Social Policy and Research Centre

Growing pains

Family Tax Benefit issues and options for reform

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Contents

Abbreviations

ABS, Australian Bureau of Statistics

ACOSS, Australian Council of Social Service

AETR, Average effective tax rate

AFP, Additional Family Payment

AIFS, Australian Institute of Family Studies

ATI, Adjusted Taxable Income

ATO, Australian Taxation Office

CCS, Child Care Subsidy

CPI, Consumer Price Index

CRA, Commonwealth Rent Assistance

CRN, Customer Reference Number

DFFH, Department of Families, Fairness and Housing

DSS, Department of Social Services

EHDI, Equivalised Household Disposable Income

EIAC, Economic Inclusion Advisory Committee

EMTR, Effective Marginal Tax Rate

FTB A, Family Tax Benefit Part A

FTB B, Family Tax Benefit Part B

GDP, Gross Domestic Product

GST, Goods and Services Tax

MTAWE, Male Total Average Weekly Earnings

OECD, Organisation for Economic Co-operation and Development

PLP, Parental Leave Pay (formerly Paid Parental Leave)

PPP, Parenting Payment Partnered

PPS, Parenting Payment Single

TFN, Tax File Number

Summary

The current Family Tax Benefit (FTB) system is not meeting the needs of today's families. Declining adequacy, tightened eligibility and an overly complex administrative system have left many children and their carers with inadequate support. In addition, high effective marginal tax rates (EMTRs) created by income testing and payment thresholds present a barrier to greater workforce participation by women.

Family assistance in Australia includes a range of government payments, the largest component of which is the FTB, comprised of part A and part B payments. Despite their names, FTB parts A and B are payments designed to assist low-income families with the direct (FTB A) and indirect (FTB B) costs of caring for children. They were introduced by the Howard government in 2000 as part of a package of reforms to support families and provide partial compensation for the introduction of the Goods and Services Tax (GST). Other family assistance payments are Parental Leave Pay (PLP), Child Care Subsidy (CCS), Parenting Payment Single (PPS) and Parenting Payment Partnered (PPP).

Payments to support families with the cost of raising children have existed in some form in Australia for over a century, with payments initially supplementing the family wage, which underpinned the male breadwinner model of work and care. They have changed from a universal structure to one that is more targeted, with increasing generosity for those deemed most in need, while removing the benefits for middle and higher-income families. Over time adequacy has declined, with administrative complexity reducing support.

Who currently receives FTB?

In 2021–22,[1] FTB payments provided $12.3 billion in support to families through FTB A and a further $3.4 billion through FTB B, making it the largest single government program of family assistance expenditure in Australia. Spending on FTB A and FTB B made up 7.5 per cent of total social security expenditure in 2022–23. As at March 2023, there were 1.32 million FTB A recipients and 1.02 million FTB B recipients claiming the payment by instalments (DSS 2023a). Around 2.55 million children were being supported by FTB A and/or FTB B in March 2023 (DSS 2023a).

Both FTB A and FTB B are paid to the carer of eligible children, and the majority of FTB claimants are women. FTB A and FTB B can be paid fortnightly or as a lump sum at the end of the financial year. More than 95 per cent of recipients received the payment by fortnightly instalments in 2020–21 (DSS 2023b). Recipients of FTB A by instalment were split evenly between partnered and unpartnered carers, but 66 per cent of FTB B recipients are unpartnered. Between 8 and 9 per cent of FTB A and B recipients identify as First Nations people, and the age distribution of parents claiming FTB comprises about 30 per cent aged under 35, 40 per cent aged 35–44 and 28 per cent aged over 45 (DSS 2023a).

Declining adequacy, tightened eligibility and an overly complex administrative system have left many children and their carers with inadequate support.

1 Note: expenditure figures for 2022–23 had not been finalised at the time of writing.

FTB A and FTB B payments are income tested. Consequently, the majority of FTB recipients report low taxable income. In 2020–21, 46 per cent of FTB recipients reported an adjusted taxable income (ATI) of below $50,000 each year (DSS 2023b). In line with eligibility requirements, FTB B recipients have lower average family income.

Around 42 per cent of FTB recipients also received other income support payments in March 2023, an increase from 38 per cent in June 2012 (DSS 2016). PPS (16 per cent) and JobSeeker Payment (11 per cent) are most common for those receiving FTB, followed by Carer Payment (6 per cent), Disability Support Pension (5 per cent) and PPP (3 per cent) (DSS 2023a).

More detailed data on FTB recipients is available in section 3 of the paper.

Issues and concerns

Reduced coverage and adequacy leave families at risk of poverty

An estimated 46 per cent of children aged 0–18 benefited from FTB A in 2020–21, down from about 66 per cent in 2000–01. The changes to the FTB system that occurred over the past two decades shifted the payment from one aimed at most families to one only available to low-income families, in particular single-income families.

At the same time, payment adequacy has declined. Since 2009, FTB A has been indexed to Consumer Price Index (CPI), removing the benchmarking of family payments to pension rates adopted in the 1980s. By 2023, FTB A rates were 15 per cent below the pre-July 2009 benchmark. **Pauses in the indexation of FTB A and FTB B payments over the past decade have also reduced the value of the payment**, with the maximum rate of FTB A declining from 17 per cent of median equivalised household disposable income in 2003 to 11 per cent in 2020.

Combined FTB A and B payments contribute over a third of total disposable income for some low-income families, keeping them above the poverty line. With an estimated one in six children in Australia experiencing poverty (ACOSS 2022), **family payments also play an important role in reducing child poverty**. In the 1980s, family payments were set based on the cost of raising children and benchmarked to pension rates to ensure that the adequacy of payments was not eroded over time. These payments contributed to a substantial 35 per cent reduction in child poverty rates between 1982 and 1996 (ACOSS 2009). Reinstating benchmarking to pensions and establishing payment levels targeted towards removing child poverty will improve child outcomes and expand opportunity for all families.

Complex administration and compliance arrangements create risks

Eligibility for FTB A and FTB B depends on **highly detailed rules** about the number and age of children, the fraction of care held by each parent (especially in split families), levels of adjusted income, types of payments including whether annual or fortnightly, and interactions with income tax, the Medicare levy and other social security payments.

The child support scheme also interacts with eligibility for FTB through the Maintenance Income Test. Over a third of FTB recipients receive child support income. **The complexity of compliance leads to a significant risk of underpayment or overpayment causing debt**, with one in five recipients (by instalments) incurring a debt in 2020–21 (DSS 2023b). The prospect of owing a debt to the Commonwealth can be very stressful for families, as the Royal Commission into the Robodebt Scheme highlighted.

High EMTRs create a disincentive for paid work

The income thresholds and taper rates for FTB A and FTB B contribute significantly to high EMTRs at low, median and higher wages for single parents, or secondary earners in couple families. This creates a **disincentive to move from unpaid care work in the home to part or full-time paid work**, undermining the economic wellbeing of families. For example, a secondary earner in a couple family with two children aged under five, working in the early childhood sector, would only receive 26 cents for each additional dollar earned as they increased their number of workdays to three per week.[2] In this scenario, the secondary earner faces an EMTR of 74 per cent, made up of income tax (16 per cent), Medicare (6 per cent), FTB A (20 per cent), FTB B (15 per cent) and childcare (16 per cent).

FTB payments entrench gender roles and create a barrier to equity

FTB A and FTB B payments and income tests **preference a breadwinner-homemaker or 1.5 earner family model**. The system entrenches outdated gender roles around care and work, disincentivising increased workforce participation by secondary earners, particularly those with weaker earning capacity. Women, who comprise the majority of secondary earners in Australian households, are most disadvantaged by this system, with lifelong implications for women's economic security and gender equity.

Reform options

The Australian family payments system needs reform to ensure that it achieves the right balance between providing adequate income support for families with children, properly valuing unpaid care work in the family, gender equity and paid workforce participation. To foster discussion about the reform of family payments, we offer four potential approaches to reforming the payment structure and income testing of family assistance payments in Australia.

Option 1: A single per-child payment

The first proposal is to replace the two-tier system of FTB A and FTB B with a single per-child payment. The payment would be made to the carer of the child and would therefore require an assessment of proportion of care, as is currently done (with a minimum of 35 per cent of care required for each recipient). This means the payment could be split across families.

A single per-child payment would be much simpler than the current system. The level of this payment should be reviewed and set based on the estimated costs of raising a child. The per-child payment could be subject to an income test and taper, like the current income test for FTB A. This approach would simplify the current system. It would not eliminate the disincentives to work caused by high EMTRs in the system, especially if the use of a joint couple unit for income testing were continued. To ensure sufficient support for low-income families, especially single parents, it may be necessary to increase PPS or PPP.

Option 2: Universal per-child payment

The second option is a universal per-child payment, which was Australia's policy underpinning Child Endowment for the middle 50 years of the 20th century. A universal child payment would be much simpler to administer and comply with than the current system.

While Australia tends to shy away from 'middle-class welfare', and hence universal payments, in the current era of population ageing and declining fertility, it is important to recognise the social good of children and of women's workforce participation for fiscal sustainability and economic growth. A universal per-child payment would recognise that some of the cost of care of children should be socially provided, like universal primary school.

A universal child payment would have the great advantage of eliminating the high EMTRs that are generated by the current FTB A and FTB B payments, supporting both work participation and gender equity goals.

The universal per-child payment should be set at an adequate level, taking account of the costs of raising children. However, if this approach were adopted, it would be important to maintain sufficient support for low-income families, especially single parents. One approach would be to increase PPS and PPP.

2 Examples estimated by the authors using Plunkett's spreadsheet, version July 2023.

Option 3: Individual tax or taper for child payment

If it is considered necessary, for policy or fiscal reasons, to maintain an income test on the per-child payment, a better design would be to base this test on the individual income of the carer who receives the payment, instead of the joint income of spouses.

For a couple family, the child payment could be tapered based on the secondary (lower) earner's income with an income-free area and a reduced taper compared to the current system for FTB A. The removal of the joint unit for income testing would reduce EMTRs substantially and recognise that workforce participation incentives relate to the individual, while ensuring that the highest income earners do not receive the payment. This would improve gender equity.

An individual income test or taper would also reduce administrative complexity and costs, especially related to identifying and ensuring that the other member of a couple files a tax return and reports their ATI. However, this would require identification of the secondary earner and establishing their ATI for the taper. This approach would also require removal of the Maintenance Income Test for child support. The Maintenance Income Test generates significant complexity, administrative challenges and hardship for recipients.

In addition, or alternatively, the per-child payment could be made taxable. This would have the effect of tapering the payment under the income tax scale. This is the approach taken for PPS and similar pension payments, as well as PLP. Taxing the child payment would ensure that high-income families receive less of the payment, while still preserving the simplicity of a universal payment design.

Option 4: Income test and taper like PLP

The fourth reform option is a per-child payment that applies the income eligibility test that already applies for PLP (but without the prior work condition). Eligibility for PLP is determined by an income test, and the payment is taxable based on the individual income of the recipient.

A per-child payment could be designed without the eligibility income test, preserving universality. Even high-income families could derive just over half of the benefit of the child payment because it would be taxable at the top 47 per cent rate. Alternatively, as already done for PLP, an eligibility income test could be applied to the individual income of the recipient of the child payment.

The same approach of an income test based on the recipient's individual income and then application of income tax could be applied to a per-child payment. This approach has the advantage of applying the progressive income tax rate structure to the child payment and ensuring that the payment cuts out so that the highest income families do not receive it, while also ensuring that those with low incomes obtain the maximum benefit. The individual income test is an effective policy response designed to reduce EMTRs for second earners in dual-income families because it smooths the tax rate scale faced by the secondary earner.

While this option involves greater complexity than a universal child payment, applying the same eligibility and income test as is currently in place for PLP would ensure a streamlined approach to these two family assistance payments.

Enabling family support

The goal of reform of Australia's family payments system should be to establish a coherent and simple system that recognises the social contribution of families in caring for children, while minimising barriers to paid workforce participation, supporting gender equity and reducing child poverty. The system should aim to deliver these objectives, in the context of Australia's overall family assistance package, which includes PLP, CCS, and PPS and PPP.

Our initial review presented in this paper provides guidance for future reform. The complex interaction between FTB payments and the broader tax and transfer system reinforces the need for a holistic reform agenda. Such reform should be aimed at ensuring an adequate social safety net that recognises the value of care, investing in social infrastructure, improving access to decent and secure work for caregivers, and ensuring that family payments are adequate to lift children out of poverty.

Further research is required, including that which:

- estimates the rate of family payments required to lift children out of poverty, in the context of current wage levels and social security payment rates
- models the fiscal cost of the proposed reform options
- models the distributional impact of the proposed reform options and their impact on workforce participation.

Immediate action is also required including reinstating the indexation of FTB in line with pensions, reviewing shared care arrangements and removing the Maintenance Income Test. These changes would improve the adequacy and reduce the administrative risks of the current system.

Reforming the family payments system can play a key role in meeting the policy goals of improving early childhood outcomes and women's economic security. Recognising and valuing unpaid care work while removing work disincentives is foundational in both supporting families and children and building women's economic security over the long term. Developing a system that provides adequate family payments should form part of a broader early childhood agenda that aims to ensure that all children have the opportunity and capability to develop, in turn ensuring Australia's economic growth and wellbeing in the long term.

Recognising and valuing unpaid care work while removing work disincentives is foundational in both supporting families and children and building women's economic security over the long term.

1 Introduction

Family Tax Benefit (FTB) plays an important role in Australia's family assistance payments system, along with Child Care Subsidy (CCS), Parental Leave Pay (PLP), Parenting Payment Single (PPS) and Parenting Payment Partnered (PPP).

FTB parts A and B were introduced by the Howard government in 2000 as part of a package of reforms designed to provide partial compensation for the introduction of the Goods and Services Tax (GST), replacing the previous and less generous Family Allowance payments (Daniels 2009). The FTB payments contribute to the direct (FTB A) and indirect (FTB B) costs of caring for children. The payments are income tested based on the income of the family, either of a single parent or secondary earner, or the combined income of a couple. Eligibility also depends on the age of dependent children; the proportion of care parents undertake; and the residence status of parents.

FTB A and FTB B have remained fundamentally unchanged since they were introduced, although after initial expansion of the generosity and coverage of the payment, tinkering with levels, tapers, thresholds and indexation of these payments has eroded their adequacy and coverage. Meanwhile, the landscape of family assistance surrounding FTB A and FTB B has changed significantly. Australian government policy goals of improving gender equity and removing barriers to workforce participation by women have led to a shift in focus in relation to the support provided to families with children, evident in the dramatic increases in CCS in the last decade. The introduction of PLP in 2011 has delivered reliable support for the care of infants and played a vital role in enabling parents (mostly mothers) to remain in or return to the workforce.

FTB A and FTB B were designed to facilitate greater choice for families in making work and care decisions (Hill 2006). However, the policy provides most support for breadwinner-homemaker families and delivers less support to dual-earner families with children, which is the dominant family structure today in Australia, thereby entrenching the breadwinner model. The interaction of FTB A and FTB B with income tax, CCS, PPS, PPP, JobSeeker, other social security payments and income taxes produces high effective marginal tax rates (EMTRs) on earned income for secondary earners in many families. These high EMTRs create disincentives to work that have a negative effect on women's workforce participation, as women remain mostly responsible for the care of children. The payment structure and design of FTB also creates disincentives to fathers sharing the care of children more equally.

FTB A and FTB B have highly complex administration and compliance systems. These can result in households incurring debts or missing out on payments. Yet there has not been significant policy attention given to the required level and design of FTB A and B, in terms of adequacy, administrative simplicity or the role of the payment in supporting families.

For these reasons, BSL concluded that it is timely to investigate the current family payment system. We explore current challenges and develop options that will improve payment adequacy and simplicity for families while enhancing incentives for women's labour force participation.

Structure of the paper

This paper discusses the history of the family payments system, to identify the main policy objectives underpinning FTB A and B, in the context of changing social and economic trends such as increased child poverty, wage levels, fiscal constraints, population ageing and women's changing workforce participation. We then provide an overview of the current FTB system, before exploring the key issues with the current system.

The paper presents data on the families and children who receive FTB A and B, including on income levels, payment amounts and coverage, among other characteristics. The data is sourced from publicly available Department of Social Services (DSS) data. These include DSS demographics data sets (at data.gov.au) (DSS

2023a), payment reconciliation data (DSS 2019), FTB factsheets (DSS 2016) and annual reports (DSS 2022), combined with some DSS data provided to us on request (DSS 2023b). We note that there is a time-lag in the reporting of some FTB data to allow for any late lodgements of recipient tax returns and reconciliation of the data, resulting in data being reported two years after the end of the financial year. Since 2017–18, not all measures, including the proportion of recipients receiving lump sum payments, have been made publicly available but can be made available on request.

To illustrate the impact of the current system on families and children, we use cameo modelling of some example families to demonstrate the effects on disposable income and work disincentives of the interaction of FTB A and FTB B with other parts of the income tax, family assistance and social security system. The final part of the paper considers the objectives of a future family payments system and presents four options for reform that aim to achieve the proposed objectives, while addressing the issues identified with the current system and recognising potential trade-offs.

FTB A and FTB B have remained fundamentally unchanged since they were introduced, although after initial expansion of the generosity and coverage of the payment, tinkering with levels, tapers, thresholds and indexation of these payments has eroded their adequacy and coverage.

2 Shifting objectives of family payments

The objectives and design of Australian government payments to families raising children have been shaped by the social and economic context. Over time, policy justifications have included: improving child outcomes; alleviating poverty; increasing the birth rate; and supporting traditional or new family structures (for example, since 2009, discrimination based on the sexuality or gender of parents has been removed). These objectives have not always been clearly articulated.

Understanding the evolution of family payments in Australia

Australia has provided income support to families with children for more than a century. The design and level of family payments have changed over time, from a universal structure to one that is tightly targeted based on income. The latter has increased the level of payments for those deemed most in need and removed benefits from middle and higher-income families. This shift has been shaped by social and economic contexts and the overlapping objectives of:

- improving child outcomes
- supplementing family income and increasing women's workforce participation
- alleviating poverty.

The history presented below is compiled from various sources, including Daniels (2009), Bray (2015), Hodgson (2005; 2014), Stewart and Whiteford (2018), Murphy et al. (2011), Podger et al. (2013), Kewley (1980) and Thornton, Bowman and Mallett (2020).

Improving child outcomes and alleviating poverty

Improving child outcomes and alleviating poverty has been a key objective of family payments in Australia since their introduction. (See Appendix 1 for a summary of the history of family payments and a timeline that maps payments by type, year established and government in power).

In 1912, when the first family assistance payment was introduced, more than a third of the Australian population was aged under 14 (Australian Institute of Family Studies (AIFS) 2023b). The Maternity Allowance was a one-off universal payment of five pounds paid directly to married and unmarried mothers to help cover the cost of children and reduce infant mortality. Financial constraints during the Depression led to increased targeting of this allowance, with the introduction of means testing in 1931 and a reduction in the payment rate. This shift highlights what would become an ongoing tension between broader coverage, higher payments and the fiscal sustainability of the family payments system.

During the Depression, it became apparent that the basic family wage was inadequate to support families and the proportion of children in the population declined. The Menzies Liberal government introduced Child Endowment in 1941, partly to encourage families to have children. This universal payment set the basic structure for child payments for the next 40 years. Child Endowment was a universal payment to mothers for their second and subsequent children aged under 16. The direct payment to mothers, like the Maternity Allowance, contrasted with the delivery of family tax concessions to the taxpayer, who was usually the father or breadwinner. Soon after, the Curtin Labor government abolished tax concessions for families and introduced an Additional Child Allowance for pensioners (1943) and unemployment or sickness benefit recipients (1945) payable for the first child in a family.

