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Australian Workshop on Public Finance

Family Assistance in Australia:

Objectives, Impact and Directions for Reform

Melbourne Law School and the Brotherhood of St Laurence

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We pay respect to Elders past, present and future, and acknowledge the importance of Indigenous knowledge in the Academy. As a community of researchers, teachers, professional staff and students we are privileged to work and learn every day with Indigenous colleagues and partners.

Overview

- Motivation
- History and policy of family assistance in Australia
- Family Tax Benefit A and B
- Coverage, cost and other data
- Work disincentives and EMTRs
- Objectives of family assistance and directions for reform

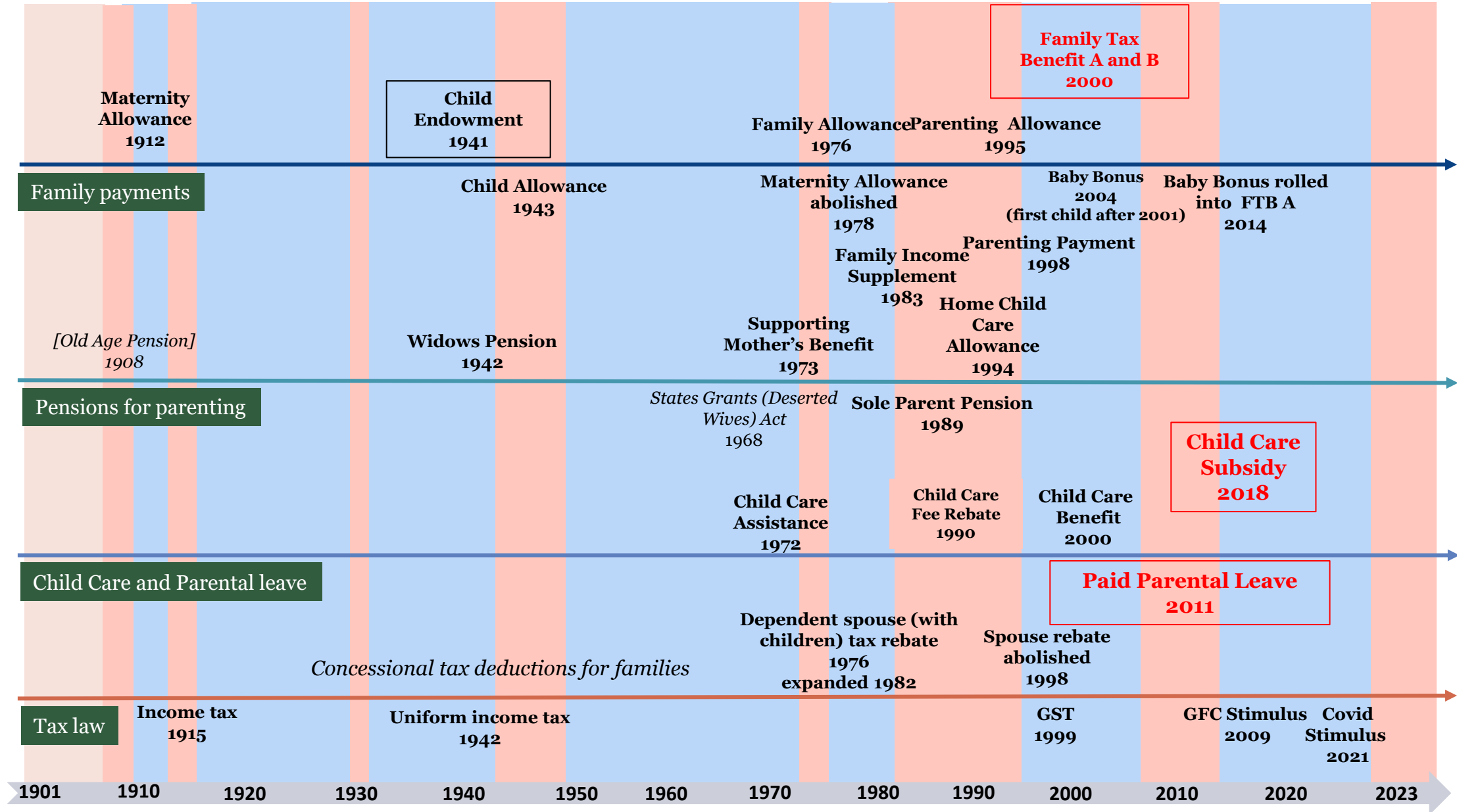
Motivation

Why study Family Tax Benefit?

- Under-researched; apparent gap in the literature
- Important: Australia's core payments to families specifically for costs of children
- Basic structure of FTB A and B unchanged since 2000
 - But significant changes by tinkering with levels, tapers, thresholds, indexation has led to...
 - Steeply declining coverage of FTB, in last two decades and since the 1970s
 - Compliance is complex and risky including over and underpayments and debt
- Environment for payments for families with children has changed significantly and policy goals have also changed
- Multiple interactions of FTB with other payments, benefits, and the income tax
 - Contributes to high Effective Marginal Tax Rates on workforce participation
 - Undermines contemporary policy goals of gender equity

History and policy of family assistance in Australia

A century of Australian Family Payments



Various objectives, sometimes conflicting, changing over time

- Improving child outcomes
- Contribution to support care of children (eg breadwinner-homemaker family or, later, single parent)
- Supplementing family incomes for costs of children
- Population policy; incentives to have children
- Encouraging women's workforce participation
- Targeted poverty alleviation

Operation, parameters and impact of FTB A and B

FTB A and B (since 2000)

- Two income-tested cash transfers:
 - **FTB A** *direct costs* of children
 - **FTB B** *costs of caring* for children
- Available to new or temporary migrant families (residency test, waiting period 1 year)
- May be split between families based on care time for eligible child(ren), minimum care time 35%
- Rates and thresholds were indexed to inflation when introduced

FTB A

- Paid **per child** to the carer of dependent children
- Aged 0 to 15 years, or 16 to 19 years in full-time secondary study and not receiving income support
- Exempt from tax; income test on combined Adjusted Taxable Income; two threshold
- Immunisation requirements
- FTB A supplement for low income families
- Commonwealth rent assistance for low income families

FTB B

- Single payment to **primary carer** of dependent children in a couple family, single parent, non-parent carer, a grandparent or great-grandparent
- Single carer, youngest child under 18; couple, youngest child under 13
- Exempt from tax; income test on primary and secondary earner income

Frequent tinkering with eligibility, payment rates and thresholds since 2000

- 2001 to 2006, thresholds for higher income tax rates increased and payments expanded (supplement)
 - Substantial lift in FTB A payments; supplement
 - 2004 Baby bonus added one-off per child payment
- 2009-10 GFC stimulus one-off addition to FTB
- 2011, FTB A higher income free area indexation paused
- 2012 Gillard Government increased maximum rate of FTB A under its Benefits of the Boom package
 - Pause in indexation of the FTB A higher income free area extended to 2014, and then 2016 to 2020
- 2014, 2015 Abbot, Turnbull Governments
 - Baby bonus rolled into FTB A (and parental leave)
 - FTB eligibility limited for older children
 - Pause in indexation of FTB A higher income free area extended to 2016 then 2020
- 2018, Morrison Government one-off increase of to FTB A higher income free area
 - Paused indexation until 2021.
- 2019, upper taper rate of 30% introduced for FTB A

Lack of indexation of thresholds caused a form of bracket creep by loss of benefit eligibility

Evolving context of family assistance: Other support for families with children

Parental Leave Pay

- Wage subsidy at weekly national minimum wage
- 20 weeks to birth mother or designated carer [July 2023]
- Activity test for previous period
- Eligibility based on individual Adjusted Taxable Income test, elective family income test
- No taper (all or nothing)
- Taxable payment
- Cannot receive FTB B while on PLP

Child Care Subsidy

- Children aged 13 or younger, paid to approved childcare service where child attends
- Non-taxable to recipient
- Activity test [minimum hours]; abolition has been recommended
- Maximum coverage 95% of fee (hourly cap) [July 2023]
- Income test on family Adjusted Taxable Income, gradual taper

Parenting Payment

- Partnered or Single, paid to primary carer
- Income and assets test on gross income and deemed income
- ParentsNext to cease; replacement in preparation
- Taxable to recipient
- Youngest child aged 14, single parents shifted to Jobseeker [up from age 8, July 2023]

Child Support

- Seeks to ensure that parents who are not the primary carers of children financially contribute to their costs
- Amount contributed based on Adjusted Taxable Income of payer
- Non-taxable to recipient
- Maintenance income test: FTB tapers at 50% for child support above a threshold

Rates, tapers and thresholds (1 July 2023)

