F Eligibility for government payments

Key points

- Australian families receive a wide variety of government financial support in the form of payments, tax offsets and levy reductions. As most of these are contingent on income, they will be affected by the proposed paid parental leave scheme.
- Families who elect to receive the proposed paid parental leave scheme, and who also receive family tax benefit A and family tax benefit B (in the period after paid leave has finished), will usually have their entitlements to these payments decreased. Receiving the proposed paid parental leave scheme will also increase the medicare levy and the medicare levy surcharge for those families required to pay them.
- By design, parents who elect to receive the proposed paid parental leave scheme will forgo any entitlement they have to the baby bonus, as well as family tax benefit B (whilst on paid leave). The interaction between the proposed scheme and the Low Income Tax Offset (LITO) and the Pensioner Tax Offset (PTO) will differ according to income:
  - for families who, under current arrangements, would not receive the entire offset they are eligible for because they do not pay enough tax, the proposed scheme would increase the financial benefit they receive from LITO and PTO
  - for families whose income is in a region in which the offset amount is subject to a taper, and who have sufficient tax liability to access their entire offset, the proposed scheme would decrease the financial benefit they receive from LITO and PTO.
- Child care assistance reduces the cost to parents of returning to work. For mothers with infants, child care assistance will partially counterbalance the financial incentive to extend leave associated with a paid parental leave scheme. While the current level of child care subsidy is not likely to negate the incentives offered by the proposed paid parental leave scheme, any increases in the child care subsidy for children under six months old would work against the central objectives of the proposed scheme.
- The proposed paid parental leave scheme will not affect other entitlements to government allowances and pensions, because of the design feature that excludes paid parent leave from the means test for these payments. The major payments *not* affected by the proposed scheme include: the parenting payment, Newstart (for partners of the recipients of paid leave), carer payment, carer allowance and the disability support pension.

This appendix sets out the current range of Australian Government payments available to Australian families with newborn children and the various eligibility criteria for those payments. The effectiveness of any statutory paid parental leave scheme will depend, in part, on how it interacts with existing family support and tax arrangements, as well as the financial situation of families. This appendix provides information on a range of government payments provided to families with newborn children and identifies how many families are using those payments. It further outlines the possible interactions between those payments and the proposed parental leave scheme.

F.1 Family payments

Box F.1 outlines the major payments available to families with newborn children. These include family tax benefits A and B, the child care benefit, the child care tax rebate, the baby bonus and the parenting payment. Collectively, these payments represent the majority of the direct financial assistance given to families. These payments are subject to income tests, which means that families' entitlement to them may be reduced due to the additional income they receive from paid parental leave.

Box F.1 **Income support for Australian families**

Baby bonus: A one-off tax-free payment of $5000 that is available to parents upon the birth or adoption of a child and is delivered in 13 fortnightly instalments of $384. This payment is restricted to families where the expected combined income in the six months after birth is less than $75 000.

Family tax benefit A: An ongoing payment to families with children under the age of 21 (or dependents between 21 and 24). The payment is made per child and is subject to a family income test. The maximum payment is $151.34 per fortnight per child under 13 years if family income is below $42 559 per year. In addition, a supplement of up to $686.20 per child is paid at the end of each financial year.

Two further payments are usually included in family tax benefit A:

- *rent assistance*: A payment of $129.36 per fortnight that is available to most families renting a private dwelling.
- *large family supplement*: A payment of $10.36 per fortnight for every child after the second.

Box F.2 (continued)

Family tax benefit B: An ongoing payment aimed at assisting families with one main earner (including single income families) and dependant children under the age of 18 years. The maximum amount is $128.80 per fortnight for families where the youngest child is under five, or $89.74 per fortnight where the youngest child is between five and 18. The payment is subject to an income test on both the primary earner and the secondary earner (the person earning the lesser amount) in the case of two parent families. In addition, a supplement of up to $335.80 per eligible family is paid at the end of each financial year.

Prior to returning to work for the first time following the birth of a child, family tax benefit B is available at the maximum rate so long as no employment income is earned. This is known as the ‘quarantined’ period.

Child care benefit: This benefit is available when parents use approved forms of child care, such as long day care centres, occasional care centres and family day care providers. The benefit is provided either as a fee reduction at the time of purchasing child care services, or a quarterly lump sum payment. The child care benefit is subject to an income test and the ‘maximum’ payment is $3.47 per hour in approved child care (a slightly higher rate is available if multiple children from the same family are in child care, if child care is used on a part time basis and for family day care services). The maximum rate is available for families with a combined income under $36 573.

