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Complex Family Payments: What it Costs the Village to Raise a Child

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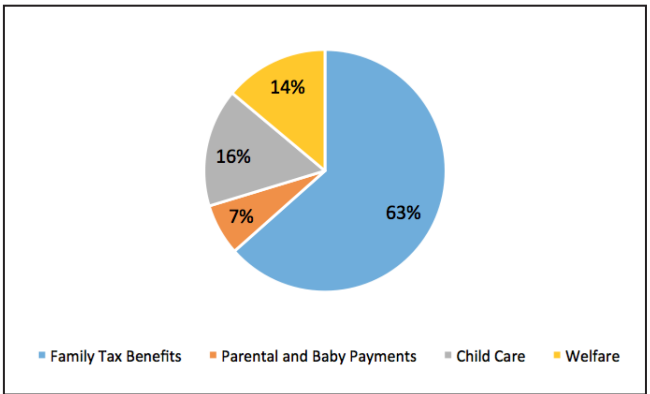
This year, the government has unveiled a number of changes that are aimed at both repairing the budget deficit and improving workforce participation, particularly among women. Yet Australia's system of family payments cost $32 billion in 2013–14. A number of disparate, yet overlapping, programs with different goals make up this figure. It is imperative that there be policy reform to minimise the disincentives to work that are embedded within this system.

Family payments include:

- Family Tax Benefits Parts A and B
- Schoolkids Bonus
- Child Care Benefit
- Child Care Rebate
- Child care services support
- Jobs Education and Training child care fee assistance
- Parenting Payment Single and Partnered
- Parental Leave Pay
- Dad and Partner Pay
- Newborn Supplement and Newborn Upfront Payment.

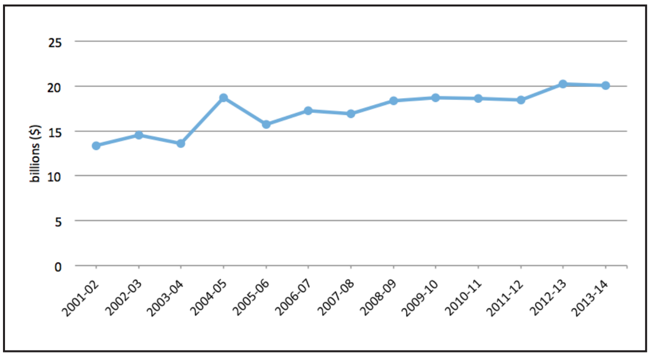
Where do the bulk of family payments go? (2013–14)



Family tax benefits and child care fee subsidies together represent 79% of family payments, costing taxpayers more than $25 billion every year. Family Tax Benefits is the most significant program in terms of its size, but child care costs have enormous scope to grow.

The cost of family tax benefits has stabilised in recent years, most notably through changes announced in the 2014 Budget. However, that same budget also revealed

Growth of spending on Family Tax Benefits (adjusted for inflation)



that child care fee subsidies costs are estimated to grow at 9.9% in real terms where family tax benefits are set to decline 6.3% in real terms from 2013–14 to 2014–15.

Government spending on child care fee subsidies is set to increase by $2 billion over the forward estimates. Coupled with the Abbott government's proposed $5 billion Paid Parental Leave (PPL) scheme, family benefits are set to provide an even greater burden on taxpayers.

Core principles of family payments

As families have become more diverse, and the social significance of children has changed, governments have implemented policies that both reflect and shape these social shifts.

Australia has moved from a relatively simple system of tax concessions and non-means-tested per-child cash payments in decades gone by to today's system: no differential tax treatment for families with children but a highly generous and strongly means-tested set of multiple payments intended for different purposes.