	FTB A	FTB B
Payment rate	<p>Maximum (standard) rate (per child)</p> <ul style="list-style-type: none"> • \$5,562.60 per year (0-12) • \$7,234.30 per year (13-15; students 16-19). <p>Base rate: \$1,784.85 per year.</p>	<p>Maximum (standard) rate</p> <ul style="list-style-type: none"> • \$4,730.40 per year <ul style="list-style-type: none"> ○ youngest child 0-4 • \$3,299.60 per year <ul style="list-style-type: none"> ○ youngest child 5-13, couple families ○ youngest child 5 -18, single parents, grandparents
Income free area and taper Sole or couple Adjusted Taxable Income (ATI)	<p>Individual or couple ATI</p> <ul style="list-style-type: none"> • \$61,634 lower income free area • 20% taper to \$111,398 • 30% taper from \$111,399 <p>No taper if receiving an income support payment</p>	<p>Primary or sole earner ATI</p> <ul style="list-style-type: none"> • \$6,497 income free area • 20% taper to \$112,578 <p>Secondary earner ATI up to \$6,059</p> <ul style="list-style-type: none"> • 20% taper to \$32,303 per year (0-4) • 20% taper to \$25,149 per year (5-13)
Supplement	Maximum \$879.65 per child	Maximum \$430.70 per family
Child support	Maintenance income test	

Example: maximum rate

- Couple family with breadwinner, two children aged 2 and 3 earning **\$46,000 (min wage)**, assume Adjusted Taxable Income
 - Maximum rate FTB A, $2 * 5,562.60$ \$ 11,125.20
 - Maximum rate FTB B, 4,730.40 \$ 4,730.40
 - \$ 15,855.60 (not taxable)**
 - Total family income \$ 61,855.60
 - Net of income tax (\$5,417 on 46,000) **\$ 54,617.50**
 - No obligation for Medicare levy
- **FTB contributes 29% of disposable income for this family**
- This family is brought above the poverty line (no housing), 2022:
 - Couple plus 2 children (housing) \$1,148.15/week; \$60,000 per year
 - Couple plus 2 children (other than housing) \$ 888.78/week; \$46,000 per year
- *NB This family would also be eligible for FTB A supplement plus rent assistance*

Issues with FTB

Summary of issues with current system

1. Declining coverage
2. Reduced adequacy to cover costs of children and recognise the value of care
3. Complexity and risk in administration and compliance
4. Disincentives for women's workforce participation
5. Barriers to achieving gender equity

1. Coverage and cost

Current beneficiaries of FTB

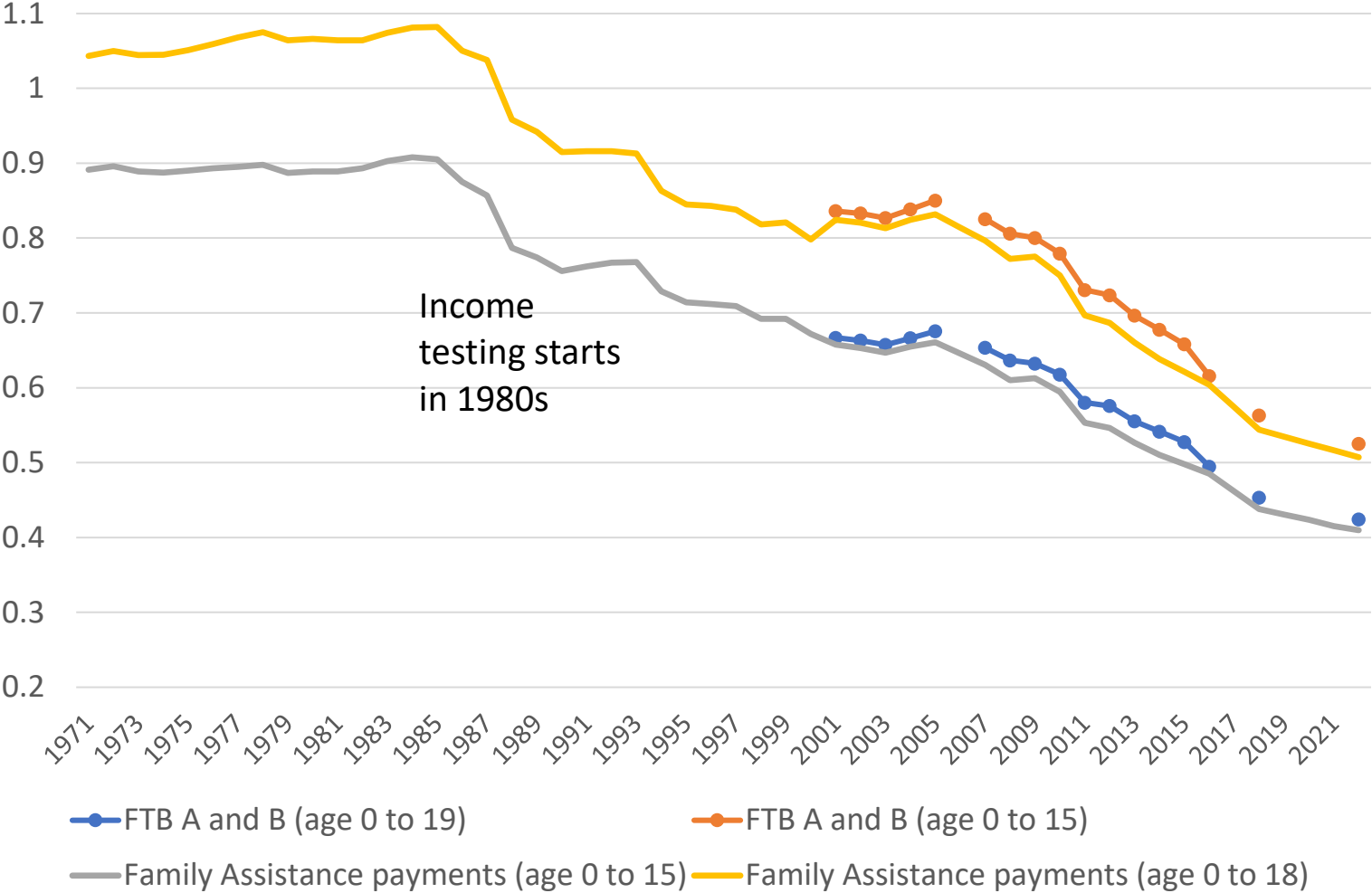
- In December 2022, **1.32 m** families receive FTB A and/or FTB B
 - Estimated **2.6 m** children
 - 77% eligible for both payments
- **1.32 m FTB A recipients**
 - split evenly between partnered and unpartnered families
 - 39% on maximum rate
- **1.02 m FTB B recipients**
 - Data on gender of recipient not published
 - Two thirds unpartnered
 - 72% on maximum rate
- **Most recipients have low incomes**
 - 42% receive other income support (no taper of FTB A)
 - PPS (16%)
 - PPP (3%)
 - Jobseeker (11%)
 - Carer payment (6%)
 - DSP (5%)
 - 11% receive rent assistance with FTB A
 - Little data on ethnicity or other background
 - About 9% identify as First Nations
 - Age of recipients : 30% under 35, 40% 35-44, 28% over 45
 - *Query: shared care, how are payments split?*

Fiscal cost by components of Family Assistance

Payment	2022-23 \$m	2023-24 \$m	2024-25 \$m	2025-26 \$m	2026-27 \$m
Family Assistance	19,872	21,460	22,767	23,910	24,830
FTB A	13,083	14,155	14,935	15,463	15,828
FTB B	3,835	4,158	4,331	4,482	4,517
Parental Leave Pay	2,625	3,042	3,420	3,874	4,362
Dad and Partner Pay	150	-	-	-	-
Child Care Subsidy	10,626	12,716	13,474	14,160	14,958
Parents income support	5,918	7,501	8,200	8,503	8,942
Child Support	1,834	1,886	1,923	1,954	1,982

