



Child care assistance reform proposals in the Henry Tax Review

Presented by Justine McNamara

Authors: Alan Duncan, Vu Quoc Ngu, Justine McNamara and Rebecca Cassells

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Child care assistance in Australia

Henry Tax Review suggests that overall aims are:

- Facilitating labour force participation of parents (particularly women)
- Supporting development of children (especially children from disadvantaged backgrounds)

(see Australian Treasury 2009, p. 583)

Some key child care issues

- Formal and informal care
- Private provision
- Availability
- Workforce
- Quality
- Outcomes
- Preschool and child care
- Cost
- Older children

Child care costs and women's labour force participation

International evidence for links between child care costs and mothers' work has generally been strong, but less so in Australia, although recent Treasury research (Gong *et al.* 2010) finds this relationship stronger than previously thought (more in line with international and anecdotal evidence)

Some earlier Australian evidence also suggests that effects of costs on workforce participation may be stronger for low income mothers (Doiron and Kalb 2005)

Hourly costs of childcare (\$ per hour, LDC/FDC, net of Child Care Benefit, before Child Care Rebate)

by household weekly earned income and number of children

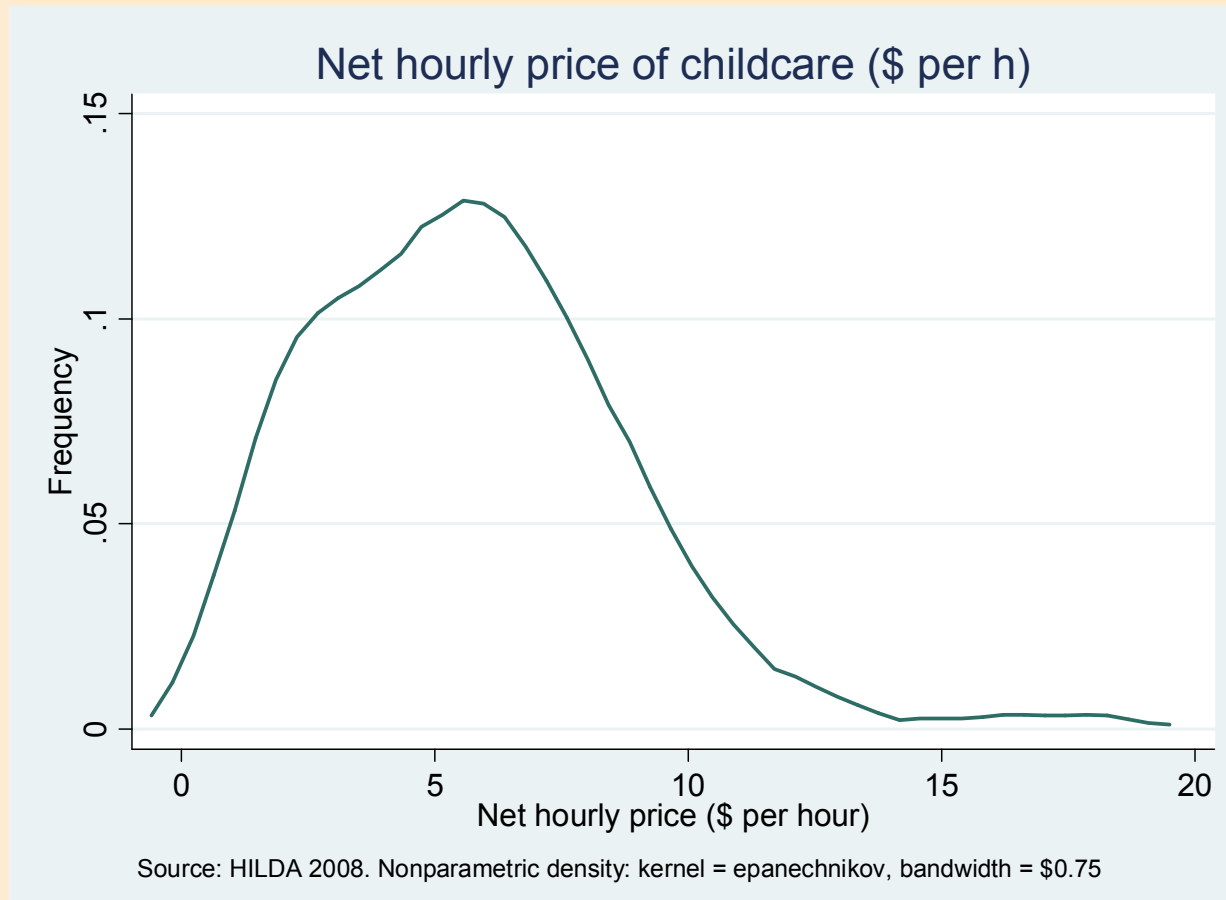
Household earned income (\$pw)	Number of children			Total
	1	2	3+	
No earned income	3.76	3.36	2.31	3.23
\$1pw - \$500pw	4.12	4.68	2.83	3.98
\$501pw - \$1,000pw	4.39	5.04	3.14	4.35
\$1,001pw-\$2,000pw	5.14	5.66	5.20	5.40
\$2,001pw-\$3,000pw	6.94	6.76	6.42	6.78
\$3,001pw-\$5,000pw	8.76	7.44	8.30	8.23
>\$5,000pw	9.98	7.17	*	8.25
Overall	5.97	6.02	5.51	5.91

