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47 King William Road
Unley, SA, 5061 Australia
Ph (08) 8305 4222
Email: sacoss@sacoss.org.au
Website: www.sacoss.org.au

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Introduction

This report tracks changes in the cost of living, particularly for vulnerable and disadvantaged South Australians.

The first part uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2015a) and Consumer Price Index (ABS, 2015c) to show key changes in the cost of living in the last quarter and over the last 12 months.

As a summary measure, the Selected Living Cost Indexes are preferred over the better known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. It tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and poor households in particular. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are less relevant. However, increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

The Selected Living Cost Indexes use a different methodology to CPI (see Appendix: Explanatory Note 1) and they disaggregate expenditure into a number of different household types (ABS, 2015b), although this *Cost of Living Update* focuses on the "Aged Pension" and "Other government transfer recipients" (hereafter "other social security recipients") figures, as these are likely to represent the more disadvantaged households. While the Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes – all of which is useful data for analysis. This report also adds to the Selected Living Cost Indexes by putting a dollar value on the changes, and by using disaggregated CPI data to summarise changes in prices of key items.

SACOSS *Cost of Living Updates* sometimes also contain a second section with a more in-depth analysis of cost of living trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This Update examines the impact of taxes on household cost of living pressures.

SECTION 1: September Quarter 2015 Cost of Living Changes

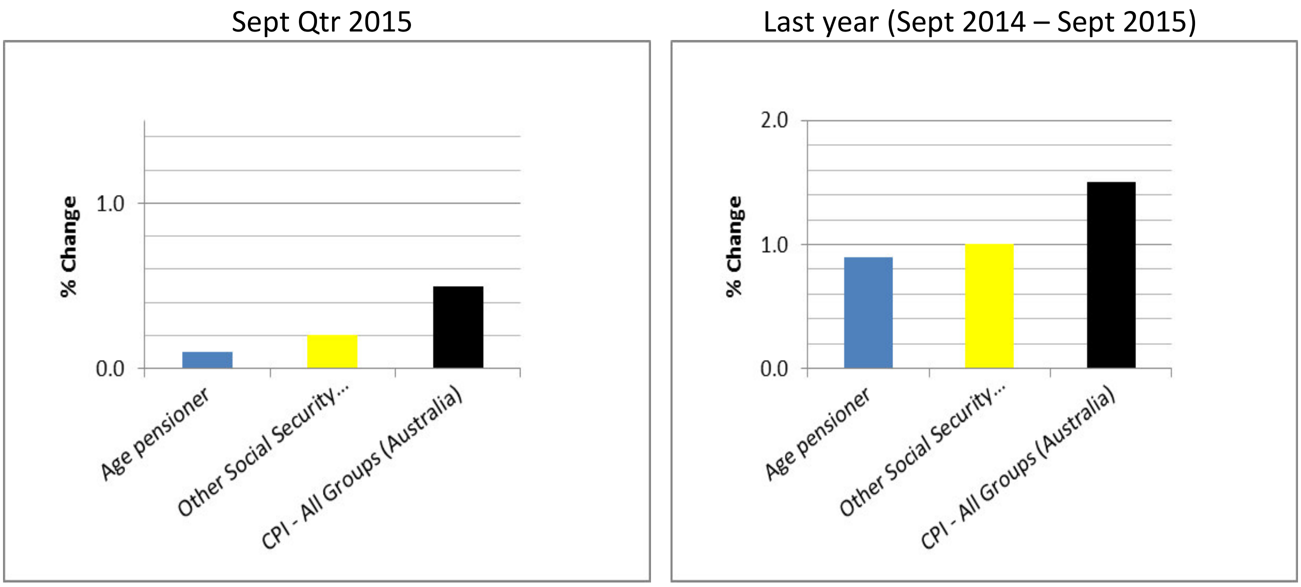
Prices

In the September 2015 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for aged pensioners rose by 0.1% and for other social security recipients by 0.2%. CPI in the same period rose by 0.5% nationally and 0.3% in Adelaide (ABS, 2015a; ABS, 2015c).

The cost of living increases in the September Quarter reflect low inflation rates generally. The Selected Living Cost Indexes for pensioners and other social security recipients are below CPI mainly due to lower health costs driven largely by a fall in pharmaceutical expenditure due to the cyclical effect of a greater proportion of consumers exceeding the Pharmaceutical Benefits Scheme safety net. In the CPI health prices went up by 0.3% nationally in the September Quarter, while health expenditure in the SLCI dropped by 1.7% for aged pensioners and 2.3% for other social security recipients (ABS, 2015a). In other words, health *prices* went up, but for those two groups health costs went down because more of their costs were covered by the Pharmaceutical Benefits Scheme.