Declining coverage of children to 42% from 100% in 1971

Estimated 42% coverage in 2022, 68% in 2005, 100% in 1971

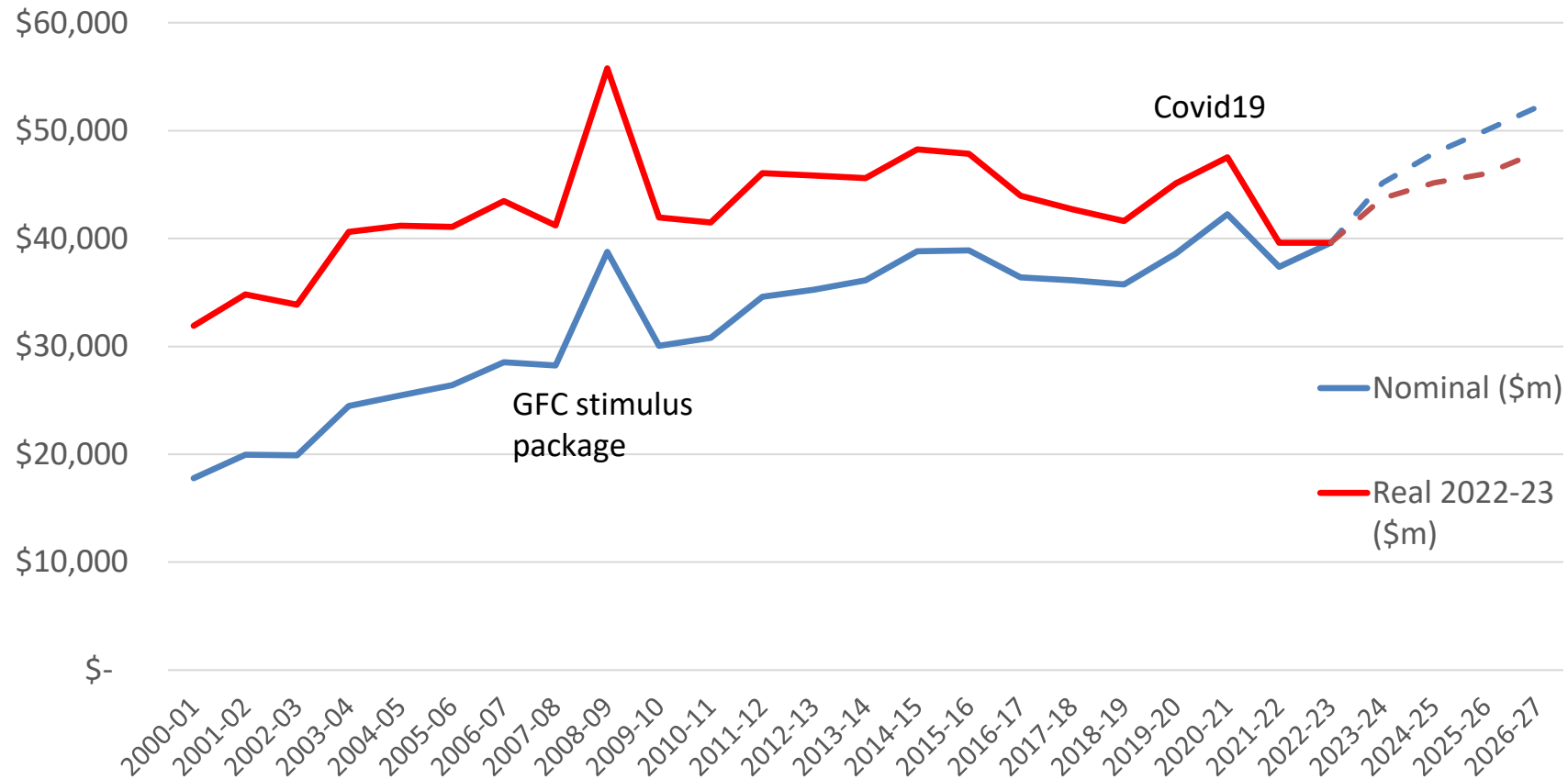


Source: Whiteford, Peter (2023); Porter (2023) using data from Hill (2006), Budget Paper No.1, Statement 6, 2007-22.

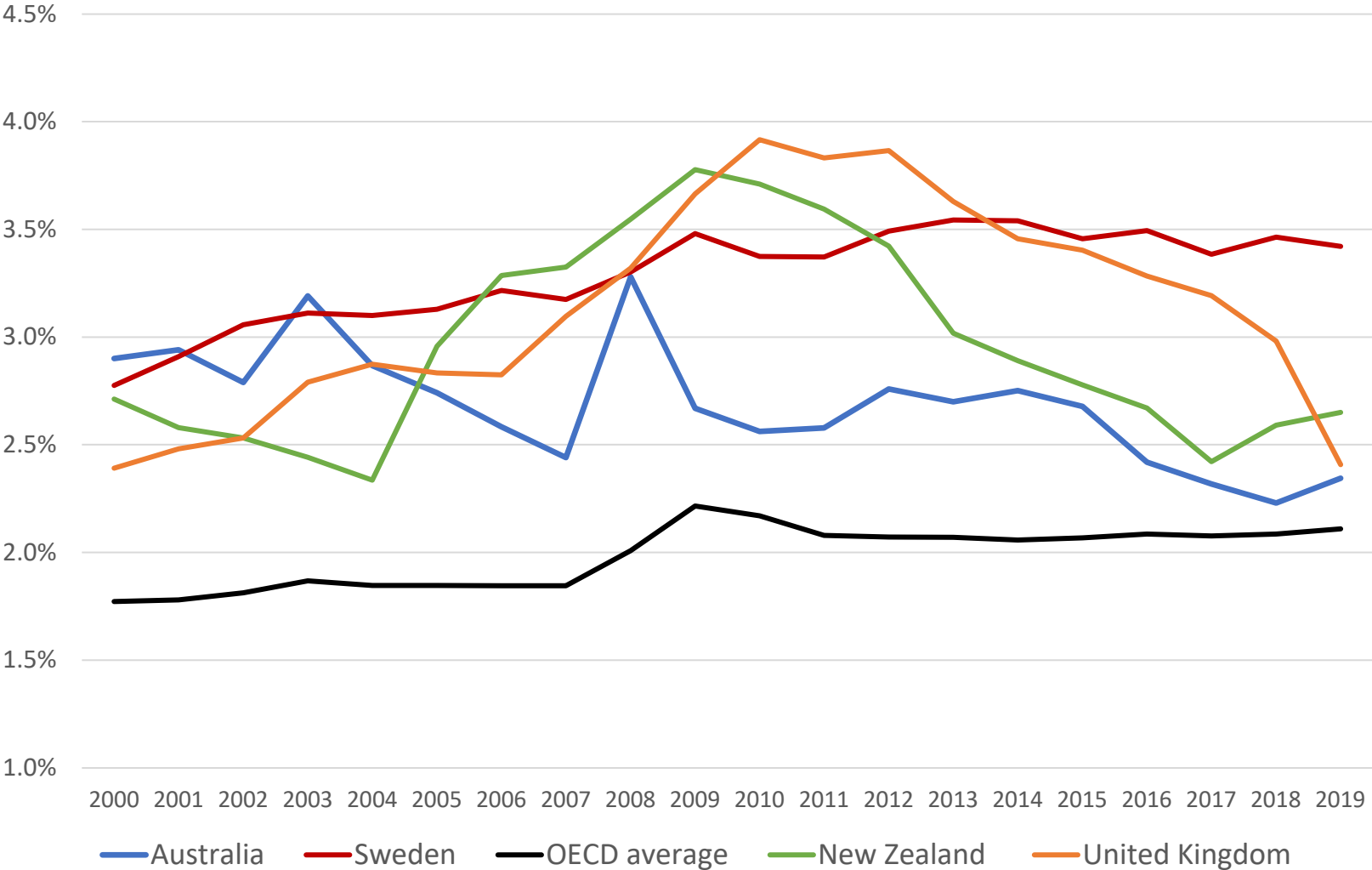
Fiscal cost in nominal and real dollars

Budget papers, 2000-01 to 2023-24 and forecast to 2026-27

NB Budget category for assistance to families is broader than FTB and changes over time; includes paid parental leave