*low sample size

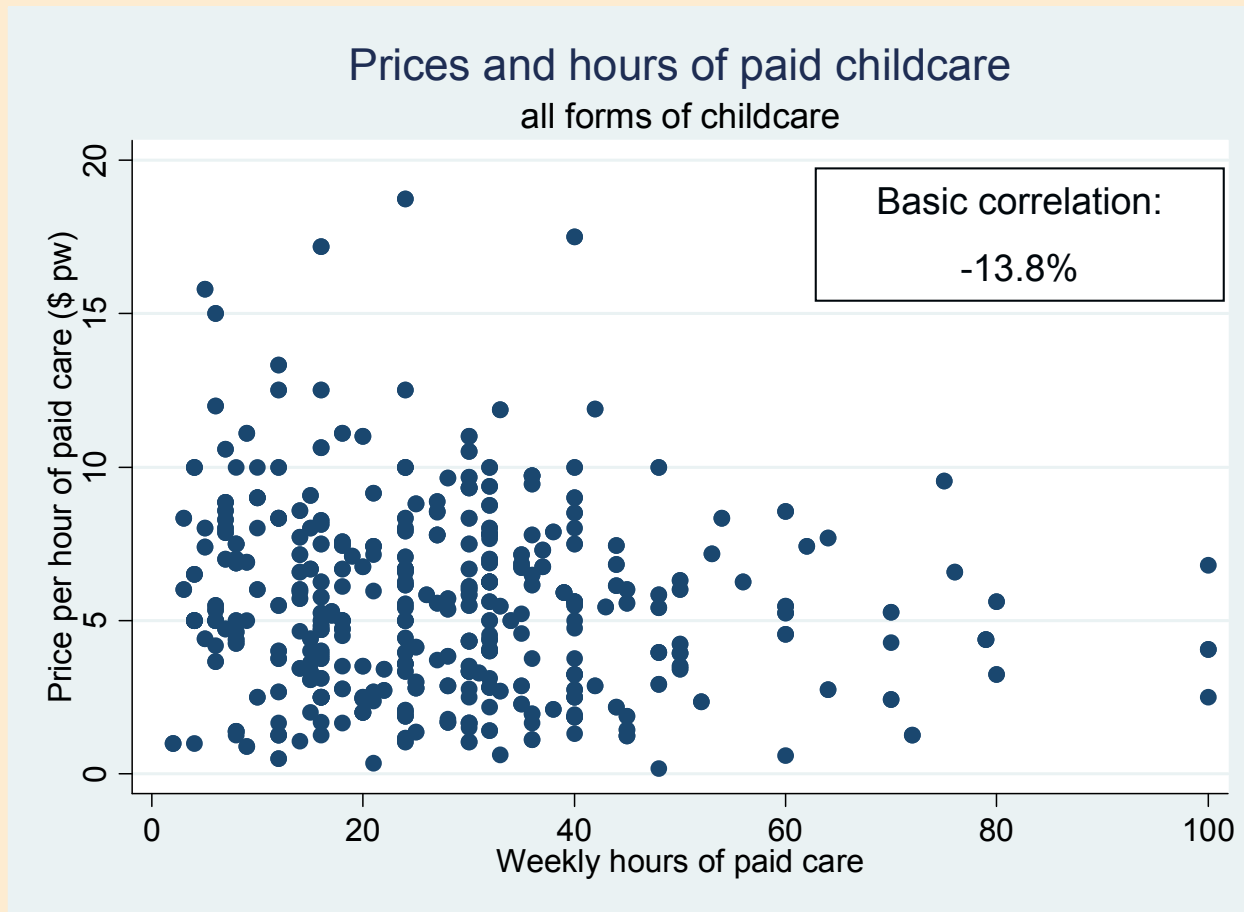
Source: own calculations using Household, Income and Labour Dynamics in Australia (HILDA) 2008

