

## Proposal by the Federal Government to amend eligibility for Family Tax Benefit, Part B

A response by the Australian Catholic Council for Employment Relations and Catholic Social Services Australia

### Summary

- The May 2014 Budget sought to withdraw the FTB B weekly payments from families who do not have a child under 6 years of age and to convert the annual supplement into a Single Income Family Supplement of \$300 per year, or \$5.75 per week. The 2014 proposal is yet to pass the Senate and is now associated with the still unresolved matters in the May 2015 Budget.
- In most cases the proposal would cut the income of single breadwinner families with school age children by more than \$54.45 per week
- Many low income working families are already living in poverty. The proposal would put more children into poverty; and those already in poverty would be in deeper poverty. Priority needs to be given to protecting children against poverty.
- FTB B is a payment, in the nature of a wage, made to those who care for their own children in their own homes. It was intended, and is, paid in recognition of the value of the work that they do.
- FTB B is paid mainly to women. This proposal is inherently discriminatory against women because would deprive them of income while they are absent from the workforce and raising children. It would exacerbate the lifetime discrimination that leaves women, on average, with substantially less income and assets as men.
- FTB B helps parents make an effective choice as to how they will balance work and family responsibilities. If implemented, the proposal would place economic pressure on couple parent families to abandon plans to have one of them stay at home to care for their children. In sole parent families, it would place more financial pressure on the parent to work more hours than they have had to in the past.
- The proposed reduction in the social safety net would require increases in low income safety net wages and reverse the practice in recent decades of limiting wage increases by reason of successive increases in the social safety net. The case for the proposed change has not addressed its potential negative impact on employment.
- Unlike the Schoolkids Bonus, which will be abolished at the end of 2016, the proposed changes were not foreshadowed in the last election.

## Introduction

1. Family Tax Benefit Part B (FTB B) is payable to the primary carer of children. In couple parent families it is usually the mother, but sometimes the father, who is entitled to and claims the payment. A sole parent is also entitled to the payment if he or she is the primary carer of the children.
2. At present, where the youngest child is 5 to 18 years of age, FTB B is \$53.41 per week, plus the FTB B annual supplement of \$354.05 (or \$6.79 per week, based on 52.18 weeks). Where the youngest child is under 5 years, the weekly payment is \$71.44 per week, with the same annual supplement. Since 2011 the annual supplement has been frozen at the July 2010 level.
3. The May 2014 Budget sought to withdraw the FTB B weekly payments from families who do not have a child under 6 years of age and to convert the annual supplement into a Single Income Family Supplement of \$300 per year, or \$5.75 per week. The 2014 proposal is yet to pass the Senate and is now associated with the still unresolved matters in the May 2015 Budget.
4. The withdrawal of FTB B will impact on employed and unemployed families. While it is called a tax benefit and is administratively linked to the tax system, FTB B (like the per child payments under Family Tax Benefit, Part A) is payable to primary carers whether employed or unemployed, subject to an income test.
5. One matter that has passed the Senate concerned the availability of FTB B for higher income families. Until 1 July 2015 FTB B was payable where the principal earner in a couple parent family and the sole parent had incomes up to \$150,000 per year, but since then the amount has been reduced to \$100,000 per year.
6. The primary carer in a couple parent family needs to have an income of less than \$5402 per year in order to claim the full amount of FTB, B. Above that income level the payment reduces by 20 cents for each additional dollar of income. A sole parent is entitled to FTB B whether he or she is employed and is entitled to the full payment if earning up to \$100,000 per year.

## The impact of the proposed changes

7. On current figures, the Government's proposal would mean losses of \$54.45 per week for couple parent families: a weekly loss of \$53.41 and a loss on the annual supplement of \$1.04 per week. The position of sole parent families is slightly different because it is proposed that they would pick up a payment of \$750 per year (or \$14.37 per week) for each child between the ages of six and 12 (compared to 18 years at the present). The policy basis for changing a long-standing parity of treatment for both kinds of families is not apparent. The proposal would have an inconsistent impact on the standards of living of these families and would be discriminatory. Children in couple parent families would be relatively more disadvantaged. The proposal is inconsistent with the equitable support of children in couple parent and sole parent families.
8. The impact of the proposed changes on single breadwinner couple families with two children aged 8 and 12 can be shown by reference to the outcomes for two low income working families: where the breadwinner is on the National Minimum Wage (NMW) of \$656.90 per week and where the breadwinner is on the base trade-qualified wage rate (the C10 rate) of \$764.90 per week. The NMW-dependent family would suffer a loss equal to 9.2% of the net wage and the family of the trade-qualified worker would suffer a loss equal to 8.1% of the net wage.
9. We also need consider the impact of the changes on unemployed families. Where both parents are in receipt of the Newstart Allowance the income of the unemployed family (of the kind above) with no assets and renting is \$784.45 per week. The loss of FTB B of \$54.45 per week amounts to 7.0% of current income. This would put the family further below the poverty line. The poverty line (using the 60% of median poverty line) for this family of four was \$1,060.10 at December 2014; see *Statistical*

*Report*, Fair Work Commission, 14 May 2015, Table 8.2, page 28. The family would be more than 25% below this poverty line.

