Household Income Quintile (Labor Stage 3 tax cuts)	14
Figure 13. Distributional impact of EIAC recommendations, % household disposable income by income quintile	17
Figure 14. Distributional impact of EIAC recommendations, average \$ per annum impact on average household disposable income, by income quintile	17

Introduction

Despite the very low unemployment rate Australians are experiencing significant economic pressure. Relatively high inflation rates, particularly for some key household essentials, are putting pressure on household budgets. Data from the most recent ANU Poll collected in January 2024 shows that 23 per cent were finding it difficult on their current income and 11.3 per cent were finding it very difficult. The proportion finding it difficult or very difficult to manage on their current income has been increasing in recent years with a combined 'difficult' plus 'very difficult' result increasing from around 27 per cent just prior to the COVID pandemic to just over 34 per cent by January 2024.¹ This data also shows big increases in the proportion of Australian's reporting taking a range of specific financial related actions including spending less on groceries and essential items, postponing major purchases and cutting back on non-essential services.

This paper reports the results of modelling of the main measures in the 2024-25 Commonwealth Budget that directly impact on the incomes of Australian households, the reductions in personal income tax that take effect from 1 July 2024, and main budget measures that directly impact on the incomes of Australian households from previous budgets of the current Labor Government (the October 2022-23 Budget and the 2023-24 Budget). To place the modelling of the impact of the Labor Budgets on the incomes of Australian households the paper also reports trends in financial living standards since 2019 and financial wellbeing.

Main budget policies modelled

The 2024-25 Commonwealth Budget includes several measures that directly impact on the incomes of Australian households. The budget measures included in the modelling in this paper are:²

- **Energy Bill Relief Fund Extension and Expansion** – this measure extends and expands the Energy Bill Relief Fund from the 2023-24 Budget. The 2024-25 Budget measure provides a \$300 annual rebate on energy bills to all Australian households. The total cost of this measure is \$3.5 billion (\$2.6 billion in 2024-25 and \$872 million in 2025-26). The measure is only for 2024-25. The measure extends the 2023-24 Energy Relief Plan measure which provided assistance to welfare recipients and concession card holders.
- **Increase in Commonwealth Rent Assistance** – this measure increases the maximum rate of Commonwealth Rent Assistance by 10% from 20 September 2024. This is a permanent increase and is estimated to cost \$1.9 billion through the 2024-25 to 2027-28 forward estimates.

¹ Biddle, N., Gray, M. and Phillips, B. (2024). "It's the economy (and housing), stupid: Views of Australians on the economy and the housing market in January 2024." POLIS: The Centre for Social Policy Research, Australian National University, Canberra.

² The budget also expands the eligibility for the higher rate of JobSeeker Payment for single recipients with a partial capacity to work between zero and 14 hours per week. This measure has an estimated cost of \$15.5 million in 2024-25. Other measures that will impact directly on households' financial position and which are not included in the modelling are: additional funding for the community Pharmacy Agreement which will reduce the costs of medicines (\$1.4 million in 2024-25 increasing to \$104.4 million in 2025-26). There are a range of significant housing measures. These are not included in the modelling in this paper (other than the increase in the Commonwealth Rent Assistance) given the impacts of these policies will take some time to be felt and the and the impacts themselves are uncertain.

- **Freeze on deeming rates for some income support recipients** – this measure freezes social security deeming rates at their current levels until 30 June 2025 for Age Pensioners and other income support recipients who rely on income from deemed financial investments. This in effect provides a more generous income test for these income support recipients.

There are also reductions in personal income tax taking effect from 1 July 2024. There will be reductions in personal income tax for all taxpayers. The 19 per cent tax rate that applies to taxable incomes of between \$18,201 and \$45,000 will be lowered to 16%, the 32.5 per cent tax rate that applies to taxable incomes of \$45,001 and \$120,000 lowered to 30 per cent and the income threshold this tax rate applies to increases to \$135,000, The current 37% tax rate applies to incomes of \$120,001 to \$180,000 will apply to the income range \$135,000 to \$190,000 and the top marginal tax rate of 45% will apply to income in excess of \$190,000.

This measure replaces the Stage 3 personal income tax measures which were originally enacted by the Coalition Government for 2024-25 onwards. A comparison of the current income thresholds and marginal tax rates, under the previous Coalition Government Stage 3 tax cuts and the 2024-25 Labor personal income tax measure is shown in Table 1.

Table 1. Income thresholds and marginal tax rates under current policy settings, Coalition Stage 3 tax cuts and 2024-25 Budget measures

Current system		Coalition Stage 3 tax cuts		2024-25 Budget measure	
Income	Tax rate	Income	Tax rate	Income	Tax rate
\$0-\$18,200	0%	\$0-\$18,200	0	\$0-\$18,200	0%
\$18,201 - \$45,000	19%	\$18,201 - \$45,000	19%	\$18,201 - \$45,000	16%
\$45,001 - \$120,000	32.5%	\$45,001-\$200,000	30%	\$45,001-\$135,000	30%
\$120,001 - \$180,000	37%			\$135,001 - \$190,00	37%
\$180,001 +	45%	\$200,000 +	45%	\$190,000 +	45%

Also considered in this paper are the impacts of the main budget measures that directly impact the incomes of Australian households from previous budgets of the current Labor Government (the October 2022-23 Budget and the 2023-24 Budget). The measures from these previous budgets modelling here include:

- **Increase JobSeeker, Youth Allowance and related payments** by \$40 per fortnight and shifting those recipients aged between 55 and 60 years on the JobSeeker payment to the moderately higher rate that currently applies to singles aged 60 years up to age pension age

- **Increase eligibility for the parenting payment to single parents whose youngest child is aged less than 14 years** (up from less than 8 years)
- **Increase Rent Assistance by 15%**. Increase in single maximum Rent Assistance is from \$157 to \$181 per fortnight
- **Provide a short-term energy rebate** of up to \$500 per year to welfare recipient and concession card holder households for 2023-2024
- **Child Care Subsidy (CCS) maximum subsidy increased** from 85 per cent of gross childcare costs to 90 per cent and the cut-out point for the payment increased from an adjusted taxable family income of \$357,000 to \$530,000
- **Increased wages for aged care workers**, and
- **Increasing the Medicare levy low-income threshold**, although treated as a regular indexation change not a new policy.

Methodology

The approach adopted in this paper is to use the ANU PolicyMod microsimulation model of the Australian tax and transfer system (Phillips 2024). This model is based on an ABS income survey for 2017-18 and has been adjusted to better reflect the population of 2017/18 and beyond using a range of administration data and official statistics and budget forecasts and projections.³ The model simulates the current policy settings of most of the tax and transfer system in Australia. We simulate the proposed tax changes and apply the assumptions in the 2024-25 Federal Budget around wages, prices, and population change. We compare the legislated policy (termed Base Case Policy Setting) with the proposed settings of the personal income tax system to model the overall fiscal impact of the policy change and the distributional impact for each year for Australian households.