Family assistance decline as % of GDP (and comparing with OECD), 2000-2020



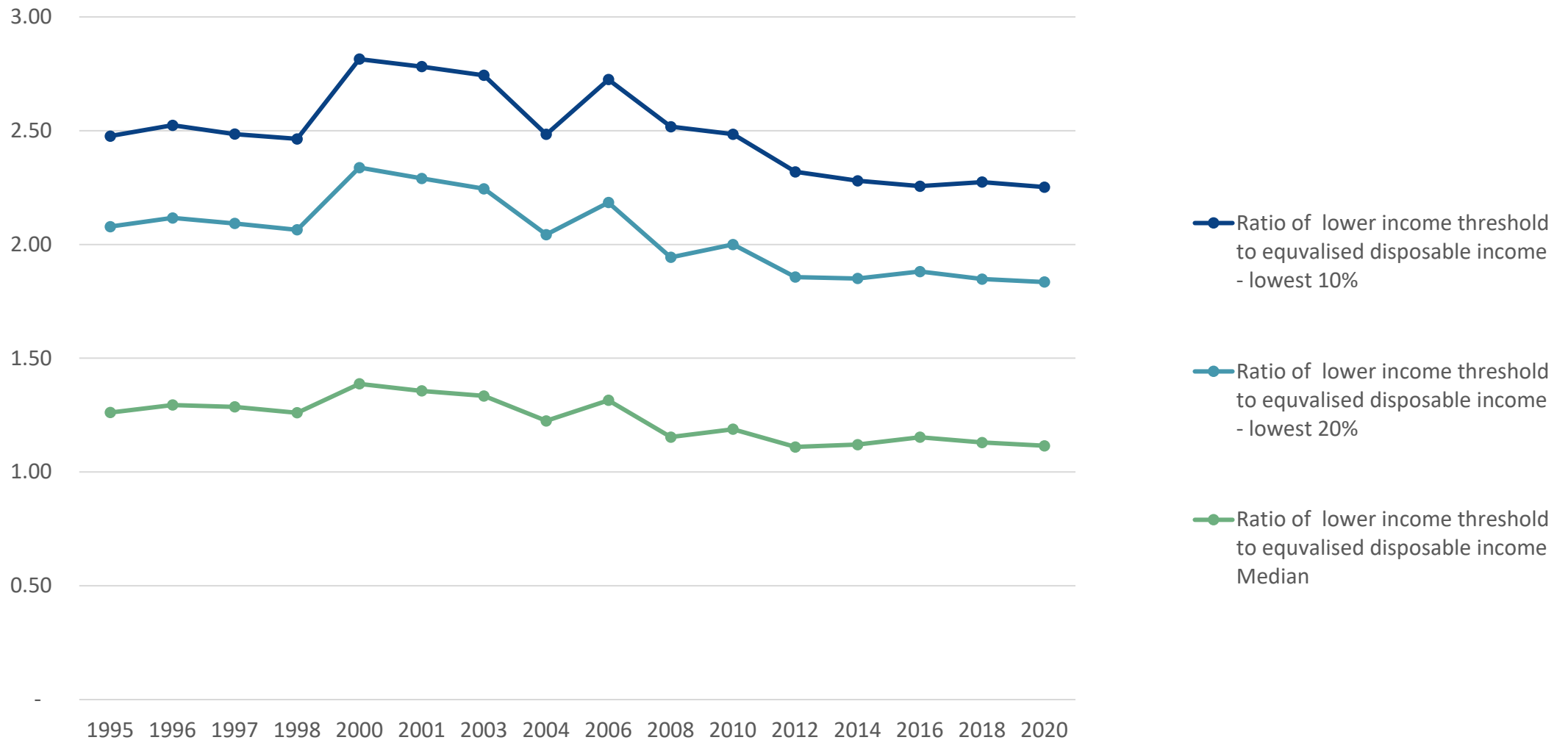
- Includes
- Cash transfers per child
 - Payments for sole parents
 - Paid Parental Leave

Source: <https://data.oecd.org/socialexp/family-benefits-public-spending.htm>

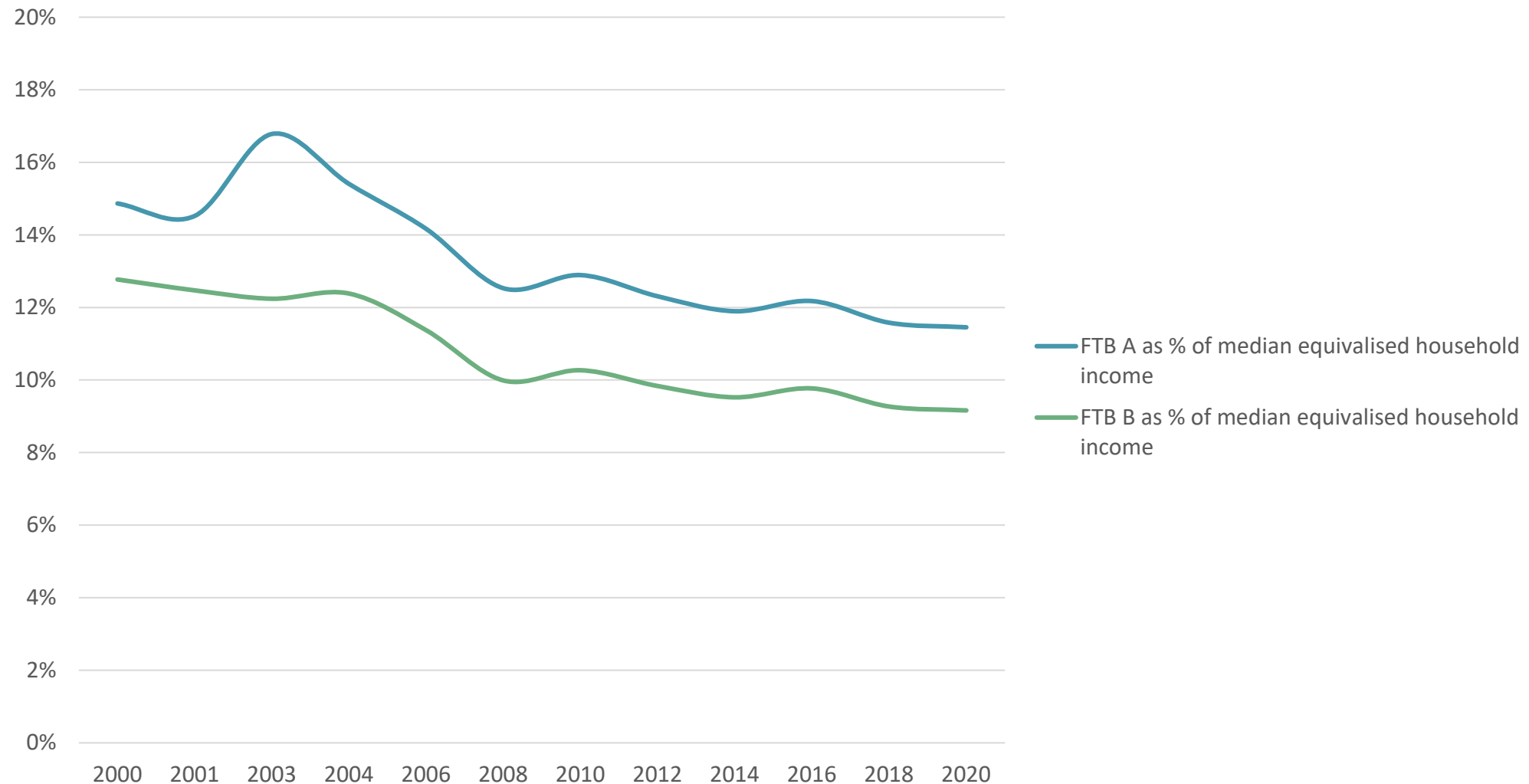
2. Adequacy

(note: we have not done estimates of costs of children...)

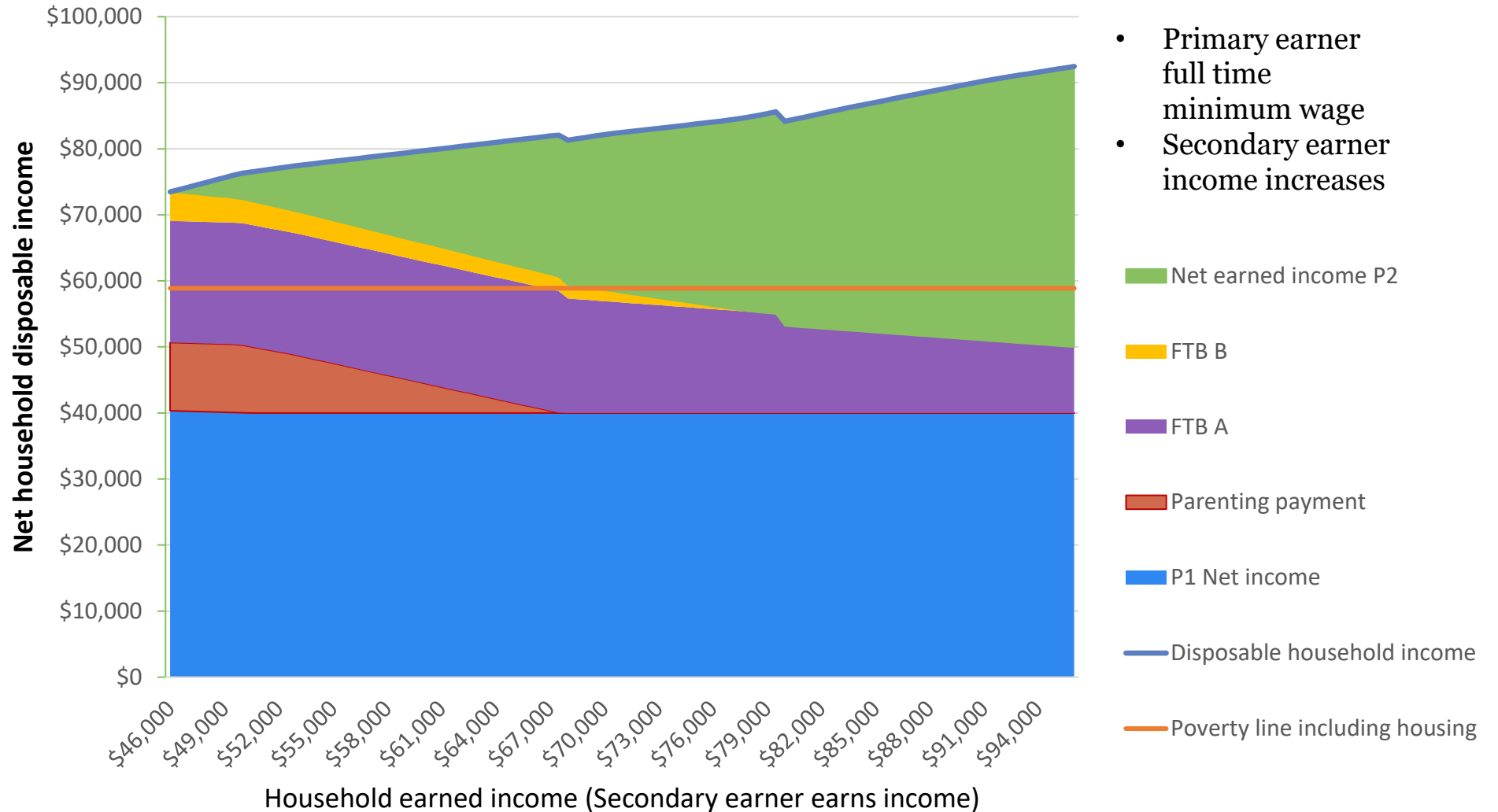
FTB A lower income threshold as proportion of equivalized disposable household income (1995 to 2023) (lowest 10%, lowest 20% and median)



