Money boost looms for millions but threats could derail it

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After two years of surging living costs and shrinking household purchasing power, middle and above-average wage earners are in line for a triple financial windfall from 2024.

The legislated stage three tax cuts, more superannuation money and potential interest rate reductions will pump thousands of dollars back into people's savings.

But economic and finance specialists warn that threats remain, including interest rates and inflation staying high and a wider conflict in the Middle East, and these could limit the boost for household incomes.

The stage three tax cuts from July 1 will add $94 a month to an average wage earner on $90,000 and $756 a month to someone on more than $200,000, and they follow stages one and two cuts for lower and middle income earners in 2018 and 2020.

Meanwhile, the dozen Reserve Bank interest rate rises since May 2022 have pushed up the cost of a $500,000 mortgage by $1200 a month, and by $2400 a month for a $1 million mortgage, and cuts will unwind that pressure.

Savers will also see another 0.5 per cent increase in compulsory Superannuation Guarantee payments, from 11 to 11.5 per cent, from July 1.

Compare the Market economic director David Koch said "Australians deserve the stage three tax cuts".

He said household tax payable as a proportion of wages was at its highest level in more than 20 years, amid the highest inflation and interest rates in decades.

"So you now have a federal government with close to a record level of personal income tax take … that is just crippling average Australians.

Compare the Market economic director David Koch says tax cuts are vital. Picture: Supplied

Mr Koch said the stage three tax cuts could be better targeted to “those who really need it, and away from those who it doesn’t make an enormous difference to”.

He said an entire generation of Australians had never seen a high-inflation, high interest rate environment, “and older Australians like me remember those high inflation times but we haven’t been here for 30 or 40 years either”.

“It’s been chaos for households as they try to cope with this.

“And we also have a Treasurer who’s been a bit like Oprah, saying ‘you can have a pay rise, you can have a pay rise’ … not explaining to people that it feeds into inflation and more interest rate rises.

Catapult Wealth director Tony Catt said many households were looking forward to the stage three tax cuts and “they’re hanging on at the moment”.

“They’re saying ‘we are going to see this through’,” he said.

“The Reserve Bank needs to be careful – it’s hurting the 20-to-50 year olds with mortgages and cost-of-living increases.”

Mr Catt said the rate rises of the past 18 months had made a significant difference to a lot of people’s spending, and noted that some cost-of-living pressures would “hopefully start to dissipate over the next six months”.


Catapult Wealth director Tony Catt says households are hanging on. Picture: Supplied

He said the superannuation rise was good news for savers, as were new government moves to ensure compulsory employer super contributions were made in line with pay days from July 2026.

Financial strategist Theo Marinis said while the outlook for household income in 2024 was more positive that 2022 and 2023, “there are no certainties”.

“If it becomes a wider conflict in the Middle East, petrol prices will go through the roof,” he said.

This could fuel further inflation and interest rate rises, and Mr Marinis said a weaker Australian dollar also could feed into higher inflation as imports became more expensive.

“Assuming that the Israel situation doesn’t get out of control and cause more terrible loss of life and ripple effects economically, we expect next year to be much better” he said.

Compare the Market’s Mr Koch said Australians had hopefully seen the last of Reserve Bank interest rate rises, but he did believe they would be dropping any time soon.

“I think inflation will be a lot stickier and I wouldn’t be so sure of big rate cuts next year.”

RBA rate cuts might arrive “way at the back end of next year, if at all,” Mr Koch said.

“We need to be a bit cautious about it and not be overly optimistic and mislead people – the Reserve Bank has done enough of that in the past.”

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