PolicyMod updates the 2017-18 Survey of Income and Housing by increasing all monetary variables using appropriate inflators. For example, wages are increased with a combination of average weekly earnings by state and the distribution of wages and salaries altered by changes in the ABS Characteristics of Employment Survey publication for each year up to 2023. Childcare costs are increased with departmental administration price data, rents are increased by the ABS CPI (adding back in any changes to rent assistance), mortgage costs are increased in line with mortgage interest costs from the ABS Living Cost Index, house prices and mortgage principal values increased in line with Corelogic house price data (10-year average change with regard mortgage principal values). Population, demographic and labour force data is updated in line with ABS labour force data and all policy in the social security and personal income tax is updated to the latest policies as outlined in the latest budget.

The budget analysis here presents impacts of the policy changes for households at different points in the income distribution (income quintiles) and relative financial wellbeing ('financial

³ PolicyMod is available using the latest 2019-20 ABS Survey of Income and Housing, however a decision has been made to use the 2017-18 version as the latest version has around 27 per cent of observations (weighted) in the final quarter of 2019-20 which was a period where the economy was considerably disrupted by the COVID virus. It is possible to remove the final quarter from the survey, however, this does lead to a substantial sample size reduction. Our view is that a full sample of the 2017-18 survey is a better representation of today's economy than the 2019-20 full sample. PolicyMod will be updated to the ABS' 2023-24 updated survey as soon as that survey becomes available as a unit record file (CURF).

wellbeing' quintiles). Income quintiles are based on the standard equivalising of disposable household income. Equivalence scales adjust the income of households of different sizes and compositions to consider differences in the costs of living. Equivalising income is a standard practice to ensure that the incomes of households with more persons are adjusted to an equivalent basis to that of a single adult household. In this paper the income of a household is scaled down to a single adult income using the OECD equivalence scale. A limitation of this approach is that income alone is not always a good basis for determining the true financial position of a household. For example, a household with a retired couple both aged over 65 may have a relatively small income but significant wealth in the form of superannuation and housing.

To overcome this issue, we have developed a ranking of households which incorporates a broader range of measures of financial wellbeing, in addition to income and household size and composition which are used to construct equivalised income, the financial wellbeing ranking developed for this paper includes information on wealth, age, tenure type, employment status, family type and disability status, main source of income, region, and educational attainment. These separate measures are combined together by their impact on the count of financial stress in the 2019-20 ABS Survey of Income and Housing using a negative binomial regression (Phillips 2022). For each household a predicted count of financial stress is estimated, and those predictions are ranked and assigned a 'financial wellbeing' quintile.

The financial wellbeing quintile should offer a stronger basis for understanding the real financial wellbeing of a household. The financial wellbeing quintile should provide a more comprehensive perspective on the targeting of the government budget measures.

Budget 2024 Only Results

This section compares the disposable income for Australian households for December 2024 based on the policies pre and post the 2024 budget. Included in policy change are:

- Stage 3 tax cuts (Labor vs Coalition)
- Energy rebates (\$300 per household)
- Increase in Commonwealth Rent Assistance (+10%)
- Freeze to deeming rates for social security payments.

The largest of these measures is the energy rebate at \$3.5 billion for the 2024/25 year. The stage three tax cut is estimated by the budget to be largely budget neutral over the forward estimates. PolicyMod projects a small cost to the budget of around \$1.5 billion per year from 2024/25. The increase in rent assistance costs the budget around \$500 million per year.

Figure 1 shows that the impact of these four measures is broadly progressive with the lowest-income group (quintile 1) gaining around 1.6% in disposable household income while the middle-income group (quintile 3) gains 1.1% and the top-income group (quintile 5) loses around 0.4% with the restructuring of the stage 3 tax cuts.

Figure 1. Budget 2024-25 impact on disposable household income, %



Source: ANU PolicyMod.

The impact using financial wellbeing is broadly similar but with mildly less progressivity – implying that the positive impact for low financial wellbeing families is not quite as positive and likewise the negative impact for high financial wellbeing families is not quite as negative.

Figure 2 shows the dollar impact on disposable household income of the 2024/25 Budget measures by income quintile and financial wellbeing quintile (as per Figure 1). The budget provides more dollars for income quintiles 2 and 3 than quintiles 1 or 4. Households in the highest income quintile (Quintile 5) have nearly \$1.9 billion removed by the budget. A similar picture emerges when the dollar impacts are considered by financial wellbeing quintiles.

Figure 2. Budget 2024-25 impact on disposable income, \$million per annum



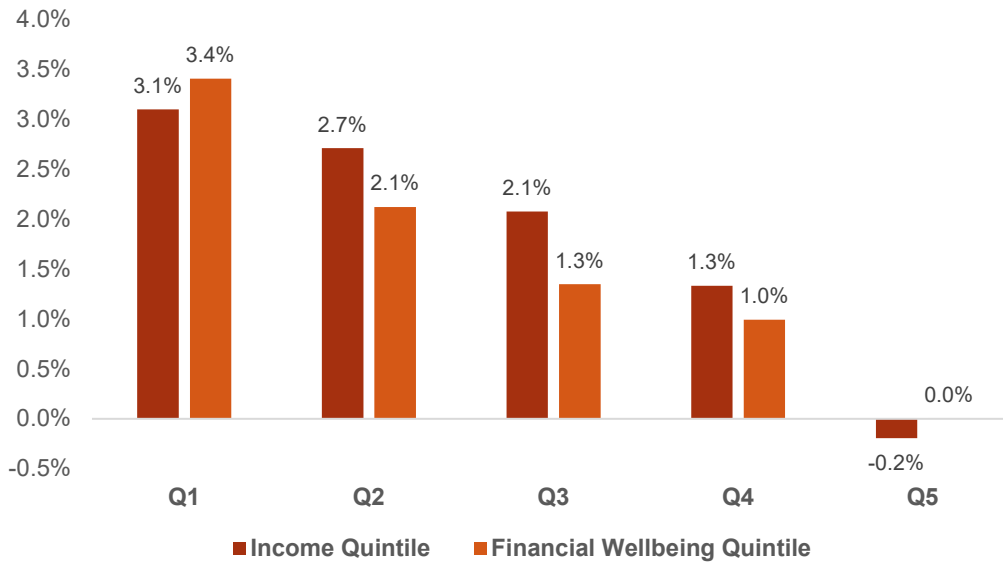
Source: ANU PolicyMod.