10. The proposed FTB B change would also increase poverty in working families. This can be illustrated by the position of the kind of family referred to above. At December 2014 the C10-dependent working family was 2.5% below this poverty line (*ibid.*). The loss of \$54.45 per week would have pushed it to 7.6% below. The NMW-dependent single breadwinner family, which was 10.0% below the poverty line in December 2014 (*ibid.*), would have been reduced to 15.5% below the poverty line.
11. The Federal Opposition has commissioned research by the National Centre for Social and Economic Modelling (NATSEM) on the impact of the proposed budgetary impacts, including the FTB B proposal carried over from 2014. The report included:

"For single income families we find that impacts of new policy are greatest. For a single income, single parent family with children aged 4 and 6 the loss of income is typically between \$1,500 per year for low income cases to \$2,000 per year for the higher income cases. The loss is substantially higher for families with older children where there is a loss of FTB B. In this case the losses over the income range are between \$4,000 and \$6,100 per year." (*Analysis of the 2015-16 Federal Budget*, page 24. Also see Figures 5a to 5d.)
12. The NATSEM research shows low-income families will lose the most if the budget is passed in full. A single-income family on \$65,000 a year with two children would lose nearly \$21,000 over four years and a sole parent with two children on \$55,000 would also be more than \$20,000 worse off over four years — or up to \$6,000 a year: see <http://www.abc.net.au/news/2015-05-25/labor-figures-show-families-to-bear-brunt-of-budget/6493500> These figures include, and are not limited to, FTB B.
13. The respective positions of the Government and the Opposition can be summarised. The Parliamentary Secretary to the Prime Minister, Mr Christian Porter, told Sky News that these measures would fund a proposed increase to child care:

"The fiscal reality is that there must be savings that you garner to pay for the package."

"These are the savings that have been put on the table and we have to negotiate around these savings to make the package happen."

"I think that might just focus the mind of crossbenchers."

"Because if they go back to their constituencies who want the benefits of the childcare package, and who I think ultimately will be willing to live with savings in other areas, that ultimately will put pressure on the crossbenchers that maybe hasn't been there before." (Viewpoint, Sky News, Sunday 24 May 2015)

The Opposition's families spokeswoman, Ms Jenny Macklin, said asking families to accept the trade-off was unfair:

"The Government should not be saying to families that face a cut to their income of more than \$6,000 a year that they have to take that cut for other families to get improvements to child care," she said.

"That is just outrageously unfair and families are very, very angry that that is the way that Tony Abbott is treating them."

(ABC Radio AM Program, "Low-income families to bear brunt of federal budget reforms, Labor modelling shows", 25 May 2015).

14. These continue to be the basic positions taken by the Government and the Opposition.

15. There was no suggestion prior to the May 2014 Budget that the Government would seek changes to FTB B. By contrast, the current Government campaigned in the 2013 election on a proposal to abolish the Schoolkids Bonus. That proposal has now been agreed to and the payment will end in 2016. For a family with a child in secondary school and another in primary school, the payments equated to \$23.57 per week, a substantial amount for low income families.