Payments are also available for some forms of informal care. To be eligible, a carer must be registered with the relevant government agency. People who can provide registered care include relatives outside the immediate family, such as grandparents, friends and nannies. The maximum payment rate for registered care is 58.1 cents per hour for a maximum of 50 hours per week for each child.

Child Care Tax Rebate: A rebate covering 50 per cent of out-of-pocket child care expenses for approved forms of child care, up to a maximum of $7500 per child each financial year. Parents are paid this rebate each quarter. No rebate is available for registered care, such as that provided by grandparents or friends.

Parenting payment: An ongoing payment aimed at supporting families with low income. The payment is subject to both an income test and an assets test and the maximum payment is $405.40 per person per fortnight for partnered recipients and $562.10 per fortnight for single recipients.

Source: Family Assistance Office 2008b and the Family Assistance Office website. Payment rates are effective from 1st January to 19th March 2009

Baby bonus and family tax benefit A and B

As parents receiving the proposed paid parental leave are not eligible for the baby bonus, the interaction between these payments is straightforward. (Families using statutory paid parental leave would lose any entitlement to the baby bonus).

Due to the broad availability of family tax benefit A, many families are likely to be affected by its interaction with the proposed paid parental leave scheme. This per child payment is paid at a flat rate if family income is below $42 599 and subject to a complex schedule of taper rates based on income and number of children beyond this. However, the taper rates are designed so that even families on relatively high incomes are still eligible for some payment. For example, a two parent family with two children under the age of 13 who rent a private dwelling and have a family income of $100 000 would be eligible for more than $3300 per year.

By increasing family income, paid parental leave will decrease many families' entitlements to family tax benefit A (in a way that would be very difficult for families to anticipate). It is estimated that around 53 per cent of families eligible for the proposed paid parental leave scheme, would lose some of their family tax benefit A.

Family tax benefit B interacts with the proposed paid parental leave scheme in two ways. Firstly, if the proposed scheme reduces the amount of unpaid leave taken following the birth of a child, then the amount of quarantined family tax benefit B (see box F.1) that would have been available to families at the maximum rate, will be reduced.

Secondly, in some cases, paid parental leave may reduce the amount of family tax benefit B available to families after the primary carer returns to work. The maximum rate of family tax benefit B is available for two parent families where the lower income earner makes less than $4526 per year. Every dollar of income above that level reduces family tax benefit B payments by 20 cents, until no benefit is payable when the lower income exceeds $22 995. In families where the primary carer returns to work in the same year as going on leave, the additional income from paid parental leave may reduce their entitlement to family tax benefit B if their income lies in the region in which the payment is tapered.

Child care benefit and child care tax rebate

While most of the tax transfer system in Australia represents a financial disincentive to labour force participation by new mothers, child care assistance works in the opposite direction by lowering the costs families face when returning to work.

By encouraging additional labour force attachment by parents, child care assistance can either complement or undermine the aims of the proposed paid parental leave scheme, depending on the time period when it is most influential. If the child care payments encourage parents to return to work:

- during the first six months of a child’s life, then the effects of child care assistance will work against the child and maternal health objectives of the proposed paid parental leave scheme
- at a later time, then the effects of child care assistance will complement the labour force attachment objectives of the proposed paid parental leave scheme.

We focus on the former effect in this section as the potential for direct interaction between existing child care assistance and the proposed scheme is greatest in the year the leave is accessed. To determine if current child care subsidies could undermine the effectiveness of the proposed paid parental leave scheme, we need to examine the patterns of use of child care by families with new children.

What is the difference between ‘approved’ and ‘registered’ care?

Assistance with child care is provided by two payments, a child care benefit and a child care tax rebate:

- the child care benefit is typically taken as a reduction in the fortnightly fee charged by ‘approved’ or ‘registered’ child care providers for eligible families
- the child care tax rebate reimburses parents each quarter for half of the out-of-pocket expenses for ‘approved’ child care, but not for ‘registered care’.

The subsidy rate for child care benefit for ‘approved’ care dramatically exceeds the subsidy for ‘registered’ care. For most types of ‘registered’ care, the current maximum rate of child care benefit is less than 60 cents an hour. In comparison, the maximum hourly subsidy for part time users of ‘approved’ care can be as high as $4.60 per hour.[1] For ‘approved’ care, parents are also reimbursed for half of their out-of-pocket expenses — up to a maximum of $7500 a year per child (FAO 2008a).

So how subsidised is child care?

The following example illustrates the nature and generosity of child care subsidies.

- A family who was eligible for the maximum rate of child care benefit and had one child in long day care for 50 hours per week would be entitled to a fee reduction of $173.50 per week.

---

[1] This rate applies for families with a single child using less than 38 hours of family day care per week. The maximum rate is usually reported as $3.47 per hour, which applies if the family uses 50 hours or more of family day care, or 38 hours or more of long day care. Less frequent users receiver a higher ‘loading’ in recognition of the higher cost of part time access to child care.