Combined impact of October 2022-23, 2023-24 and 2024 Budgets

To evaluate the overall impact of the current Labor government policies the October 2022-23, 2023-24 and 2024-25 Budget measures have been combined (those measures that directly provide a cash transfer or alter the personal income tax system). This comparison compares the 2024 projected disposable incomes for households with what income is projected to have been had policy settings of the previous Coalition government remained in place.

Figure 3 shows that again the changes in disposable income are broadly progressive with the per cent impact on incomes being directed mostly toward the lower income quintiles. The result is similar, albeit slightly more progressive, when considering the financial wellbeing quintiles. The overall gain for income quintile 1 is 3.1 per cent and 3.4 per cent for financial wellbeing quintile one. For the highest income quintile, the impact is negligible in per cent terms.

Figure 3. Budgets Oct 2022-23, 2023-24 and 2024-25 combined impact on disposable income, % (2024/25)



Source: ANU PolicyMod.

Figure 4 shows where the total dollar gains and losses are by income and financial wellbeing quintiles. For income quintiles the largest gains are for quintile 3 (\$4.1 billion) and the largest losses are for quintile 5 (nearly \$1 billion). In terms of financial wellbeing quintiles, the largest gains are to the lowest quintile (\$4.1 billion) and while the smallest gain is for quintile 5 with a near 0 gain.

Figure 4. Budgets Oct 2022-23, 2023-24 and 2024-25 combined impact on disposable income, \$million per annum (2024/25)

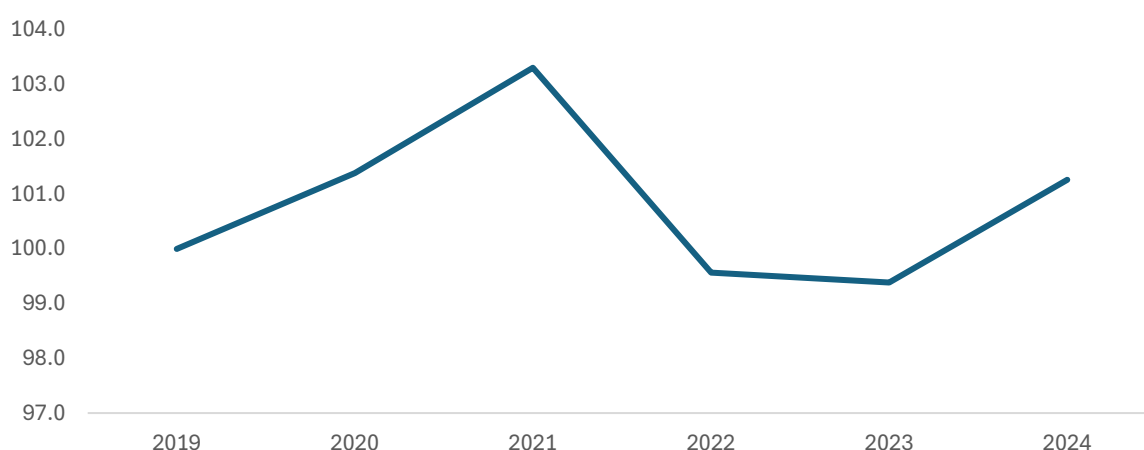


Source: ANU PolicyMod.

Financial living standards

This section reports trends in the financial living standards of Australian households. Financial living standards are estimated using a combination of the ANU PolicyMod model of the Australian tax and welfare system with the ANU Living Cost Index series (see Phillips (2018) for details of the ANU Living Cost Index). PolicyMod provides estimates and projections for disposable income while the living cost index estimates the changes in living costs for a range of different household types.

Figure 5. Living Standard Index (2019=100)



Source: ANU PolicyMod and ANU Living Cost Index

Figure 5 shows the overall living standard index which shows that living standards increased (income growth greater than living costs) for households on average between 2019 and 2021 but then declined sharply in 2022 with a further small fall in 2023. Growth of around 1.9 per cent is expected over the calendar year 2024.⁴

The results in Figure 5 reflect a strengthening economy between 2019 and 2021 which was boosted by considerable government stimulus and very low interest rates. Beyond 2021 there is a sharp downturn as that stimulus (both fiscal and monetary) was unwound. Increasing inflation in the calendar year 2022 and to a lesser extent 2023 contributed to the negative growth in living standards. The increase in 2024 is largely driven by the assumptions in the 2024 budget of real wage increases, lower inflation and to some extent, policy decisions.

Overall, to December 2023 the all household living standard average declined by 0.6 per cent since just prior to COVID (December 2019). Since 2021 living standards fell by 3.8 per cent. Living standards on current budget assumptions grow by 1.9 per cent in 2024 to be 1.3 per cent higher than just prior to COVID (December 2019).

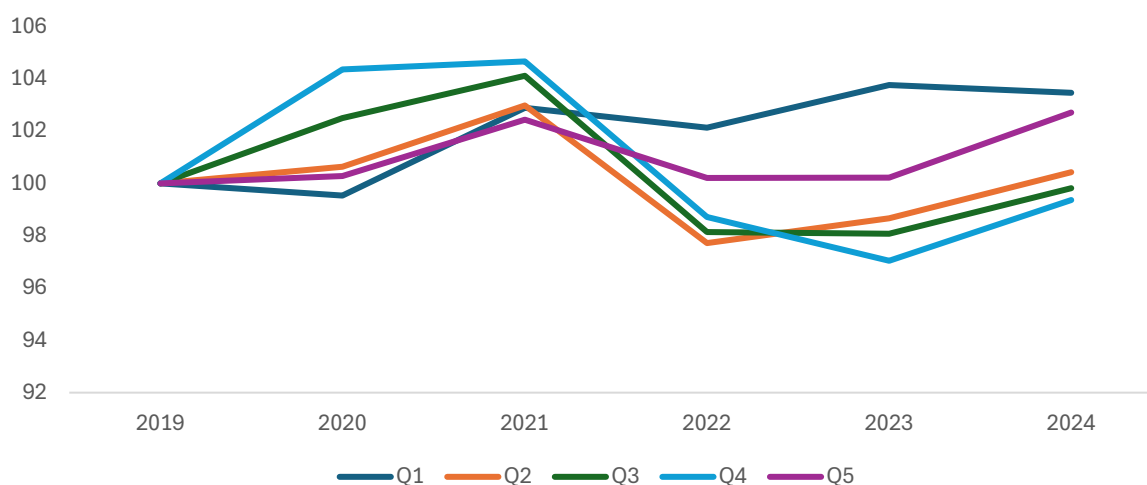
⁴ PolicyMod only partly attempts to model the very significant COVID impacts on household incomes for 2020. The model is for the end of each calendar year. Results for 2020 should be ignored in this report.