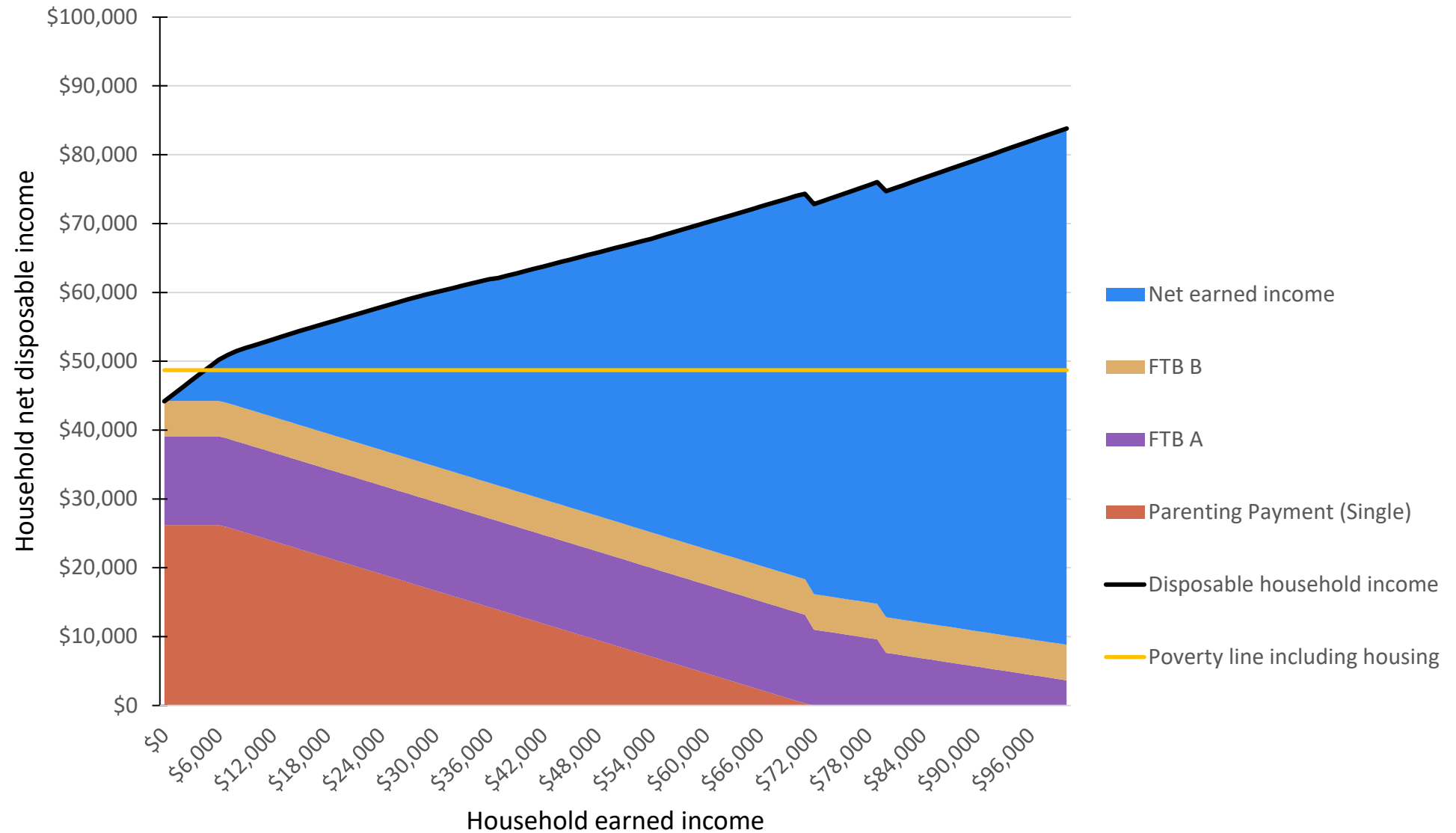
Maximum amount of FTB A and FTB B for one child under 5 as proportion of median equivalized household income in Australia, 2000 to 2020



Income components, couple family, 2 children under 5



Income components, single parent family, 2 children under 5, earns income



3. Complexity and risk in compliance and administration

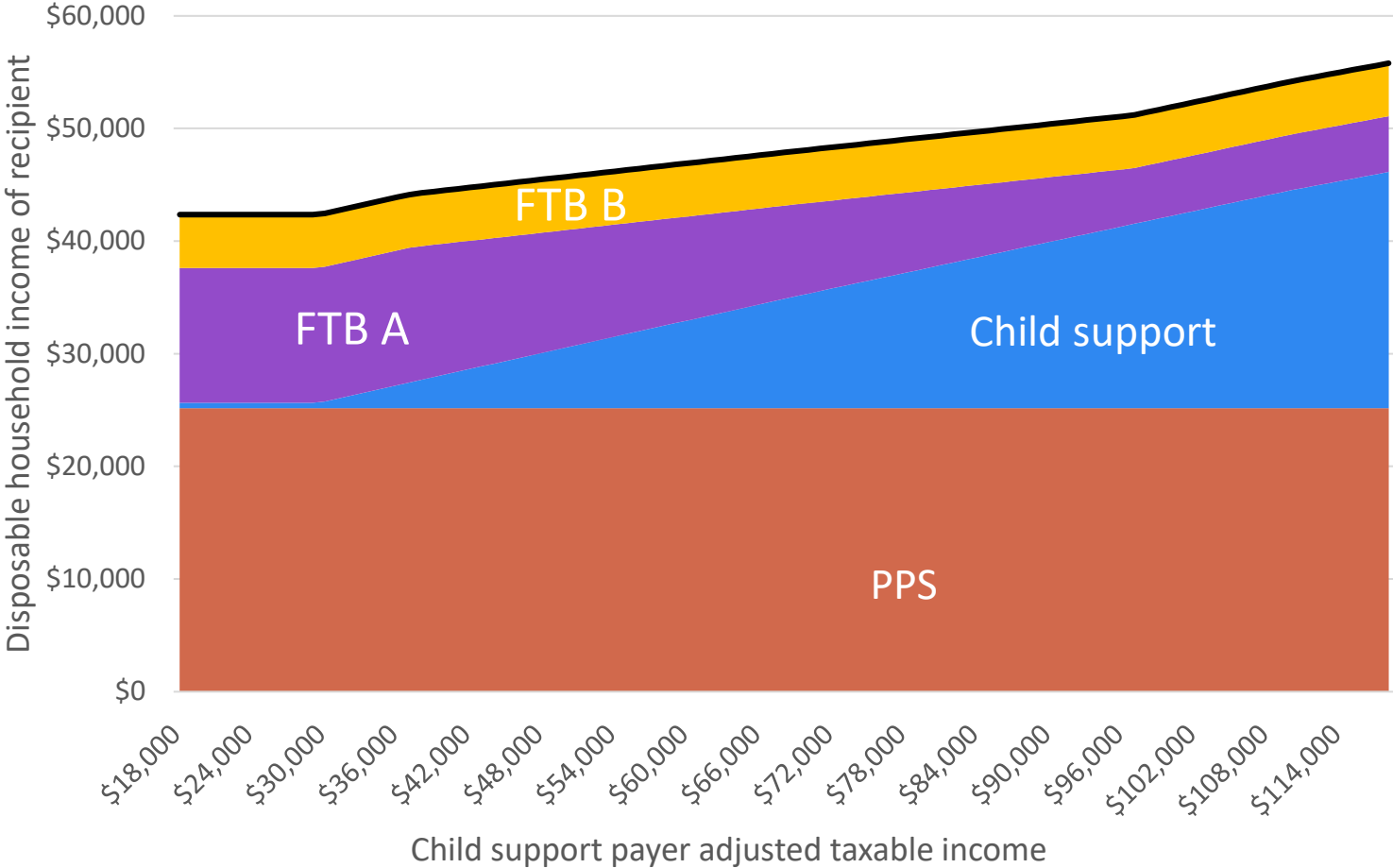
I've tried to figure it out myself. I tried to figure out childcare. I try to figure out Family Tax [Benefits]. I try to figure out Parenting Payment. I don't know what, what it's based on. I don't know how much I'm gonna get. I have no idea.

