



Family payments factsheet

April 2010

Australian
Council of
Social Service

ACOSS proposals for reform of family payments

The current family payments system is fairly well targeted to those most in need and relatively effective at addressing child poverty. The basic structure is well-designed to reduce child poverty without undermining work incentives. This is achieved by paying the same amount of Family Tax Benefit (Part A) to low income jobless and working families.

However, there are a number of problems which should be addressed through reform of the system to reduce child poverty, particularly for low income families with older children and sole parent families.

Child poverty: key facts

Eleven per cent of children in Australia are living in poverty (based on 50% of median income), which is approximately 500,000 children. This places Australia's child poverty rate in the top half of the OECD.

Child poverty in Australia is about 3% points higher than the rate of poverty in the general population, because poverty is concentrated in families with children. Children in sole parent families are three times more likely to be in poverty than other children, with around 25-30% of children in such families below the poverty line.¹

A significant contributor to the number of children living in poverty and/or experiencing social exclusion is the large number of children living in households without an employed parent. Almost 10% of Australian working age households with children do not have an employed parent, which is double the OECD average.² Families without paid work are about six times more likely to be in poverty than employed families.³

The costs of older children

The problem

The costs of children increase as children get older. While a 0-4 year old costs about \$100 per week, a 17 year old costs between \$200 and 288 per week.

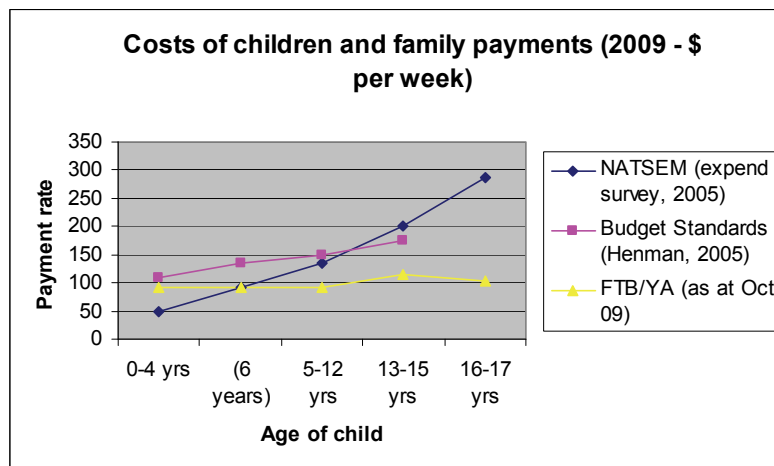
¹ Melbourne Institute, A Statistical Report on Waves 1 to 6 of the HILDA Survey, 'Families, Incomes and Jobs', Volume 4, 2009 at 36.

² UNICEF Innocenti Research Centre, *Child Poverty in Perspective: An Overview of Child Well-Being*, Report Card 7, 2007.

³ Whiteford, 'Social Inclusion: Family Joblessness in Australia', A paper commissioned by the Social Inclusion Unit of the Department of the Prime Minister and Cabinet, January 2009 at 60.

Despite this trend, support for the direct costs of older children through the family payments system decreases for older children. Once a child turns 16 years old, low income families experience a \$13 per week decrease in income (from \$116 to \$103).⁴ Payments for jobless families with teenagers over 16 are less than half the cost of these children. The disparity between the rising costs of children and the level of family payments is shown in Figure 1, below.

Figure 1



ACOSS's proposals for reform:

- An age-based family payment structure should be developed, based on minimum costs of raising children in low income families as they grow older, with benchmarks for the adequacy of child payments taking account of age of child and family status.
- In the interim, to better reflect the higher costs of raising children and young people as they grow older, Youth Allowances for families with 'dependent' young people aged 16 to 24 years should be raised from July 2010 by \$15 per week.

The costs of sole parenthood

The problem

Sole parents face higher costs because they are raising children alone (particularly in relation to housing costs) and experience high rates of poverty and deprivation.

Forty-three per cent of Parenting Payment (Single) recipients lacked a decent and secure home, 57% could not pay a utility bill in the last 12 months, 56% lacked \$500 in

⁴ Current as at April 2010. See *A Guide to Australian Government Payments*, 20 March – 30 June 2010.



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emergency savings, 54% could not afford necessary dental treatment, 24% could not afford up to date school books and clothes, and 40% could not afford a hobby or leisure activity for their children.

This evidence tells us that the current levels of payment to sole parents are inadequate to enable sole parents and their children to maintain an adequate standard of living.

ACOSS's proposal for reform:

- FTB Part B for sole parents should be abolished and a Sole Parent Supplement should be introduced linked to FTB Part A to recognise the additional cost of raising children alone. The supplement should be fixed at either a flat rate regardless of the age and number of children or as a percentage of FTB payments for a family, whichever best reflects the additional costs of children in sole parent families.
- In the interim, the payment should be increased for parents of children under 5 years.

The declining real value of family payments

The problem

As a result of changes made in the 2009-10 Budget to the indexation of FTB, the real value of family payments will decrease over the coming years.

As a centrepiece of the previous Labor Government's child poverty strategy, FTB was indexed to the couple rate of the pension, and therefore to wages, but is now indexed to the Consumer Price Index (CPI) only.

The de-linking of family payments from wages (and poverty benchmarks) is a significant backward step which means that low income families are likely to fall behind community living standards, with an inevitable increase in child poverty. For more information see the ACOSS [factsheet on indexation](#).

ACOSS's proposal for reform

- The link between of family payments and the married couple rate of pension should be restored, based on the age based structure proposed in recommendation 4, above. This would apply to current Youth Allowance (YA) payments to dependant under 18 year olds, which should be integrated into FTB Part A.