Over the last year (Sept Qtr 2014 – Sept Qtr 2015), the living cost indexes for aged pensioners rose by 0.9% and for other social security recipients by 1.0%, by comparison to the generic CPI rise of 1.1% in Adelaide and 1.5% nationally (ABS, 2015a, 2015c).

Figure 1: Increases in Living Costs Sept Qtr 2015



These overall figures can be disaggregated to track changes in the price of key basic goods and services in the last quarter both in Adelaide and nationally. These are shown in Table 1 over the page.

Table 1: Cost of Living Changes Sept Qtr 2015 by expenditure type

Cost of Living Area	**Adelaide CPI Sept Qtr change %**	**National CPI Sept Qtr change %**	**Adelaide CPI Sept 2014-Sept 2015 %**	**National CPI Sept 2014–Sept 2015 %**
Food	0.0	0.1	-0.5	0.2
Housing	-0.2	0.6	0.8	2.7
Rent	0.4	0.3	1.6	1.5
Utilities	-2.9	-0.5	-3.1	0.7
• Electricity	-7.7	-1.4	-8.1	-0.1
• Water	1.7	2.6	1.7	2.2
• Gas	3.8	-1.3	3.8	0.9
Health	0.2	0.3	3.7	4.8
Transport	0.4	0.1	-1.3	-2.2
CPI All Groups	**0.3**	**0.5**	**1.1**	**1.5**

(Source: ABS, 2015c)

Incomes

Given that social security recipients have very low incomes, it is unlikely that any or any significant amount of the weekly benefit can be saved – at least for those not able to supplement their government payments with other incomes. For someone on the base level of benefits (with no rent assistance), and assuming that they spend all their income, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 2.

Table 2: Cost of Living Changes Sept Qtr 2014 –Sept 2015

	Base Allowance + Supplements (30 Sept 14)	Selected Living Cost Index change	Living Cost Change per week $	Base Allowance + Supplements (30 Sept 15)	Change in rates of same benefits $	Net Result $pw
Aged Pensioner (Single)	$427.15	0.9%	$3.84	$433.5	$6.35	+$2.51
Newstart with two FTB children	$542.72	1.0%	$5.43	$551.26	$8.54	+$3.11

(Source: Calculated from data in Centrelink, 2014, 2015; ABS, 2014a.
For details of calculation, see Explanatory Note 3 in the Appendix here)

That is to say, for those whose only source of income is a base-rate Aged Pension (with the Energy Supplement) and who spend all their income, the cost of living over the last year increased by $3.84 but this was more than covered by the approximately $6.35 a week increase in their income. Similarly, for a single person on the base rate of Newstart with two children, their cost of living of the last year went up by $5.43 per week while their income increased by $8.54, leaving them $3.11 a week better off.

SECTION 2: TAXES AND COST OF LIVING

Introduction

Taxes have a range of effects on the cost of living for households – both directly and indirectly, and particularly for low income households. Taxes provide the revenue from which governments pay for infrastructure and government services like public health and education. These public goods and services form a “social wage” which is a vital part of providing the standard of living enjoyed by all Australians. Without such public services, households would have to pay for the services from their individual resources, which as McAuley and Lyons (2015) argue, is often a more expensive and less efficient option. Alternatively, without (sufficient) taxes to pay for public goods and services, households would go without those goods and services so that their standard of living would be lower

For many lower income households, taxes also pay for the direct income support payments through the social security system. For many people in the lowest income categories, social security payments such as Newstart, Youth Allowance or pensions are their primary source of income, while other households also benefit from income support payments like Family Tax Benefits, rental assistance or concession payments which boost income and underpin a reasonable standard of living.

However, taxes also have to be collected and as such represent a cost to the household budget. This happens in a variety of ways, including:

- direct taxes on households (eg. land taxes, council rates)
- taxes on household income (eg. PAYG income taxes – with concessions for household dependants)
- taxes on household consumption (eg. GST, petrol excise taxes); and
- taxes on businesses (eg. payroll tax, land tax), the cost of which is passed on to consumers in higher prices or borne by the business thus reducing income to business owner households.

There is also the highly contested area of how taxes impact on the economy – on economic growth and jobs, and therefore household income. Do taxes enhance public investment and growth, or are taxes a fiscal drag on economic activity? And do different taxes have different impacts?

Given this complexity both in the ways taxes are collected and the uses to which taxes are put, it is too large an undertaking to detail all the potential cost of living impacts of taxation. Accordingly, this *Cost of Living Update* will only focus on the more direct impacts on household budgets.

Within this frame, this Update looks at the significance of taxes in the household budget, and briefly considers how they impact differently on different types of households, before considering the appropriate level and changes in taxation over time. Not surprisingly, the report shows that taxes are a significant household expenditure – in fact, they are the largest single category of household expenditure. However, over the last decade taxes have not increased significantly in real terms per capita, or as a proportion of the economy. Given this, the report concludes that taxes are not driving increased cost of living pressures.