Patterns of childcare use & cost in Australia

(\$ per hour, LDC/FDC, net of Child Care Benefit, before Child Care Rebate)



Price and hours of paid child care



Source: own calculations using HILDA 2008

Recent history of child care assistance in Australia

Dual benefit system 1994 – 2000 1984 Child Care Assistance (means and asset tested) and 1994 Child Care Cash Rebate added. Minimum co-payment amount

These two replaced with

Single benefit system 2000 - 2004

2000 Child Care Benefit. Means tested, no specified minimum co-payment amount

This augmented with Child Care Tax Rebate (now Child Care Rebate) in 2004-05 resulted in a

Dual benefit system 2004/05 – present

Future – single benefit system???

Recent history of child care assistance in Australia

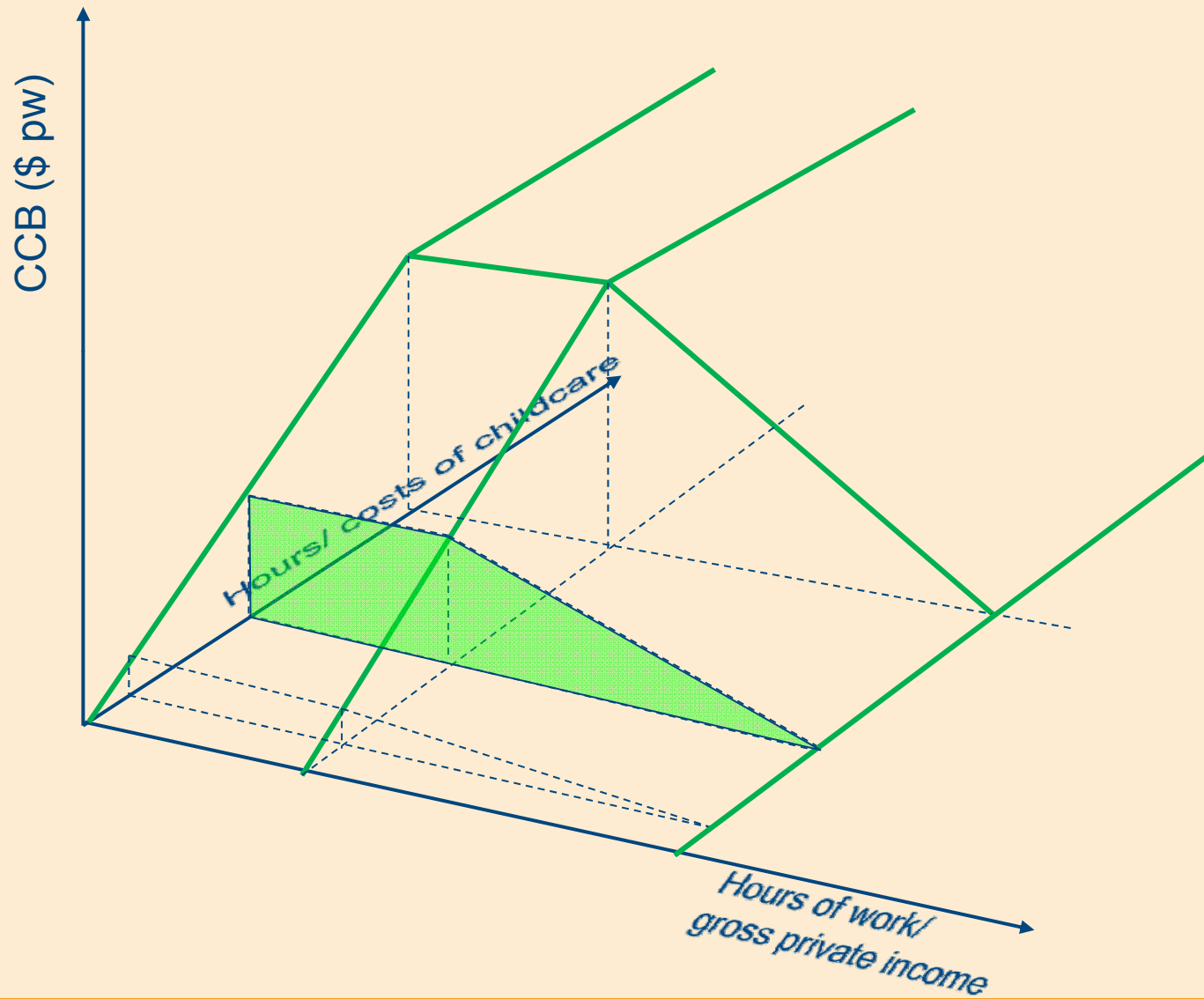
Other changes include:

