Brotherhood of St Laurence
Working for an Australia free of poverty

RESEARCH SUMMARY

Social Policy and Research Centre

Growing pains

Family Tax Benefit issues and options for reform

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Family Tax Benefit (FTB) parts A and B are payments from the federal government first introduced in 2000. They are designed to assist low-income families with the direct (FTB A) and indirect (FTB B) costs of caring for children.

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).

Because of our concerns about the adequacy and complexity of FTBs, the Brotherhood of St. Laurence (BSL) undertook this research to better understand the history of family payments, identify issues and concerns, and develop some proposals for reform.

Key points

Family payments play an important role in reducing child poverty, but the current Family Tax Benefit (FTB) system is not meeting the needs of today's families for the following reasons:

- **reduced coverage and adequacy leave families at risk of poverty.** An estimated 46 per cent of children aged 0 to 18 benefited from FTB A in 2020–21, down from about 66 per cent in 2000–01. Frequent pauses in the indexation of FTB A and FTB B payments and income thresholds over the past decade have reduced the value and coverage of the payment
- **complex administration and compliance arrangements create risks.** The complexity of compliance measures 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)
- **high Effective Marginal Tax Rates (EMTRs) create a disincentive for paid work.** For example, a secondary earner in a couple family with two children aged under five earning early childhood sector wages would only receive 26 cents for each additional dollar earned as they increased their number of workdays to three per week.[1] 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.** 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.

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

The complex interaction between FTB payments and the broader tax and transfer system underscores the need for a coherent reform agenda to:

- ensure an adequate social safety net
- recognise the value of care
- increase investment in social infrastructure
- improve access to decent and secure work for caregivers
- ensure that family payments are adequate to lift children out of poverty.

We propose four reform options to address these issues:

- **Option 1:** A single per-child payment that would replace the two-tier system of FTB A and FTB B with a single per-child payment.
- **Option 2:** Universal per-child payment, which would eliminate the high EMTRs that are generated by the current FTB A and FTB B payments, supporting both work participation and gender equity goals.
- **Option 3:** Individual tax or taper for child payment based on the individual income of the carer who receives the payment, instead of the joint income of spouses.
- **Option 4:** Income test and taper like PLP, ensuring that those with low incomes obtain the maximum benefit.

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.

Background

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. 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).

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. At the same time, payment adequacy has declined.

Who currently receives FTB?

In 2021–22,[2] 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 supported by FTB A and/or FTB B (by instalments) in March 2023 (DSS 2023a).

FTB is the largest single government program of family assistance expenditure in Australia.

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

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).

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). Receipt of 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).

Issues and concerns

Reduced coverage and adequacy leave families at risk of poverty

An estimated 46 per cent of children aged 0 to 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 have 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 play an important role in reducing child poverty, particularly for single-parent families. 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.

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.

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.

> *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.*
>
> Joanne, a single mother of four children

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 working in the early childhood sector in a couple family with a partner earning the median male wage and two children aged under five would only receive 26 cents for each additional dollar earned as they increased their number of workdays to three per week.[3] 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).

> *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.*
>
> Fiona, a partnered mother of three children

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.

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

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, discouraging 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 inequality.

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

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 but not remove 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

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 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 advantage of eliminating the high EMTRs that are generated by the current FTB 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.

The system entrenches outdated gender roles around care and work, discouraging increased workforce participation by secondary earners, particularly those with weaker earning capacity.

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. 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.

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 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

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 income taxation and an income test based on recipient income could be applied to a per-child payment, but in this instance, it could be used to taper the 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, it would ensure a streamlined approach to these two family assistance payments.

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.

The goal of reform of Australia's family support system should be to establish a simple system that supports 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.

Enabling family support

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, review of shared care arrangements and removal of 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.

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About the project

This research was completed as part of The SEED Project

THE SEED PROJECT
Sustaining Economic Empowerment and Dignity for Women

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For further information

The full report *Growing pains: Family Tax Benefit issues and options for reform* PDF file, 1.2 MB) by Miranda Stewart, Emily Porter, Dina Bowman and Emily Millane may be downloaded from the Brotherhood of St. Laurence website.

For other relevant BSL publications see <https://www.bsl.org.au/research/our-research-topics/income-and-social-security/>

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