Significance and Incidence of Taxes

In a paper earlier this year, the Australian Council of Social Service calculated that taxes accounted for approximately 23% of gross household income for middle income households in Australia (ACOSS, 2015a, p 16). This clearly represents a significant household expenditure, although a straight comparison to other expenditure categories in the *Household Expenditure Survey*, such as housing, food and transport would be misleading because it includes taxes embedded in other goods and services, while other commodities are not treated this way. For instance, only the direct household consumption of electricity or fuel is included, not all the electricity and fuel that went into the manufacture and distribution of goods and services.[1]

A simpler approach is to compare only direct taxes (income tax, council rates, Emergency Services Levy, conveyance duties and vehicle registration) with other categories of household consumption as this is a more like-for-like comparison of household expenditure. Using ABS income and expenditure data (ABS, 2011a, 2011b, and 2012) and the NATSEM data for state taxes (Govt of SA, 2015b, p. 23), SACOSS estimates that direct household taxes account for 15.6% of gross household income in South Australia. As Table 3 shows, this is the largest single category of household expenditure. Even allowing for some data inconsistency in the analysis, [2] at an order of magnitude of around 15% of household income, direct taxes are clearly a significant household expenditure.

Table 3: Relative Significance of Tax in SA Household Budgets

	Percent of Gross Household Income
Direct Household Taxes	15.6%
Current Housing Costs*	11.5%
Food	11.4%
Transport	9.8%

* excludes capital repayments and household furnishing

Source: SACOSS calculations

While tax has a significant impact on the household budget, it is not uniform across all households. The Australian tax system is generally regarded as a progressive system, and it is certainly the case that rates of income tax and the amount of tax paid increase with increasing income. However, different taxes have different impacts on households. When indirect taxes are included in the analysis the system is nowhere near as progressive as the income tax scales would suggest, as evident in Figure 2 below.

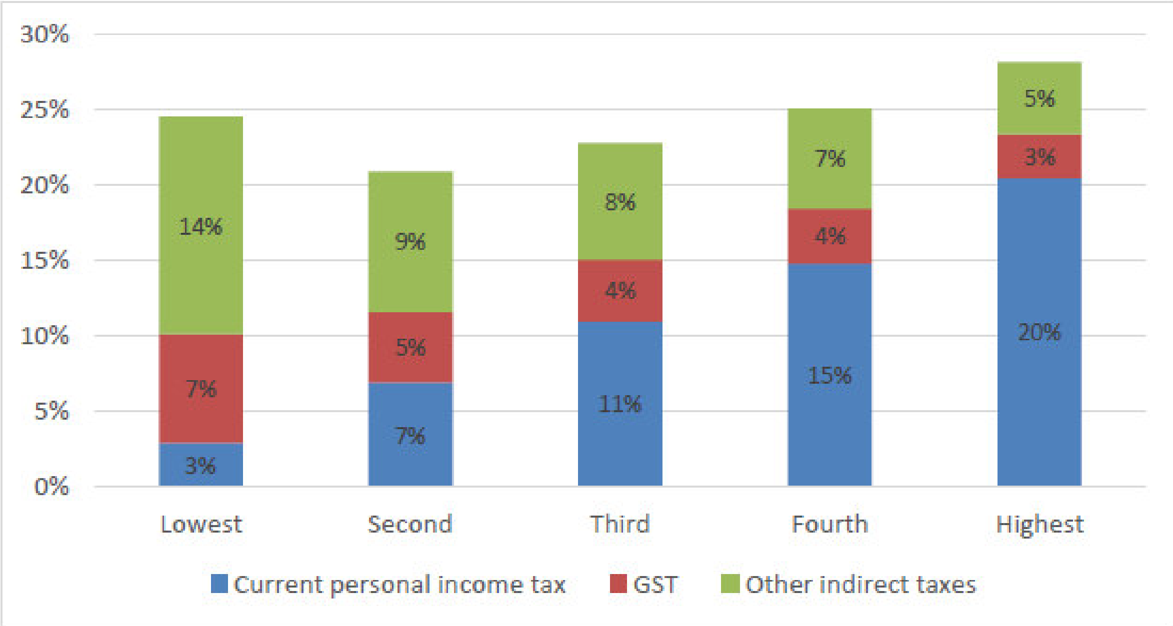
Figure 2, which is copied from ACOSS' *Tax – Are We Paying Our Fair Share?* paper earlier this year, shows that the lowest income quintile households pay approximately 24% of their income and the

1 Similarly, if we were including inputs in the analysis, it would be possible to argue that the percentage of taxation that went to the health budget (for instance) should be counted as health expenditure (rather than a taxation expenditure) because that is what the household is paying for, albeit as a public good. However this raises all sorts of category debates and takes us far from the standard ABS data on final household consumption.

