



**Australian Government**

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## **Response to**

### **Supplementary question 4.13**

#### **22 May 2017**

#### 4.13 Supplementary question to the Australian Government

The Australian Government submitted that the tax-transfer system has assisted real income growth in minimum wage households and that:

‘... even if the national minimum wage had remained constant in real terms, most minimum wage households’ disposable incomes would have improved in real terms due to changes in the tax-transfer system. Further, the real increase in the national minimum wage only increased household incomes by a marginal amount’.<sup>i</sup>

In support of this submission the Australian Government provided Table 8.6, *Changes in real disposable household income, 2012–2017*, to illustrate the contribution that has been made to growth in real disposable income for hypothetical households over this period by a) tax-transfer changes and b) the net impact of real NMW increases.<sup>ii</sup>

The Panel seeks further information about how this table has been constructed. Can the Australian Government explain, for example:

**a) What is the amount of the real increase in the NMW that has been used in the calculations?**

Between 1 January 2012 and 1 January 2017, the national minimum wage (NMW) increased by 14.1 per cent in nominal terms, from \$15.51 per hour to \$17.70 per hour (or from \$589.30 to \$672.70 on a weekly basis).

At the time of the modelling, the latest Consumer Price Index (CPI) data available was for the September quarter 2016, and hence the table reflects the overall CPI change from December quarter 2011 to September quarter 2016. Over that period, the amount of the real increase in the national minimum wage is 4.1 per cent.

This means that the value of the pre-tax minimum wage grew by 4.1 per cent above the growth of costs of living.

**b) The sources of the tax-transfer contribution in column 2 as they apply to each household?**

The table shows the impact of the changes in the tax and transfer system on household disposable income over the period of 1 January 2012 to 1 January 2017, assuming the NMW only increases in line with the CPI.

For each type of household in Table 8.6 in the Government's submission, the table below lists the contribution of personal income tax, the Medicare levy and relevant welfare payments to the final change in income.

**Composition of changes in weekly household income, 1 January 2012 to 1 January 2017**

Household Type	Tax-transfer component	% change in real household income, assuming constant real NMW
Single with no children, FT on NMW	Income Tax	-0.1%
	Medicare Levy	-0.5%
	<b>Final change in income</b>	<b>-0.7%</b>
Single with no children, PT on NMW	Newstart Allowance	2.5%
	Income Tax	1.7%
	Medicare Levy	0.1%
	<b>Final change in income</b>	<b>4.3%</b>
Single student with no children, PT on NMW (live at home with parents)	Youth Allowance	16.4%
	Income Tax	0.0%
	Medicare Levy	0.0%
	<b>Final change in income</b>	<b>16.4%</b>
Single parent with a child aged 3, FT on NMW	Parenting Payment Single	2.5%
	Family Tax Benefits - A	0.2%
	Family Tax Benefits - B	0.2%
	Telephone Allowance	0.0%
	Income Tax	-2.7%
	Medicare Levy	0.5%
	<b>Final change in income</b>	<b>0.6%</b>
Single parent with a child aged 3, PT on NMW	Parenting Payment Single	3.1%
	Family Tax Benefits - A	0.2%
	Family Tax Benefits - B	0.2%
	Telephone Allowance	0.0%
	Income Tax	0.0%
	Medicare Levy	0.0%
	<b>Final change in income</b>	<b>3.6%</b>