*Quote from Interim Economic Inclusion Advisory
Committee report (2023, p71)*

Complexity and risk

- Both ATO and DSS engaged in administration
- **Solely online administration** requirements: access to apps, internet, etc needed
- Estimating income and tax returns
 - **Adjusted Taxable Income (ATI)** is complex to determine, not just the tax return
 - For both recipient and current (or ex) partner
- **Evidence of care, shared care** arrangements is challenging and increases risk of debt
- Interaction with **child support** (changes with ATI, other circumstances of payer and recipient)
 - 50% taper of both FTB A and FTB B above low maintenance income free area to the base rate

Disposable income: Sole parent, 100% care, receiving child support



Maintenance income test
 FTB A reduces by 50 cents in the dollar of child support over a low threshold

■ Parenting Payment single ■ Child support entitlement ■ FTB A ■ FTB B

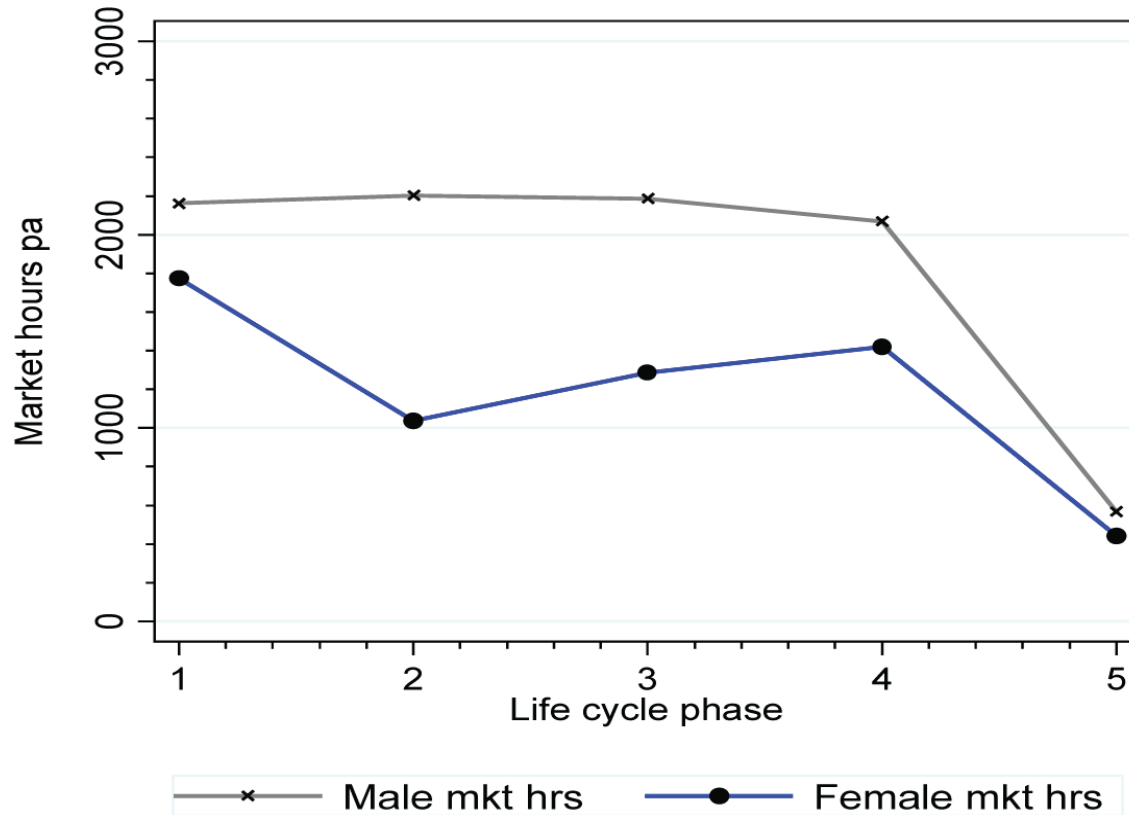
Source: Porter (2023), based on Plunkett spreadsheet.

Complexity and risk: Payments and debt

- Managing payments
- **Fortnightly or lump sum, advances, end-of-year balances**
 - Many get a 'bonus' at year end
- **End-of-year debt:** In 2017-18, 13.3% overpaid, average debt of \$2,082.
- Lump sums or over-estimation of ATI recommended to avoid debts
 - But families miss out on income when it is needed
- *Noting serious risk of Robodebt issues...*

4. Disincentives for women's workforce participation arising from Effective Marginal Tax Rates (EMTRs)

Parents and labour supply by gender and lifecycle phase

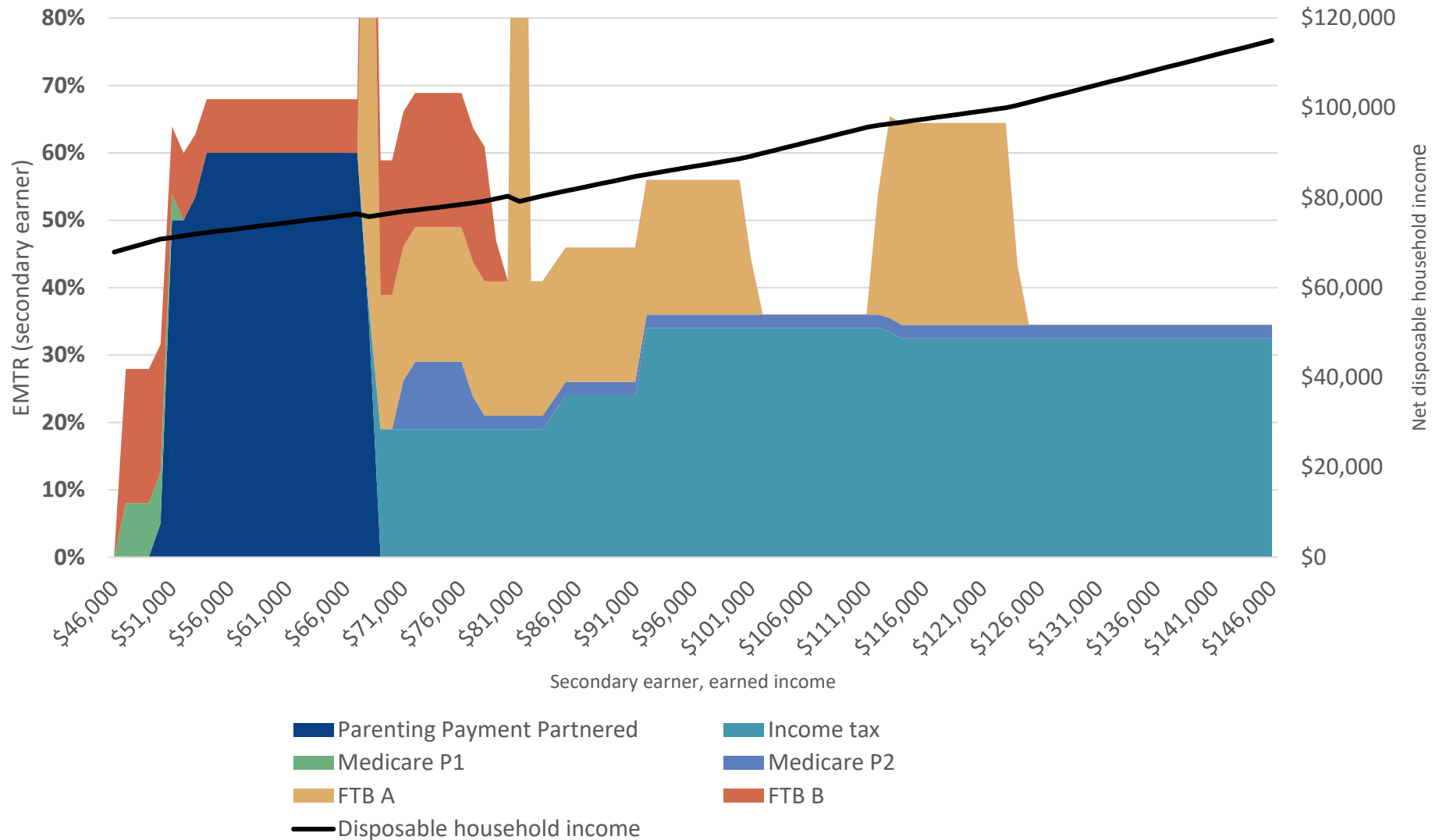


- Phase 1: Pre-children;
- Phase 2: At least one child of preschool age is present;
- Phase 3: Children are of school age or older but still dependent;
- Phase 4: Parents are of working age but with no dependent children; and
- Phase 5: Retirement.