2 The inconsistency arises from adding some taxes from 2009/10 *HES* with NATSEM data that has been updated by them to 2013-14. However, as the figures were combined simply be adding percentages, and the percentages were internally consistent, so the data error should be minimal (apart from changes in expenditure patterns since the survey) and does not undermine the argument about the significance of tax in the household budget.

highest quintile pays 28%. Clearly though, the make-up of the taxes paid differs substantially, with indirect taxes making up a greater proportion of the tax contribution of lower income households (ACOSS, 2015a). This was confirmed by recent modelling of potential GST changes which would see low income households hit proportionately harder than higher income households by either a broadening of the base or an increase in the rate of the GST (ACOSS, 2015b). This has lead ACOSS to conclude that the greater the role of personal taxes in the overall tax mix, the greater the likelihood of a reduction in income equality.

Figure 2: Combined effect of Personal Income and Indirect Taxes by Income Quintile



Source: (ACOSS, 2015a, p 16)

In ground-breaking work released recently, the Productivity Commission (2015) has extended this type of analysis of the incidence of taxes to take in changes over time as personal and household circumstances change through the life cycle. Their conclusion was that the tax and transfer system is less progressive on a lifetime basis than on an annual basis (as in the ACOSS analysis), but that the system still remained progressive.

All of the above confirms that taxes are a significant part of household expenditure for all households, although they impact differently on different households. However, it does not really tell us about cost of living pressures because it is not clear how much or what sorts of public goods and services, or income support, households get from the tax system. Taxes could be a significant part of the household budget, but could also provide a great range of collective goods that underpin people's standards of living, or they could be too high or too low and prove a net loss to the community.

Some guide to this can be obtained by comparing Australia and South Australia to other jurisdictions, but there are a range of data difficulties which make it difficult to compare tax rates or household expenditures. For instance, while the ABS *Household Expenditure Surveys* detail some taxes (such as council rates and income taxes), the indirect taxes are subsumed in expenditure on household goods and services. Further, it is not possible simply to track price increases in the way that CPI tracks price changes because many taxes are a percentage of costs/sales/incomes – which means that the tax contribution (expenditure) will vary while the rate (price) remains the same. Effective tax rates also vary depending on thresholds and concessional rates even though the nominal rate (what would be the price in CPI terms) remains the same.[3] And finally, different jurisdictions may have a different (and changing) basket of taxes, or apply them differently, which means that tracking rates for particular taxes rates may not tell a story about what is happening overall for households.

However, within these limitations, it is possible to analyse the impact of taxes on cost of living pressures for households by looking less at individual taxes and tax rates, and more at macro-level data on the amount of tax collected overall.

The two indicators that have most relevance to impacts on households' cost of living are taxes per capita (ie. the amount of tax collected divided the population) and taxes as a proportion of the economy. Taxation per capita is an average figure of taxes paid by the population, and even though not all taxes are paid by individuals, if we assume that business taxes are passed through to individuals through prices or decreased profits, then taxation per capita is a useful measure of overall taxes paid – and it can be adjusted for inflation to track changes over time. However, even adjusting for inflation, the per capita figure could be misleading if tax increases because of increased economic activity and income – in which case there may be no real tax (price) increase even though the amount of taxes paid increases. Accordingly, measuring taxes as a percentage of the economy (Gross Domestic/State Product) is an important complement to the per capita figures.

International and National Comparisons

International Comparisons

Despite common perceptions that Australians pay a lot of tax, by international standards Australia is not a high taxing country – although there are real debates over how to measure this and which countries are the best basis of comparison.

After acknowledging and accounting for a range of methodological difficulties in comparing tax regimes in different countries the Productivity Commission's recent report echoed many earlier reports in concluding that the level of taxation in Australia, as a percentage of the economy, is lower than in most comparable OECD countries. However, this figure is somewhat biased by the different treatment of superannuation and payroll taxes between countries, and the tax mix is also different with Australia having a relatively higher reliance on income taxes and a lower reliance on consumption taxes than the OECD average (Productivity Commission, 2015).

Australia's ranking in the OECD tax collection is shown in Figure 2 below. In 2012 (the last year for which all OECD statistics are available) Australia was the 7th lowest in terms of tax as a percentage of GDP (the economy).