- If their child attended a service charging $300 for long day care, then the family would need to pay $126.50 per week and would receive half this money back through the child care tax rebate. Accordingly the net cost to the family would be $63.25 or about 21 per cent of the actual cost of the service.

If a family was not eligible for any fee reduction under the child care benefit scheme, they would have to pay the full fees up front, but receive half the fees back as a child care tax rebate. As the cap on the child care tax rebate is $7500 per financial year per child, families with children in care for an entire year would receive the full 50 per cent rebate of fees so long as the weekly fees (after any child care benefit fee reduction) were under $289. But most newborn children will not be in care for an entire financial year, so that families with children under the age of one using ‘approved’ child care with much higher fees could still receive half their money back through the child care tax rebate.

Most families with a child under the age of one year who use ‘approved’ child care services are likely to have at least half of their child care costs subsidised through the child care benefit scheme and the child care tax rebate. Lower income families will receive even higher subsidies.

Use of long day care and family day care services by very young children

The subsidisation of child care has the potential to undermine the objectives of paid parental leave only in so far as it induces child care use amongst parents with very young babies. Around 20 000 children aged less than one year are in approved care at any point in time (sub. 164, pp. 15–16).

However, relatively few babies are in formal child care when they are aged under six months. Based on the LSAC data,[2] only two per cent of babies are placed in long day care or family day care before six months of age because of their mother’s work commitments. While around a quarter of mothers who return to work in the first six months do use formal child care, this affects a small group of children.

Accordingly, while existing child care subsidies encourage parents to return to work earlier than otherwise, in practice the subsidies appear to have only modest effects

[2] Information on how old a child was in months when they initially attended child care is available in the LSAC database. Although this database does not directly distinguish between approved and registered child care, it does provide information on the type of care arrangements being used, which can serve as a proxy for approved care. Specifically, using formal arrangements, such as long day care and family day care, usually implies the use of approved care. Likewise, the use of informal care, such as registered carers, usually implies the use of non-approved care.

on parental employment behaviour during the most critical early period of a child's life.

Moreover, in many cases, families would still find it financially beneficial to take paid parental leave than to return to work and pay for even subsidised child care. Of the families using long day care or family day care for work purposes where the child is under six months old, over three quarters would be financially better off if the mother stayed on leave and used the Commission's proposed parental leave scheme. As such, the current level of child care subsidy is not likely to negate the incentives offered by the proposed paid parental leave scheme. However, further increases in child care subsidies for children under six months old would work against the central objectives of the proposed scheme.

Throughout our inquiry, a number of participants indicated that gaining access to a preferred child care provider can alter the planned return to work date. Parents typically need to register their interest in using a child care centre. When they have reached the top of the waiting list and a place becomes available, they are offered that place. If they wish to accept the child care place, they must begin to pay for the care within a given period. If a child care place is offered at a preferred centre before the intended return to work date, it is likely that the family will accept child care placement and the primary carer will then return to work. In areas where child care is particularly scarce, it is unlikely that a parental leave payment will alter this behaviour.

Despite the prevailing child care subsidies, parents currently using formal child care would be expected to take more time off work if the proposed paid parental leave scheme was adopted. That said, it is not clear that there would be a reduction in child care use over the *life* of the child (or an associated budget saving). One of the objectives of the proposed scheme is to increase the lifetime workforce attachment of women (chapter 5). If this occurs, it may increase child care use for older children, which also increases parent's access to child care subsidies. Thus the net effect on child care use, and the net budgetary effect, is unclear.

Parenting payment

The parenting payment (single and partnered) is a relatively common form of support to low income families with children. The maximum payment is $405.40 per fortnight for couples or $562.10 per fortnight for singles and is subject to both an income test and an assets test. According to the income and leave data available in the LSAC database, as many as a third of families where mothers would be eligible for the proposed paid parental leave scheme could qualify for parenting payment some time in the first twelve months after the birth of their child. For most of these families, they would only be eligible for parenting payment while the mother was on unpaid leave.

Due to the size of parenting payment and its steep taper rates, the draft report noted that many recipients of this payment would be better off opting out of paid parental leave. However this is no longer an issue as, in this report, it is proposed that paid parental leave should not affect eligibility to the parenting payment.

F.2 Other government support to families

In addition to the more widely available payments discussed above, statutory paid parental leave may have implications for a number of other pensions. These include: the carer payment, the disability support pension and Newstart (for partners of recipients of paid parental leave). A statutory scheme may also affect the extent to which a familiy is eligible for various tax offsets (the low income tax offset, the pensioner tax offset and the beneficiary tax offset), and their exposure to several taxes (the medicare levy and medicare levy surcharge).