Labour supply margins and EMTRs

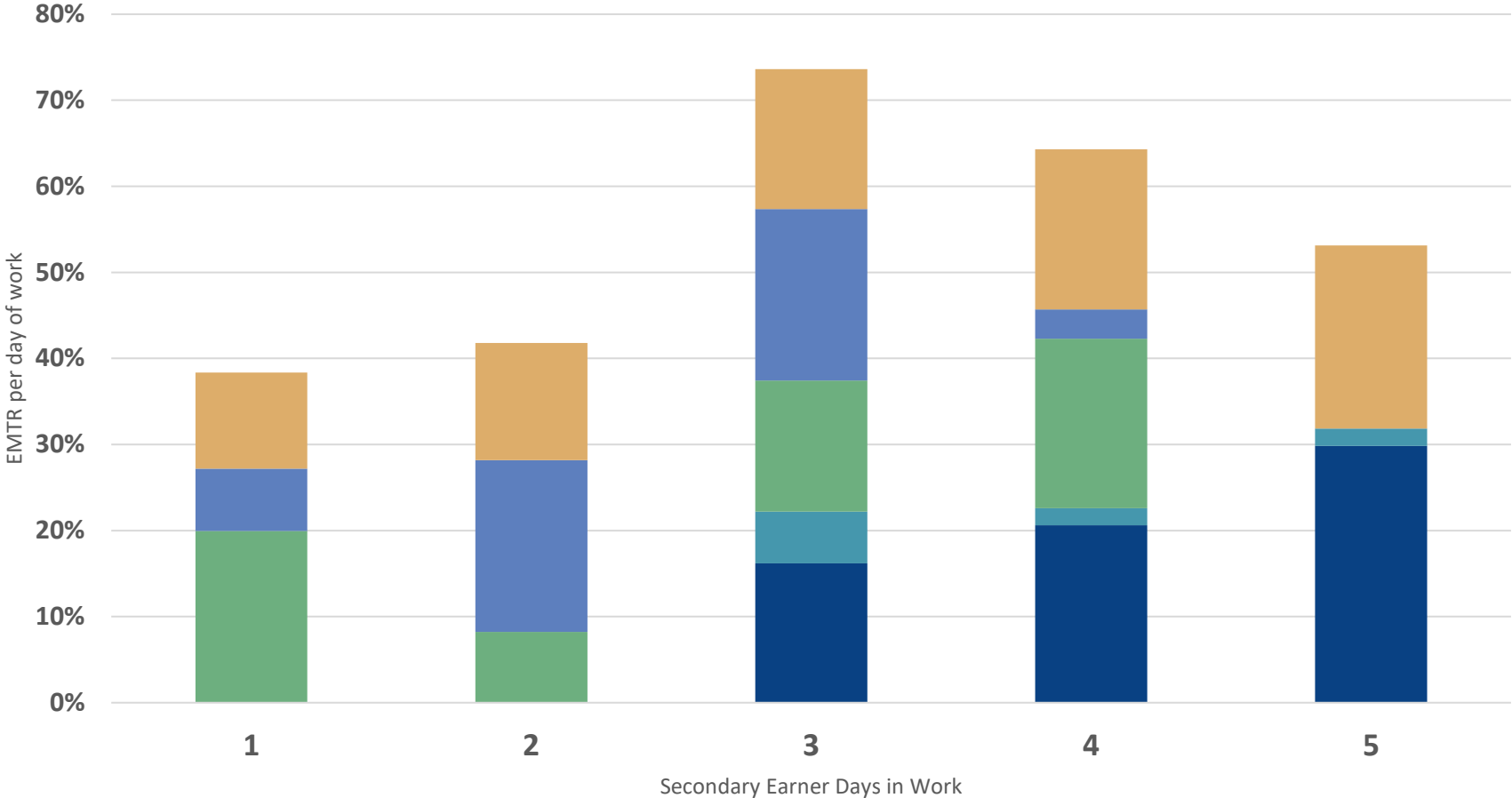
- **Intensive margin:** effective marginal tax rate (EMTR) on ‘next dollar’ of income
 - Substitution effect,
 - Choice of unpaid care work in the home instead of paid work
 - Secondary earner’s income is piled on top of primary earner by joint ATI test
- **Extensive margin:** effective average tax rate (EATR) on total income
 - Participation tax rate
 - Income effect
 - Total disposable income from earned income net of taxes and transfers
- We do **cameo modelling** of the **effective average tax rate per day of work**
- We call this the ‘daily EMTR’
- D Plunkett’s spreadsheet of tax-transfer system
 - Parameters as at 1 July 2023 in general

Effective marginal tax rate: Couple, min. wage primary earner, two children aged 2 and 3 (no childcare)



Source: Porter (2023), based on Plunkett spreadsheet.

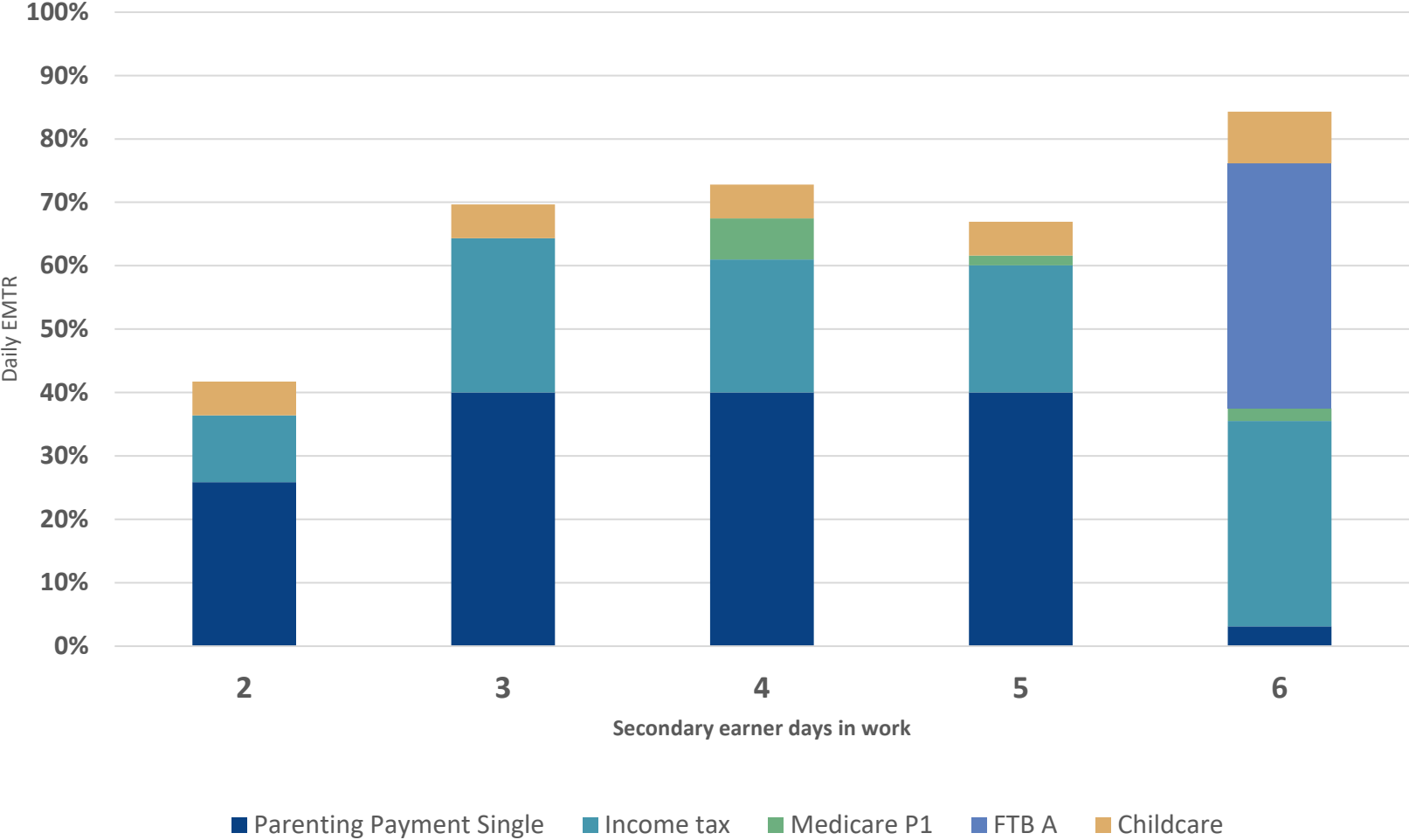
Daily EMTR: Couple, primary earner on median male wage, two children aged 2, 3, with childcare