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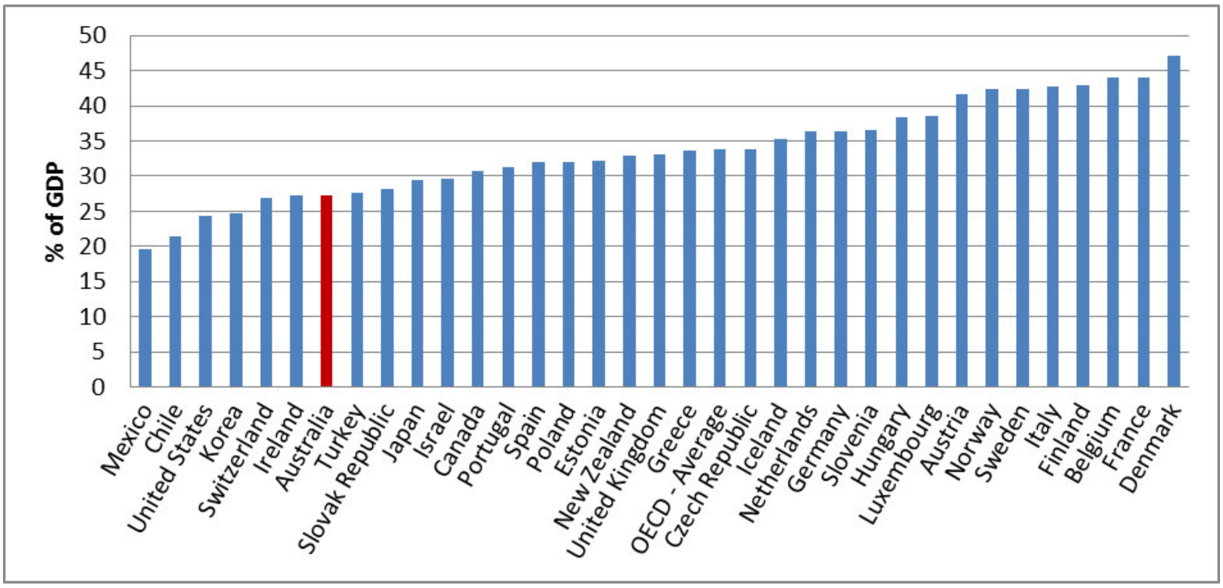
3 For instance, a 20% tax on sum of $20,000 would be $4,000. However, if there is a tax free threshold of $10,000, the tax payable would only be $2,000 – an effective rate of 10%. Increase the threshold to $18,000 and the effective tax rate is 20% of $2,000 = $400, an effective tax rate of 2%, even though the nominal tax rate (the price) remains at 20%. Income taxes, land taxes and payroll tax (in SA) have tax free thresholds.

Figure 3: Tax as a Proportion of the Economy – OECD, 2012



(Source: Derived from OECD, 2015)

In making its international comparison, the Federal Government's *ReThink* tax discussion paper showed a similar figure, but also included selected non-OECD Asian countries (China, Malaysia, India, Singapore, Hong Kong, and Indonesia) which all had lower tax-as-a-percent-of-GDP ratios than Australia (Australian Govt, 2015, p.17). This was designed to put Australian taxes in the context of regional trading relations and competitors, but given that those countries do not have the same level or sorts of public goods and services, or the same income support and social security safety net, the comparison serves to emphasise that the level of taxation is a choice. We can choose a low tax regime, but at a cost to the public goods and social security system that we rely on, or we can choose a stronger safety net and more investment in public goods - but that requires higher taxes.

The choice here is as much a values/ideology question as an economic one, and in terms of cost of living impacts, this *Update* seeks to do no more than draw the comparison.

State Comparisons

Similar comparisons can also be made of taxes between different Australian states and territories, although the total tax figures for households are hard to obtain because the incidence and geographic locations of indirect national taxes paid are difficult to identify.

The most relevant national taxes are personal income tax and the GST. These two taxes account for 63% of total Commonwealth taxes (Productivity Commission, 2015, p.6) and given that the bulk of the remainder of Federal taxes are company taxes, a focus on income tax and GST can also be justified as they have the most direct impact on the household budget.

According to modelling done by NATSEM (2015) for the South Australian Government, in 2014 the average Australian household paid around $5,829 in GST ($112 per week), while in South Australia the figure was $5,019 ($97 per week). Similarly, while the figures are dated, the ABS *Household Expenditure Survey* showed that in 2009-10, South Australian household paid $211.37 in income tax per week, below the national average of $260.19 (ABS, 2011b, Table 27B).

Clearly, in relation to the main Commonwealth taxes paid by households (GST and income tax) South Australian households are paying less than the national average. This is not unsurprising given the fact that South Australian household income and expenditure is lower than the national average and both taxes are a function of economic activity rather than differential tax rates between states. However, even as a percentage of household income, South Australian households pay less than the national average as evident in Table 4 below – presumably as a result of progressive income taxation and slightly different consumption and savings patterns.