By the postwar period, the 'baby boom' saw the proportion of children in the population again increase to above 30 per cent, and government policy focused on supporting families with children. In 1950, universal Child Endowment was extended to all children including the firstborn, and the Menzies government further extended it in 1964 to provide support for students up to the age of 21. The Additional Child Allowance was extended to the second and subsequent children from 1956, and to include children of parents receiving benefits from 1962.

Child and spouse tax concessions were subsequently reintroduced under the Menzies government, highlighting another tension between delivering support to the breadwinner of a family, usually the father, by concessions in the income tax and providing cash payments directly to the carer, usually the mother (Cass and Brennan 2003). This also raised the issue of adequacy. The value of tax concessions increased in line with income taxation on nominal income, while the real value of payments was eroded by inflation.

Supplementing family incomes and encouraging women's workforce participation

Throughout the history of family payments, support for the costs of raising children has been distinguished from support for those providing care. Policy attention has shifted towards supplementing the income of the poorest families and encouraging women's paid workforce participation. However, targeting income support to poor families has led to tensions, as the design of targeting can create work disincentives, with the reduction in support difficult to offset through increased earnings.

For the first half of the 20th century, support for providing care was assumed to be provided through 'family wages'. This was enshrined in the High Court's 1907 Harvester decision which set male wages at a level that was intended to support an unskilled labourer, a wife and three children in 'frugal comfort'. Concerns about the ability of the male wage to support a wife and family have at times fuelled pressure for family payments to be made more generous. However, the dominance of the male breadwinner model, and concerns about its potential erosion, has meant that the development of a system of government payments that support those caring for children has been slow.

In 1942, the Curtin Labor government extended income support for those caring for children through the means-tested Widows' Pension, in recognition of the growing number of female-led families. The payment was also available to some single or divorced mothers. This was the first substantial payment that recognised those providing care outside the breadwinner-homemaker model.

By the late 1960s, norms around gender roles and single-parent families were beginning to change, although women's workforce participation remained low. In 1973, the Whitlam Labor government introduced the Supporting Mother's Benefit to provide support for single mothers at the same rate as pensions, tested on the mother's income. This removed the remaining restrictions on non-widowed single mothers accessing support. The introduction of no-fault divorce in 1975 saw a spike in the number of divorces and single parents (AIFS 2023a). In 1975, the equal wage case resulted in minimum wages applying equally to men and women; however, the minimum wage was no longer intended to (and could not) support a spouse and children. In 1977, the Fraser Liberal government extended eligibility for the Supporting Mother's Benefit to male sole parents, which became the Supporting Parent's Benefit. Just over a decade later, in 1988, the child support scheme was introduced. In 1989 the Supporting Parent's Benefit and Widow's Pension (Class A) were amalgamated, creating the Sole Parent Pension. Ten years later, the Sole Parent Pension was amalgamated with the Parenting Allowance in 1998, to create a single payment for people caring for children; the Parenting Payment.

The 2000s saw the enthusiastic adoption of work 'activation' policies. In 2003, the Howard government introduced 'mutual obligations' for Parenting Payment for recipients with high school-aged children. From 2006, further changes reduced eligibility for Parenting Payment based on the age of the youngest child, while additional compliance measures were applied to the payment from 2018 with the implementation of the ParentsNext program.[3] In 2023, the Albanese government has raised the age of the youngest child for PPS recipients to 14 from 8, shifting families in this category off the lower JobSeeker Payment.

Targeted poverty alleviation

The Henderson Poverty Inquiry (1975) increased attention on child poverty and affirmed a needs-based approach to welfare, while also emphasising the need for administrative simplicity (Thornton, Bowman & Mallett 2020). In 1976, based on Henderson Inquiry recommendations, the Fraser Liberal government rolled the Child Endowment and the Dependent Child Tax Rebate into a new universal payment called the Family Allowance, with a significantly higher rate funded through savings from abolishing tax concessions for families. In 1983, the Fraser government's Family Income Supplement came into effect. The supplement expanded income testing for family payments, creating an additional targeted payment for low-income working families, highlighting the ongoing tension between adequacy and targeting.

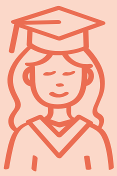
The coverage of family payments for children under 16 years of age was near universal until 1987. At this time, in response to budgetary concerns and a pledge to reduce rising child poverty that had resulted from higher rates of unemployment and a growing number of single-parent families, government policy attention turned to targeting, creating a period of 'retreat from universalism' (Saunders & Matheson 1991; Whiteford, Stanton & Gray 2001). The Hawke Labor government created the Family Allowance Supplement, increasing the value of payments, now benchmarked to pensions, while relaxing the income test. Significant efforts were made to encourage take-up by eligible families, after the poor level of take-up of the previous Family Income Supplement. These changes resulted in child poverty declining by a third (Australian Council of Social Services (ACOSS) 2009). Subsequently, all payments for children in low-income families were administratively integrated and made separately payable to the mother, rather than incorporated into the (male) beneficiary's income support payment (Whiteford, Stanton & Gray 2001). The targeting of payments based on joint couple income also resulted in increasing EMTRs, discouraging workforce participation for women who had primary responsibility for the care of children (Cass & Brennan 2003; Stewart & Whiteford 2018).

Under the Hawke and Keating Labor governments, the indexation of payment rates and both income and asset testing as well as a new payment for single-income, two-parent families were introduced, while the access to income tax concessions for families was tightened. Income testing was further tightened in 1994, accompanied by increased payment rates for low-income families, which reduced payment coverage to 79 per cent by 1998 but increased the real value of child payments (Whiteford, Stanton & Gray 2001). A range of other payments and allowances applied to families with children, producing a complex environment. This mix of payments was somewhat simplified with the introduction of FTB in 2000 (see section 3 for a more detailed examination of FTB).

3 The Parliamentary Joint Committee on Human Rights (2021) found that certain aspects of the program were 'maifestly inconsistent with Australia's human rights obligations. These concerns relate principally to the right to social security, the right to equality and non-discrimination and children's rights'. Following three inquiries and fierce advocacy, the program is now voluntary and will be ceased on 30 June 2024.

Table 1 Policies that support children across childhood

STAGE[1]	CURRENT SETTINGS
Pregnancy and birth, adoption etc. (age zero) 	• Medicare • Newborn Supplement • Maternal-child health services (state/territory and Local Government) • PLP (20 weeks shared) • Work/mutual obligation requirements for JobSeeker or other payments
Infancy (0–1) 	• PLP (20 weeks shared in 2023–24) • Employer-funded parental and partner leave • FTB A • FTB B (not payable if receiving PLP) • CCS • PPS and PPP • ParentsNext (where applicable) • Income tax on earned income • Medicare levy (family threshold, concessional amount for Concession Card holders and families receiving FTB A) • Maintenance Action Test and Maintenance Income Test for child support may reduce FTB A (where applicable)
Toddler, Preschool (2–4) 	• FTB A • FTB B • CCS • Medicare (family threshold kicks in, including concessional amount for Concession Card holders and families receiving FTB A) • PPS and PPP • ParentsNext (where applicable) • Maintenance Action Test and Maintenance Income Test for child support may reduce FTB A (where applicable) • Free 3-year-old and 4-year-old kindergarten (state governments)
Primary school (5–12) 	• Years 1–6 free or fee-based primary school • CCS (before or after school care) • FTB A • FTB B (change of rates for age depending on family structure) • ParentsNext (for parents of children up to six years) and JobSeeker and Parenting Payment mutual obligations and activation (youngest child over six) • Medicare (family threshold, concessional amount for Concession Card holders and families receiving FTB A) • Maintenance Action Test and Maintenance Income Test for child support may reduce FTB A (where applicable)

STAGE[1]	CURRENT SETTINGS
Secondary school (13–16) 	• State or fee-based secondary school • Parenting Payment or JobSeeker Payment (youngest child age 14) • Eligibility for PPS ceases once youngest child turns 14 • FTB A (higher rate and study requirement for ages 16–19) • FTB B (eligibility for couple generally ends at age 13 unless grandparent carers) • PPS or JobSeeker Payment with mutual obligations and activation • Medicare (family threshold, concessional amount for Concession Card holders and families receiving FTB A) • Maintenance Action Test and Maintenance Income Test for child support may reduce FTB A (where applicable)
Secondary school, technical training, tertiary education, youth employment (17–19) 	• FTB A (study requirement for ages 16–19)—those not receiving FTB A may be eligible for Youth Allowance • JobSeeker Payment with mutual obligations and activation • Medicare levy threshold • Dependent youth: Youth Allowance up to age 21 • Child support ceases when child reaches age 18 but can be extended until the end of the secondary school year in which they turn 18. FTB A parents who receive child support are required to apply for an extension under the Maintenance Action Test. Maintenance Income Test for child support may reduce FTB A (where applicable) • HECS/HELP

Note: ParentsNext has been made voluntary, with the program ending on 1 July 2024. Table 1 covers only the main payments or policies and does not cover all supplements or special payments. The policy settings summarised here are 'per child'. The overarching policy goal underpinning these supports is the health and wellbeing of the child and of the mother or parents. The table does not include any specific programs or supports for recipients with a disability or special circumstances. Entitlements may be affected by the number and age of children in the family.

3 FTB A and B

FTB parts A and B are direct payments to the carer of eligible children that are targeted to lower-income families. Income testing is based on the combined couple income for FTB A, while FTB B uses separate income thresholds for primary earners, including single parents, and secondary earners. FTB A and FTB B are exempt from income taxation. Eligibility depends on the age of dependent children, the proportion of care parents undertake and the residence status of parents. For many new residents with children, FTB A and FTB B are among the few government assistance payments that they are eligible to receive after a relatively short waiting period.[4] For example, newly arrived parents are eligible for FTB A after one year, while FTB B has no waiting period.

See Box 1 for details of FTB A, Box 2 for details of FTB B and Box 3 for a list of common concepts and requirements (information sourced from DSS 2023c).

Changes since implementation

The income testing of FTB A and B was designed under the Howard Liberal government to deliver increased support for families, in particular sole-earner families (whether breadwinner-homemaker couples or single parents). This design is especially apparent in FTB B. Former Treasurer Peter Costello emphasised the goals of comprehensiveness, simplicity and generosity of payments to provide 'higher levels of family assistance' (Costello 1999), while ensuring that families with a sole breadwinner were not disadvantaged.

Analysis by Harding, Lloyd and Warren (2006) showed that sole parents and lower-income families were better off after the introduction of FTB, although, on average, couples with children did not gain under these reforms due to income testing excluding higher-income families. Family payments to a single-income family with two children, where the breadwinner earned an average wage, rose from 1.8 per cent of average weekly earnings in 1990 to 20.4 per cent by August 2003 (Kelly & Harding 2005), generating a significant supplement to family income.

However, the majority of this increase can be attributed to the introduction of Family Allowance by the Keating Labor government in 1996 (Daniels 2009). Whether the goal of simplicity was achieved is less clear (Hodgson 2005).

The first decade of the 21st century saw the expansion of coverage of family payments. Between 2001 and 2006, income testing thresholds were raised and an annual supplement, of up to 19 per cent of the base entitlement, was introduced in 2003–04 for FTB A, resulting in a significant increase in the value of the payment (DSS 2023c). An annual FTB B supplement was introduced in the following year. In 2004, the Baby Bonus, a lump sum payment of $3000 for the birth or adoption of a child, was introduced, first as a tax concession, replacing an earlier child tax concession introduced in 2001, before becoming a payment. It was repealed in 2014, replaced with changes to FTB A. In 2008, an upper income threshold for FTB B was introduced for primary earners and indexation of the higher income-free area for both FTB A and B was paused from 2009. Changes in the 2009 budget removed the link between pension levels and maximum FTB A payments,[5] resulting in payment rates and thresholds being indexed to CPI (ACOSS 2009). From 1 January 2012, the maximum FTB rate for eligible children aged 16–19 years was increased to match the rate for children aged 13–15. Eligibility for FTB A was also used to test eligibility for a range of other benefits, including assisting parents with the cost of education (e.g. Schoolkids Bonus).

4 Other payments, such as PPS and PPP, have longer waiting periods, such as two to four years, or strict residence or citizenship tests.

5 Prior to 2009, the maximum rate of FTB A for each child was indexed and could not be less than 16.6 per cent of the basic pension rate for a married couple for a child aged under 13 or 21.6 per cent for a child aged over 13. The couple pension rate was equal to the sum of the maximum basic rate and the GST pension supplement.

From 1 January 2012, the upper age limit for children eligible for FTB was reduced to 21 from 24, to align with Youth Allowance, with subsequent changes in the 2012–13 budget limiting eligibility for FTB to children up to 15 years or 16–19 years if in full-time study (Yeend 2012). From 2016, the Turnbull Liberal government ceased paying FTB B to couple families (excluding grandparents) when the youngest child turned 13, while eligibility for FTB A end-of-year supplements was limited to families earning under $80,000 per annum (not indexed). In 2017, the Social Services Legislation Amendment Act 2017 (Cth) paused payment indexation, resulting in payments not increasing from 2016 to 2019 and placing financial pressure on low-income families and leading to a form of bracket creep. The pause in indexation of the FTB A higher threshold was subsequently extended, resulting in this threshold remaining unchanged from 2008 to 2019, reducing payment coverage. In 2018, the Morrison Liberal government implemented a one-off increase to the FTB A income-free area; but in 2019, a higher taper rate of 30 per cent was introduced for each dollar of family income exceeding the higher income-free area, and indexation was again paused until 30 June 2021.

FTB administration

Claiming FTB A and FTB B requires that various basic criteria are met up front, and then that the recipient manages the ongoing entitlements by providing a range of evidence, including of their ATI and that of their partner (or other parent if separated) (see definition in Box 3). Administration is conducted by Services Australia. The payments can be claimed fortnightly or as a lump sum at the end of the financial year.

The claimant must establish a myGov account and link it to Centrelink, which requires them to provide proof of identity and create a Customer Reference Number (CRN). Payment is made directly into a designated bank account. The system requires the claimant to have access to the internet and computing or phone app facilities, and to provide proof of the birth or adoption of the child, details of a previous carer (if any), details of shared care arrangements and child support received, the tax file number (TFN) of the claimant and their partner, the family's income details, and the claimant's partner's residence details. Supporting documentation must be submitted within 14 days of the claim, or within 28 days for TFN and bank account details. An application for FTB may be made from 27 weeks of pregnancy for a newborn. Payments start after the birth has been confirmed by uploading a newborn declaration; the process for receiving payments may take up to 12 weeks.

The pause in indexation of the FTB A higher threshold was subsequently extended, resulting in this threshold remaining unchanged from 2008 to 2019, reducing payment coverage.

BOX 1: FTB A

FTB A is payable, where eligibility conditions and income tests are met, to the carer of each dependent child aged either 0–15 years of age, or 16–19 years of age. A child aged 16–19 must be in full-time secondary study, or be eligible for an exemption, and must not also be receiving an income support payment themselves, such as Youth Allowance.

The FTB A income test applies to family income, which is the ATI of a single parent or the combined ATI of both members of a couple. Families may also be eligible for FTB A supplement, paid as a lump sum at the end of the year when a tax return is filed. Most supplements, including Commonwealth Rent Assistance (CRA) for a family receiving FTB, are paid as an add-on to FTB A.

FTB A recipients who are separated and eligible for child support are subject to a Maintenance Action Test, which requires them to take reasonable action to get child support from their former partner. Where a parent cannot prove they have taken reasonable steps they will not receive more than the base rate of FTB A. A Maintenance Income Test also applies to child support income.

The **FTB A supplement** is part of the annual rate of FTB A and is paid for each FTB child. The supplement is only available after the end of the financial year, after FTB has been reconciled, for families with an ATI of $80,000 or less. Payment of the supplement is conditional on the recipient and/or their partner lodging a tax return (if required) or informing Services Australia that they are not required to lodge a tax return within the required timeframe. The supplement, as well as other FTB top-up payments, may be used to offset an individual's outstanding debts.

A residency requirement applies for FTB A, so that the individual carer and the child must be living in Australia when they claim the payment, and both must have Australian citizenship, have a permanent visa or be on a special category or certain types of temporary visa. There is usually a waiting period of one year, with some exemptions available.

Immunisation of the child according to government health standards is required to receive the maximum (standard) rate of FTB A.

Advance payments may be made for FTB A. Any advances must be paid back later from future payments. Recipients of FTB A can elect to receive a regular advance, paid twice per year (every 26 weeks) at a rate of 3.75 per cent of the standard FTB A rate for one child under 13. Alternatively, families can receive a one-off advance at a maximum rate of 7.5 per cent of the annual rate. Advances cannot exceed $1202.54 in any one year (Services Australia, 2023). Advances are repaid by automatic deductions from later payments over the next six months. A further advance can be sought after the prior one is fully paid off over six months.

Source: *Family assistance guide* v1.245 (DSS 2023c).

BOX 2: FTB B

FTB B is payable to the primary carer of children in a couple family or to a single parent, a non-parent carer, a grandparent or great-grandparent carer. A single parent, non-parent carer or grandparental carer is entitled to FTB B where the youngest child is aged under 18. A couple family is eligible for FTB B where the youngest child is aged under 13.

The FTB B income test is based on a prescribed definition of a 'primary earner' and a 'secondary earner'. The 'primary earner' is a sole parent, or the member of a couple who has the higher ATI for an income year. The 'secondary earner', or lower-income earner, is the member of a couple who has the lower ATI for an income year. Where the primary earner income is less than the limit, the income test is applied to the ATI of the secondary earner.

The **FTB B supplement** is part of the annual rate of FTB Part B per family. The supplement is only available after the end of the income year once FTB has been reconciled. Payment of the supplement is dependent on the recipient and/or their partner lodging a tax return (if required) or informing Services Australia that they are not required to lodge a tax return within the required timeframe. The FTB B supplement, as well as other FTB top-up payments, may be used to offset an individual's outstanding debts.

Source: *Family assistance guide* v1.245 (DSS 2023c).

BOX 3: Common concepts related to FTB

FTB child

An FTB child is in care of the recipient for at least 35 per cent of the time (*A New Tax System (Family Assistance) Act 1999* (Cth) s 22(7)).

Shared care

Only one member of a couple is eligible for FTB at a time unless the couple is separated. FTB may be shared by couples in blended families or by individuals who claim FTB for a past period prior to separation. Where both members of a couple claim FTB, eligibility is determined by identifying which individual is the primary carer of the child and whether there is a written agreement nominating one of the members of the couple to claim FTB.

Member of a couple

A 'member of a couple' and a 'partner' are defined in the *A New Tax System (Family Assistance) Act 1999* (Cth) s 3(1) in the same way as in the *Social Security Act 1991* (Cth) s 4. The definition is important because if a couple relationship is found, the income test applies to the combined income of the individual and their partner in the couple. It includes the members of a couple, whatever their gender, who are legally married or in a registered relationship and who are not permanently or indefinitely living apart. It also includes members of a couple, whatever their gender, in a de facto relationship, defined based on a range of factors including financial aspects, nature of the household, social and sexual aspects of the relationship and the nature of each individual's commitment to each other.

ATI

ATI is the taxable income of an individual for the purposes of their tax return, with various adjustments including the addition of foreign and other exempt income, the value of reportable fringe benefits and superannuation contributions, and adding back net investment losses (such as rental losses). ATI is used to income test for FTB A and FTB B, CCS and PLP and to determine child support obligations.

Source: *Family assistance guide* v1.245 (DSS 2023c).

2023 rates of payment

The total FTB A or FTB B to which a family is entitled is calculated after tax returns are filed and assessments issued for the sole parent or primary and secondary earners. Relevant data is supplied from the Australian Taxation Office (ATO) to Centrelink to determine the final FTB A or B due, and this is then compared with the payments made during the year based on the income estimate. (See Table 2 for further details on FTB rates.)