Household income quintile and living standards

Figure 6 shows the significant drop in living standards experienced by middle income quintiles (2,3 and 4) since 2021. Income quintile 4 dropped 7.3 per cent while income quintiles 2 and 3 dropped moderately less at 4.2 per cent and 5.8 per cent respectively. The top income quintile dropped back 2.2 per cent while the bottom quintile was up 0.9 per cent. Between December 2019 and December 2023 Quintile 2,3, and 4 living standards have dropped by between 1.3 and 3 per cent while the highest income quintiles have remained largely unchanged (+0.2 per cent), but the lowest income quintile gained 3.8 per cent.

By December 2024, it is expected that both lowest and highest income quintiles will have gained around 3 per cent compared to December 2019 while the middle-income quintiles will be close to their 2019 living standard.

Figure 6. Living Standard Index (2019=100), by income quintiles



Source: ANU PolicyMod and ANU Living Cost Index.

Main source of household income and living standards

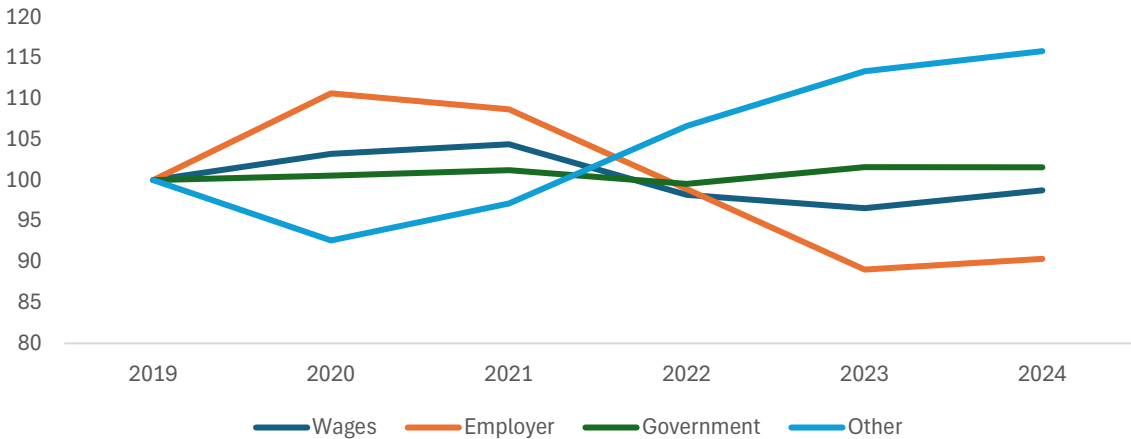
Figure 7 reports the living standards index by the main source of household income. Living standards through and beyond COVID have improved dramatically for households with 'other' income as their main source of income. Other income includes income sourced from investments such as bank deposits, shares, superannuation, or residential investments. Living standards of these households grew by 13.4 per cent between 2019 and 2023 and is projected to have grown by 15.8 per cent over 2019 levels by the end of 2024.

The largest drop in living standards was experienced by households with employer income as their main source of income⁵. Employer households experienced a deterioration of living standards of 11 per cent between December 2019 and December 2023.

⁵ Employer income is defined by the ABS as 'Own unincorporated business income'.

Households with government income (such as pensions and allowances) as their main source of income were largely insulated from living standard drops and overall were ahead by 1.6 per cent to December 2023 compared to December 2019. Waged household living standards fell by 3.4 per cent since December 2019 but are projected to regain some of those losses in the 2024 calendar year.

Figure 7. Main Source of Income, Living Standards Index (2019=100)

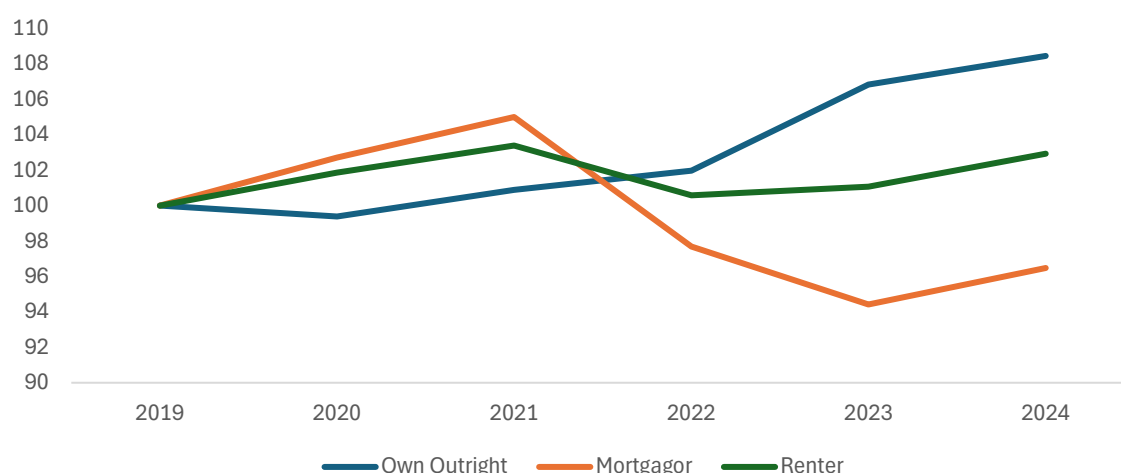


Source: ANU PolicyMod and ANU Living Cost Index

Housing tenure type and living standards

Figure 8 considers changes in living standards of different housing tenure type households. Mortgagor household living standards are estimated to have fallen by 5.6 per cent, on average, since December 2019 (to December 2013). Renter household living standards are moderately improved (up 1.1 per cent) while owner outright households enjoyed the largest gains in living standards (up 6.8 per cent). The gains for owner occupiers are largely related to these households being headed by older persons with a larger share of income derived from assets such as residential property, bank deposits, superannuation and shares.

