

FINANCIAL FRIDAYS

Macroeconomic Outlook

International

Is Australia's tax system too generous to the old while younger workers fall behind?

Retirees are wealthier than ever, yet the tax and welfare system continues to treat them as though they still need support. The average 75-year-old now enjoys a post-tax income equal to the national average, up from about three-quarters of it 25 years ago, and significantly higher than Australians aged 18–30. Much of this income comes from property and superannuation, which benefit from favourable tax treatment and allow older Australians to accumulate wealth well into retirement.

The contrast with younger generations is striking. Australians in their 20s and 30s face rising housing costs, childcare expenses and sluggish wage growth, all while contributing more tax through bracket creep. Treasury has cautioned that relying on working-age people to fund ever-growing pensions, healthcare and aged care costs is not sustainable and risks deepening intergenerational inequity.

Reserve Bank economists have added another layer to the debate, showing how weaker competition and slowing productivity have left the entire economy smaller than it should be. They estimate that if industries had remained as competitive as in the mid-2000s, Australia's output would be up to 3 per cent higher, worth about \$3000 per person. For younger Australians, the message is clear: not only are they taxed more heavily to fund older cohorts, they are doing so in an economy with weaker income growth.

Researchers point to five broad implications of this shift. First, intergenerational equity is worsening as older Australians now enjoy higher incomes than many in the workforce. Second, a third of national income, largely from housing and super, escapes the tax net which increases the pressure on wages. Third, many retirees are dying with large super balances, evidence that the system is not smoothing lifetime incomes as intended. Fourth, soaring house prices have disproportionately benefited older Australians while locking younger ones out. Finally, the budget outlook is deteriorating as spending on pensions and aged care grows faster than the tax base that funds it.

For now, political appetite for reform remains limited. Prime Minister Anthony Albanese has ruled out new taxes without an electoral mandate, though he has left the door open to taking ideas to the next election. But economists warn that unless productivity is revived and the tax system rebalanced, Australia risks locking in a future where workers are heavily taxed when they most need support – and retirees remain the wealthiest generation in the country's history.

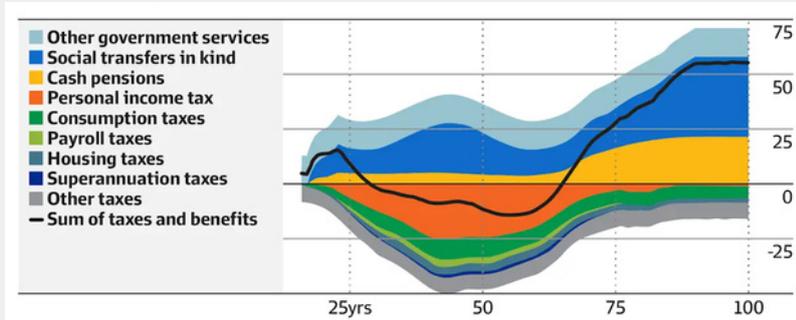


Figure 1: Average impact of the Australian tax system at different ages (\$'000)
Source: ANU

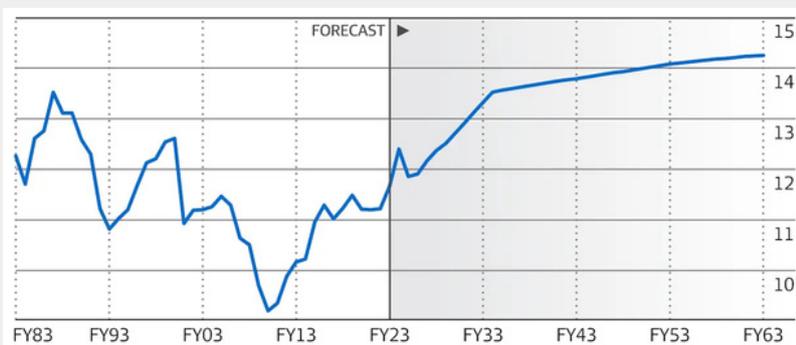


Figure 2: Personal income tax receipts (%GDP)
Source: Treasury

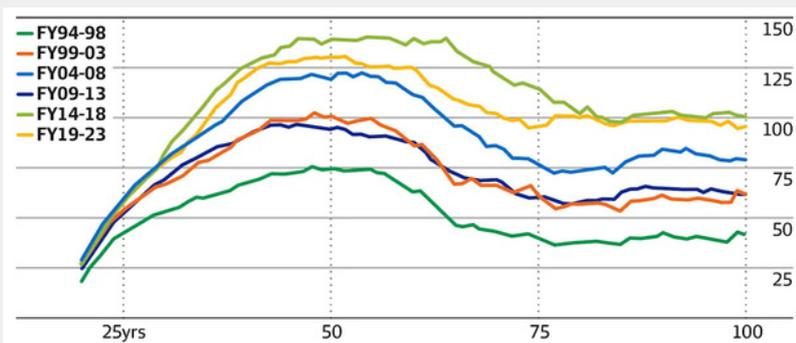


Figure 3: Private income at different ages (\$'000)
Source: ANU

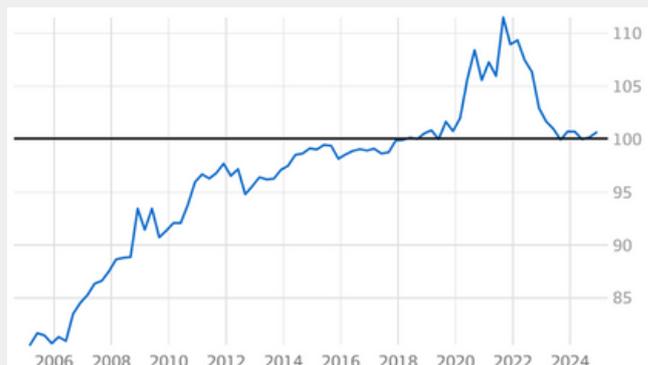


Figure 3: Real household disposable income per capita
Source: ABS