Table 2 FTB A and FTB B annual rates and income tests (1 July 2023)

	FTB A	FTB B
Payment rate	Maximum rate (standard rate) (per child): • $5562.60 per year (0–12) • $7234.30 per year (13–15; students 16–19) • Base rate: $1784.85 per year per child	Maximum (standard) rate: • $4730.40 per year (age of youngest child is 0–4) • $3299.60 per year (age of youngest child is 5–13, couple families; nil if older) • $3299.60 per year (age of youngest child is 5–18, single parents, grandparents)
Threshold (income-free area) and income limit	Individual or couple ATI: • Lower income-free area: $62,634 per year Higher income-free area: • $111,398 per year Child support income is subject to the Maintenance Income Test which applies a different income-free area (see below)	Secondary earner ATI: • $6497 per year Primary earner or sole income earner: • $112,578 per year
Taper and income limit, based on sole or couple income	Individual or couple ATI: • 20% up to $111,398 • 30% from $111,398 Child support income is subject to the Maintenance Income Test which applies a higher taper rate (see below)	Primary or sole income earner: • 20% up to $112,578 per year (not eligible above this level) Secondary earner: up to $6497 per year • 20% up to $32,303 per year (0–4) • 20% up to $25,149 per year (5–12)
Supplement	Maximum $879.65 per child	Maximum $430.70 per family
Commonwealth Rent Assistance (CRA)	CRA is included as part of FTB A for eligible families. Single and couple parent families with no more than two children can receive a maximum of $217.28 per fortnight, while families with three or more children can receive up to $245.42 per fortnight These rates include the 15% increase from 20 September 2023	
Other benefits or limitations	Newborn supplement (up to 13 weeks) for newborn or child under one Triplet (multiple) birth allowance: three or more FTB children from the same birth Advance payment (loan) allowed Health Care Card if on maximum rate Energy supplement	Not payable while receiving PLP in respect of the child Energy supplement (where grandfathered)

	FTB A
Maintenance Action Test (Applies to FTB A only)	Parents who care for a child from a previous relationship are required to take reasonable action to get child support from their former partner. Where a parent cannot prove they have taken reasonable steps they will not receive more than the base rate of FTB A.
Maintenance Income Test (Applies to FTB A only)	For parents receiving child support (or maintenance income), the following maintenance income thresholds apply: • Single parent or member of a couple, receiving maintenance: $1883.40 • Couple, both receiving maintenance: $3766.80 • For each additional child, the maintenance income threshold increases by $627.80 For every dollar of child support and spousal maintenance received over these thresholds, FTB A payments are reduced by 50c until the base rate of FTB A is reached. Child support income for the purposes of this test can be based on expected rather than received income.

Source: *Family assistance guide* (DSS 2023c), updated 3 July 2023.

Fortnightly or lump sum payments and advances

FTB A and FTB B are calculated as annual payments (in contrast to Parenting Payment, which is calculated and paid fortnightly). Families claiming FTB A or FTB B may elect to receive it fortnightly. FTB A can be received in the form of a fortnightly payment based on estimated income, or as a base rate fortnightly payment with any balance payable as a lump sum after the end of the financial year, or entirely as a lump sum after the end of the financial year. FTB B may be claimed as a fortnightly payment based on estimated income or as a lump sum at the end of the financial year. Payment choices may also affect rates of other government payments including the Newborn Supplement, CRA and Energy Supplement.

Most FTB recipients opt to receive it as a fortnightly payment. For the 2020–21 financial year, just 4.4 per cent of those entitled to FTB chose to receive their payments as a lump sum (DSS 2023b) compared to 14 per cent in 2007–08 (DFaHCSIA 2008). Those that receive the payment as a lump sum report higher taxable income on average, with taxable income for lump sum recipients averaging $72,727 in 2020–21 compared to $57,659 for those claiming the payment by instalments (DSS 2023b).

For many families, the end-of-year supplements for FTB A and B act as a form of savings and are often used to pay irregular expenses such as school fees or household appliances (Klapdor 2015).

As indicated in Box 1, advance payments may be made for FTB A (as for some other payments including Parenting Payment, Carer Payment, Disability Support Pension and Age Pension). In 2019–20, 40 per cent of recipients with reported income of under $50,000 took advances, compared to 17 per cent of those with income of over $50,000 (DSS 2023b). Women are also more likely to take advances (30 per cent) compared to men (17 per cent), while First Nations recipients have the highest rate of FTB advances at 65 per cent (DSS 2023b). Rates of advances among all recipients have increased from 25 per cent in 2015–16 to 28 per cent in 2020–21. The use of advances can help recipients manage their income and expenses but can also increase the administrative burden associated with payments as well as the risk of debt.

Impact of child age on payments

As a child grows older, eligibility for various types of government support also changes. These changes are summarised in Table 3, which also outlines the work obligations for families, depending on the age of children.

Table 3 Change in eligibility based on child age

When the YOUNGEST child cared for by recipient turns:		
5	FTB B	Reduces by $50 per fortnight.
6	PPP	Ceases. Change to JobSeeker. ParentsNext ceases (ParentsNext is now voluntary and will cease on 1 July 2024).
	PPS	ParentsNext ceases (ParentsNext is now voluntary and will cease on 1 July 2024). Move to Workforce Australia/DES. Mutual obligations increase.
8	PPS	Eligibility for PPS ceases (to 20 September 2023).
13	FTB B	Ceases for partnered parents. Continues for single parents, and grandparent carers.
14	PPS	From 20 September 2023, eligibility ceases when youngest child turns 14.
16	JobSeeker Payment	Mutual obligations increase to full-time (unless another exemption applies).
When ANY CHILD cared for by recipient turns:		
6	CCS	Higher CCS for younger sibling ceases.
13	FTB A	Maximum rate increases by $60 per fortnight.
16	Carer Payment/Carer Allowance	Reviewed. Apply for Carer Payment/Carer Allowance (adult). Child with a disability can consider applying for Disability Support Pension (leads to FTB ceasing on application). Child can apply for ex-carer allowance and child Health Care Card if studying.
	FTB A and B	Full-time secondary study requirements begin for continued eligibility.
18	Child support	Child support ceases from a child's 18th birthday unless a parent applies for child support to continue when the child turns 18 years of age and they are a full-time secondary student. The extension may apply until the last day of the school year (last day of school or exams). The extension application must be made before the child's 18th birthday.
	FTB A	If child support does not continue, FTB A reduces to $63 per fortnight for a child aged 18.

Source: Adapted and updated from table prepared by Centrelink and Other Info Facebook group (September 2022).

Changing family norms can also exacerbate adequacy issues. For example, despite children remaining in the home and relying on their parents for longer, payments cease on 31 December where a child finishes Year 12 or an equivalent qualification in November or December of the same year. The suspension of payments can cause significant hardship given the sudden drop in family income.

Current recipients of FTB

As at March 2023, around 1.3 million families were claiming FTB A and/or FTB B by instalments[6] (DSS 2023a). This included 1.3 million FTB A recipients and 1.02 million FTB B recipients. Around 2.55 million children were supported by the payment in March 2023.

The majority of FTB claimants are women,[7] with men making up just 16 per cent of total FTB A recipients in 2020–21 (DSS 2023b). Recipients of FTB A were split evenly between partnered and unpartnered families, but 65 per cent of FTB B recipients are unpartnered (DSS 2023a). At March 2023, between 8 and 9 per cent of FTB A and B recipients identified as First Nations, and the age distribution of parents claiming FTB comprised about 30 per cent aged under 35, 40 per cent aged 35–44 and 28 per cent aged over 45 (DSS 2023a).

The majority of FTB recipients report low taxable income. In 2020–21, 46 per cent of FTB recipients reported an ATI of below $50,000 per annum (DSS 2023b). In line with eligibility requirements, FTB B recipients have lower taxable income on average. As a result of differences in income testing arrangements, 61 per cent of FTB A recipients received less than the maximum rate in 2016, while 72 per cent of FTB B families were eligible for the maximum rate (DSS 2016).

Across both FTB A and B, around 42 per cent of FTB recipients were also receiving other income support payments as at March 2023 (DSS 2023a), increasing from 38 per cent in June 2012 (DSS 2012). In the same month, PPS (16 per cent) and JobSeeker Payment (10 per cent) were the most common forms of income support payment among those receiving FTB, followed by Carer Payment (6 per cent), Disability Support Pension (4 per cent) and PPP (3 per cent) (DSS 2023a).

Fiscal cost

The Commonwealth reports the fiscal cost of family assistance in its annual budget papers and associated departmental reports. Family assistance spending incorporates a range of payments, which are shown in Table 4. FTB A is by far the largest program, in terms of total fiscal cost.

Table 4 Actual cost and estimates for payments to families with children

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	13,083,167	14,154,995	14,935,485	15,463,310	15,827,840
FTB B	3,834,960	4,158,433	4,331,133	4,482,218	4,517,259
PLP	2,625,122	3,042,381	3,419,948	3,873,623	4,362,191
Dad and Partner Pay	150,025	-	-	-	-
CCS	10,626	12,716	13,474	14,160	14,958
Parents income support	5918	7501	8200	8503	8942
Child support	1834	1886	1923	1954	1982

Source: The Treasury (2023), Budget Paper 1, Statement 6, Table 6.9.3; DSS (2023d), Table 2.1.1 (p. 29). Note: this data excludes payments included under assistance to families with children where the total annual cost is less than $1 billion. The description of payment categories is taken from the 'Assistance to families with children' category in the budget papers. Parents income support refers to the cost of Parenting Payment. Child support is not a government expense but refers to the disbursement of child support funds collected through Services Australia.

6 Detailed demographic data is only available for families who receive the payment by fortnightly instalment, which account for 95 per cent of those who receive the payment. Therefore, unless otherwise stated, recipient data excludes the 5 per cent who receive the payment as a lump sum.

7 While women make up the majority of claimants, as FTB A is a family entitlement this does not imply that women are the sole beneficiaries of the payment in these cases.

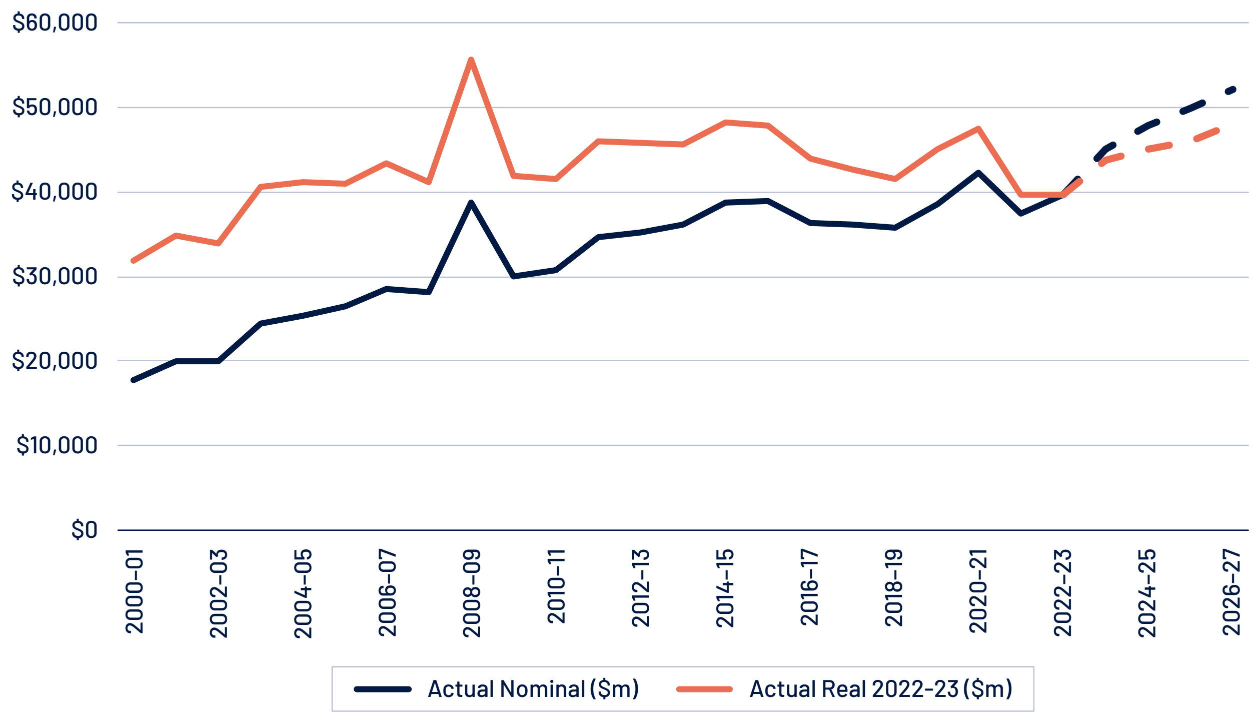
Figure 1 presents the historical trends in total expenditure on family assistance from 2000–01 to 2022–23 (blue line) and projected expenditure to 2026-27 (dashed blue line). It reveals that expenditure has increased in nominal terms from around $18 billion in 2000 to $40 billion in 2022–23 and is expected to continue to trend upwards (The Treasury 2023). Total FTB spending makes up 7.5 per cent of overall social security spending, which was $226.4 billion in 2022–23 (The Treasury 2023). To provide a comparison in real dollars, we adjust nominal expenditure figures to 2022–23 dollars (orange line). This shows that total real expenditure on assistance for families with children has remained relatively stable over the last decade.

Historically, the largest increase in family assistance occurred in the 2003–04 budget under the More Help for Families package, which included a one-off FTB of $600 per child per year, bringing total spending on assistance to families with children to $24.5 billion, or around 3 per cent of Gross Domestic Product (GDP)(Hill 2006).

The largest numerical spike, shown in Figure 1, represents the Rudd Labor government's fiscal stimulus payment during the Global Financial Crisis. The Rudd government paid a bonus of $1000 per child to families eligible for FTB A and a Single Income Family Bonus of $900 to families eligible for FTB B. The more recent spike in fiscal cost in 2019–20 and 2020–21 was a result of the COVID-19 pandemic, which temporarily reduced household income for many families due to the lockdowns, resulting in an additional 86,394 families receiving payments in 2019–20 (DSS 2022).

In contrast, when calculated as a share of GDP, Australian total expenditure on family assistance declined from around 3 per cent of GDP in 2000 to around 1.7 per cent of GDP in 2023. This is evident in data on family assistance provided by the Organisation for Economic Co-operation and Development (OECD 2023a). The OECD's definition of family benefits includes cash transfers (payments) to families with children such as FTB A and FTB B; income support during periods of

Figure 1 Assistance to families with children ($million), actual and projected, 2000–01 to 2022–2023, and 2026–27 (projected)

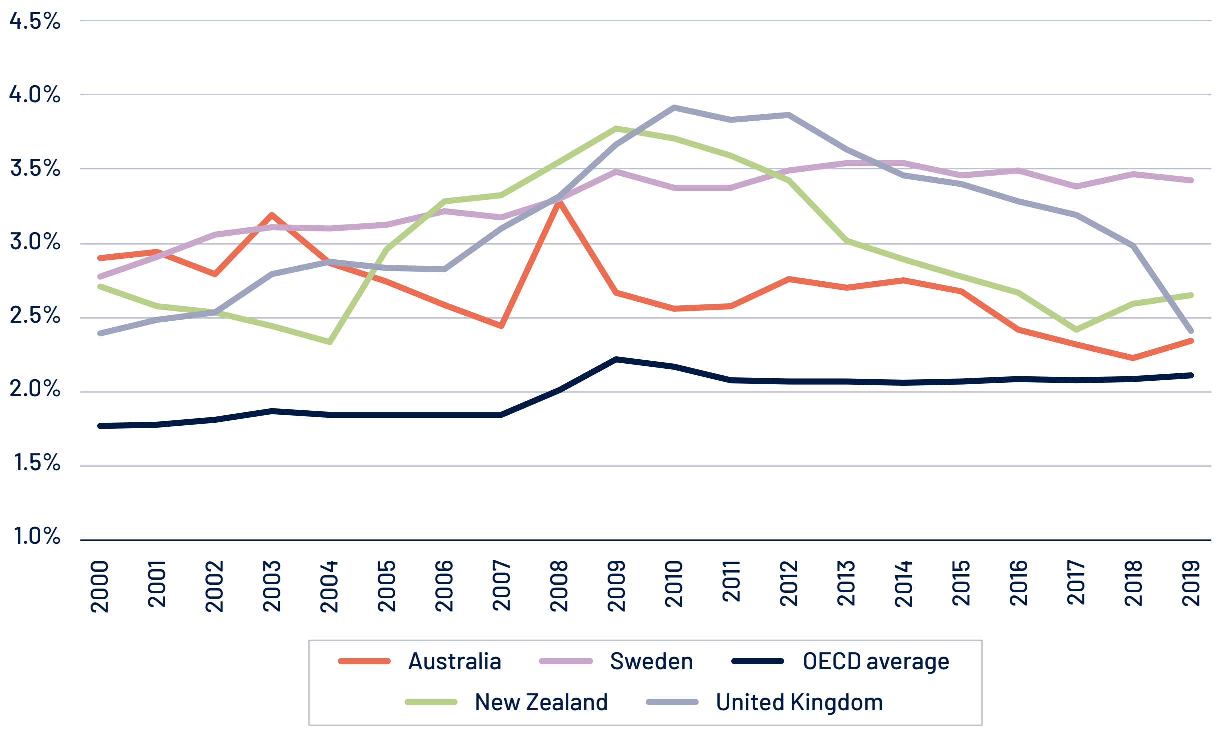


Source: Authors' calculation based on data from budget papers, 2000–01 to 2023–24 (The Treasury 2022; 2023). Dashed line figures represent forward year estimates from May 2023-24 budget.

parental leave, such as PLP; and income support for single-parent families, such as PPS. Using this definition, Australia has relatively generous family assistance, compared to the OECD average over time. Figure 2 compares Australia's expenditure on assistance to families with children with such expenditure in the OECD member states the United Kingdom, New Zealand and Sweden, and with the OECD average, as a percentage of GDP. New Zealand and the United Kingdom are selected due to their comparable welfare state arrangements, while Sweden provides an example of a more generous universal approach to social security entitlements. This comparison shows that Australia has lower family assistance spending than New Zealand and the United Kingdom, with Australia's spending declining since the beginning of this century.

Australia has lower family assistance spending than New Zealand and the United Kingdom, with Australia's spending declining since the beginning of this century.

Figure 2 Trends in assistance to families with children, 2000–19 (% of GDP): Australia, United Kingdom, New Zealand, Sweden compared to OECD average (black line)



Source: OECD 2023a.

4 Issues with current family payments system

Our review of FTB A and B highlights five key issues:

- declining coverage of family payments
- reduced adequacy to cover the costs of children and recognise the value of care
- complexity and risk in administration and compliance arrangements
- disincentives for paid workforce participation
- barriers to achieving gender equity.

Declining coverage of family payments

Tightened income testing and indexation pauses have led to declining coverage, which in turn has resulted in family payments gradually shifting from a universal benefit to a targeted payment for low-income families. Indeed, the coverage of payments has halved since the 1950s, when the declining adequacy of the family wage system resulted in the expansion of family payments (Daniels 2009).