Figure 8. Tenure Type, Living Standards Index (2019=100)



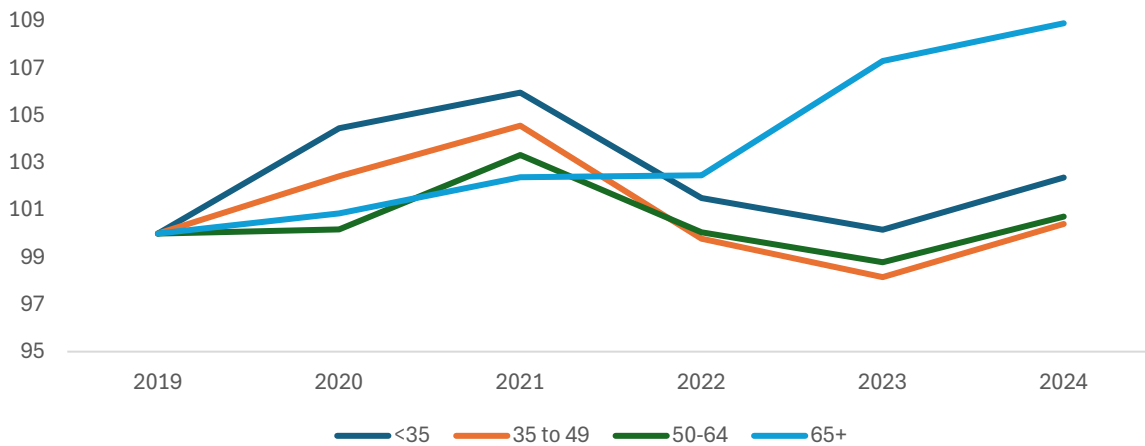
Source: ANU PolicyMod and ANU Living Cost Index

Age of head of household and living standards

Figure 9 shows the trends in financial living standards by age of the household head. There is a clear difference between working age and non-working age households. Households headed by a person aged 65 years and over have, on average, gained in living standards by 7.3 per cent since 2019 (to December 2023). This is projected to keep rising in 2024 to a cumulative increase since 2019 of 8.9 per cent.

The youngest households (headed by a person less than 35 years of age) following the largest gains in living standards between 2019 and 2021 have roughly dropped back to their original living standards in 2019 (up 0.2 per cent to December 2023). Middle aged households (35 to 49 and 50 to 64) are estimated to have lower living standards in 2023 (December) than in December 2019 by -1.8 and -1.2 per cent respectively. All household types are projected to gain through 2024.

Figure 9. Age of Household Head, Living Standards Index (2019=100)



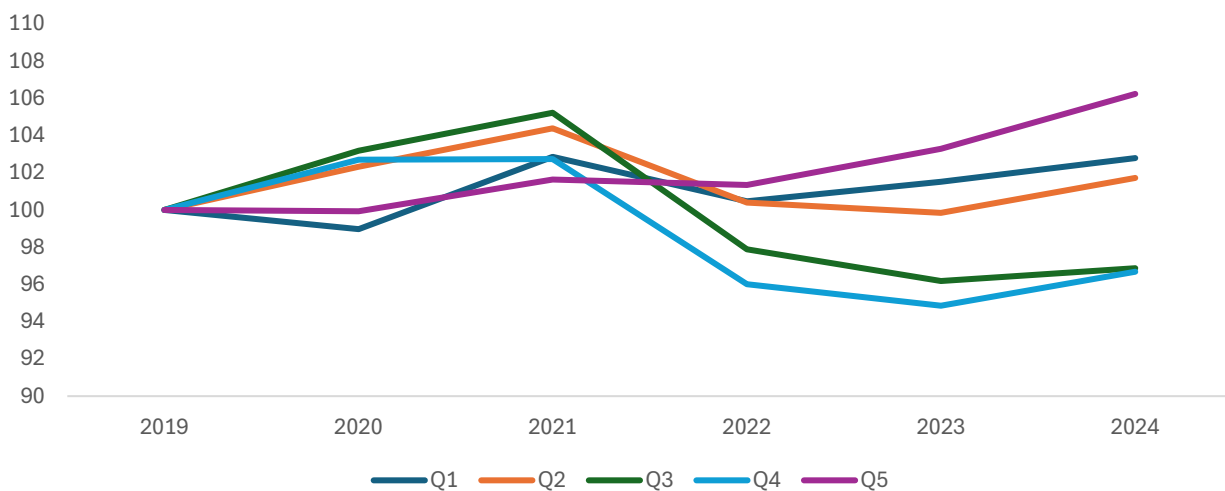
Source: ANU PolicyMod and ANU Living Cost Index

Financial wellbeing quintiles and living standards

Figure 10 reports the trends in the living standards index by financial wellbeing quintiles. It shows that those with the highest living standard were the recipients of the largest increase in living standards. These households gained by 3.3 per cent between 2019 and 2023. The next largest increase is estimated for the lowest income quintile living standard households who gained by 1.5 per cent since 2019. Quintile 1 households benefited from social security benefits which in recent years have been indexed with inflation which for some household types has led to a modest gain in living standards as the measured ABS CPI outpaced the living standards index for some lower income households.

Quintile 2 was largely unchanged in living standards while Quintile 3 and Quintile 4 both went backwards by 3.8 and 5.1 per cent respectively between 2019 and 2023. All quintiles are projected to gain through 2024.

Figure 10. Financial Wellbeing Quintiles, Living Standards Index (2019=100)

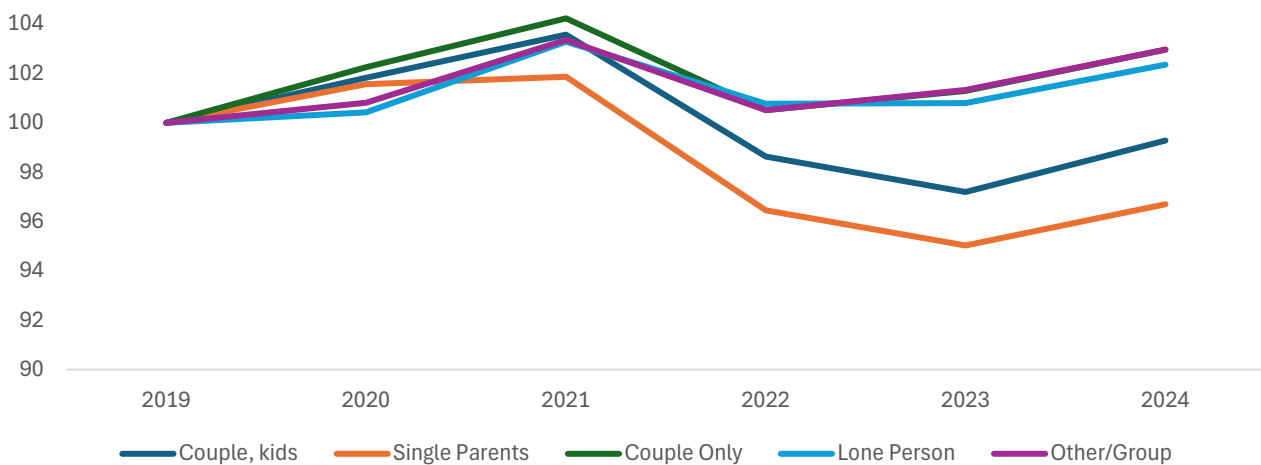


Source: ANU PolicyMod and ANU Living Cost Index

Family type and living standards

Weaker income growth for families with children (both couples and single parents) led to worse living standards outcomes (Figure 11. **Family Type, Living Standards Index (2019=100)**). Single parent household living standards went backwards by 5 per cent while couples with children experienced a reduction in living standards of 2.8 per cent between 2019 and 2023. The larger drop in single parent living standards is related to lower household income growth between 2019 and 2022 compared to other family types.