<b>Single parent with a child aged 9, FT on NMW</b>	Newstart Allowance	7.3%
	Family Tax Benefits - A	0.2%
	Family Tax Benefits - B	0.2%
	Telephone Allowance	0.3%
	Income Tax	-1.3%
	Medicare Levy	0.0%
	<b>Final change in income</b>	<b>6.7%</b>
<b>Single parent with a child aged 9, PT on NMW</b>	Newstart Allowance	7.3%
	Family Tax Benefits - A	0.3%
	Family Tax Benefits - B	0.2%
	Telephone Allowance	0.0%
	Income Tax	1.1%
	Medicare Levy	0.0%
	<b>Final change in income</b>	<b>8.9%</b>
<b>Couple with no children, one FT on NMW, one unemployed</b>	Newstart Allowance person 1	0.0%
	Newstart Allowance person 2	1.6%
	Income Tax	-0.1%
	Medicare Levy	0.3%
	<b>Final change in income</b>	<b>1.8%</b>
<b>Couple with a child aged 3, one FT on NMW, one unemployed</b>	Newstart Allowance person 1	0.0%
	Parenting Payment Partnered	1.3%
	Family Tax Benefits - A	0.2%
	Family Tax Benefits - B	0.1%
	Income Tax	-0.1%
	Medicare Levy	0.2%
	<b>Final change in income</b>	<b>1.7%</b>
<b>Couple with two children aged 3 and 9, one FT on NMW, one unemployed</b>	Newstart Allowance person 1	0.0%
	Parenting Payment Partnered	1.1%
	Family Tax Benefits - A	0.3%
	Family Tax Benefits - B	0.1%
	Income Tax	-0.1%
	Medicare Levy	0.0%
	<b>Final change in income</b>	<b>1.4%</b>
<b>Couple with no children, both FT on NMW</b>	Income tax person 1	-0.1%
	Income tax person 2	-0.1%
	Medicare levy person 1	-0.3%
	Medicare levy person 2	-0.3%
	<b>Final change in income</b>	<b>-0.7%</b>

<b>Couple with no children, one FT on NMW, one PT on NMW</b>	Newstart Allowance person 1	0.0%
	Newstart Allowance person 2	2.3%
	Income Tax	-0.1%
	Medicare Levy	-0.4%
	<b>Final change in income</b>	<b>1.8%</b>
<b>Couple with one child aged 3, one FT on NMW, one PT on NMW</b>	Newstart Allowance person 1	0.0%
	Parenting Payment Partnered	1.9%
	Family Tax Benefits - A	0.2%
	Family Tax Benefits - B	-0.1%
	Income Tax	-0.1%
	Medicare Levy	-0.1%
	<b>Final change in income</b>	<b>1.8%</b>
<b>Couple with two children aged 3 and 9, one FT on NMW, one PT on NMW</b>	Newstart Allowance person 1	0.0%
	Parenting Payment Partnered	1.8%
	Family Tax Benefits - A	0.3%
	Family Tax Benefits - B	-0.1%
	Income Tax	-0.1%
	Medicare Levy	0.2%
	<b>Final change in income</b>	<b>2.1%</b>

Source: Government modelling.

Notes: Based on the NMW and tax-transfer system of 1 January each year. Figures in the table may not add up due to rounding.

**How to read:** The first cameo of the table shows that for a single person with no children and working full-time on the NMW, if there had been no increase in the real minimum wage, the tax-transfer system would have reduced their real disposable household income by 0.7 per cent over five years to 1 January 2017. As Table 8.6 in the Government's submission shows, their real household disposable income in fact increased by 2.9 per cent as a result of increases in the real NMW since 2012.

**c) What is meant by 'net impact of real NMW increase'?**

The “net impact of real NMW increases” column measures the impact of real NMW increases on disposable income holding the current tax-transfer system constant. The net impact is smaller than the real increase in the NMW because of the progressive nature of the tax-transfer system. The “net impact” in the last column also reflects the proportions of wages versus welfare payments in household disposable income.

- d) We assume that the net impact of real increases in the NMW would have been greater if the real increases in the NMW had been larger. In order to illustrate the sensitivity of its findings to this point, can the Government show how the data would change if the real increase in the NMW had been significantly lower (e.g., 0) or higher (e.g., twice as large) over the period?

The zero real increase scenario is already modelled in the second column of Table 8.6 in the Government's submission. For simplicity, we have presented solely that hypothetical scenario in the table below as requested by the Panel.