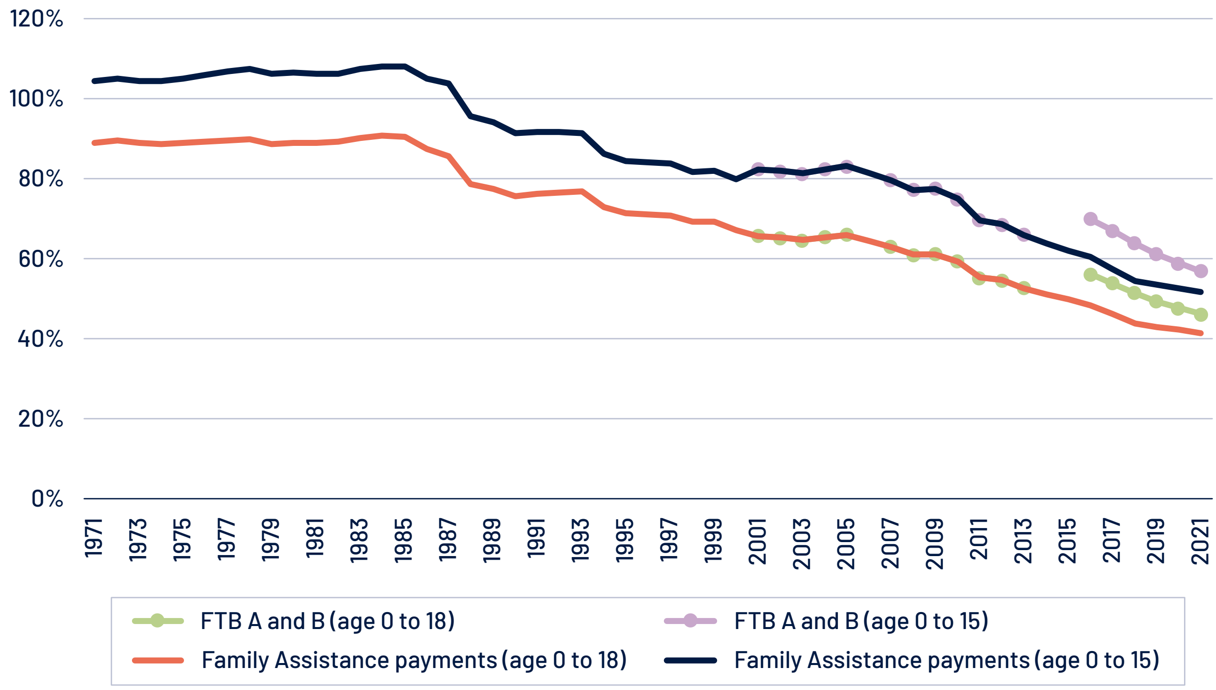
Estimates of the coverage of family payments, including FTB A, and equivalent prior payments, indicate a decline from close to 100 per cent in the mid-1970s to below 50 per cent, as illustrated in Figure 3. Despite a brief period of expansion in the years following the introduction of the FTB in 2000, coverage has continued to decline, with an estimated 46 per cent of children aged 0 to 18 years receiving FTB in 2021, down from a peak of 68 per cent in 2005. This has resulted in low-income families making up a much higher proportion of recipients.

The decline in coverage is a consequence of targeting and changes in real levels of the income thresholds for FTB A and FTB B. Targeting by income increased from 1987 (Stewart & Whiteford 2018). The sharp decline in coverage illustrated in Figure 3 from 2008 onwards is a result of changes in the level and indexation of the higher-income threshold for both FTB A and FTB B. Indexation on the higher-income threshold was paused from 2008 to 2019, and again in 2020 (DSS 2023c). An upper income limit for FTB B of $150,000 per annum was introduced in 2008, before being reduced to $100,000 in 2015, with indexation not applied to this limit until 2021 (Cook 2018). This resulted in the upper income threshold, the point at which the base rate is payable, declining from around 3.6 times the median annual equivalised household disposable income (EHDI)[8] in 2000 to just two times the median annual EHDI in 2020. Similarly, the upper income threshold represented 3.5 times annual minimum wage income in 2002, but just 2.4 times annual minimum wage income in 2023.[9]

8 EHDI is from ABS (2022b). Original data is provided in 2019–20 dollars and has been converted into nominal dollars for comparison with nominal FTB data from the ABS (2023b). Equivalised income adjusts income by household size, using an equivalence scale to allow for more accurate comparisons between households of the same size. The 'modified OECD' equivalence scale is used (OECD 2013). EHDI is based on data from ABS (2022b), which deducts estimates of personal income tax and the Medicare levy from gross income estimates.

9 Author calculation with minimum wage rates sourced from Bray (2015) and Fair Work Commission (2023) and historical FTB rates sourced from DSS (2023c).

Figure 3 **Percentage coverage of children receiving FTB A, or equivalent payments, 1971–2021**



Source: Whiteford (2017), updated to 2021; author modelling of statistics from DSS; *Income Support Customers: A Statistical Overview* from years 2001–13: (FaCSIA 2001, 2002, 2003, 2004; FaHCSIA 2005, 2006, 2007, 2008, 2009, 2010, 2011; DSS 2012, 2013) and DSS (2016). From 2017 onwards Whiteford (smooth lines) uses FTB instalment data from DSS (2023a) and DSS (2023b), which excludes lump sum recipients. Child population data includes all Australian children in age group sourced from Australian Bureau of Statistics (ABS 2019). Coverage data is estimated and only intended to broadly illustrate trends in coverage. Notes:

1. Reconciled recipient data is not publicly available for 2006 and only patchy data is publicly available for the years 2016 to 2022. Family assistance payments prior to the FTB include the Child Endowment (1941–76), Family Allowance (1976–83), Family Income Supplement (1983–87), Family Allowance Supplement (1987–93), Basic Family Payment (1993–98) and Family Allowance (1998–2000). Coverage in excess of 100 per cent is likely a consequence of changes in age eligibility and child population measurement changes.
2. Reconciled FTB data has been used where available. Reconciled recipient data, which includes recipients receiving the payment by lump sum, is generally reported two years after the financial year to capture recipients that receive payment after lodging. Data reported earlier than this may therefore understate total recipient numbers. Differences in estimates from 2015 onwards are likely due to Whiteford using instalment rather than reconciliation data for this period in later years from DSS (2023a), which does not capture recipients receiving the payment by lump sum. Data for 2020–21 is unreconciled data from DSS (2023b).

The FTB B upper income limit was introduced in July 2008. While the limit was reduced from $150,000 to $100,000 from 1 July 2015, the limit has not been indexed to date. These changes effectively altered the payment from one aimed at most families to one mainly targeting low-income families, in particular single-income families (Klapdor 2022b). Moreover, this change has stemmed largely from savings measures, such as indexation pauses, being applied to FTB payments rather than a clear policy objective to ensure low-income families have adequate support through targeted payments.

Reduced adequacy of FTB payments

A core goal of Australia's family assistance policy, over the last century, has been to contribute public resources to support families with the direct costs of and time spent on caring for children. This suggests that the level of family payments should be determined in a principled way with reference to a measure for the cost of raising children, for example, based on data about real household costs of food, clothing, lodging, health and education, and to the benchmark income adequacy or poverty lines for families with children. Estimating living costs is notoriously difficult, but there are precedents from which to draw (for example, Bradbury 2014; Bedford, Bradbury and Naidoo 2023).

To assess the adequacy of FTB payments, we compare their value over time against a range of measures including benchmarking to the pension rate, EHDI and minimum wages while also exploring the role of FTB payments in lifting families above the Henderson poverty line. We use these measures to explore the likely effectiveness of FTB payments in assisting families to meet the costs of raising children over time and the potential role of FTB payments in limiting child poverty.

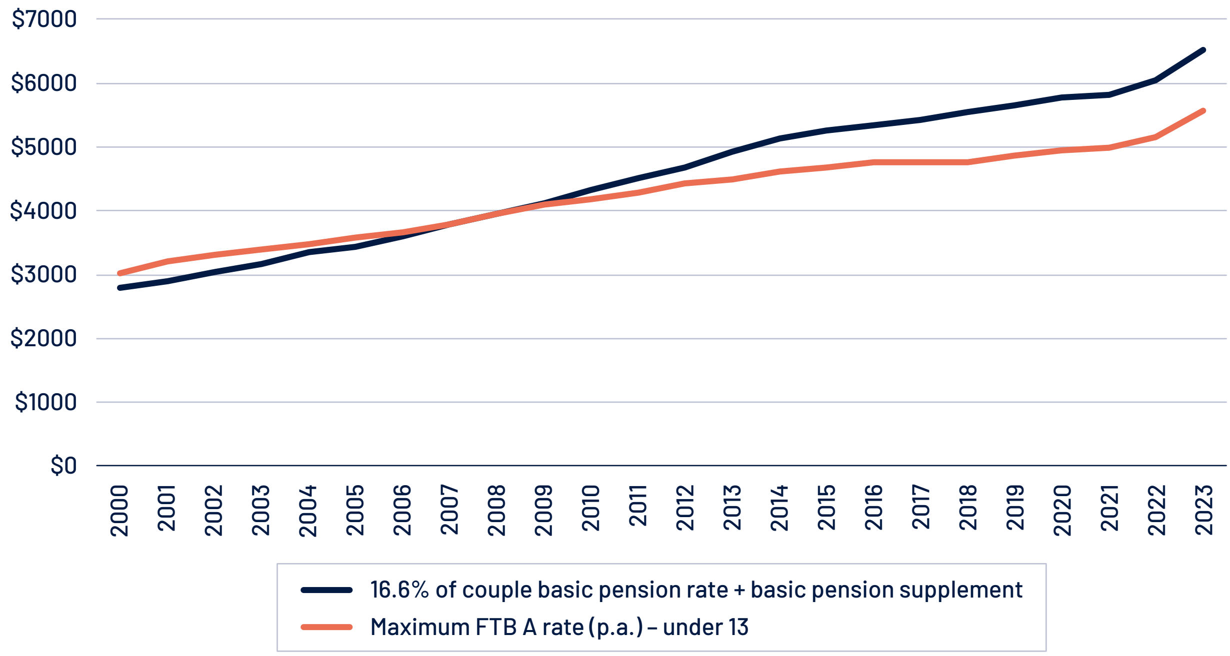
Indexation changes leave FTB A rates below original benchmarks

In the 1980s, benchmarks were established for the adequacy of maximum level family payments that were paid to social security recipients and working families with income below a certain (low) threshold. These were set at percentages of the pension rate and thus were indirectly linked to average weekly earnings (Hodgson 2014).

This approach was carried over with the introduction of the FTB in 2000. Unlike allowances, pensions are benchmarked to Male Total Average Weekly Earnings (MTAWE), with the combined couple rate of the basic pension benchmarked to at least 41.76 per cent of MTAWE (Klapdor 2022a). Prior to 2009, the FTB A maximum rates were benchmarked to pensions, indirectly linking the payment to average earnings. The maximum rate of FTB A for children aged under 13 was set at 16.6 per cent of the combined couple rate of the basic pension, while the maximum rate for children aged 13–15 was set at 21.6 per cent prior to July 2009. However, in the 2009 budget, the Rudd government removed the link to pensions, with the rate of FTB A payments instead being indexed to CPI (ACOSS 2009).

As shown in Figure 4, when FTB was introduced in 2000, the maximum annual FTB A rate was around $240 above the agreed benchmark. After the indexation change in 2009, the rate of FTB A fell below the benchmark, with the gap widening to $952 annually by 2023. This is around 15 per cent below the original benchmark set for the payment. The FTB A payment rate for 2023 remains $72 below the original benchmark, even when including the FTB A end-of-year supplement.

Figure 4 Comparison of maximum FTB A rate for child under 13 years with basic pension rate benchmark



Source: Author calculation based on historical rates of FTB A and couple basic pension rate plus GST supplement (2000–09) and basic pension supplements from 2010 to 2023 based on data from DSS (2023c). Combined couple rates are based on the couple rate of the basic pension times two. FTB A maximum rates exclude the end-of-year FTB A supplement.

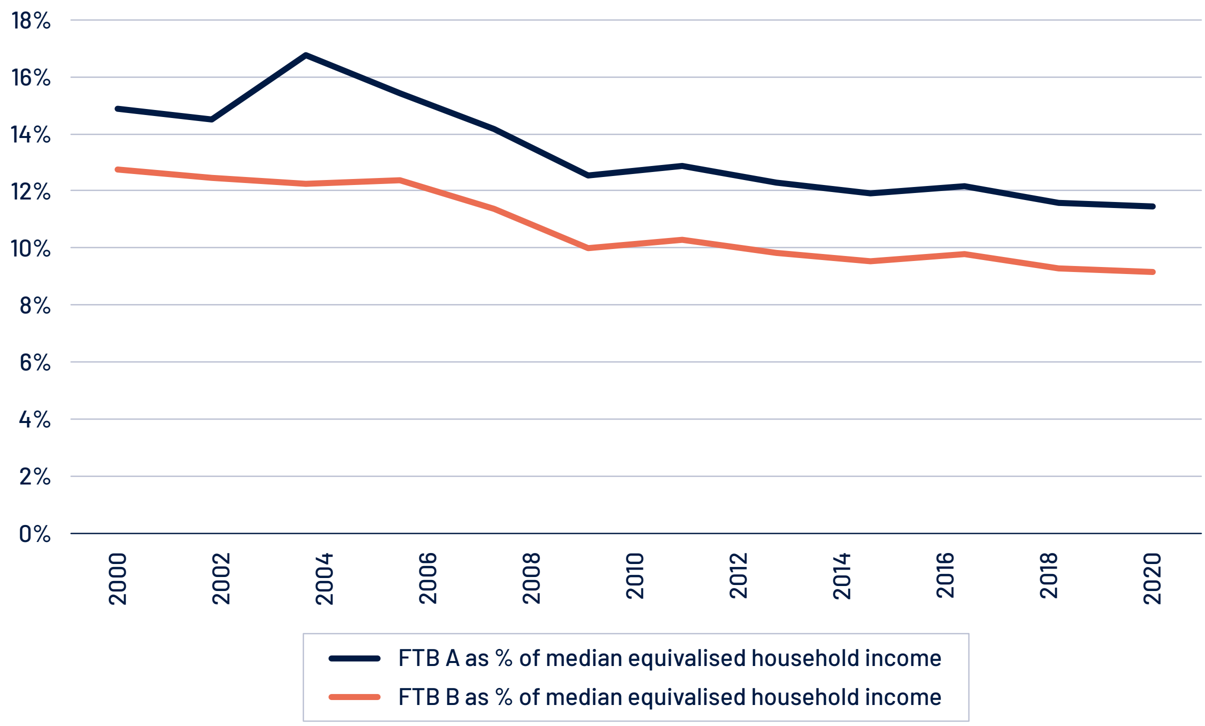
FTB payments were designed to support low and middle-income families in meeting the costs of raising children, including those parents in work. However, FTB rates have not kept pace with incomes. We compare the rates of FTB A and B with median annual EHDI to understand the contribution of FTB payments to family income over time.

Figure 5 presents the maximum rate of FTB A and FTB B, including end-of-year supplements, as a proportion of median EHDI. This shows that the maximum FTB A rate for a child under 13 years declined from a high of 17 per cent of median EHDI when the supplement was introduced in 2003–04 to 11 per cent in 2019–20. FTB B, which is designed specifically to support parents providing care at home (Standing Committee on Family and Human Services 2006), has fallen from 13 per cent of median income to 9 per cent. FTB payments have also declined relative to minimum wages.

In 2003, combined FTB A and FTB B payments for a child under five represented 30 per cent of the minimum wage, compared to 25 per cent in 2023.[10]

This decline in the adequacy of payments coincided with a decade of wage stagnation from 2013 (ABS 2023a), increasingly inadequate income support (Porter, Bowman & Curry 2020), and the rising cost of essentials, placing further pressure on families. For instance, from the introduction of the FTB in July 2000 to July 2023 the price of education grew by 181 per cent, health costs increased by 171 per cent, and the cost of housing grew by 128 per cent (ABS 2023b), while the maximum rate of FTB A grew by 113 per cent over the same period in nominal terms (author calculation based on historical payment rates from DSS 2023c).

Figure 5 Maximum amount of FTB A and FTB B for one child under 13 years as a proportion of median EHDI in Australia 2000–20



Source: Author calculation based on historical rates of FTB A and FTB B from DSS (2023c) and median EHDI from the ABS (2022b), conducted annually from 1994–95 to 2003–04, after which the survey has been conducted biannually to 2019–20. Note: EHDI includes government transfers and is impacted by changes in net incomes, household structures and workforce participation. Original EHDI data is in 2019–20 dollars and was converted to nominal dollars using ABS (2023b).

10 Author calculation with minimum wage rates sourced from Bray (2015) and Fair Work Commission (2023) and historical FTB rates sourced from DSS (2023c).

FTB payments play a vital role in reducing poverty

Inadequate FTB rates are likely to exacerbate the inadequacy of working-age payments, in turn contributing to the one in six children in Australia experiencing poverty (ACOSS 2022). The rates of poverty are highest in single-parent families. Phillips and Narayanan (2021) estimated the child poverty rate to be 41 per cent for single-parent families, reflecting an increase of 17 per cent since the removal of the Coronavirus Supplement, compared with a poverty rate of 14 per cent for children in couple families. Across all family types, rates of poverty are highest in families with at least one child under five years. With rising living costs, food insecurity is also increasing, with 37 per cent of single-parent households and 32 per cent of couple families experiencing severe food insecurity (e.g., skipping meals or going whole days without food) in 2022 (Miller & Li 2022).

For low-income families, FTB A and FTB B historically and today deliver a significant proportion of family income to help meet the costs of children. FTB payments can therefore play an important role in reducing poverty. Modelling by Phillips, Webster and Joseph (2023) found that raising FTB A payments by 20 per cent in addition to significant increases in JobSeeker, Parenting Payment, Disability Support Pension and a 25 per cent increase in CRA[11] would reduce poverty in single-parent families to 10.7 per cent, representing a 15-percentage-point reduction.

We illustrate the net contribution to household disposable income of FTB A and FTB B and other income support payments, and link this to the impact of increased income earned by the primary carer (secondary earner) in the household. We then compare this with the pre and post-housing Henderson poverty line, to understand the role of FTB payments in reducing poverty for families. Estimated entitlements presented in the following cameos are based on the assumption that income remains constant across a year. (For details on cameo modelling, see Appendix 3.)

CAMEO 1: Adequacy for couple family, primary earner on minimum wage, two children under five

In the example presented, we consider how FTB contributes to household income for a couple family consisting of a breadwinner working full-time at the minimum wage ($46,000 annualised) and a primary carer (partner) at home caring for two children under age five (Fair Work Commission 2023). It is assumed that the family rents at the median rental price for Victoria of $470 per week based on March 2023 data (Department of Families, Fairness and Housing (DFFH) 2023). Figure 6 shows the relationship between earned income, FTB A and B and the poverty line (not including housing costs for this low-income couple family). We look at how FTB contributes to household disposable income as earned income increases to $100,000[12] as the primary carer (secondary earner) income increases (green).

If the primary carer earns no income, this family is entitled to the maximum rate of FTB A for each child (2 x $5562.60), plus the annual FTB A supplement per child (2 x $879.65). CRA is also paid, with the family entitled to $5545 (assuming a weekly rent of $470).[13] The primary carer is also eligible for PPP of $11,111, reducing their FTB B rate to $3848.60, plus an annual supplement of $430.70. In this scenario, after income tax and the Medicare levy, this results in a household disposable income of $74,268, $15,519 above the March 2023 poverty line including housing (Melbourne Institute 2023). For this family, FTB A contributes 17 per cent of total household disposable income, while FTB B contributes a further 6 per cent, pushing the household above the poverty line. Subtracting the cost of housing results in an after-housing disposable income (yellow line) of just $49,828, just above the after-housing poverty line (dark blue line).

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11 The analysis did not separately consider the impact of increasing FTB A. The 'high' scenario results described here included a $338 per-fortnight rise in JobSeeker, a $380 per-fortnight rise in Parenting Payment and a $239 per-fortnight increase in Disability Support Pension and Carer Payment. The analysis highlights the importance of considering the role of the tax and transfer system as a whole in undertaking reform.