Some policies are designed for two-earner families while others favour single-earner families. Governments once tried to remain 'neutral' in terms of how policy treated families with one stay-at-home parent versus families with both parents working. But the expansion of workforce participation policies such as child care fee subsidies and paid parental leave, while pro-homemaker policies such as the Baby Bonus and FTB Part B have contracted, effectively puts neutrality to rest. Facilitating workforce participation is now the priority, but policy has not quite caught up and been rationalised in a manner consistent with this principle.

Family payments policies and underpinning principles

	1. Poverty alleviation	2. Social benefits	3. Horizontal equity	4. Gender equality	5. Workforce participation	6. Policy neutrality
FTB Part A	✓		✓			✓
FTB Part B		✓	✓			✓
Child Care Fee Assistance				✓	✓	×
Paid Parental Leave				✓	✓	×
Baby Bonus/Newborn loading		✓				✓
Dad and Partner Pay				✓		
Parenting Payments (income support for parents)		✓				

It is not the case that governments of a particular ideological persuasion pull policy in one direction and governments of another pull policy in the opposite direction. It is precisely *because* governments have attempted to shape policies that are all things to all people instead of reforming for consistency that there is no clear, unified set of purposes for the system.

While it is appropriate that policies have shifted to recognise family changes, there is also scope for reform to improve and simplify the system.

Problems with family payments

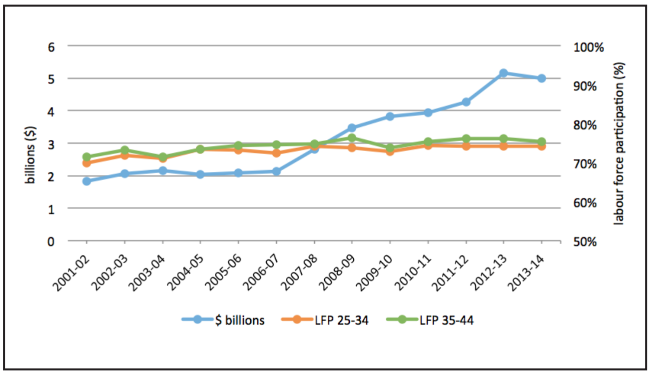
The key problem is the multiplicity of payments which, when they overlap, causes complexity for families. But more important are the perverse incentives caused by the overlap of payments and their interaction with the tax system. This creates disincentives to work for secondary earners in couple families, most of whom are women.

Work disincentives are the result of the withdrawal of parts A and B of the Family Tax Benefit, a reduction in Child Care Benefit, and higher rates of income tax when secondary earners either return to work or take on more hours. The price of child care is increasing well above the consumer price index (CPI). Not only is child care in itself a massive impost on families but the combined effect is a system that sometimes pays for people not to work at capacity.

Policies that keep secondary earners, mostly women, participating below their capacity have flow-on effects, including overall lower lifetime earnings, reduced financial independence (especially in cases of divorce and upon reaching retirement age), and the general social benefits of work.

The purpose of child care fee subsidies, ever since their inception during the Hawke-Keating Labor governments, has always been to facilitate women's entry into the workforce. But since labour force participation rates for women of childbearing age have remained relatively stable even as subsidies have become more generous, incentives to work are clearly not so simple.

Growth of child care expenditure (adjusted for inflation) and changes in female labour force participation



Potential avenues for reform

Increasing spending within the current family payments framework will not help solve these problems. Increasing child care subsidies further is not realistic, as evidence from recent years suggests there are other factors at play. Nor will the government's proposed paid parental leave scheme, which includes superannuation for the duration of the leave period, do a great deal to ameliorate women's lower levels of superannuation at retirement.

Instead of proposing expensive new schemes to mitigate these problems, possibilities to fix the existing schemes to facilitate workforce participation include:

- reform Family Tax Benefits with the punitive effects of high effective marginal tax rates in mind
- simplify the income test for FTB Part A
- better align the work tests for eligibility for both CCR and CCB to the amount of subsidised care for which a family can be eligible
- frame child care as a workforce participation measure and consider reducing regulation to ease the pressure on costs for the budget and for families.

Author

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