### **Negotiations in the Senate**

16. The Government is still pressing the proposed changes to the FTB B that were introduced by the May 2014 Budget and which are yet to pass the Senate. The Government has argued that the child care package in the May 2015 Budget (proposed for commencement in July 2017) is conditional upon the passing of those 2014 proposals, but it has indicated that it is prepared to negotiate on this issue; *PM hints at wriggle room on childcare, The Australian* 12 May 2015, page 5.
17. In commenting on the childcare package, Paul Kelly, Editor at Large of *The Australian* has written:  
"Yet the economic credentials of the extra \$3.5bn childcare package are dubious. It is far too generous at the top end and the Minister, Scott Morrison, faces a major task in negotiating the childcare package through the Senate by seeking savings from family tax benefits. The problem is the former rewards well-off women and the latter punishes low-income women."; *The real aim is to save the Coalition, The Australian*, 13 May 2015, pages 1-2.
18. The strategy of withdrawing one benefit from a very needy group in order to provide a benefit to a different group of citizens raises important questions about values and priorities. The strategy is unacceptable.
19. The FTB B issue is a matter of great significance because the payment is an important part of the support provided to couple and sole parent families and, in regard to wage setting, because of the need for wages to rise in order to compensate for any reductions in transfers to families. FTB B is a payment that reflects the value of the work that parents do in caring for their children and is essential if they are to have an *effective choice* as to how they balance their work and family responsibilities.
20. The need for families to have an effective choice as to how they balance their work and family responsibilities is discussed in the following extract from the report of the Commonwealth Commission of Inquiry into Poverty (Poverty Commission):  
"A further way in which many low income families are often placed under great stress is in relation to the freedom parents have to decide how they will divide their time between working, looking after children, and other activities. Because of financial pressures some parents are confronted with the choice of spending more time earning money and less time at home or struggling on an income below the poverty line....  
Some fathers compensate for their low wages by working more hours or working two jobs. In many instances this may create considerable pressure on parents and their children....  
  
Inadequate wages and pensions place considerable pressure on mothers to work...The mere fact of a mother working is not necessarily detrimental to the family. The relationship between a mother working and child development has been hotly debated in recent years, but the research on the subject has been inconclusive. The pertinent issue is the freedom of mothers to choose whether or not to work, so that each family can reach a solution which is satisfactory for its members. The pressure to work created by an inadequate income means that some mothers are less free to choose." (*First Main Report, April 1975*, volume 1, page 204. Footnote omitted and emphasis added.)
21. The position articulated by the Poverty Commission 40 years ago has been an underlying principle of Commonwealth budgetary support for families. It has been a principle that has commanded support from both sides of Parliament for decades and remains just as relevant now as it was when articulated. The increasing budgetary support for families, through improvements in the social safety

net, has been taken into account in wage-setting decisions over recent decades, with the effect that wages are lower than they would otherwise need to be in order to provide the same standard of living. The proposed reduction in the social safety net would require increases in low income safety net wages. The proposal is contrary to established principle and practice.

### History of FTB B

22. It is sometimes said that FTB B was introduced by the Howard government to support families with one working parent. It is true that a payment by that name was introduced by the Howard Government in 2000 as part of the GST package of legislation, but FTB B had been around for many years under different names.
23. This is an important matter because some think, and argue, that the proposed changes are unwinding expensive and unsustainable Howard-era benefits. Apart from the introduction of the Annual Supplement in 2004, the real value of the FTB B has remained much the same. The increase from \$34.79 to \$53.41 per week, or 53.5%, over the 15 years to July 2015 compares to an increase of 53.1% in the CPI from June 2000 to June 2015. The major initiative of the Howard Governments in regard to family payments was to broaden their availability by raising thresholds for tapering rates.
24. The most significant change in regard to family payments came in 1994.
25. For decades, taxation law provided a rebate for taxpayers supporting a dependent spouse and children. Its origins pre-date World War II. By 1993 the rebate was worth up to \$27.40 per week for the mostly male breadwinners.
26. In the 1993 Federal election the Labor Party proposed the abolition of the "dependent spouse with children" rebate and its replacement by the Home Child Care Allowance (HCCA). The policy included:  
"Labor has already announced a major reform of child care policy to address the three key concerns of working parents: the availability, cost and quality of childcare. Labor is committed to increase places to meet the demand for work - related child care and will introduce a 30 per cent cash rebate for the cost of care.

This will ensure that Labor has in place a soundly based child care system able to provide the right kind of assistance to women who will continue to enter the workforce in growing numbers in the 1990s.

But child care assistance is not just about providing necessary support for mothers in the paid workforce or who undergo training or education. Recognition should also be given for the important role and contribution of women caring for children at home. These women also need support as they deal with the additional expense of children, often in a situation where the family has only one income earner.

Accordingly, a Keating Government will increase the dependent spouse rebate and pay it directly to the spouse at home caring for children. The new Home Child Care Allowance will be \$30 a week and will provide some source of independent income for women at home caring full time for children. Fee relief will also be increased for occasional child care."

(<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fparty%2F1095220%22>, emphasis added)

27. In his Policy Speech on 24 February 1993 Prime Minister Keating said:  
"Our recently announced child care policy recognises that the future growth of the Australian economy and the living standards of Australians need women's participation in the workforce.



We recognise that child care is essential if women are to take a job, undertake training or study or look for work.