12 This figure was chosen to be roughly consistent with annual median household income (ABS 2022c).

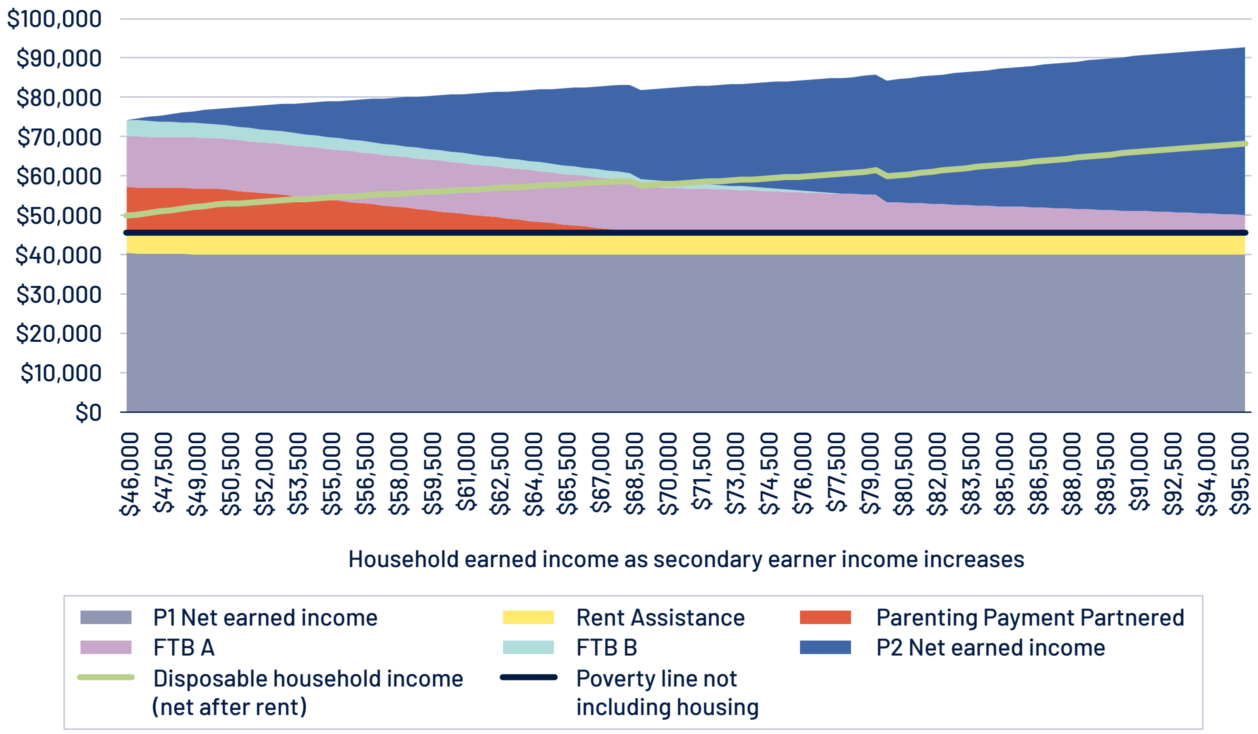
13 For families eligible for FTB A, CRA is included as part of the payment. It is shown separately in Figure 6 to illustrate the contribution of the different entitlements. In the scenario described above, the individual would receive the maximum FTB A payment of $5562.60 per child, plus an $879.65 per-child end of year supplement. CRA would be paid on top of this, with $5544.90 payable assuming rent of $470 per week. Note that this example does not include childcare costs or CCS.

This illustrates the importance of FTB A and B in keeping the family above the poverty line. Moreover, Figure 6 shows the consequences for household disposable income if the primary carer (secondary earner) starts to earn income (green). As the secondary earner's income increases, FTB B and Parenting Payment reduce to zero, while FTB A gradually tapers. As earned income increases, household disposable income increases gradually, the disposable income line remaining relatively flat as entitlements are withdrawn. On a net basis, the family gains little benefit from the secondary earner going to work until she earns more than the minimum wage. Note: this example does not include the net cost of childcare or the CCS.

CAMEO 2: *Adequacy for single parent, two children under five*

This example presents a single parent caring for two children aged under five. Figure 7 shows that a single-parent family with no earned income receiving PPS would receive FTB A of $12,884.50 (two children). In addition, the household would receive $5664.80 in CRA.[14] FTB A contributes 26 per cent of household disposable income, while FTB B contributes $5161.10, making up a further 10 per cent. We assume that the household does not receive child support income for simplicity. Total household disposable income is $49,419, which is just above the poverty line of $48,603 for a single parent with two children including housing costs (Melbourne Institute 2023), highlighting the importance of the payments in keeping households out of poverty. However, for

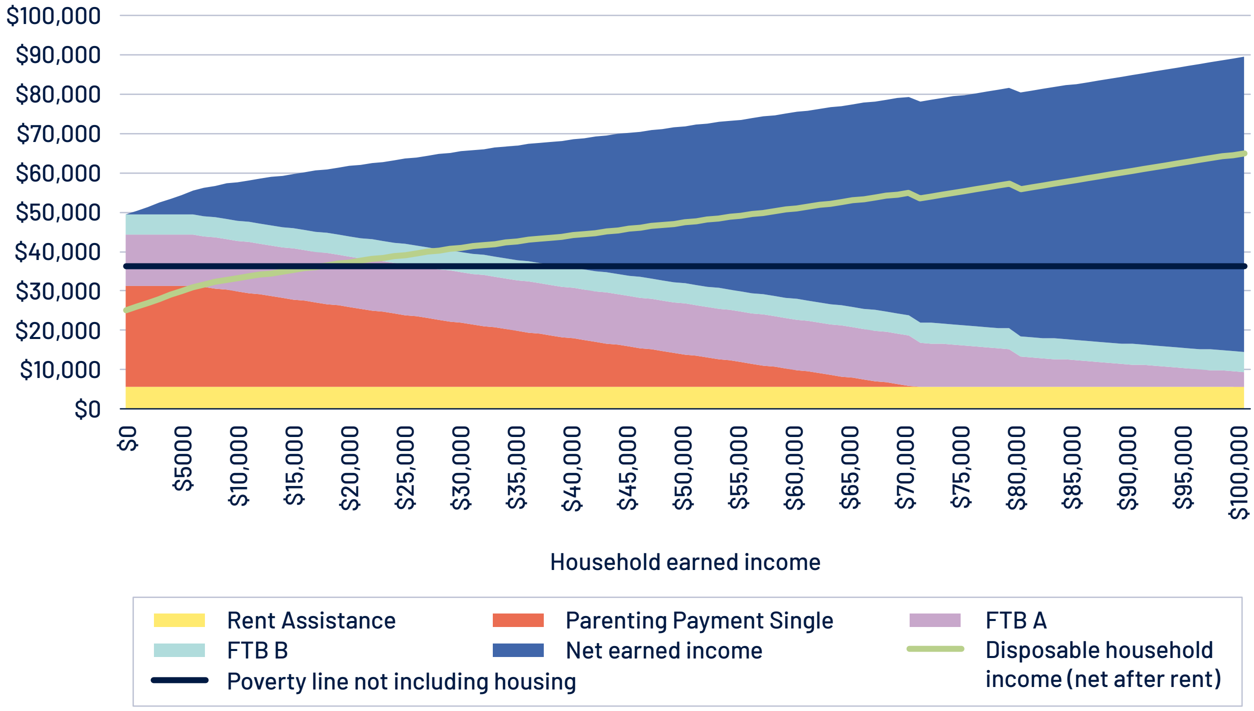
Figure 6 Income components for a couple family with two children under five and a full-time, minimum-wage primary earner as secondary earned income increases



Source: Chart prepared by authors, Plunkett's spreadsheet, version July 2023. Childcare costs and CCS not included. PPP rate updated to include $40 per-fortnight increase plus indexation, CRA rate updated to include 15 per cent increase plus indexation, both effective 20 September 2023.
Note: Secondary earned income increases in $500 increments (with $1500 increments shown in graph).

14 CRA is paid as part of FTB A. However, for clarity, in Figure 7 CRA is presented separately and assumed to be income tested after other FTB A components.

Figure 7 Income components for a single-parent family with two children under five years, as earned income increases



Source: Chart prepared by authors, using Plunkett's spreadsheet, version July 2023. The single parent is assumed to have 100 per cent care of two children. Childcare costs and CCS not included. The PPS rate is updated to increase indexation effective 20 September 2023 and the CRA rate is updated to include 15 per cent increase and indexation, both effective 20 September 2023. Note: Earned income increasing in $1000 increments (with $2000 increments shown in graph).

households paying rent at the current Victorian median rental price of $470 per week for March 2023 (DFFH 2023), disposable net income after rent (yellow line) would be $24,979. Under this scenario, a single parent would need to earn income of $18,000 before their disposable household income after rent reached the after-housing poverty (dark blue) line of $36,348.

In determining the adequacy of family payments, it is important to recognise that payments such as FTB A and FTB B, and their predecessors, were never intended to cover the full cost of raising children, but to supplement wages or other forms of income support (Standing Committee on Family and Human Services 2006). For parents without sufficient income from work, adequate income support is necessary to prevent poverty.

Further research is needed to update the benchmarks for adequacy of family payments in the context of the broader Australian system of income support for families with children.

In 2005, an analysis was undertaken as part of the Ministerial Taskforce on Child Support (AIFS 2005) to estimate the net cost of children (after government support), with the aim of establishing a benchmark for the adequacy of child support. It utilised survey data on expenditures on children and estimates of household budgets and needs to achieve a set standard of living, and it benchmarked these against prior studies and international evidence. More recent estimates of the cost of children have been developed by Saunders and Bedford (2017) as part of their work on budget standards for low-paid and unemployed Australians. The interim Economic Inclusion Advisory Committee (EIAC 2023) presented benchmarks for the adequacy of working-age income support payments, some of which are applicable to low-income families.

Complexity and risk in administration and compliance

As indicated in section 3, there is significant complexity in claiming the FTB, and administrative and compliance arrangements pose serious challenges for claimants (Cook 2021). This creates the risk of overpayment or underpayment. Estimating annual income is difficult, especially for those in casual employment, with variable shifts. Changes in the age of children and in care arrangements for children also affect eligibility.

More generally, the interaction of FTB A and FTB B with other payments makes it almost impossible for recipients to figure out what payments they are eligible to receive. One recipient was quoted in the interim EIAC (2023, p. 72) report as saying:

> ***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.***

Estimating income, end-of-year reconciliation and debt

Eligibility for FTB A and FTB B depends on family income, which is defined as the ATI of an individual or the sum of the ATIs of both members of a couple (definition in Box 3 above). Claimants must provide an estimate of ATI to Services Australia, based on which the amount of FTB to which they are entitled each year is calculated. ATI calculations, which are needed for both partners in a couple, are complex and require information beyond the basic information required for completing a tax return. Those who are entitled to child support income also need to have their child support entitlement estimated, which requires the former partner's ATI. Yearly income estimation is particularly problematic for people with less control over their income, including those in casual or insecure work and those receiving child support payments.

This situation may lead to underpayment or overpayment, which is determined through a reconciliation process undertaken after the lodgement of tax returns at the end of the financial year. The end-of-year reconciliation of FTB payments is administered by the ATO, because of the relationship with the income tax return. DSS manages the administration of FTB paid via instalments.

The reconciliation process may lead to an additional payment of the entitlement balance or to a debt owed to the government. The introduction of the FTB supplement in 2003–04 for FTB A and 2004–05 for FTB B aimed to reduce the risk of debt, with small overpayments able to be offset by the supplement (Klapdor 2015). However, while the supplement initially reduced the number of end-of-year overpayment debts, the rate of debt has increased over the past four years. In 2020–21, 19 per cent of FTB recipients incurred a debt at reconciliation due to overpayment, with an average debt amount of $2397 (DSS 2023b). This is an increase from 14.8 per cent in 2016–17,[15] when the average debt amount was $2073 (DSS 2019). Receiving FTB as a lump sum at the end of the year reduces the risk of incurring an overpayment debt but means that families do not have access to the income support throughout the year. As a result, more than 95 per cent of families receive the payment by instalments,[16] with this group reporting lower average ATIs.

The DSS Family assistance guide (DSS 2023c) states that an individual may choose to deliberately overestimate their annual income if they are unable to make an accurate estimate based on the information available to them to avoid or reduce the risk of incurring a debt. In 2017–18, three-quarters of recipients received an end-of-year top-up after reconciliation, suggesting that these families were missing out on income during the year.

15 Rates of debt were expected to increase from 2016–17 when the FTB A supplement ceased to be available to families with an income of greater than $80,000.

16 Some instalment recipients may not receive the payment fortnightly as families can choose to defer some or all of their assistance to the end of the year.

Interaction with child support

In 2019–20, 34 per cent (509,455) of FTB recipients received a child support payment (DSS 2023b). Child support payments are not taxable, but they reduce FTB A based on a maintenance income threshold (see Table 2). Specifically, payments are reduced by 50 cents for every dollar above the Maintenance Income Free Area, from the maximum to the base rate. A Maintenance Action Test also applies, with parents required to take reasonable action to obtain child support from their former partner. Where a parent cannot prove that they have taken reasonable steps, they will not receive more than the base rate of FTB A.

The child support scheme is designed to ensure that both parents, regardless of who is the primary carer of a child, contribute financially to their costs, based on assessment of capacity. Child support is administered by Services Australia. Child support maintenance income refers to payments or benefits received by an individual for the upkeep of an eligible child from either a parent of the child or the partner or former partner of a parent of the child. Maintenance may be provided in cash or non-cash form (DSS 2023c).

For the purposes of determining FTB A entitlement, there are two methods that can be used to calculate child support income. **The entitlement method is the default method** used to estimate the expected child support income when calculating FTB A entitlement. This method is the only option available for people who have a private child support arrangement. It assumes that a person receives the total amount of child support to which they are entitled as assessed by the Services Australia or contained in a court order or court registered agreement (DSS 2023c). However, this method does not evaluate whether a person has received their child support entitlement.

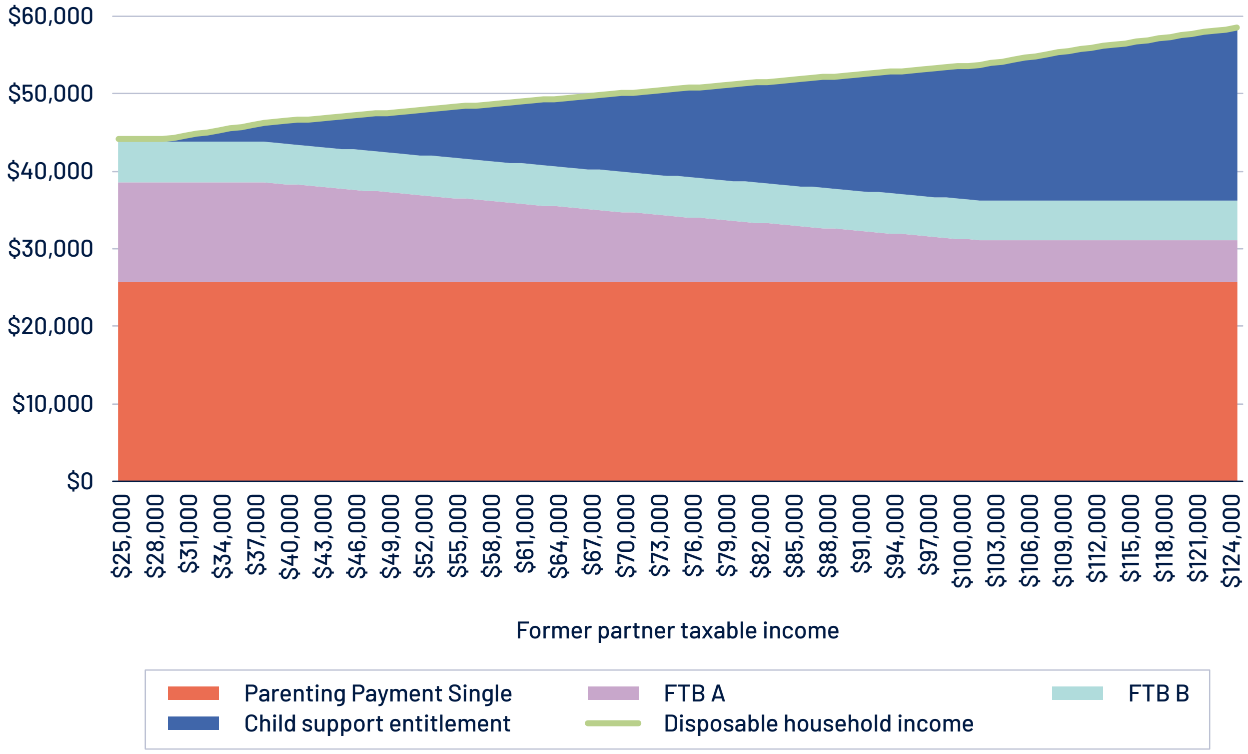
In contrast, **the disbursement method is based on the actual amount of child support received** by a parent each month and requires the parent to have a formal child support arrangement with Services Australia. Under this method, FTB A entitlement is recalculated each time the monthly amount of child support received by the claimant changes (DSS 2023c). Around 50 per cent of the child support case load involves a private arrangement (Cook et al. 2023), making these recipients ineligible for this method and leaving them exposed to underpayment of child support and overpayment of FTB. The child support Maintenance Income Test therefore has the effect of introducing a couple unit or family income testing for primary carers, as they lose FTB based on the estimated child support payments they receive. A payer of child support may also be eligible for FTB A and FTB B. Child support payments are deducted from their ATI to determine the payer's eligibility for FTB.

CAMEO 3: Maintenance Income Test on FTB rate for single parent, two children under five

The relationship between FTB payments and child support is illustrated in Figure 8. A single parent with 100 per cent care of two children under age five, with an ex-partner earning a base annual income of $25,000, would receive FTB A of $12,884.50 and FTB B of $5161.10. PPS would provide most of the income for this household ($25,709), supplemented by an annual child support entitlement of just $493 and producing net household disposable income of $44,197.

Assuming that an ex-partner has an annual income of $83,000 (equivalent to male median full-time earnings in August 2022), their child support obligation would amount to $13,176 for the year. In this case, the Maintenance Income Test results in a decline in FTB A payments to the carer of more than 40 per cent, to $7552. Where child support is paid in full, this would result in a total household disposable income for the carer of $51,527. However, if not all of the child support entitlement is paid and the FTB A is calculated using the default entitlement method, net disposable income would be substantially less. For example, if only half of the child support entitlement is paid, due to the loss of FTB A, disposable income would be $44,939, and the family would be only $742 better off than in the base scenario. The child support recipient could be at risk of an FTB A overpayment debt, especially if their estimate did not align with tax return information from the ex-partner.

Figure 8 Income components for a single-parent family with two children under five years, PPS and FTB A and B, while child support entitlement increases



Source: Chart prepared by authors, using Plunkett's spreadsheet, version July 2023. Single parent is assumed to have 100 per cent care of two children. No childcare costs or CCS included. Primary carer is assumed to have no earned income. Rate of PPS has been updated to indexation, effective 20 September 2023. CRA not included. Note: Former partner ATI increases in $1000 increments (with $3000 increments shown in graph).

The example illustrated in Figure 8 highlights the impact of child support in reducing family payments based on a family's entitlement to child support. Research suggests that what is actually received is often less than the child support entitlement. Bowman and Wickramasinghe (2020) found that child support payments tend to be low and uncertain, compounding economic insecurity for many single parents, especially when the parent with a child support liability fails to pay or fails to declare their income. Former partners may avoid paying child support by exploiting loopholes in the system such as non-lodgement of tax returns or undertaking cash-in-hand work to reduce their taxable income.