Pensions

The draft noted that a number of income tested pensions may be affected by the introduction of the proposed paid parental leave scheme. These include:

- *the carer payment*: a payment for people whose caring responsibilities inhibit or prevent them from undertaking paid employment. The payment is subject to both an income test and an assets test and the maximum payment is $469.50 per person per fortnight for partnered recipients and $562.10 per fortnight for single recipients
- *the disability support pension:* a payment for people with a disability that prevents them from working. The payment is subject to both an income test and an assets test and the maximum payment is $469.50 per person per fortnight for partnered recipients and $562.10 per fortnight for single recipients
- *Newstart*: a payment for unemployed people looking for work. The payment is subject to both an income test and an assets test and the maximum payment of $405.40 per fortnight is available to partnered recipients (other payment rates apply for different family circumstances but only this rate is relevant here).

Contrary to the draft report, this final report proposes that income from the paid parental leave scheme should not be counted for the purposes of calculating these income support payments. For this reason, entitlements to these payments will not be affected by the introduction of the scheme.

Beneficiary Tax Offset (BTO) and Pensioner Tax Offset (PTO)

Recipients of the parenting payment may be indirectly affected by the proposed paid parental leave scheme through the effect the additional income has on the PTO. Recipients of parenting payment (single) and the carer payment are eligible for the PTO so long as their annual income is less than $29 614. For singles, if their income is less than $20 195 this amounts a potential reduction in tax liability of $2129.[3] This offset is reduced by 12.5 cents for every dollar of additional income between $20 194 and $37 227. The offset is smaller and tapers at a lower income range for couples.

As the proposed paid parental leave scheme increases taxable income, it may actually increase or decrease entitlements to the PTO. For families:

- whose income is in a region in which the offset amount is subject to a taper, and who have a sufficient tax liability, receiving paid parental leave will decrease the amount of PTO received
- who, under current arrangements would not receive their entire PTO because they do not pay enough tax, the receiving paid parental leave would increase the benefit they receive from PTO.

Recipients of the parenting payment (couple) who received payments over $6000 are eligible for the BTO. For every dollar of parenting payment received between $6000 and $34 000, a BTO of 15 cents is available. Thirty cents to the dollar is paid for payments above $34 000. As this offset is based on the amount of parenting payment (couple), it will not be affected by the proposed paid parental leave scheme.

Low Income Tax Offset (LITO)

The LITO lowers the income tax burden to low income earners. In effect, it increases the tax free threshold to $14 000 per year for those earning less than $34 000, with the maximum offset amount of $1200 tapering at four cents to the dollar for income above this. Similarly to the PTO, the interaction between LITO and the proposed paid parental leave scheme depends on the income of the recipient.

- If the income of the recipient is less than $14 000 per year, then receiving paid parental leave will increase the amount received from the LITO as their increased tax liability increases the offset they are entitled to.

[3] The offset received cannot exceed the recipients total tax liability.

- If the income of the recipient falls between $14 000 and $34 000 and would remain in this range after the introduction of the proposed paid parental scheme, then their LITO entitlement would remain unchanged at $1200.
- If the income of the recipient is beyond $34 000 then the introduction of the proposed paid parental leave scheme will reduce their entitlement to the LITO.

It is estimated that 89 per cent of mothers who would be eligible for the proposed parental leave scheme will also be eligible for the LITO. Of these, it is estimated that the proposed scheme would increase the LITO entitlement for around half the recipients of the scheme and decrease the entitlement for the other half.

Medicare levy and medicare levy surcharge

The medicare levy and the medicare levy surcharge are income based taxes that are used to partially fund the health care system in Australia. The standard rate of the medicare levy is calculated at 1.5 per cent of income. However, some low income families are not required to pay the levy, or pay a reduced amount. Reductions to the medicare levy are based on:

- personal and family income (the reduction amount decreases as income increases.)
- eligibility for the PTO (which decreases the medicare levy)
- the number of children in the family (additional children decrease the medicare levy for those eligible for a family reduction)

By increasing taxable income, the proposed paid parental leave scheme will increase the medicare levy for those parents who are required to pay it (that is, those with individual and family incomes that are above the minimum thresholds). Families who are eligible for a medicare levy reduction will also pay the medicare levy at a greater rate than they did previously.

A medicare levy surcharge of one per cent of income applies to individuals who do not have private health cover and have a family income of over $140 000. The income threshold increases by $1500 for every dependent child in the family. It is possible that the additional taxable income derived from the proposed scheme will push family income above the critical threshold for some families who were previously not subject to the surcharge. However, very few families would be likely to be affected in this way.