Table 4: Main Commonwealth Taxes as Proportion of Household Income

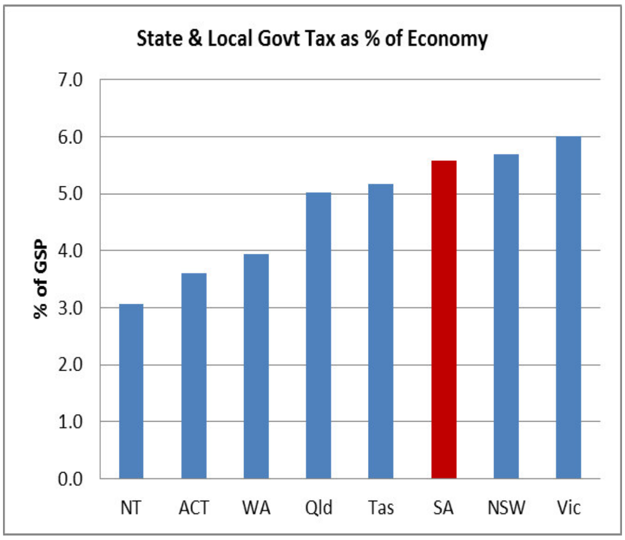
Tax	Base	SA	Australia
GST	% of Disposable Income	6.2%	6.6%
Income Tax	% of Gross Household Income	14.2%	15.4%

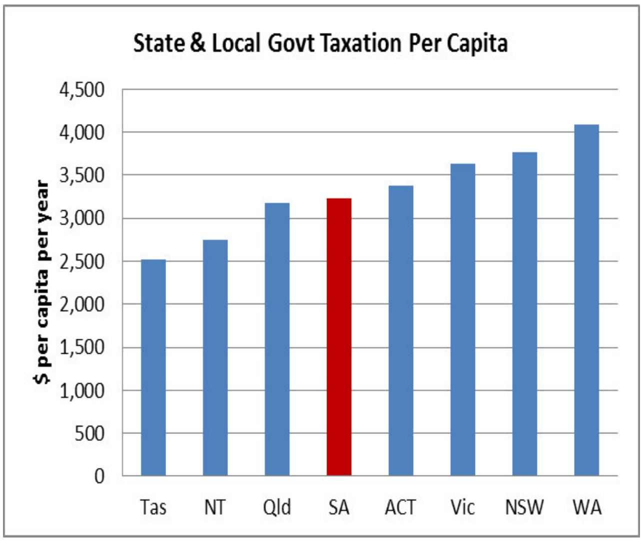
Source: NATSEM (2015), and SACOSS calculations derived from data in ABS (2011b).

The data on state and local government taxes is more complex. It is also important to note that in comparing state and territories the comparison does not necessarily show efficient, or good or bad governments or government services. It simply shows a quantum of tax collected, and this can be influenced by other factors such as natural resource endowments, demographics and federal government grants (impacting on the GST share available to the state or territory).

Figure 4 below shows that South Australia ranks somewhere in the middle in terms of how state and local government taxes might impact on households. Measured as a proportion of the economy, South Australian state and local government taxes are above the national average, but on a per capita basis they are slightly below average of other states and territories. The per capita figures are slightly different to those in the SA State Budget Papers which show South Australia as the third lowest on the per capita taxation scale (Govt of SA, 2015, p. 44). Those Budget figures deal only with state government expenditure, whereas local government is included here because the issue is the impact on households not the level of government.

Figure 4: Interstate Tax Comparisons, 2013-14





Source: SACOSS calculations derived from data in ABS (2015d), and ABS (2014)

It is also important to note that these figures, which are based on the South Australian per capita tax collection at $3,227 in 2013-14, pre-date the last state budget which saw a GST windfall used to cut SA household taxes like the Save the River Murray levy and a range of business taxes. As the GST changes would not show on the per capita figures while the other tax changes would, South Australia's position is possibly further towards the low tax end of the table.

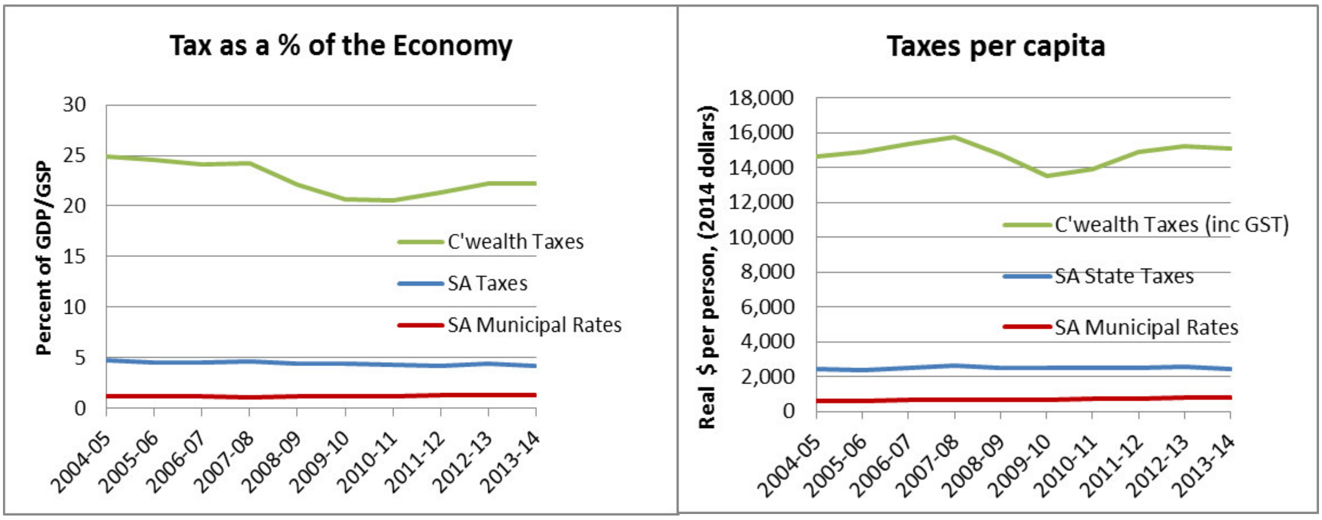
Either way, the conclusion of the state and territory comparisons above is that South Australia is not a high taxing state by comparison with other Australian jurisdictions, and South Australian households pay less tax than many of their interstate counterparts.