Figure 11. Family Type, Living Standards Index (2019=100)



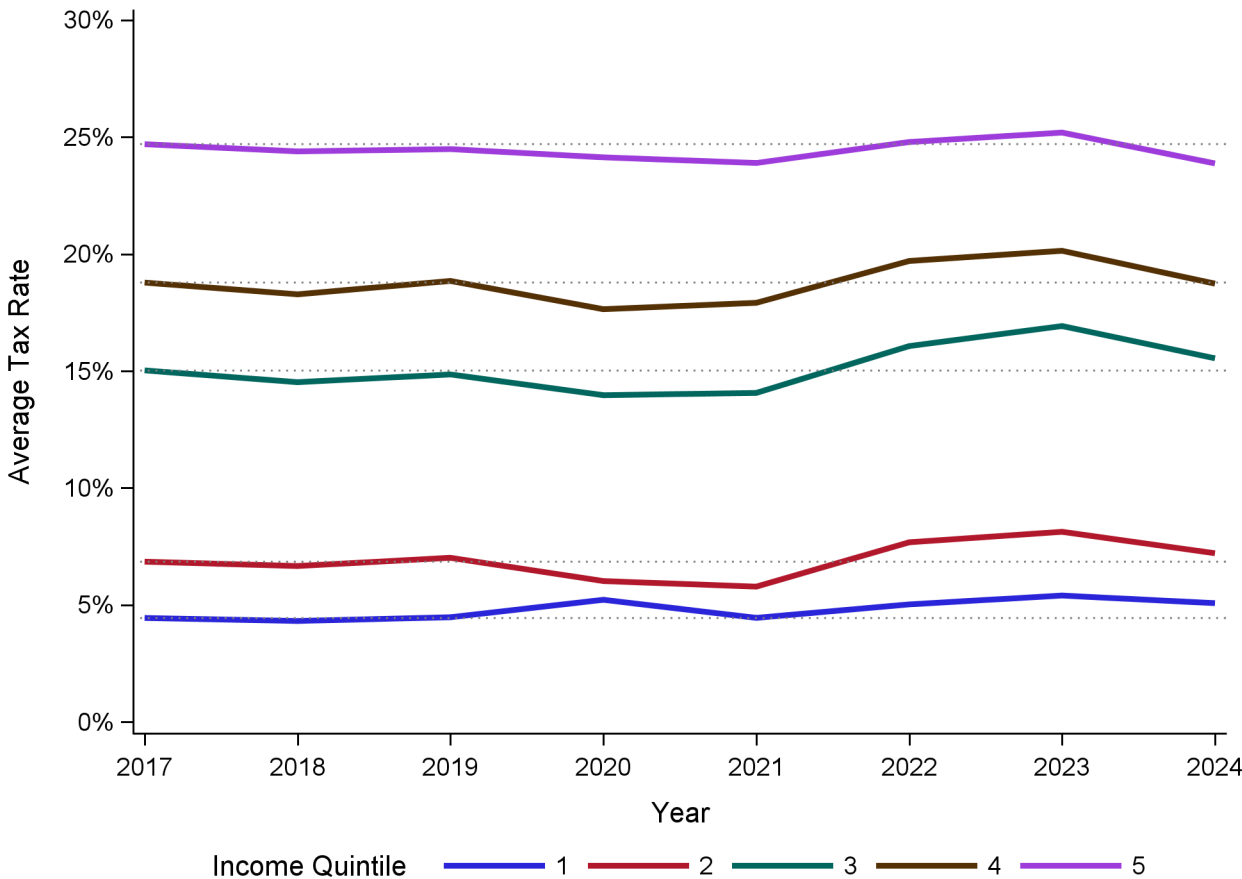
Source: ANU PolicyMod and ANU Living Cost Index

Stage 3 Tax Cuts Labor vs Coalition

This section focuses on the impact of Labor's stage 3 tax cuts compared with the Coalition's stage 3 tax cuts which the Labor policy reshaped. The overall 'cost' of the tax cuts of the Labor and the Coalition tax cuts is roughly the same, but the Labour design benefits lower income earners at the expense at very high-income earners. Figure 12 shows the trends in average tax rates for each income quintile for households in PolicyMod. The figure shows that the 'tax cuts' for 2024 do lower income tax rates paid for each income quintile, however, most households are still roughly paying the same rate of tax they were paying just prior to the start of the full package of reform (2017/18 financial year). Considering the total package of reform (from both Labor and the Coalition) it is estimated that only the highest income households (Quintile 5) are paying lower rates of tax by 2024 compared to just prior to the reforms in 2017. The bottom 3 income quintiles are all paying a higher rate of tax by 2024 compared to 2017 and Quintile 3 (second highest income household quintile) households are paying the same rate of tax in 2024 compared to 2017.

If the Coalition’s form of the stage 3 tax cuts were in place for the 2024/25 financial year, then the outcomes would be moderately different with the bottom 4 income quintiles all paying a little higher rate of tax and the top income quintile paying a lower average rate of tax.

Figure 12. Average Rate of Personal Income Tax by Household Income Quintile (Labor Stage 3 tax cuts)



Source: ANU PolicyMod, ABS Survey of Income and Housing

The Economic Inclusion Advisory Committee (EIAC) progress

In **2024**, the Economic Inclusion Advisory Committee (EIAC) made 22 recommendations designed to improve economic inclusion outcomes in Australia (Commonwealth of Australia 2024). Of these recommendations around 5 recommendations involve significant financial investments. The remaining recommendations are either relatively minor investments or relate to improvements in the approach, policy mechanism or philosophy of the social policy systems in Australia. The major financial investments recommended were:

- Increase JobSeeker and related working age payments to 90 per cent of the age pension
- Index payments in (a) to wages or similar rather than just the consumer price index
- Increase Commonwealth Rent Assistance
- Remove the activity test from the childcare subsidy, and

- Fund a significant increase in childcare worker pay.

The EIAC report does not specify the recommended increase to Rent Assistance, but the report does suggest that a 20 per cent increase in CRA on current levels would return the payment to the effective rate of subsidy relative to median rents in 2001. The 2024 budget increased Rent Assistance by a half of this increase (10 per cent).

Of these five major recommendations the government only partly addressed one recommendation – with a 10 per cent increase in rent assistance. In this paper we attempt to model recommendations beyond the government response (beyond the 10 per cent increase to CRA).