Cook, Goodall et al. (2019) identified that the Maintenance Income Test resulted in 'staggering debt levels' for the carer where child support is not received. This finding is supported by analysis of data from BSL's Saver Plus program, which revealed that those receiving child support income had significantly higher rates of debt (Porter 2022), with 51 per cent reporting having at least one debt obligation, with Centrelink debts being the most common. For example, Joanne[17], a 39-year-old single mum of four, incurred a debt for overpayment of FTB after her expected, but not received, child support income increased:

17 Pseudonym, from Making ends meet in tough times study.

I don't know how it exactly works, but somehow, I've got these huge debts. When I got the supplement in July, it was nothing like I would normally get because I normally put that money away and do good things for the children with it, like braces and things that are out of reach. I've got it organised to go through the child support agency just recently because somehow, I was acquiring debts and I don't even understand how myself, but I got sent out a letter and I owed x amount because I'd been paid too much in child support and by the Commonwealth. I think his rate went up and then he was meant to pay x amount, but he didn't pay that, so then I copped the bill.

Non-payment of child support can be weaponised as a form of family violence (ALRC 2011; Cook et al. 2023). Former partners may fail to lodge tax returns or delay tax returns, with the knowledge that this will likely create a debt to the Commonwealth for their former partner (Bowman & Wickramasinghe 2020).

Recognising these risks, the EIAC has recommended abolishing the Maintenance Income Test for eligibility for FTB A. It argues that this would result in 'more certain FTB A payments for financially vulnerable families, remove the prospect of retrospectively applied FTB A debts, and concurrently close a loophole that allows child support and FTB A to be used as vehicles for enacting financial abuse' (EIAC 2023).

Evidence of care and shared care arrangements

FTB is available for any carer who evidences at least 35 per cent of care of the eligible child(ren). For most families, whether members of a couple or a single parent, this is straightforward, although even in the most straightforward of cases, care levels need to be determined. However, for a large minority of blended or separated families there may be a range of shared care arrangements, which leads to a splitting of FTB entitlement. Evidencing care and calculating the relevant proportion of FTB can be difficult but must be done by a substantial proportion of recipients. Twenty per cent of those receiving FTB A report a shared care arrangement (DSS 2023b).

Where care of an eligible child is shared, evidence of the proportion of care undertaken by each carer is required. The 35 per cent care threshold is calculated on a 'per-day' basis. In a fortnight, responsibility for 5 days/nights out of 14 is sufficient to reach this threshold: for example, one weekend (Friday/Saturday/Sunday nights) and two weeknights would be sufficient. If each parent satisfies the threshold, they each receive FTB at a level that is based on their percentage of care, their individual ATI and their partner's ATI where they are partnered.

Evidencing care and calculating the relevant proportion of FTB can be difficult (Cook, Given et al. 2020). Shared care arrangements, and consequently FTB payable, may differ for each child in a family. Evidence of levels of care may include a written agreement with the other parent.

Recognising these risks, the EIAC has recommended abolishing the Maintenance Income Test for eligibility for FTB A. It argues that this would result in 'more certain FTB A payments for financially vulnerable families...

Alternatively, evidence may be provided by a statutory declaration signed by a Justice of the Peace, where there is family violence or a lack of cooperation or communication difficulties between ex-partners. Other evidence includes a letter from the children's school attesting to the proportion of care. If care arrangements change, updated evidentiary documentation is required. Where either parent's proportion of care is not met, eligibility may cease. Proof of the new care arrangement is required to recommence FTB payments. Once the shared care arrangements are established, only the specified proportion of FTB can only be paid to each parent. If the circumstances of one parent changes (e.g. income increases above the threshold) so that they are no longer eligible for FTB, this will not change the FTB entitlements for the other parent.

Example: Shared care

Brian and Natasha have a son, Sam, aged 10. Brian and Natasha are separated and each care for Sam 50 per cent of the time. They both receive FTB A at 50 per cent of the standard rate for one child under 13. Brian has been promoted and expects his income to be $130,000 per year. Brian no longer satisfies the income test for FTB A. Natasha is still only eligible for 50 per cent of the standard rate for a child under 13 and is subject to her own ATI reduction as her family income is $62,634.

Source: (DSS 2023c).

For low-income households, which form the majority of FTB recipients, changes in shared care can significantly impact household income, particularly where a parent is relying on other income support payments. Where a household has taken out an FTB Advance, changes in shared care can leave parents with debts. This is illustrated by an example from the BSL *Making ends meet in tough times* study: Alex[18], a 30-year-old single parent, reduced their share of care of their son when they were unable to find appropriate housing, with the unexpected loss of FTB impacting their finances.

Alex explained that even though their former partner had taken on the bulk of the care, Alex was struggling to cover the costs of parenting when their child stayed overnight:

> ***There is no formal child support arrangement because she understands that I've got nothing. The only thing was she was like, 'Well I'm going to be taking full care anyway, so once we report that Family Tax Benefit will go entirely to me and that'll cover the gap anyway' and I'm like, 'Fair enough.' [...]***
>
> ***I can't really have him for any more than one night at a time because I don't have a bedroom to put him in. Due to this change in care my financial circumstance has also changed. I used to be on Parenting Payment and receive some Family Tax Benefit and Rent Assistance, I now only receive JobSeeker and Rent Assistance. I'm currently paying back a Centrelink debt at like $10 a fortnight. That was mostly because I had taken out an advance on the Family Tax Benefit shortly before I realised I was going to be losing it.***

Disincentives for paid workforce participation

The income thresholds and taper rates for FTB A and FTB B contribute significantly to EMTRs at low, median and higher wages, particularly for secondary earners, as they shift from unpaid care work in the home to part or full-time paid work. The existing FTB A and FTB B structure preferences a breadwinner-homemaker model of the family through joint income testing of payments (Hill 2006; Hodgson 2008). This is demonstrated in the cameos discussed below.

We note that there is an open question as to the optimum place to put a high EMTR and, on the basis of the breadwinner model, whether family payments should be withdrawn from individual parents or couples. There is an opportunity for further research on the observed behavioural impacts of EMTRs and the role of the complexity of the family payments system in

18 Pseudonym, from Making ends meet in tough times study.

influencing labour market decisions of parents, particularly mothers.

The effect, especially combined with the net childcare cost, is mostly evident in reduced female workforce participation, with life course implications for women's economic security including in retirement (Apps 2022; Kalb 2017; Stewart 2017). While the value of home-based parental care is recognised here, there are good reasons to encourage paid market work by both couple and single parents, including to increase the income and economic wellbeing and ensure the longer-term economic security of those families. In particular, the longer-term economic security of single parents, who are mostly women, can be protected by retaining and strengthening their ongoing connection to the labour market, education and career development (Jackson, McKenzie & Grey 2023).

Fiona[19], a 46-year-old partnered mother of three has been out of the workforce following the birth of her second child. Thinking about re-entering the workforce, she reflected on the barriers created by EMTRs associated with PPP, FTB and childcare:

> ***I've got a four-year-old at kinder and I've got one at home every day bar one day so then I've got to look for childcare, so by the time I do all that, is it worth it? Then I'll lose Parenting Payment and I'll lose some family tax benefit and by the time I work to pay for childcare, I'm going to be worse off than what I am staying at home.***

In the last decade, the Australian Government has responded to popular demand and fiscal pressures to encourage increased workforce participation by women, especially by removing barriers to participation through a substantial uplift in support for childcare provided outside the home. The Albanese government's expansion of CCS that commenced on 10 July 2023 increases the per-hour coverage of the subsidy and lowers taper rates.[20] This assists in reducing EMTRs, particularly for secondary earners in dual-income families. However, many households still face substantial net childcare costs and childcare itself is just one of many contributors to high EMTRs. In the cameos that follow, we show the impact of FTB A and FTB B on these high EMTRs, demonstrating that more is needed to reduce work disincentives.

The relationship between government entitlements, tax payable and childcare costs and EMTRs for different family types as income from paid work increases is complex. To address this issue, we use cameo modelling to calculate the contribution of the varied components to EMTRs for different scenarios. This allows us to highlight where FTB payment thresholds and tapers currently disincentivise work, and the gendered nature of this issue. (For more information about cameo modelling, see Appendix 3.)

CAMEO 4: Work disincentives for a couple family

The high EMTRs in the family payments system are mainly a consequence of testing FTB A on combined family ATI and the additional requirement to test against the secondary earner's income for FTB B at a low threshold. The effect is felt by the secondary earner, usually a woman, because her earnings are piled 'on top' of the primary earner's income for the combined income test.

A secondary earner's FTB A entitlement will decline by 20 per cent for each additional dollar earned above the lower income threshold of $62,634. FTB B includes an additional requirement to test against the secondary earner's income, at a very low threshold ($6497), making the proportion of household income earned by each worker an important determinant of the total FTB payable. So, 'while total household income might remain stable, when a couple chooses to share the responsibility for paid work equally, the amount of FTB Part B paid to the secondary earner is decreased, leading to an overall reduction in the total amount of FTB paid to the family' (Hill 2006).

Figure 9 depicts the impact of these rules on a couple family with two children aged under five. For this example, we set the primary earner's annual income at $46,000, approximating the annualised minimum wage (from July 2023, the weekly minimum wage is $882.80 based on 38 hours of work, resulting in annual gross

19 Pseudonym, from Making ends meet in tough times study.

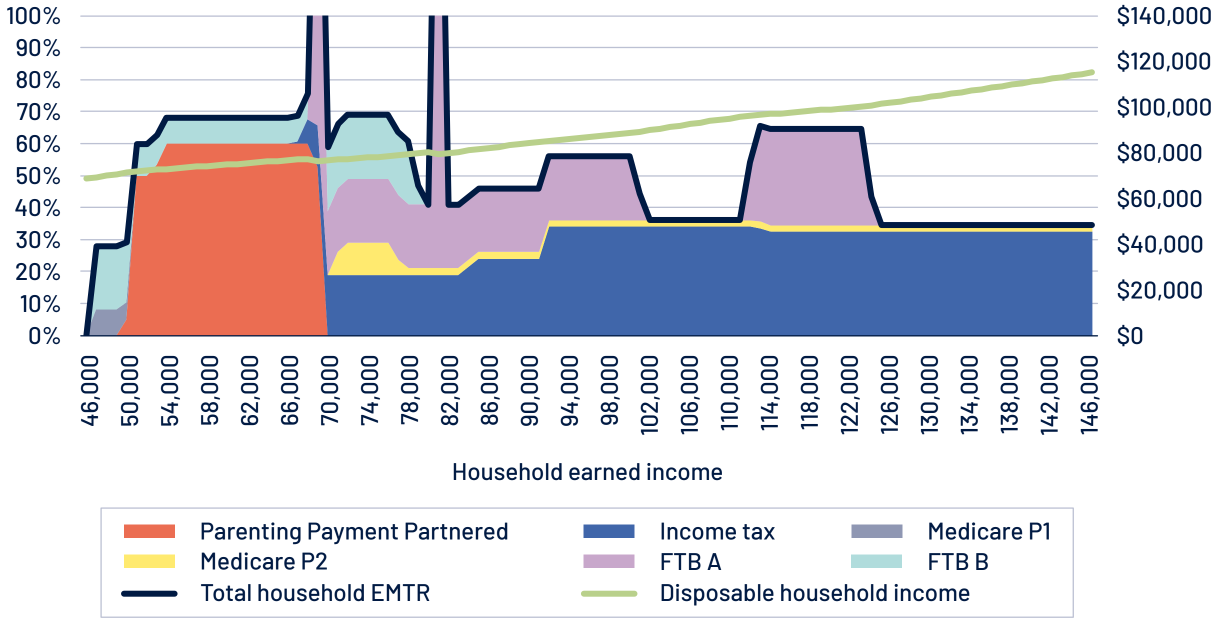
20 See https://www.servicesaustralia.gov.au/child-care-subsidy?context=41186.

income of $45,905.60 (Fair Work Commission 2023)). The secondary earner's annual income is increased in $1000 increments. Childcare costs are not included in this figure, which illustrates the complex interplay between earned income (horizontal axis), benefits received and tax payable. It shows the combined impact on household disposable income (yellow line), which increases as household earned income rises but is relatively flat, reflecting the high EMTRs faced.

As joint couple earned income reaches $54,000 per annum, with the secondary earner contributing just $8000 of earnings, the household faces EMTRs of 68 per cent, as PPP and FTB B are incrementally withdrawn. Once the household is no longer eligible for Parenting Payment, EMTRs remain high as FTB A entitlement reduces and income tax and the Medicare levy become payable. At household earned income of $125,000, EMTRs fall to 34 per cent, around half the rate applied to the household when household earned income was $54,000. Overall, as seen in Figure 9, household earned income increases up to $100,000 in the modelled scenario, yet disposable income increases by less than half of that, or $47,070, as payments are withdrawn and tax obligations increase.

As we are interested in the impact on incentives for workforce participation, it is important to take account of net childcare costs for the family when the secondary earner goes to work. To illustrate this, Figure 10 presents the impact of the secondary earner going to work between one and five days a week, while the family pays for the childcare net of the CCS. It shows the daily EMTR, or effective daily tax rate, for each additional day of work. Long-day childcare is modelled for the two children under age five, based on an assumed daily childcare fee, level of CCS and withdrawal of CCS as household income rises. Similarly, other payments are decreased as a result of tapering, as the secondary earner increases work from one day to five days a week.

Figure 9 Components of EMTR for couple family, two children aged under five, with full-time, minimum-wage primary earner, as secondary earner income increases



Source: Chart prepared by authors, using Plunkett's spreadsheet, version July 2023. No childcare costs or CCS included. Rate of PPS has been updated to include the $40 per-fortnight increase and indexation, both effective 20 September 2023. CRA not included. Primary earner income is based on the minimum wage of $882.80 per week as at 1 July 2023. Note: Secondary earner income increases by $1000 increments (with $10,000 increments shown in graph).

CAMEO 5: *Secondary earner daily EMTRs for a couple family*

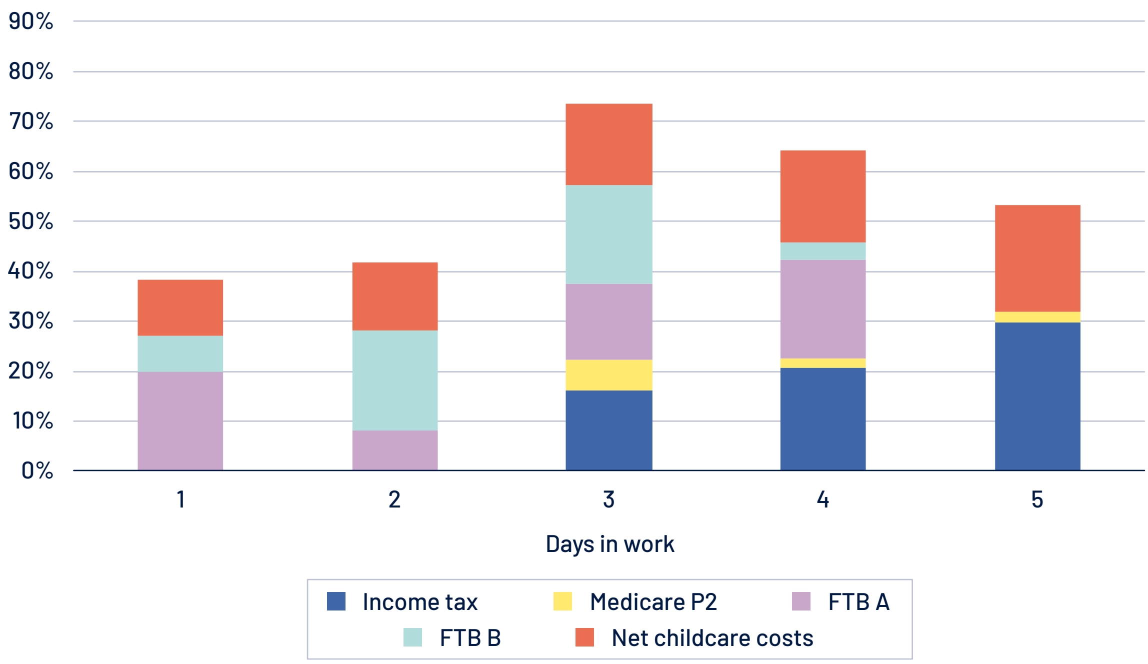
A practical illustration of this effect is presented in Figure 10. This shows the daily EMTR faced by a secondary earner working in the early education and care sector, with a partner earning the current male median full-time wage, as the secondary earner increases the number of days worked per week. The example is used as men are still most likely to be primary earners in a family. Figure 10 uses current wage levels in the early childhood sector, as this sector is characterised by a high proportion of female secondary earners and lower relative wage levels. The family is ineligible for PPP, but receives FTB A, FTB B and CCS.

Figure 10 shows that the secondary earner faces a daily EMTR of around 40 per cent for working one or two days a week. This is because of the FTB A and B being withdrawn and the net cost of childcare. Taking on a third day of work dramatically increases the daily EMTR to 74 per cent as income tax and Medicare become payable, leaving the family with just 26 per cent of the additional income earned. The daily EMTRs on days 4 and 5 of work a week both exceed 50 per cent, because the family loses eligibility for FTB A and FTB B, while facing the withdrawal of CCS.

CAMEO 6: *Work disincentives for a single-parent family*

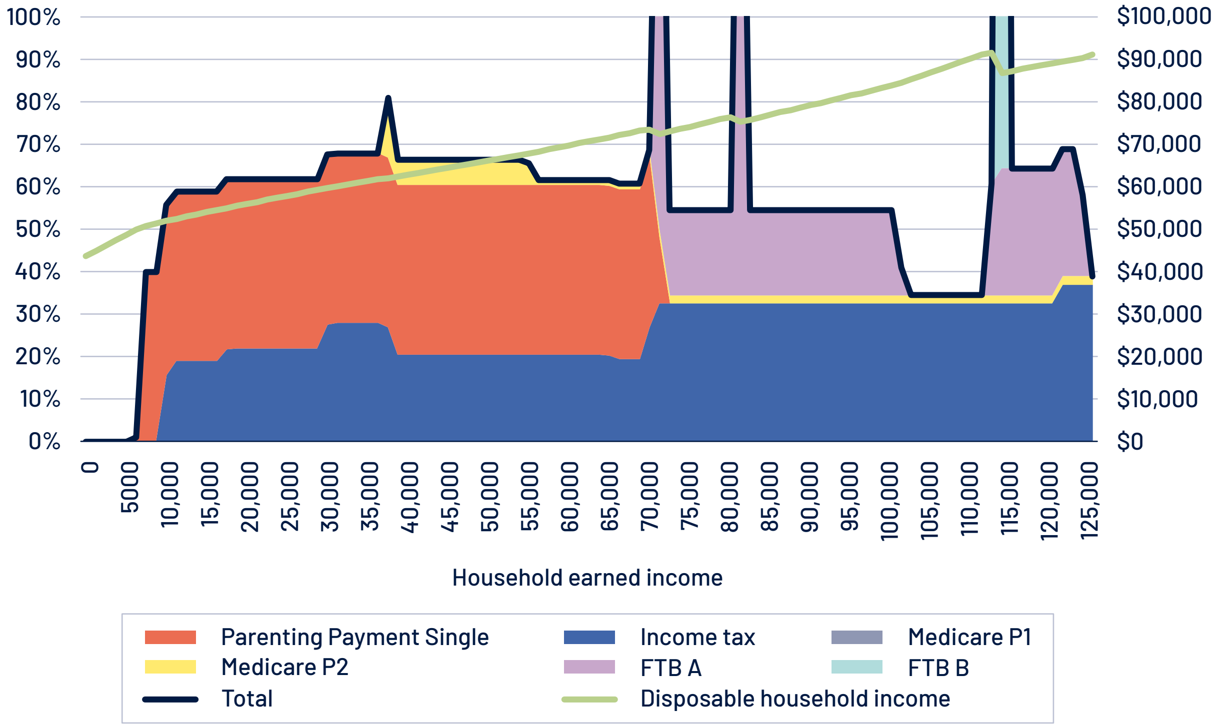
High EMTRs are also faced by single-parent families, as shown in Figure 11. This figure presents the components of EMTR for a single-parent family with two children under the age of five, as the single parent's earned income increases. The single parent is entitled to PPS and receives the maximum amount of both FTB A and FTB B. For simplicity, we assume that they do not receive any child support payments.