Changes over time

Against this background of Australia as a relative low tax country by OECD standards, and South Australia as a relatively low tax jurisdiction by comparison with other Australian states and territories, it is possible to track changes in tax collection over time to see if there has been any significant increase in the tax contributions of households over time.

As Figure 5 below shows, there has not been a significant increase in taxes over the last decade measured either as a percentage of the economy or on a real per capita basis (in 2014 dollars). Commonwealth taxation is a smaller part of the Australian economy than it was ten years ago, while the per capita figure has fluctuated and is now slightly higher than in 2004-05. In both cases there was a large dip around the Global Financial Crisis (because Federal taxes are closely linked to changes in economic activity), while state and local government taxes have been more stable.

Figure 5: Tax Changes, 2004 – 2014

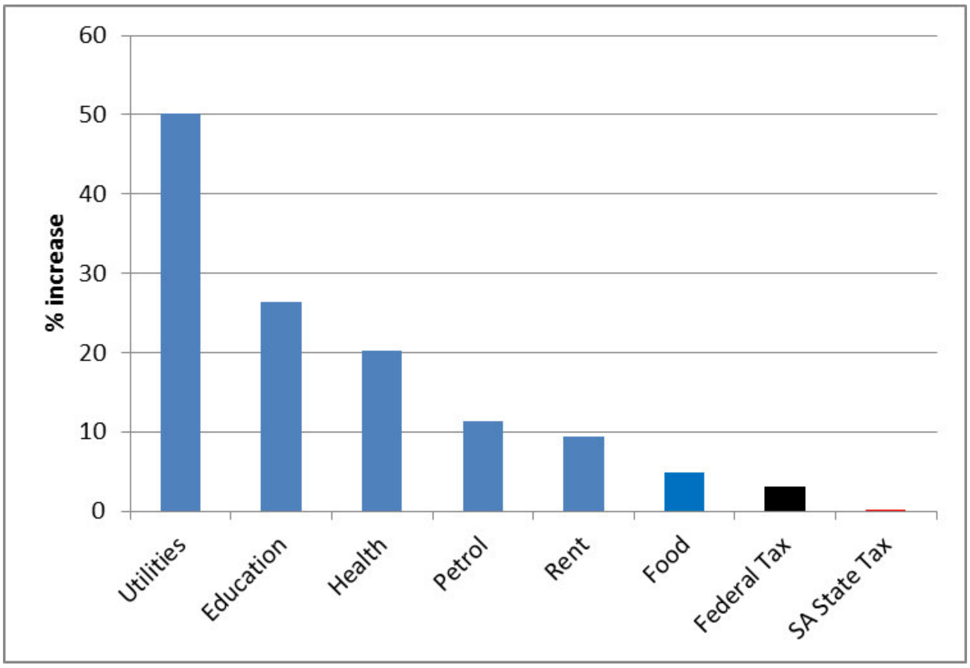


Source: SACOSS calculations derived from data in ABS (2015d), and ABS (2014a, 2014b)

South Australian state taxes have declined over ten years from 4.7% to 4.2% of Gross State Product, while remaining basically stable in real terms with slight increase from $2,444 per person in 2004-05 to around $2,449 per person in 2013-14. Local council rates (in aggregate) increased over the period as a proportion of the state economy from 1.2% to 1.3% of the state economy. In real per capita terms local council rates (in aggregate) increased by 27% during the period, but from a significantly smaller base so the increase does not show up in Figure 5. Council rates are also complex because they are levied by different councils at different rates, and so only the most general trends are tracked here. A future SACOSS *Cost of Living Update* will focus specifically on council rates and cost of living.