Secondary earner increases days of work at Early Childhood sector wage

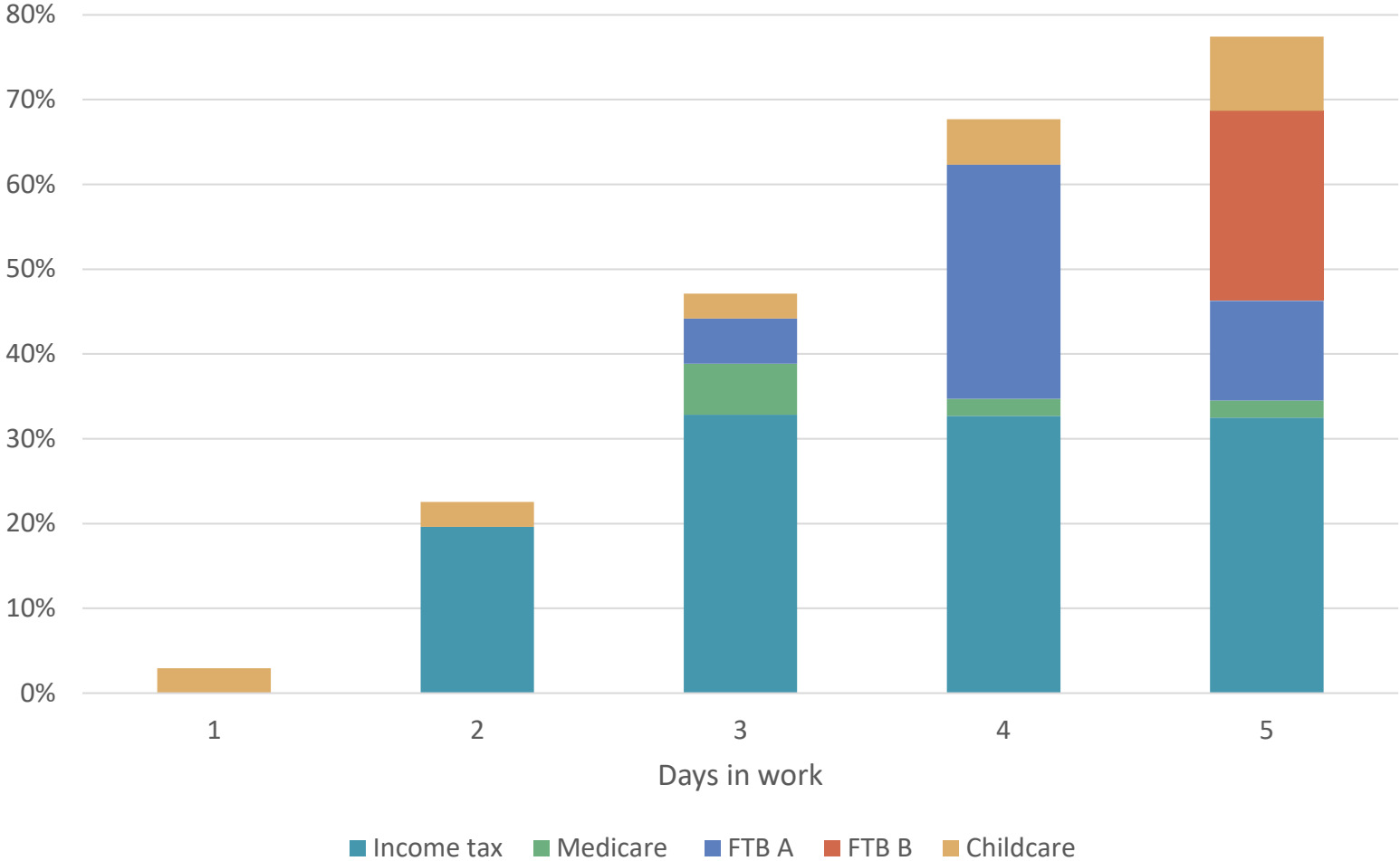
Source: Porter (2023), based on Plunkett spreadsheet.

Daily EMTR: Sole parent, two children aged 2, 3, average female wage, PPS, with childcare



Source: Porter (2023), based on Plunkett spreadsheet.

Daily EMTR: Sole parent, two children aged 2, 3, median female wage, no PPS



This family relies on FTB A and B, is not eligible for PPS

Source: Porter (2023), based on Plunkett spreadsheet.

Objectives and reform options for future family payments

What should be the main objectives for family payments today?

- **Adequacy**, supporting families with the costs of children and to prevent poverty
- **Administrative simplicity** that provides security and reduces risk for families
- **Gender equity**, to support the economic and social equality of women and men, including recognition of the value of care work
- **Paid workforce participation**, through the removal of barriers to work and financial disadvantages for dual earner families, especially the secondary earner

Reform options (a spectrum to indicate directions for reform)

1. One per child payment
2. Universal per child payment
3. Individual income taper or tax
4. Income eligibility test and tax/taper like PLP

One per child payment

Proposal	Adequacy	Gender equity	Paid workforce participation	Compliance and administrative simplicity
Single per-child payment <ul style="list-style-type: none"> • Replace FTB A and FTB B (essentially abolish FTB B) • Pay to primary carer • Calibrate amount by actual costs, living standards; index • One income test and taper rate 	<p>Design to achieve adequacy based on per-child costs.</p> <p>Need to deliver enhanced income support for low-income families in (eg PP)</p>	<p>Recognises costs of children and removes barriers to work by removal of FTB B second earner test enhances equity.</p> <p>Risks to low-income families who are mainly female headed unless PPS is enhanced.</p>	<p>Will reduce and streamline but not eliminate EMTRs mostly in couple families, especially by removal of income test for secondary earner in FTB B.</p>	<p>Simpler than the current system</p> <p>Still need to identify carer; manage shared care, child support</p>

Universal per child payment

Proposal	Adequacy	Gender equity	Paid workforce participation	Compliance and administrative simplicity
Universal per child payment	<p>Design to achieve adequacy based on per-child costs.</p> <p>Need to deliver enhanced income support for low-income families (eg PP)</p>	<p>Recognises costs of children; care of women and removes barriers to work including all EMTRs.</p> <p>Low-income families are mainly female headed</p>	<p>Eliminates EMTRs on earned income of second earner and single parents.</p> <p>Other payments in system and net childcare cost still generate EMTRs, but overall will improve.</p>	<p>Much simpler than current system.</p> <p>No income estimation required.</p> <p>Still need to identify carer; manage shared care, child support.</p>

Individual income test or taper based on secondary earner's individual income

Proposal	Adequacy	Gender equity	Paid workforce participation	Compliance and administrative simplicity
Single per-child payment tested on individual income of recipient	<p>Design to achieve adequacy for basic per-child costs.</p> <p>Income testing may permit a higher payment, but may still need enhanced income support for low-income families (eg PP).</p>	<p>Recognises cost of children; testing on second earner income enhances gender equity as women will face lower EMTRs on earned income.</p>	<p>Reduces EMTR on earned income by ending combined couple income test.</p>	<p>Some complexity. Need to identify second earner and estimate ATI.</p> <p>Do not need to estimate ATI of primary earner.</p> <p>Need to identify carer; manage shared care, child support.</p>

Income eligibility test and taper/tax like PLP

Proposal	Adequacy	Gender equity	Paid workforce participation	Compliance and administrative simplicity
<p>Income eligibility test and taper like Parental Leave Pay</p>	<p>Design to achieve adequacy for basic per-child costs.</p> <p>Income testing may permit a higher payment.</p> <p>For low income families a payment designed this way could be sufficiently high, as may remove eligibility for high income families. May still need enhanced income support (eg PP).</p>	<p>Recognises cost of children; testing on individual income enhances gender equity and connection to the workforce, consistent with PLP.</p> <p>Women face marginal tax rates on earned income similar to all taxpayers.</p>	<p>Reduces EMTRs so that second earners receiving payment faces progressive tax rate on earned income similar to all taxpayers.</p>	<p>Some complexity. Estimate ATI for eligibility .</p> <p>Consistency with PLP tests and conditions ensures coherence and improves simplicity.</p> <p>Need to identify carer; manage shared care, child support.</p>

Context for reform options

- Family payment objectives to be achieved **in context of the whole system of government family assistance** (including CCS, PLP, PP)
- Consideration is also needed for interaction with the **child support system** and other elements of **income support**
- **Fiscal cost** should also be considered in context of the entire system
- **Dynamic second order effects** should be considered including positive effects for gender equity, tax revenues and growth from women's workforce participation
- And a fundamental goal to bear in mind: **social contribution to child wellbeing** and better child outcomes

Recommended next steps

- We suggest that FTB needs reform and we identify the direction for reform
- A decision about a specific reform requires the following steps:
 - Estimate the rate of the per-child payment required to lift children out of poverty, in the context of current wage levels and social security payment rates
 - And rate of increase needed for PPS/PPP
- Model the fiscal cost and the distributional impact of reform options
- Model the labour supply impact especially on women's workforce participation
- Analyse cost distribution and impact with a gender lens focusing on women's economic security



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Thank you.

Questions?

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