Figure 10 Daily EMTR on secondary earner: couple family, two children aged under five, primary earner on median male wage, secondary earner on early childhood sector wages



Source: Chart prepared by authors, using Plunkett's spreadsheet, version July 2023. Childcare costs are net of CCS, with CCS rates as at 1 July 2023. Both children are assumed to be in centre-based day care at a cost of $12 per hour, with 10 hours' care assumed for each workday. Medicare P2 refers to the Medicare levy payable by the secondary earner. The male median wage (based on median male full-time earnings of $1600 (ABS 2022a), adjusted to $1654.27 for July 2023 using the current Wage Price Index (WPI) of 3.7 per cent (ABS 2023a). Secondary earner is assumed to earn $25.78 in line with certificate-qualified workers (Level 3A) in the childcare sector (Fair Work Ombudsman 2023).

Figure 11 Components of EMTR on single-parent earned income, two children aged under five



Source: Chart prepared by authors, using Plunkett's spreadsheet, version July 2023. Single parent is assumed to have 100 per cent care of two children. Any childcare costs or rebate associated with work hours are not included in the cameo. The rate of PPS has been updated to include indexation, effective 20 September 2023. CRA has not been included. Note: Increments of $1250 rather than $1000 are used for sole-parent families to illustrate the impact of FTB thresholds and taper rates up to the point where the payments are withdrawn entirely (with $10,000 increments shown in graph).

The household faces a relatively high EMTR of over 60 per cent once earned income exceeds $15,000. As earned income increases, EMTRs remain high, as FTB A begins to be withdrawn once the household is no longer eligible for Parenting Payment, while the total FTB B entitlements are withdrawn once the income threshold of $112,578 is reached. Despite earned income increasing by $125,000 in the illustrated example, disposable income (yellow line) grew by just $46,981.

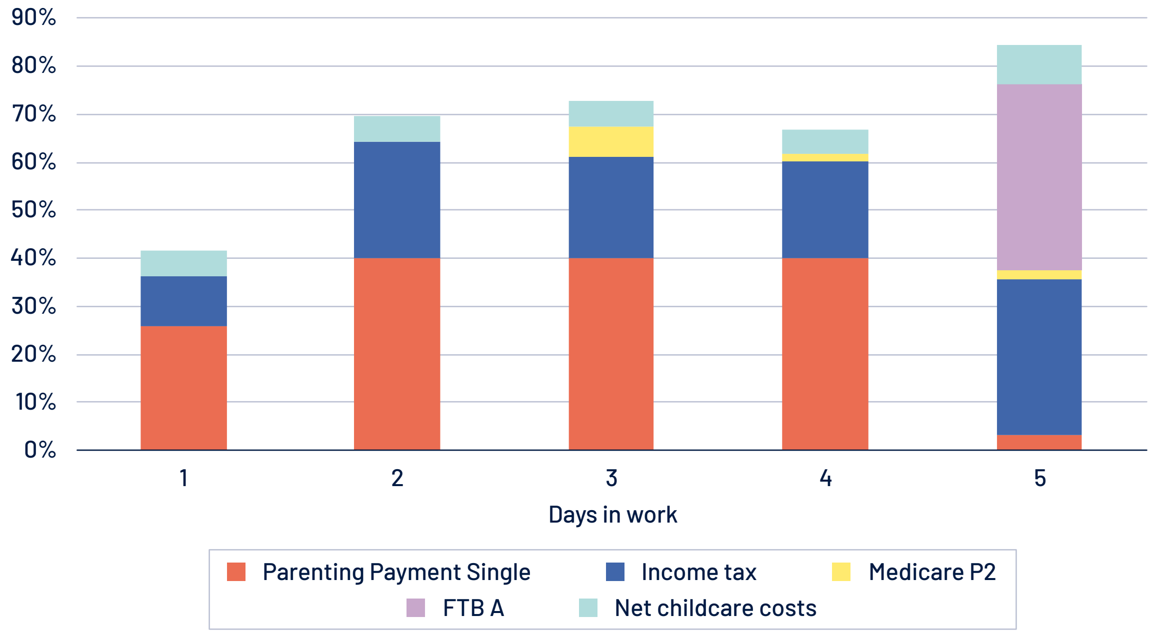
This cameo demonstrates the importance of government supports for single parents and the impact of income testing of PPS and FTB A and B on household disposable income, which creates a disincentive to work and a hurdle to increasing disposable income through family earnings.

CAMEO 7: Work disincentives for a single-parent family

Figure 12 illustrates the effect of childcare costs and the CCS and presents the daily EMTRs as the single parent increases work from one day to five days each week. We use the average wage, rather than median wage to illustrate the impact of FTB payments being withdrawn, which occurs at above female median wage levels.

Figure 12 shows that this single-parent family faces a daily EMTR of just over 40 per cent on day 1 of work, but a daily EMTR of around 70 per cent for each additional day of work in a week, increasing to 84 per cent on day 5. This occurs despite the family remaining eligible for FTB B as the number of days of work increases to five. FTB A only begins to be withdrawn on day 5 of work as the recipient is no longer eligible for Parenting Payment and their income exceeds $62,634. Instead, these high daily EMTRs are produced by the withdrawal of PPS. In contrast to the couple family illustrated in Figure 10, net childcare cost is a relatively small contributor, suggesting that the childcare subsidy reforms that came into effect in July 2023 have reduced the net cost of childcare significantly for single parents. This also illustrates, again, the importance of FTB in contributing to the household disposable income of single-parent families.

Figure 12 Daily EMTR for single parent, two children aged under five, average full-time wage



Source: Chart prepared by authors, using Plunkett's spreadsheet, version July 2023. Childcare costs are net of CCS, with CCS rates as at 1 July 2023. Both children are assumed to be in centre-based day care at a cost of $12 per hour, with 10 hours' care assumed for each workday. Female average full-time earnings of $1650.80 in November 2022 (ABS 2023c), adjusted to $1691.52 for July 2023 using the current WPI of 3.7 per cent (ABS 2023a).

Older children and EMTRs

Families with older children will generally face lower EMTRs due to higher taper thresholds applying for FTB A, outweighing the effect of lower taper thresholds for FTB B (see Table 2) and reduced need for childcare (though some families will bear the cost of before and after school care). For example, for a family with the same wages and entitlements as those included in Figure 10 but with children aged 12 and 14 and no childcare costs, daily EMTRs would commence at 27 per cent, increasing to 51 per cent for the third day of work, before declining to 32 per cent for the fifth workday. Similarly, a single parent on an average wage, in line with the example presented in Figure 12, but with older children (aged 12 and 14), would also face slightly reduced EMTRs due to the lack of childcare costs. However, daily EMTRs would remain above 60 per cent after the first day of work in a week, increasing to 74 per cent as the number of workdays per week reached five.

Overall, despite the trend towards activation since the early 2000s, we identify the continued existence of high EMTRs in the combined tax and benefit system, which works against the goal of encouraging greater paid workforce participation. Women are most disadvantaged by this system, as the high EMTRs are most likely to negatively impact their workforce participation, creating disincentives to earn income for both single parents and secondary earners in couple families. The withdrawal and joint income testing of FTB A and FTB B play a more important role in high EMTRs for couple families, while the withdrawal of PPS remains more important for single-parent families. These effects remain for older children beyond childcare age, highlighting that the recent welcome reforms to the CCS, which came into effect on 1 July 2023, while important, are insufficient to address the barriers to work for caregivers, most of whom are women.

Gender equity, including recognition of the value of care work

None of the previous reviews of family payments have paid close attention to the gender inequity produced by current settings, or expressly proposed a goal of ensuring gender equity as a key principle for the design of family payments. Gender inequity is produced in relation to both paid and unpaid work undertaken by women with children. The high EMTRs illustrated in the above cameos are not only an obstacle in terms of encouraging women's workforce participation to support economic growth. Overall, women are more impacted by higher effective tax rates due to their role as primary carers of children compared to other taxpayers in Australia, who face the regular progressive marginal tax rate structure with a top marginal rate of 45 per cent plus the Medicare levy. This generates fundamental gender inequity in the tax and transfer system (Cass & Brennan 2003).

More generally, this inequity disproportionately disadvantages dual-earner and single-parent families compared to breadwinner-homemaker families. FTB A and FTB B were designed to support greater choice in family work and care arrangements, with the payments reducing the barriers for stay-at-home parents in 'traditional' breadwinner-homemaker families (Cass and Brennan 2003; Hill 2006; Stewart & Whiteford 2018). Today, one in seven Australian families with dependent children are single parent families. Moreover, traditional breadwinner-homemaker couple families are now a minority, with both partners employed in 71 per cent of couple families with dependants (ABS 2022d).

Gender equity also requires a social security system that values care, through the provision of adequate and non-conditional income for women caring for children and the broad availability of childcare. However, like the FTB A and B adequacy issues, the value of Parenting Payment has declined over the past two decades. In 2000, the PPS was equivalent to 50 per cent of the median EHDI, but by 2020 this had fallen to 41 per cent (ABS 2022b; DSS 2023c). Over the same period, Parenting Payment recipients also became more likely to face increased payment conditionality through the ParentsNext program.

The Women's Economic Equality Taskforce recommended abolishing the ParentsNext program and restoring eligibility for PPS for those with children over the age of eight. Both recommendations were accepted by the Albanese government in the May 2023–24 budget.[21] The Taskforce also recommended abolishing the Childcare Subsidy Activity Test (Women's Economic Equality Taskforce 2023). These changes help to address gender inequity in our social security system, by better valuing care. However, there remains a need to improve the adequacy of income support payments to caregivers. As noted above, the adequacy of family assistance per-child payments is one element of a coherent system of government support for families. Increasing payments to caregivers, including PPS and PPP, would reverse a long-term trend that has reduced the value of payments relative to incomes and increased the conditionality attached to them.

Gender inequity is produced in relation to both paid and unpaid work undertaken by women with children.

21 Eligibility requirements for PPS will change so that the age of the youngest child will increase from 8 to 14 from 20 September 2023.

5 Directions for reform

Setting objectives for the family payments system

Given the varied policy objectives that have guided the design of the family payments system over the past century, and their mutability as economic constraints, social norms and adjacent policies have shifted, it is timely to reconsider the objectives underpinning family payments in the current context. This should include consideration of the new Albanese government Wellbeing Framework (The Treasury 2023).

Beyond our analysis of the deficiencies of the current FTB system, other reviews have considered aspects of the family payments system. Australia's Future Tax System Review (the Henry Review) acknowledged the importance of payment adequacy, while noting the interaction of social security, including family payments, and income tax (The Treasury 2010). However, the Henry Review did not challenge the approach to income testing based on joint family income that had been used to determine payments since the 1980s, which has created disincentives for women's workforce participation. More recently, the McClure Review (2015) of the social security system stated that the purpose of the FTB system is to support social investment in children and their families as well as child wellbeing (Reference Group on Welfare Reform 2015). Nevertheless, despite recommending reform of the family payments system, the Review supported the current approach of joint income testing and work and mutual obligations for parenting payments, embedding work disincentives and devaluing care.

Recognising the social value of children and their care

Historically, most of the cost of children was borne privately. Mothers generally provided full-time care in the home, making them financially dependent on the primary earner or breadwinner (usually the father), with family income supplemented by assistance in the form of universal child payments and tax concessions. With the removal of family wages, a greater role for women in the workforce and expanded childcare, this model is no longer required or desirable.

Today, dependent children make up only 17 per cent of the population of Australia (AIFS 2023b), half that at the time of the 'baby boomers' born in the 1950s. At a time of population ageing and declining fertility (OECD 2023b), investment in children, while supporting gender equity in work and care, is critical to Australia's economic growth and social wellbeing (McDonald & Hosseini-Chavoshi 2022; Stewart 2021). Public investment is a recognition of the social value of children (Folbre 1994).

Women's workforce participation has gradually increased since the 1970s, but most of this increase has been in part-time work. Women remain the secondary earners in many households, with women's paid work hours falling sharply where the household includes dependent children in most cases, while men remain the primary earner. In assuming this role of primary carer, women undertake valuable 'unpaid' care. Future reform of family payments should therefore apply a gender lens to the design and administration of payments.

Addressing child poverty

With an estimated one in six children in Australia experiencing poverty (ACOSS 2022), family payments can play an important role in reducing child poverty. In the 1980s, family payments were set based on the cost of raising children and benchmarked to pension rates to ensure that the adequacy of payments was not eroded over time. These payments contributed to a substantial 35 per cent reduction in child poverty rates (ACOSS 2009). Revisiting this approach and establishing payment levels aimed at eradicating child poverty will improve child outcomes and expand opportunity for all families.

Ways forward

Australia has an opportunity to provide greater support to children and families, reduce the complexity and associated risks of the current family payments system, remove the barriers to the workforce participation of secondary earners and support gender equity. Accordingly, government assistance to families with children should be based on the following objectives, noting that there may be tension between these objectives:

- **adequacy of payments**, to support families with the costs of children and prevent child poverty
- **administrative simplicity**, to provide security and reduce the risks for families
- **gender equity**, to support the economic and social equity of women and men, including recognition of the value of both paid and care work
- **paid workforce participation**, through the removal of barriers to work and the financial disadvantages for dual-earner families, especially the secondary earner.

Family assistance payments in Australia need reform to achieve the above policy objectives in today's environment. Below we present four main reform options that can support the achievement of the four policy objectives identified above. We aim to contribute to debate by highlighting some possible ways forward and the relevant issues that need to be considered.

Option 1: A single per-child payment

FTB A and FTB B could be replaced by a single per-child payment. The payment would be made to the carer of the child, and therefore would require an assessment of proportion of care, as currently done (minimum 35 per cent of care required). This means the payment could be split across families.

A single per-child payment would be much simpler than the current system. The level of this payment should be reviewed and set based on the estimated costs of raising a child. The income test for FTB A could be maintained, but the income test for FTB B would be abolished. This may negatively impact income for smaller families (with one or two children) that currently receive FTB B, but it would benefit larger families. This would simplify but not remove the disincentives to work in the current system, especially if the use of a joint couple unit for ATI were continued.

Option 2: Universal per-child payment

A universal per-child payment was Australia's policy underpinning Child Endowment for about 50 years in the middle of the 20th century. In addition, there were concessional tax deductions for families where the primary earner paid income tax, while the Widows' Pension and unemployment payments provided income support for some low-income families. While Australia tends to shy away from 'middle-class welfare', and hence universal payments, in the current era of population ageing and declining fertility, it is important to recognise the social good of children and of women's workforce participation for fiscal sustainability and economic growth. A universal per-child payment would recognise that some of the cost of care of children should be socially provided on a universal basis, like universal primary school. It would have the great advantage of eliminating the high EMTRs in the current FTB system, which produce a disincentive to work, thereby supporting both work participation and gender equity goals. It would also be much simpler to administer and comply with than the current system. However, these benefits would need to be measured against the likely higher fiscal cost of this option.

Essentially, this proposal establishes a universal per-child payment to replace FTB A, and, like Option 1, it abolishes FTB B. One problem with Child Endowment was that it declined in adequacy over time (Cass and Brennan 2003), so the level of payment would need consideration. However, the removal of FTB B would remove a level of support for low-income sole-parent and couple families; therefore, it would be important to maintain some level of income support for these families. The best approach would be to increase Parenting Payment and (as the government has already decided) to permit sole-parent families to stay on PPS instead of JobSeeker Payment.

Option 3: Individual tax or taper for child payment

If it is considered necessary for policy or fiscal reasons to maintain an income test on the per-child payment, a better design would be to test the payment on the individual income of the carer who receives the payment. The child payment could be income tested based on secondary earner income with an income-free area and, potentially, a reduced taper. The removal of the joint income testing of ATI would reduce EMTRs substantially and recognise that workforce participation incentives relate to the individual parent/worker, while ensuring that the highest income earners do not receive the payment. This would improve gender equity. It also has the potential to reduce complexity and administrative costs, especially related to identifying and ensuring that the other member of a couple files a tax return and reports ATI relevant to the payment. However, it would require identification of the secondary earner and confirmation of their ATI for the taper.

An alternative approach, which would also ensure that high-income earners receive less of the payment, while preserving its universality, would be to make the per-child payment taxable—including it in the taxable income of the recipient. This is similar to PPS and similar pension payments and would have the effect of tapering the payment under the income tax scale.

Option 4: Income test and taper like PLP

This option involves an income-tested payment, based on the income test that already applies for PLP (but without the prior work condition). A summary of PLP is presented in Appendix 2. PLP is not tapered but an income test is applied to determine eligibility. It is a taxable payment based on the individual income of the recipient.

If the PLP approach were adopted without the eligibility income test, the payment would not be capped. Even top income earners could derive just over half of the benefit of the child payment, which would be taxable at the 47 per cent rate.

The individual income test is an effective policy measure that reduces EMTRs for secondary earners in dual-income families. It would also smooth the rate scale faced by the secondary earner, depending on the design of income thresholds. The single payment would be simpler but calculating the ATI and income taxation would entail some complexity.

This approach would have the advantage of applying the progressive income tax rate structure to the child payment and ensuring that the payment cuts out so that the highest income families do not receive it, while ensuring that those with low incomes still obtain the maximum benefit.

If it were desired to cap eligbility for the child payment payment, then as is already done in PLP, an eligibility ATI test could be applied to the individual income of the recipient of the child payment. An elective family income test could also be applied, as is done in PLP in certain circumstances (see further Appendix 2).

Australia has an opportunity to provide greater support to children and families, reduce the complexity and associated risks of the current family payments system, remove the barriers to the workforce participation of secondary earners and support gender equity.

Table 5 Summary of reform options

Proposal	Adequacy	Gender equity	Paid workforce participation	Compliance and administrative simplicity
Single per-child payment	Design to achieve adequacy-based on per-child costs. Need to deliver enhanced income support for low-income families in (e.g. PP).	Recognises costs of children and removes barriers to work by removal of FTB B secondary earner test, enhancing equity. Creates risks for low-income families unless Parenting Payment is enhanced.	Will reduce and streamline but not eliminate EMTRs mostly in couple families, especially by removal of income test for secondary earner in FTB B.	Simpler than the current system. Still need to identify carer; manage shared care, child support. ATI estimation required.
Universal per-child payment	Design to achieve adequacy-based on per-child costs. Need to deliver enhanced income support for low-income families (e.g. PP).	Recognises costs of children, care provided by women and removes barriers to work including all EMTRs. Low-income families are mainly female headed.	Eliminates EMTRs on earned income of secondary earner and single parents. Other payments in system and net childcare cost still generate EMTRs, but overall will improve.	Much simpler than current system. No income estimation required. Still need to identify carer; manage shared care, child support.
Single per-child payment tested on individual income of recipient	Design to achieve adequacy for basic per-child costs. Income testing may permit a higher payment but may still need enhanced income support for low-income families (e.g. PP).	Recognises cost of children; testing on secondary earner income enhances gender equity as women will face lower EMTRs on earned income.	Reduces EMTR on earned income by ending combined couple income test.	Some complexity. Need to identify secondary earner and estimate their ATI. Do not need to estimate ATI of primary earner. Need to identify carer; manage shared care, child support.
Income test and taper like PLP	Design to achieve adequacy for basic per-child costs. Income testing may permit a higher payment. 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 (e.g. PP).	Recognises cost of children; testing on individual income enhances gender equity and connection to the workforce, consistent with PLP. Women face marginal tax rates on earned income similar to all taxpayers.	Reduces EMTRs so that secondary earners receiving payment face progressive tax rate on earned income similar to all taxpayers.	Some complexity. Estimate ATI for eligibility. Consistency with PLP tests and conditions ensures coherence and improves simplicity. Need to identify carer; manage shared care, child support.