The activity test removal will increase expenditure, but it is not well understood to what extent. The cost would be relatively small where the main impact was felt through a small share of existing customers receiving a larger subsidy. The cost would be more substantial where a significant number of new customers entered the childcare system on account of the activity test's removal.

The introduction of the activity test in 2018 did not appear to greatly reduce the number of children in childcare, however, it is difficult to gauge as the new system was a little more generous than the previous and it may be that the impact was felt over a longer period of time as families adjusted to the new childcare subsidy. For a substantial evaluation of the childcare subsidy introduced in 2018 (including the activity test) see Bray et al (2022).

We also do not attempt to model the increase in childcare worker pay. EIAC does not specify a particular increase, however, matching the increase to aged care workers of 15 per cent would, if publicly funded, cost around \$1.2 billion per year.

Using PolicyMod we estimate that in 2024/25 the increase to JobSeeker and related payments and a further 10 per cent increase to rent assistance would cost the Federal Government around \$4.6 billion per annum. This increases over time to a total cost of around \$20.4 billion over 4 years (forward estimates).

Over a ten-year period, with greater indexation for selected working age payments the total cost, in nominal dollars, would be around \$64 billion. A back of the envelope estimate for removing the activity test and increasing childcare worker wages is around \$21 billion over ten years. The total cost of EIAC recommendations would therefore amount to around \$85 billion over ten years.⁶ The EIAC placed a higher priority on the JobSeeker and rent assistance reforms. These costs should be put in context of the total annual budget for welfare (including aged care and NDIS) in Australia of around \$200 billion per year or roughly \$2600 billion over 10 years. The EIAC recommendations would increase that budget by around 3.3 per cent.

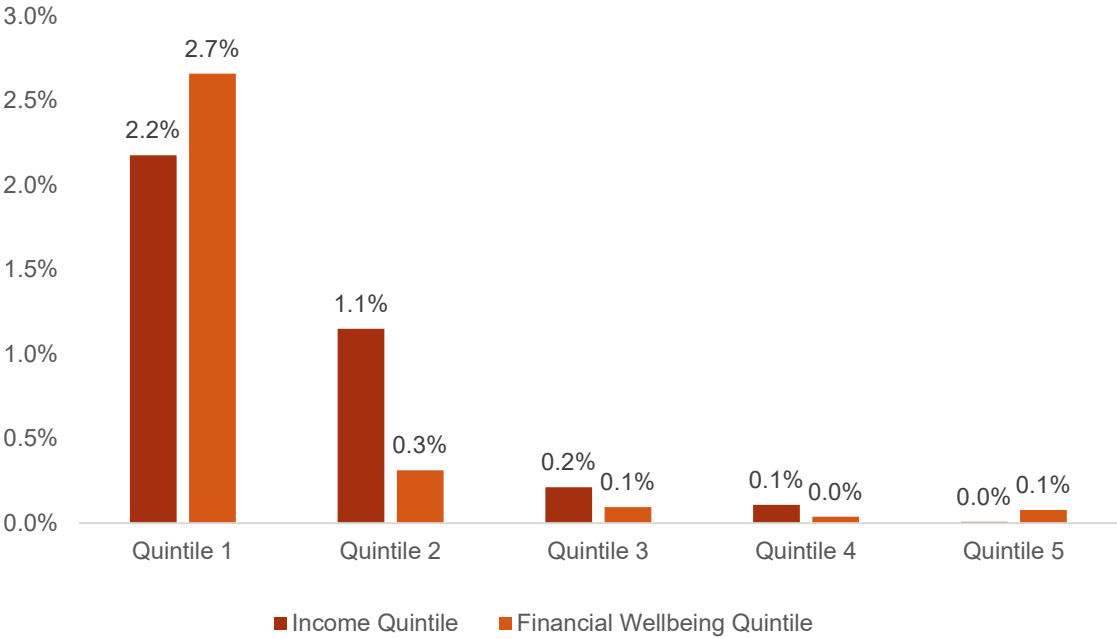
⁶ This is very similar to an estimate by the Business Council of Australia of \$87 billion of the total cost of the EIAC recommendations.

Using PolicyMod we can estimate the distributional impact of the highest priority EIAC recommendations – JobSeeker and rent assistance. The \$4.6 billion per year additional investment would mostly benefit low-income households. The lowest income quintile households would receive around \$2.1 billion or about 45.8 per cent of additional spending. As a share of income, the lowest income would receive an extra 2.2 per cent.

Using the financial wellbeing quintiles the results are more progressive again with the bottom quintile receiving \$3.3 billion or 73 per cent of extra spending. The lowest financial wellbeing quintile gains an extra 2.7 per cent relative to income. These estimates show that the EIAC recommendations (selected) would cost less than those measures included in the 2024 Budget in the 2024/25 financial year but provide substantially more assistance to those households in either the lowest income quintile or lowest financial wellbeing quintile. Figure 13 and Source: ANU PolicyMod.

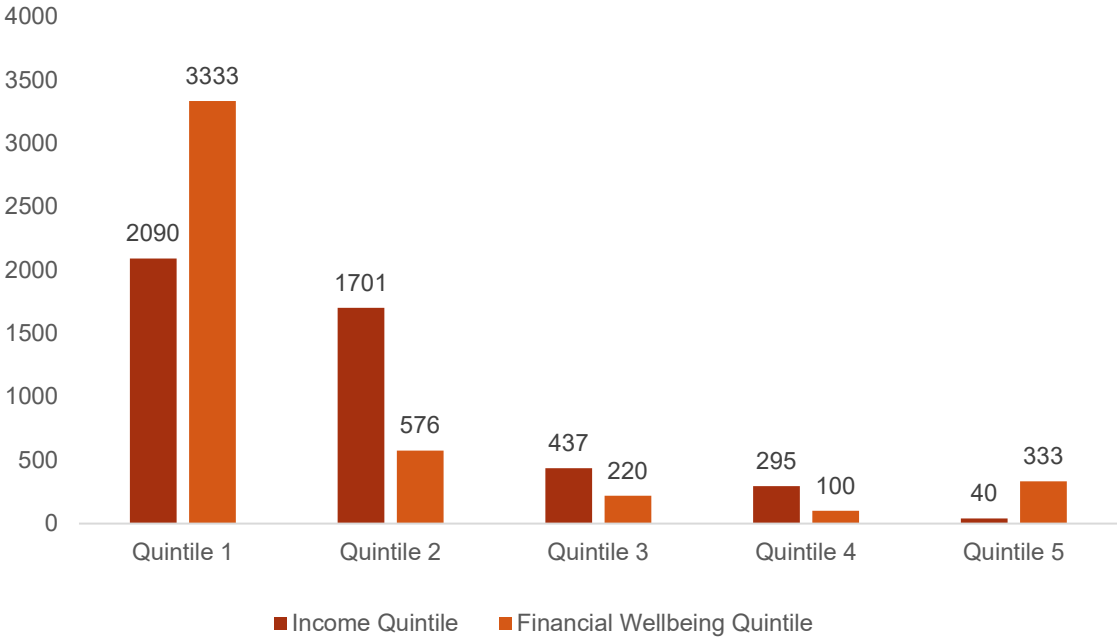
Figure 14 provide the full results for the distributional impact of the EIAC recommendations for both income quintiles and financial wellbeing quintiles.

