The Cost of Privilege: Household modelling

These examples show the amount of taxpayer support to different households, using hypothetical families to highlight the differences between typical circumstances for many Australians. Detailed information on these households, and our assumptions, are in the full report.

Household One – Kevin and Andrea

Kevin and Andrea rent a two bedroom apartment in the suburbs of Adelaide with their boys, Liam, aged 11 and Noah aged 9. The boys go to the local state primary school.

Andrea left her part time job as a book-keeper when Liam was born; Kevin lost his job last year when the Holden factory closed down and hasn't yet found another position.

Both Kevin and Andrea are looking for work. Andrea is undertaking online courses to bring her skills up to speed with online accounting programs but can't afford to attend a formal course and get new qualifications.

The family is currently relying entirely on income support. They are both receiving Newstart, and Family Tax Benefits A and B, and get Rent Assistance.

The total cost to the budget of income support for Kevin and Andrea's family is $42,103.13 per year, or $809.67 per week. This is their total household income.

Household Two – Anthony and Maria

Anthony and Maria have two kids, Alice, aged 10, and Ella, aged 7. They rent a two bedroom house in the outer suburbs of Melbourne, and the girls attend the local state primary school.

Anthony has been unable to work since his Multiple Sclerosis progressed to the point where it severely limited his movement three years ago. He receives the Disability Support Payment.

Maria works part-time as a retail assistant at a large chain store in the local shopping centre, five hours a day during school hours. She is otherwise a full-time carer for her husband and children. Anthony's mum and sister take turns coming to the house to care for Anthony while Maria is at work.

Maria's take home pay, after tax of $1059.63, is $22,717.37 per year, or $436.87 per week. Anthony's DSP provides an additional $23,254.40 per year, or $447.20 per week. The family also receives Family Tax Benefit A and Rent Assistance, bringing their total household income to $59,541.69 per year, or $1145.03 per week.

Of this, the amount received from the taxpayer in income support is $36,824.32, or $708.16 per week.

Household Three – Michael and Gillian

Michael and Gillian have two children, Isabella, aged 12 and Max, aged 8.

They paid off their mortgage two years ago and live in a four bedroom house in a bayside suburb of Melbourne. Isabella and Max go to the local Catholic primary school and will go on to Catholic secondary college. The family has intermediate hospital and extras private health insurance.

Michael is a Team Leader at a large telecommunications company, and earns $230,000 per year. Gillian works 20 hours a week, during school hours, in the HR department of a major bank, and earns $60,000 per year.

Both Michael and Gillian salary sacrifice into their superannuation accounts up to the $25,000 concessional cap. While Michael can only contribute an extra $3,150 of his pre-tax income to super on top of the $21,850 in compulsory contributions already made by his employer, Gillian can contribute $19,000, reducing her taxable income to $41,000.

They own a three bedroom house in Rye, which they rent out through AirBnB as a holiday home and negatively gear, allowing them to reduce Michael's taxable income by a further $9,400.

The value of the capital gains tax concession on their holiday home gives them $4,500 in concessional benefits annually, and the tax exemption of their family home in Melbourne provides another concession of $23,500 per year.

Michael and Gillian also receive GST tax exemptions on their private health and education costs to the value of $3,250.00 per year.

Their combined family income after tax is $215,446 per annum, or $4,143.19 per week.

The total amount received from the taxpayer in tax concessions for this family is $71,705 per year, or $1,378.94 per week.

Household Four – Tim and Michelle

Tim and Michelle have two children, Tom, aged 9 and Amelia, aged 7.

They own their own home in an inner suburb of Sydney, and both the children are enrolled in a private, Prep to Year 12 college. The family has top hospital and extras private health insurance.

Tim owns his own business, with a business profit of $230,000 per annum. Michelle doesn't work, but is listed as a Director of Tim's company, primarily for tax purposes.

Both Tim and Michelle contribute the maximum $25,000 pre-tax contributions to their superannuation accounts. They have two negatively geared investment properties, including a holiday house in Byron Bay which is rented privately for short-term holiday leases through a local real estate agent, and a three bedroom house in Surry Hills that is leased long-term to a tenant.

The family uses a discretionary trust to distribute income from the business, including $54,000 annually to Michelle and the maximum amount allowed for the children. Combined with Michelle's $10,000 Director's fee, this keeps her total income just inside the lowest marginal tax rate after she contributes $25,000 of pre-tax income to her superannuation and deducts purchases of family items used primarily for entertainment, such as their broadband service and mobile phones, through home office expenses.

Tim and Michelle each drive luxury vehicles purchased through novated leases through the family business costing $19,414 each per year.

The value of the capital gains tax concession on their holiday home gives them $4,500 in concessional benefits annually, with another $4,500 from the rental property in Surry Hills, and the tax exemption of their family home in inner Sydney provides another concession of $23,500 per year.

Tim and Michelle also receive GST tax exemptions on their private health and education costs in the value of $3,250.00 per year.

Although the business earns $230,000 a year, by using all of these methods, Tim reduces his taxable income to just $58,340 and Michelle's is $37,000. Together they pay a total of $21,579 in tax, including $7500 in superannuation contribution tax.

Tim and Michelle therefore have combined family income after tax of $208,421 per year, or $4008.10 per week.

The total amount received from the taxpayer in tax concessions for this family is $99,708 per year, or $1,917.46 per week.