Our commitment to meet total demand for work-related child care by 2001 will aid women's participation in the economy, as our 30 per cent cash rebate on fees will make child care more affordable - especially for middle income earners.

It is not good enough to say that a woman is either in the paid workforce or in the home. Chances are these days, in the course of their lifetimes, most women will spend periods of time doing both.

The needs of mothers caring for children at home are often overlooked in the child care debate.

But we have not forgotten them.

I recognise and appreciate the important role played by women who choose to stay at home while their children are growing up.

We propose to introduce a new cash payment of \$60 each fortnight to be called the Home Child Care Allowance.

This allowance is more generous than the Dependent Spouse Rebate it will replace, and has the added advantage of being paid directly to the mother at home. This will provide a source of independent income for women while they are out of the paid workforce caring for children.

In a further measure to meet the needs of women at home caring for children, we will extend fee relief to occasional care. This is in addition to my earlier announcement that we will double the funding for playgroups.

Labor's child care policies recognise the reality that different families choose to deal with the responsibilities of work and family in different ways."

(<http://pmtranscripts.dpvc.gov.au/browse.php?did=8827>, emphasis added)

28. In a speech on 6 December 1993 to launch the International Year of the Family, Prime Minister Keating said:

"Our policies must address the diverse nature of Australian families, and the diverse nature or their employment and assistance needs.

A major issue to address in this context is how families balance the responsibilities of work and family life.

Governments should, I believe, promote policies which recognise and support choices families are making in combining paid work and family care.

We have to make these aspects of peoples' lives fit more harmoniously together.

We have to keep pressing for more "family-friendly" workplaces.....

We recognise that childcare needs are neither uniform or identical.

We recognise that women, throughout their lives, have a range of equally legitimate choices about being in the workforce or being at home.

We appreciate the value of caring and nurturing provided by women who do choose to stay at home while their children are growing up, and the value of the unpaid work they carry out both in the household and in the community.

That is why we have introduced the Home Care Child Allowance for supporting parents caring for their children full time at home.

By paying the allowance directly to the caring parent, usually the mother, we have provided many women at home with a source of independent income which otherwise they would not have."

(<http://pmtranscripts.dpvc.gov.au/browse.php?did=9071>, emphasis added)

29. The Second Reading of the *Social Security (Home Child Care And Partner Allowances) Legislation Amendment Bill 1993* occurred shortly afterwards, on 15 December 1993. The Second Reading speech included the following:

"The home child-care allowance reform consolidates the government's provisions that assist families with children. It provides more direct recognition of the considerable time, energy and personal support devoted to children by parents, generally mothers, who decide to stay at home to raise their children. For the first time, this support will be provided directly to the parent caring for children, rather than to the other partner as a tax concession.

The allowance will replace the dependent spouse rebate currently available to couples with dependent children and will be paid at a higher maximum rate of \$60 a fortnight." (*Hansard*, House of Representatives, pages 4090-1, emphasis added.)
30. In July 1995 the HCCA was amalgamated with the Partner Allowance to become the Parenting Allowance. In May 1998, the Howard Government rolled the Parenting Allowance into the Parenting Payment. FTB B emerged from the Parenting Payment as part of the reforms associated with the introduction of the Goods and Services Tax (GST). FTB B was the successor to the HCCA and the earlier dependent spouse with children rebate, and extended to sole parents. Over the six years it had grown from \$30.00 to \$34.79 per week, very close to the rate of inflation over those years. From July 1994 to July 2015 this kind of payment has increased by 78.0%, compared to an increase of 73.7% in the CPI. This very modest increase in the real value of the payment puts paid to any claim that it was the product of excessive public expenditure over the last decade or two.
31. It should be stressed that the views of Prime Minister Keating represented a broad consensus between the main political parties on the need to support families, whether or not the principal carer of the children was in the employed workforce or not. It is apparent that both sides of politics recognised and accepted the kind of points that were made by Prime Minister Keating in his launch of the International Year of the Family.
32. The changes that were introduced in 1994, with wide political and community support, recognised that the work of women in raising children should not be treated as tax concessions for their spouses and that the care of children has economic and social value. There may be debate about whether the current FTB B payment is adequate recognition of the economic and social value of in-home child care; but no one can seriously argue that it should be \$5.75 per week, as proposed in the May 2014 Budget. The proposed amount is a pittance which will drive low paid families deeper into poverty. Anything less than the current rate is an affront to those who perform the work, and those who have fought for so long to have proper recognition of the economic and social value of child care, whether by mothers or fathers, within or outside the home.