**Hypothetical changes in real disposable household income, 2012 to 2017, if there had been zero real minimum wage increase**

Household type	Total change (%)	Tax-transfer contribution (%)	Net impact of real NMW increases (%)
<i>Single, no children</i>			
Full-time NMW	-0.7	-0.7	0.0
Part-time NMW	4.3	4.3	0.0
Student on part-time NMW	16.4	16.4	0.0
<i>Single parent</i>			
Full-time NMW, child aged 3	0.6	0.6	0.0
Part-time NMW, child aged 3	3.6	3.6	0.0
Full-time NMW, child aged 9	6.7	6.7	0.0
Part-time NMW, child aged 9	8.9	8.9	0.0
<i>Single- income couples</i>			
Full-time NMW, no children	1.8	1.8	0.0
Full-time NMW, child aged 3	1.7	1.7	0.0
Full-time, children aged 3 and 9	1.4	1.4	0.0
<i>Dual income couples</i>			
Both full-time NMW, no children	-0.7	-0.7	0.0
One full-time and one part-time NMW, no children	1.8	1.8	0.0
One full-time and one part-time NMW, child aged 3	1.8	1.8	0.0
One full-time and one part-time NMW, children aged 3 and 9	2.1	2.1	0.0

Source: Government modelling.

Notes: Based on the NMW and the tax-transfer system of 1 January each year. The first and the second columns have the same results because both show the percentage change in the real disposable income with a zero increase in the real national minimum wage and the actual change in tax-transfer system.

**How to read:** If the NMW had not increased in real terms between 1 January 2012 and 1 January 2017, the real household disposable income of a single person with no children and working full time on the NMW would have declined by 0.7 per cent. As Table 8.6 in the Government's submission shows, their real disposable household income in fact increased by 2.9 per cent as a result of increases in the real NMW since 2012.

The table below shows the modelling results of the hypothetical scenario where the real NMW increase is 8.3 per cent, doubling the actual real increase of 4.1 per cent as requested by the Panel.

**Hypothetical changes in real disposable household income, 2012 to 2017, had the real increase in the NMW been double the actual increase**

Household type	Total change (%)	Tax-transfer contribution (%)	Net impact of real NMW increases (%)
<i>Single, no children</i>			
Full-time NMW	6.5	-0.7	7.2
Part-time NMW	6.3	4.3	2.0
Student on part-time NMW	19.1	16.4	2.8
<i>Single parent</i>			
Full-time NMW, child aged 3	2.5	0.6	1.9
Part-time NMW, child aged 3	5.3	3.6	1.7
Full-time NMW, child aged 9	9.8	6.7	3.1
Part-time NMW, child aged 9	10.6	8.9	1.7
<i>Single- income couples</i>			
Full-time NMW, no children	3.0	1.8	1.2
Full-time NMW, child aged 3	3.2	1.7	1.6
Full-time, children aged 3 and 9	3.1	1.4	1.6
<i>Dual income couples</i>			
Both full-time NMW, no children	6.5	-0.7	7.2
One full-time and one part-time NMW, no children	6.7	1.8	4.9
One full-time and one part-time NMW, child aged 3	5.6	1.8	3.8
One full-time and one part-time NMW, children aged 3 and 9	5.4	2.1	3.2

Source: Government modelling.

Notes: Based on the NMW and tax-transfer system of 1 January each year. The first column shows the percentage change in real disposable income if the real increase in the NMW was double and the actual change in the tax-transfer system, as it occurs independently of the Panel's decision on the NMW. The second column shows the contribution of the tax-transfer system, by assuming that the minimum wage grew in line with the CPI, while the third shows the contribution of real NMW increases (the difference between the first two). They may not sum exactly due to rounding. This modelling includes indexation of benefits as it examines disposable household income over the long term.

**How to read:** If the real increase in the NMW between 1 January 2012 and 1 January 2017 had been double the actual increase, the real household disposable income of a single person with no children and working full time on the NMW would have increased by 6.5 per cent.

<sup>i</sup> Australian Government submission, 29 March 2017 at para. 284.

<sup>ii</sup> Australian Government submission, 29 March 2017 at p. 62, Table 8.6.