Enabling family support

Our analysis has shown that the current family payments system is not meeting the needs of today's children and families. Declining adequacy and coverage of payments and an overly complex administrative system have left children and families without suitable support, while the high EMTRs created by current income testing arrangements represent a barrier to greater workforce engagement by women. Additionally, the continued undervaluing of unpaid care work in the family payments system has meant that payments continue to entrench gender roles and impede gender equity.

Our initial review provides guidance for future reform. However, further research is needed, including:

- **estimating the rate of family payments required to lift children out of poverty**, in the context of current wage levels and social security payment rates
- **modelling the distributional impact of the proposed reform options**, including the impact on child wellbeing and women's workforce participation
- **modelling the fiscal cost of the proposed reform options**.

In addition, we recommend some short-term policy changes that would improve the operation of the current system, including:

- **reinstating the benchmarking of the maximum rate of FTB A to the pension**, rather than indexing to CPI, which would improve adequacy and ensure it is maintained over time
- **reviewing shared care arrangements and their impact on payment administration**
- undertaking further reform of the child support system, in line with the measures currently being implemented by the federal government to better understand and strengthen the system (Rishworth 2023). Any future system reforms should include **removing the Maintenance Income Test for FTB A**, in line with the EIAC's recommendation.

Reforming the family payments system can play an important role in meeting the policy goals of improving early childhood outcomes and women's economic security. The complex interaction between FTB and the broader tax and transfer system, including child support, highlights the need for a broader reform agenda to ensure adequate support for families. This should include developing adequacy-based family payments, including Parenting Payment, as part of a broader early childhood agenda that aims to ensure all children have opportunity regardless of their family's socioeconomic position. Creating a social security system that recognises and values unpaid care work and removes work disincentives is foundational to building women's economic security.

The continued undervaluing of unpaid care work in the family payments system has meant that payments continue to entrench gender roles and impede gender equity.

Appendices

APPENDIX 1:
Chronology and timeline of family payments

1941 **Child Endowment** introduced for second and subsequent children. Payment extended to first child from 1950.

1943 **Additional pension for children** (Child Allowance) provided for first unendowed child as an increase to the pension rate. Available for second and subsequent children from 1956.

1945 **Additional benefit for children** provided for first unendowed child as an increase to the rate of **Unemployment Benefit.** Available for second and subsequent children from 1962.

1976 **Family Allowance** (Child Endowment plus Dependent Child Tax Rebate).

1983 **Family Income Supplement**—new payment for low-income working families only. Rates of payment were aligned to those paid to income support recipients for dependent children (additional pension and benefit for children).

1987 **Family Allowance Supplement** (replaced Family Income Supplement). FAS included Rent Assistance.

1993 **Basic Family Payment** replaced Family Allowance. **Additional Family Payment** (AFP) replaced Family Allowance Supplement and additional pension and benefit for children. Additional Family Payment included Guardian Allowance for single parents and Rent Assistance. Maintenance Income Test applied to AFP and no longer applied to pensions or benefits.

1996 **Family Payment**—Basic Family Payment plus Additional Family Payment combined into a single payment. Basic Family Payment became minimum Family Payment and combined value of both payments was referred to as the maximum rate of Family Payment.

1997 **Family Tax Initiative**—new program providing additional help to families with children through the tax system (**Family Tax Assistance**) or by direct payment (**Family Tax Payment**) for those earning too little to benefit fully through the tax system. Comprised of Part A, a per-child payment and Part B additional assistance for single-income families (including single parents) with a child aged 0–4 years.

1998 **Family Allowance** (Family Payment renamed Family Allowance).

2000 **Family Tax Benefit** (simplified the various other programs previously developed to assist children).

> **Family Tax Benefit Part A:** To provide basic assistance for all children. This benefit incorporates Family Allowance (excluding Guardian Allowance) and Family Tax Initiative Part A.
>
> **Family Tax Benefit Part B:** To assist single-income families (including single parents). Merges Basic Parenting Payment, Guardian Allowance, Family Tax Initiative Part B, Dependent Spouse Rebate (with children) and Sole Parent Rebate.

2003–04 **FTB A Supplement** introduced.

2004 **Baby Bonus** introduced at $3000. Increased to $4000 from 2006 and $5000 from 2008.

2004–05 **FTB B Supplement** introduced.

2008 **FTB B** Primary Earner Income Limit introduced at $150,000.

2009 **Indexation of FTB A** decoupled from basic pension rate and indexed to CPI.

2011 **Paid Parental Leave** introduced.

2014 Baby Bonus replaced by **Newborn Supplement as a component of FTB A**.

2014 **FTB A** eligibility limited to children aged under 16 and full-time secondary students until the end of the calendar year in which the child turns 19.

2015 **FTB B** Primary Earner Income Limit reduced to $100,000.

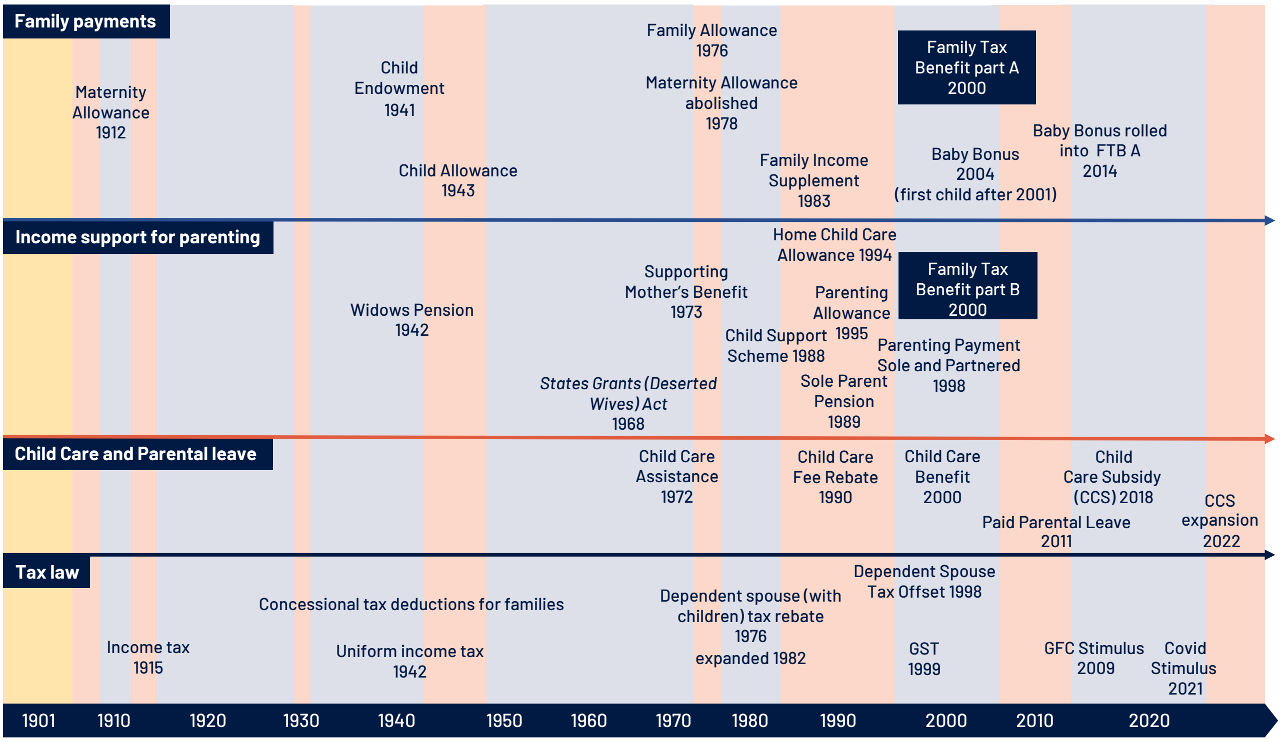
2016 **FTB A** supplement limited to families with income of $80,000 or less.

2016 **FTB B** for couple families limited to families with a child aged under 13 (unless grandparent carers).

1 July 2017 to 30 June 2019—indexation of FTB A and FTB A rates paused.

2019 **FTB A** income test taper increased to a uniform 30 per cent once income reaches the higher income-free area.

Figure 13 Timeline of federal government family payments 1901–2023



Note: Red shaded areas refer to periods when the Australian Labor Party held government, while blue shaded areas refer to Liberal, Nationalist/Country, United Australia and Coalition governments. Prior to 1910, the Protectionist Party held government and is denoted by beige shading.

APPENDIX 2:
Other family assistance payments

This section provides an overview of other family assistance entitlements including Parental Leave Pay (PLP), Child Care Subsidy (CCS) and Parenting Payment. However, the payments described are not exhaustive, with entitlements such as child support not discussed.

1. Parental Leave Pay

Australia has no income support payment specifically for pregnancy. A person in receipt of income support (JobSeeker or Youth Allowance) is subject to mutual obligation requirements to look for work during the first 28 weeks of pregnancy. From 28 to 34 weeks, they have reduced mutual obligations. From 34 weeks until birth, mutual obligations cease. After a baby is born (or adopted, or care commences for a non-parent carer), the income support payments available include FTB A and B, Newborn Upfront Payment, Newborn Supplement and Rent Assistance; PLP; Parenting Payment Partnered (PPP) and Parenting Payment Single (PPS); and CCS.

PLP provides a payment for up to 18 weeks to the primary carer of a child who was born or adopted before 1 July 2023, where an income test is met, the baby is registered and the carer is not working except for allowable reasons. Eligibility for PLP is connected to the employment of the carer prior to taking the leave. In addition, prior to 1 July 2023, up to two weeks of 'Dad and Partner Pay' was available. PLP has since been amended, so that from 1 July 2023, it will apply based on the weekly rate of the national minimum wage to a family for up to 20 weeks (100 payable days), and Dad and Partner Pay has been abolished.

PLP is payable by default to the birth mother of a newborn or the first adoptive parent. It can be shared by approval of that person with the biological father or the birth or adoptive mother's partner. It also applies to gaining parents in a surrogacy arrangement and a person caring for a child in specified exceptional circumstances. The partner is the person that the birth or adoptive mother is in a relationship with at the time when the claim is made.

There is no taper for PLP but it is a taxable payment, so it is included in the individual income of the recipient when determining taxable income. This means it is subject to the regular progressive income tax rate structure, together with other taxable income of the recipient.

In addition, an individual income test applies for PLP. Eligibility is satisfied for an individual with ATI up to a threshold of $168,865 for the 2022–23 tax year, with the threshold adjusted by CPI annually. If the default PLP recipient (such as the birth mother) has income that exceeds this threshold, an elective family income test may be applied, such that the birth mother may get PLP if the combined income of her and her partner is up to $350,000 in a financial year. This test is a stark contrast to the default family income test applied for both FTB A and FTB B.

An individual cannot receive FTB B while receiving PLP, for the same child. If the PLP (for 20 weeks) is the only income to be derived by the recipient in an income year, this would total just over $15,000, so the individual would not have to file a tax return.

2. Child Care Subsidy

CCS is paid to the childcare centre in respect of children attending, where eligibility conditions of work or study are satisfied and the payment is income tested based on family income.[22] The CCS to which families are entitled is determined by family income, whether the individual ATI or combined ATI of both members of a couple. CCS is a non-taxable payment.

CCS is payable to families with children aged 13 or younger who use an approved childcare service. Essentially, CCS subsidises a proportion of the hourly childcare fee up to a designated fee cap for eligible children in childcare. CCS reduces the cost of paid childcare for most families. It also has the

22 Services Australia, *Child Care Subsidy*, https://www.servicesaustralia.gov.au/child-care-subsidy

broader aim of lifting childcare access for children, with its recognised benefits for childhood development and the workforce participation of parents. The forerunner to CCS, the Child Care Benefit, was introduced at the same time as FTB A and B. In the ensuing two decades, support for childcare fees was significantly expanded and will be further expanded effective 1 July 2023.

Currently, the highest standard rate of CCS is 85 per cent of the hourly childcare fee (up to the designated cap). From 1 July 2023, the CCS rates and income thresholds are changing following the government's reform legislated in 2022. The higher CCS of 95 per cent of fee coverage (up to the hourly cap) for a second or third child aged 0–5 in care remains. Income testing will continue to be done on combined ATI of the members of a couple. Essentially, for parents with family income of up to a threshold of $80,000, the CCS will cover 90 per cent of the childcare fee (up to the hourly cap), an increase from 85 per cent. The proportion of the fee covered by CCS tapers as family income rises, at a slower rate than under the previous regime. It tapers to 64 per cent (raised from 50 per cent) at family income of $210,000. Subsequently, the proportion of the fee reduces by 1 per cent for each additional $5000 of income to $530,000 family income (raised from $356,000 of family income), when eligibility ceases. Additional CCS is available for some families who are designated as being in transition to work, on income support and studying (e.g., ParentsNext), for grandparents facing financial hardship or for specific child wellbeing reasons.

CCS is contingent on the paid workforce or study participation of families, determined by an 'activity test' that restricts the number of hours of CCS to which a family is entitled. Recognised activity includes paid work, self-employment, unpaid work in a family business, looking for work, volunteering and studying. If one parent works full-time and the other part-time, eligibility is based on the activity of the parent working part-time. The activity test has been criticised because it limits access to care for children for the poorest households, parents in casual work and vulnerable family groups including single-parent families and Aboriginal and Torres Strait Islander families (Jackson, McKenzie & Grey 2023).

3. Parenting Payment

Parenting Payment is an income support payment for families with young children.[23] It may be payable as PPP or PPS. Once the youngest child is aged eight or over, sole parents are no longer eligible for the higher rate of Parenting Payment and must rely on JobSeeker, plus FTB A and FTB B, for income support.

Eligibility for Parenting Payment is determined fortnightly and depends on an individual and their partner's income and assets. The income test is calculated based on fortnightly gross income from all sources, including fringe benefits and non-cash income. The asset test operates by a deeming approach to financial assets. The first $56,400 of financial assets (including bank accounts, shares and managed investments) has deemed income at the rate of 0.25 per cent; assets above that threshold have a deemed income at the rate of 2.25 per cent. Deeming also applies to the sale proceeds of the principal home (at 0.25 per cent where used to obtain a new home).

Parenting Payment Partnered or Single is included in taxable income.

Table *: Parenting Payment rates (effective 20 September 2023)

	Maximum fortnightly payment
Single	$970.20 includes Parenting Payment and pension supplement
Partnered	$686.00
Partnered, separated due to illness, respite care or prison	$802.50

23 See Services Australia, *Parenting Payment*, https://www.servicesaustralia.gov.au/parenting-payment

APPENDIX 3: Cameo modelling

The cameos in this paper were modelled applying the David Plunkett Excel spreadsheet of Australia's tax and social security system, as at 1 July 2023 (Plunkett 2023).

Family assistance policies have complex effects that are hard to disentangle in practice, including direct income effects, indirect 'earnings' effects through reducing or increasing labour supply in response to tax rates, and income effects and indirect 'income adjustment' effects through interaction with other welfare benefits (de Gendre, Schurer & Zhang 2021; Hoynes & Patel 2018). These effects are produced through the unit of assessment, levels of payment, income thresholds and income-free areas, taper rates, tax rates, and eligibility requirements for multiple payments.

To address this complexity, we have illustrated the effect of interactions of FTB A and FTB B with other elements in the tax and transfer system through cameo modelling to demonstrate the EMTR resulting from taxes and taper or withdrawal of payments, and disposable income, for selected cameo families. That is, it is important to analyse the design of family assistance in the context of other government payments to families with children. We summarise the key features of three systems that interact with FTB in Appendix 2:[24]

- PLP
- CCS
- PPP and PPS.

To understand the cameo modelling, a few key elements need to be explained. The first is the **unit of assessment** for taxes and transfers. In income tax law, the unit of assessment is an individual who pays tax on their 'taxable income'. However, in the family payments and income support system, the unit of assessment is the couple, specifically, the combined ATI of members of a couple.

For couples, decisions about work and care are often joint family decisions in a couple household, but these decisions tend to focus on the pros and cons of the secondary earner in the household engaging in paid work. In a society and economy where there is a gender pay gap,[25] and social norms of primary caregiving by mothers and not fathers, the 'secondary earner' is usually the mother, or woman, in a heterosexual couple. The secondary earner as defined in the rules for FTB A and FTB B is the person in the couple who earns a lower wage. As the primary earner's income is seen as more important in the family, the couple may choose to 'sacrifice' the secondary earner's wage in exchange for care in the household. The secondary earner is said to have a more 'elastic' or flexible labour supply response in choosing between primary responsibility for care of children in the family and paid work.

For single-parent families, the individual is the unit for both tax and any social assistance or benefits. However, maintenance or child support payments from a former partner or other parent will reduce eligibility for family payments, producing a de facto couple unit even for separated families.

Work disincentive effects for recipients of FTB A and FTB B, including single parents and secondary earners in households, are a consequence of high EMTRs on the labour income earned by individuals. An EMTR is a result of combining regular income tax rates (with progressively increasing rates and thresholds) with the withdrawal or 'taper' rates and thresholds that apply to cash payments to families. The high EMTRs produced for some recipients of FTB A or FTB B are caused by the interaction of FTB A and B tested on combined family income, with the income tax thresholds and rates, the Medicare levy, and the rates, thresholds

24 This excludes discussion of child support, which has important interactions with FTB, as highlighted in section 4. For further information about child support, see Cook et al. (2023). Various other payments are important for low-income families, including Rent Assistance for low-income families who do not own a home and are not eligible for public housing. A range of supplementary payments also exist to assist in covering specific costs of families, such as housing and pharmaceutical costs.

25 See WGEA, https://www.wgea.gov.au/the-gender-pay-gap

and tapers of other income support payments received by families, and net childcare costs (after the payment of CCS).

The disposable income of a family is a consequence of the average effective tax rate faced by the individual or family, taking account of both income tax and cash transfers. Where the disposable income of an individual or family (earnings net of taxes and transfers) is flat or grows very little overall, this indicates a high average effective tax rate. In this circumstance, there is essentially little net benefit of the secondary earner working, compared to remaining at home in a dependent carer role where the family relies on the breadwinner earnings and family payments. Disposable income may be presented before or after housing costs. For low-income families, housing costs (rent) are often very high, and Rent Assistance is important, though often inadequate.

The EMTR can be illustrated by a chart where the horizontal axis presents the increasing income of an individual or household and the vertical axis presents the effective tax rate on the specific dollar of income, as a consequence of combined rates, thresholds and income levels described above. An EMTR chart can also include the disposable income of the individual or family as earnings net of taxes and family payments. An alternative way to present the data, with a focus on days of work, is in a bar chart that shows daily wage increments. This presents the average effective tax rate 'per day'. We call this the daily EMTR. This enables us to consider the EMTR 'per day of work', which is a more realistic analysis of how paid work is done. For example, we can present the effective tax rate on increasing from one day of work a week to two days of work, up to full-time work (five days a week).

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Growing pains

Family Tax Benefit issues and options for reform

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2023

Acknowledgement of Country

The Brotherhood of St. Laurence acknowledges the Traditional Custodians of the land and waterways on which our organisation operates. We pay our respects to Aboriginal and Torres Strait Islander Elders past and present.

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