Again, these figures are already adjusted for inflation so any increase represents a real impact on the household budget. However, these tax increases should also be put into perspective, by placing these increases alongside the cost increases in other key areas of the household budget. Figure 6 provides such a comparison, although some caution needs to be exercised here because we are comparing an expenditure figure (in relation to tax) with a price figure (in relation to the other commodities). It is therefore not strictly a like-for-like comparison (it is similar to comparing the CPI and SLCI - see Appendix: Explanatory Note 1). However, even with that caveat it would appear that there are far more significant cost of living pressures on households than the small rise in real taxes over the last ten years. Prices in all the expenditure categories in Figure 6 have outstripped the increase in taxes – with obvious large increases in utilities, health and education. The conclusion is fairly obvious: taxes are not driving increased cost of living pressures.

Figure 6: Selected Cost of Living Increases in Real Terms, 2005-2014



Source: SACOSS calculations derived from data in ABS (2015d), and ABS (2014a, 2014b)

Conclusion

Tracking the extent and impact of taxation on households, and on low income households in particular, is an important background to the current political debates about reforming Australia's tax system. Understanding this impact, and any changes over time, should feed in to considerations of the goals of tax reform (eg. more or less tax?), and to notions of fairness (who pays tax and who will be impacted by changes?). This *Cost of Living Update* has not dealt with the issues of tax reform. However, the data in the report clearly shows that:

- taxes are a significant household expenditure; but
- Australia is not a high taxing country by international standards;
- South Australia is not a high taxing jurisdiction by Australian standards; and
- Over the last decade, taxes have not increased significantly in real terms per capita, or as a proportion of the economy.

The fairly obvious conclusion from this is that while taxes are significant in the household budget, they are not a driver of increasing cost of living pressures. Households who are struggling with cost of living pressures are far more likely being pressed by increases in prices of other necessary goods and services (and utilities in particular), than by any increase in tax.

Again, these conclusions are only background to the debate on tax reform, but the data clearly does not support calls for tax cuts to relieve a “tax burden”. If, as Oliver Wendall Holmes Jnr famously said, “taxes are the price we pay for a civilized society”, then the price we have been paying has not increased in the last decade and there is a risk that tax cuts may undermine the public infrastructure and vital services that our community relies on.

In this context, SACOSS believes that the first task of tax reform should be to ensure that there will be sufficient revenue to fund necessary public infrastructure and vital community services into the future, and to ensure that such revenue is collected fairly where those who can afford to contribute more tax pay more than those who are struggling.

APPENDIX: Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product), while the living cost index is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the ALCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the Selected Living Cost Indexes (ABS, 2013b).

In that sense, the Selected Living Cost Indexes are not a simple disaggregation of CPI and the two are not strictly comparable. However, both indexes are used to measure changes in the cost of living over time (although that is not what CPI was designed for), and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two and highlight the differences for different household types.

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that social security recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the living cost indexes are not state-based, so particular South Australian trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes are for households whose *predominant income* is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2009-*10 Household Expenditure Survey*) add up to well over the actual social security payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income, or more than one social security recipient in the same household. Like the CPI, the Living Cost Index figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories.

Another example of this "averaging problem" is that expenditures on some items, like housing, are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – again, because the worst case scenarios are "averaged out" by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were $300 per week, the average expenditure on rent between the two would be $150 per week, much less than what the renting pensioner was actually paying.

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the 2009-10 *Household Expenditure Survey*) and can't be changed until the next survey. In the meantime, the price of some necessities may increase rapidly, forcing people to change expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the Selected Living Cost Indexes' household income figures are based on households that are the average size for that household type: 1.52 people for the aged pensioners, and 2.57 for the other social security recipients (ABS, 2013b). This makes comparison with allowances difficult. This *Update* focuses on single person households or a single person with two children (to align to the other social security recipient household average of 2.57 persons). However, this is a proxy rather than statistical correlation.

It is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners.

3. Income Support Payment Calculations – September 2015

Even using the base rate of benefits, the calculation of the relevant weekly incomes is difficult because of the complexity of the income support system which means that payment eligibility and rates change depending on the exact circumstances of the household (eg. age of children, assets). The calculation is also complex because of changes over time in eligibility and available benefits. However, based on an assumption of a single Aged Pensioner and a single Newstart recipient with two children (aged 10 and 14) – with neither receiving Commonwealth Rent Assistance, the basic income supports payments are as follows:

Rates at 30 September 2014

	Base Rate	Pension Supple-ment	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$388.35	31.75	7.05					$427.15
Newstart - 2 children	$278.95		4.75	88.41	115.01	52.50	3.1	$542.72

Rates at 30 September 2015

	Base Rate	Pension Supple-ment	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$394.2	32.95	7.05					$433.50
Newstart - 2 children	$283.15		4.75	89.88	116.97	53.41	3.1	$551.26

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