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Inadequate support for parents caring for young children at home

The problem

Under the current system, payments for parents caring for children at home are poorly targeted and inadequate for families with young children.

FTB Part B provides assistance to 'stay-at-home' parents in single income couples right up until the youngest child is 18 years of age for full-time students. This seems unnecessary and out of touch with contemporary social norms.

At the same time, support for at-home care for very young children (e.g. less than 3 years) in middle income families is inadequate and should be increased (currently \$74 per family per week).

ACOSS's proposals for reform:

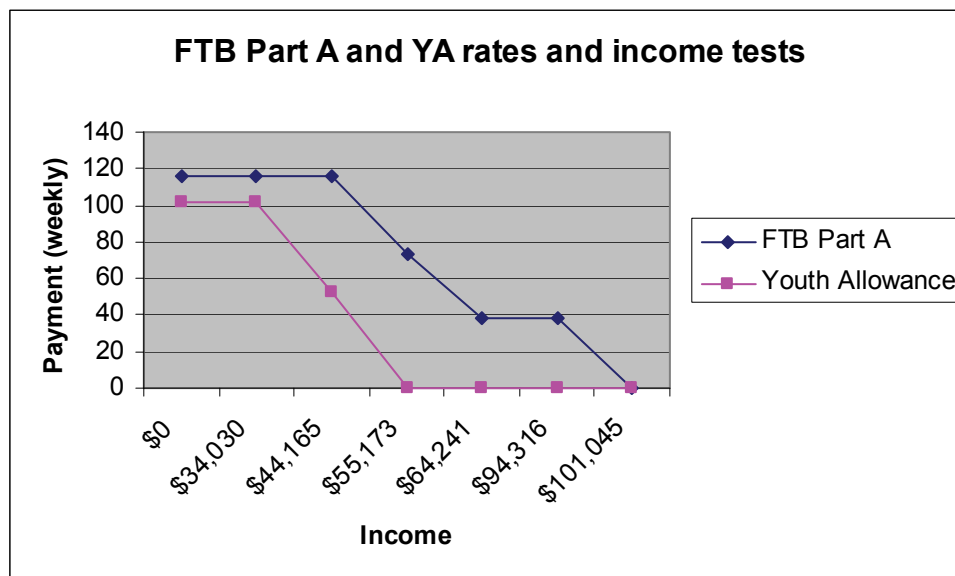
- Support for the indirect costs of children in middle-income families should reflect an age-based structure, giving priority to those with younger children.
- FTB Part B for couples should be replaced with a component of Parenting Payment to assist with the basic living costs of the primary carer, targeted to low and middle income families caring at-home for pre-school aged children. Assistance should be set above the current rate of FTB Part B for young children and provided through either a base rate of Parenting Payment or by easing the income test for Parenting Payment (Partnered) for couples with young children (which currently cuts out at \$40,538). Income support for low income families should be adjusted to prevent income losses.

Work disincentives

The problem:

Features of both FTB Parts A and B have the effect of reducing work incentives for second earners. The maximum rate of FTB Part A cuts out just above the minimum wage, which has improved work incentives for families without paid work. However, as FTB Part B is income tested exclusively on the income of the second earner it has created work disincentives.

Figure 2



As Figure 2, above, shows, overlapping income tests for FTB Part A, Youth Allowance and Child Care Benefit create high Effective Marginal Tax Rates (EMTRs) for affected families (over 50% for some families where FTB Part A and YA overlap). Changes should be made to ensure that taper areas apply successively and do not overlap.

ACOSS's proposals for reform:

- The family income test for the Part A payment should be re-designed so that effective tax rates are shifted from second earners to primary earners in the family.
- Changes should be made to Youth Allowance (YA) to either:
 - integrate YA into FTB Part A for dependant children under 18 years; or
 - integrate the parental income tests for Youth Allowance for dependant children under 18 with that for FTB Part A for some families to reduce the highest effective marginal tax rates where payments overlap.
- Income tests for FTB A and Child Care Benefit (CCB) should be integrated.
- The dependant spouse tax offset should be abolished.
- Income estimation should be abolished, with payment levels based on income from the previous financial year (with an uplift factor and latitude to exceed this threshold by a limited amount before payment level is adjusted.) A quarterly reporting option should apply for families with fluctuating incomes.



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Complexities and inequities in the child care system

The problem

The current system of child care payments is complex and inequitable with different payment types for low and higher income families.

The income tested Child Care Benefit is paid to low-moderate income households as an offset to child care fees up to a maximum of \$180 per week. Families earning up to about \$40,000 receive the maximum rate. The Child Care Rebate (CCR), paid through the tax system to working families, meets 50% of out-of-pocket child care expenses, up to a maximum of about \$8000 per year. This complex system is regressive as high income families benefit from the highest gap fees, both because they do not receive the income-tested CCB and because they tend to use more expensive care.

In addition, the level of subsidy available for low income families is generally not sufficient to finance quality care. Further inequities are created through the provision of Fringe Benefits Tax (FBT) concessions for child care services which are principally available to higher income families, who are more likely to have child care in the workplace.

ACOSS's proposals for reform:

- The Child Care Rebate should be abolished and replaced with a minimum rate of Child Care Benefit (possibly paid universally for formal child care services).
- The maximum rates of Child Care Benefit should be increased to better reflect the actual costs of providing quality care.
- Special subsidies for children with high needs (e.g. disabilities and Indigenous services) should be retained and eligibility expanded.
- Fringe Benefits Tax concessions for employer provided child care should be abolished.