Figure 13. Distributional impact of EIAC recommendations, % household disposable income by income quintile



Source: ANU PolicyMod.

Figure 14. Distributional impact of EIAC recommendations, average \$ per annum impact on average household disposable income, by income quintile



Source: ANU PolicyMod.

The modelling of the EAIC recommendations is made using the ANU PolicyMod which allows the production of regional estimates. Table 2 shows the 5 SA3 areas (ABS defined statistical regions) which are estimated to have the largest increase in average household disposable income and Table 3 shows the 5 SA3 which are estimated to have the smallest increase in average household disposable income. There are around 330 SA3 regions in Australia.

The largest impact financially in the regions tends to be in lower income Sydney and remote Northern Territory. The average gains tend to be around \$1,000 per year for these high impact regions. The smallest impact would be felt in the typically high-income regions of Sydney and Canberra.

Table 2. Top 5 SA3 EIAC recommendation financial impact on household disposable income, \$ per annum

<i>SA3 Region</i>	<i>Average Household Impact \$ per annum</i>
Fairfield (Sydney)	\$1,110
Daly-Tiwi-West Arnhem (NT)	\$995
Mount Druitt (Sydney)	\$934
Merrylands-Guildford (Sydney)	\$927
East Arnhem (NT)	\$910

Source: ANU PolicyMod.

Table 3. Bottom 5 SA3 EIAC recommendation financial impact

<i>SA3 Region</i>	<i>Average Household Impact \$ per annum</i>
North Sydney - Mosman	\$126
Ku-ring-gai (Sydney)	\$133
Molonglo (ACT)	\$137
Pittwater (Sydney)	\$138
South Canberra	\$138

Source: ANU PolicyMod.

Conclusion

The budget measures contained in the 2024 Budget for the 2024/25 financial year were generally spread across the income distribution mainly thanks to the largest measure – the energy rebate. In addition to the rebate the other major cash measures were broadly progressive in nature. On balance, the lowest 80 per cent of the income distribution received similar assistance in dollar terms while the top 20 per cent partly paid for this assistance through higher taxes than they otherwise would have paid under the previous Coalition Government. In percent terms, the budget was progressive with the impact as a share of income being larger for lower income households. When combined with the two major budgets of the Labor government (2023 and 2024) the fiscal impact was broadly of the same nature as that of just the 2024 budget.

The electricity rebate measure in the 2024 budget ideally may have been better targeted to those who most need assistance, however, the measure does still provide helpful cost of living relief and will lower the measured inflation rate (ABS Consumer Price Index). The longer-term impact on inflation is less clear.

The other major financial measures (altered tax cuts and rent assistance) will generally be of most benefit to low- and middle-income families. Naturally, in dollar terms all households who pay personal income tax will pay a lower rate of personal income tax from July 1 2024, but for some high-income earners that tax cut will not be as significant as that offered by the previous government.

Overall, Australian household living standards are little changed since just prior to COVID (December 2019). Benefiting from significant fiscal and monetary stimulus household living standards gained around 3.3 per cent higher living standards but have since dropped by a larger amount to be down a total of 0.6 percent since 2019. The average drop in living standards between 2021 and 2023 (December) is 3.9 per cent. This drop is largely driven by the increase in the living cost index rather than a significant fall in household income.

There are significant differences in recent changes in living standards by different household types. Middle income and middle living standards households have typically done worse than very high or very low income/living standard households. Mortgagor households have done much worse than renters or households who own a house outright. Older households have done much better than working age households. Households whose main source of income is ‘other’ income have, on average, done much better than those mostly reliant on wages or government income. Those who mostly rely on business income have done particularly badly since COVID. Families with children have experienced lower living standard growth than families or group households without children.

Living standards are projected to improve through 2024, however this is purely based on assumptions in the budget around wages growth and lower living cost increases. There are no guarantees that such an outcome will eventuate.

An important part of the projected growth in living standards in 2024 will be the stage 3 tax cuts which impact households from July 1 2024. These tax cuts are similar in magnitude to those they replaced (Coalition stage 3 tax cuts) but they have a larger positive impact for lower- and middle-income households and less positive impact for the highest income households. The stage 3 tax cuts largely overcome recent bracket creep that wasn't fully compensated for since the start of the stage 1 to 3 tax cut reforms in the 2018 financial year.

The recommendations of the EIAC were modelled and showed a total initial cost in 2024/25 of around \$4.6 billion for the increases to the priority recommendations of JobSeeker and related payments and rent assistance. Including the broader range of recommendations would likely cost around \$85 billion over the next 10 years which translates to a total welfare budget increase in Australia of about 3.3 per cent over the decade.

The EIAC recommendations are highly targeted with the bulk of spending going to the lowest two income quintiles (around 85 per cent) and similar for the bottom two financial wellbeing quintiles⁷. The EIAC recommendations modelled cost less than the budget measures for 2024/25 but are more targeted towards lower income and lower financial wellbeing households.

⁷ An important caveat is that the EIAC recommendations would be permanent increases to expenditure while the Budget's spending included a \$3.5 billion energy rebate which is expected to end on June 30 2025.

References

ABS (2018). *Survey of Income and Housing 2017-18*, Microdata Confidential Unit Record File.

ABS (2020). *Survey of Income and Housing 2019-20*, Microdata Confidential Unit Record File.

Bray, R., Hand, K., Gray, M., Carroll, M., Webster, R., Phillips, B., Budinski, M., Katz, I. and A. Jones (2022). *Child Care Package Evaluation: Final Report*, Australian Institute of Family Studies, Melbourne.

Commonwealth of Australia (2024). *Economic Inclusion Advisory Committee 2024 Report to Government*.

Phillips, Webster and Joseph (2024), *PolicyMod: Microsimulation Model for the Australian Tax and Transfer System December 2023*, ANU Centre for Social Research and Methods, Other Publication, The Australian National University, Canberra.

Phillips, B. (2018). *Living Standards and Cost of Living Indexes for Australian Households*, ANU Centre for Social Research and Methods, Other Publication, The Australian National University, Canberra.