- various adjustments to amount and method of payment of CCR (eg from 30% to 50% of out-of-pocket costs in 2008-09 and current proposal to pay fortnightly)
- Changes to participation test for CCB as part of welfare reform package in 2006. (Must work 15 hours to get greater than 24 hours subsidy)

Existing support for childcare costs

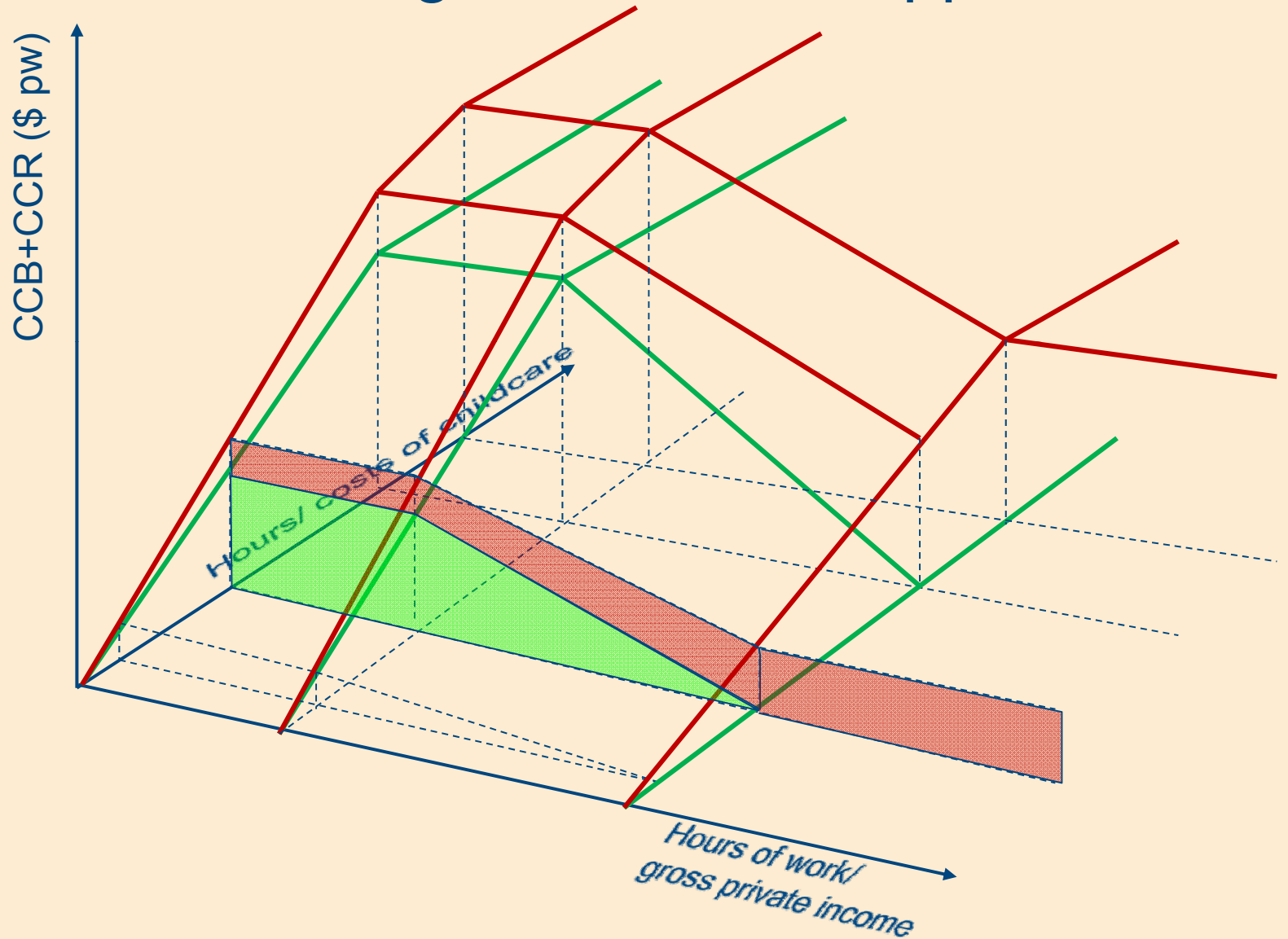
- Two payments - Child Care Benefit (CCB) and Child Care Rebate (CCR)
- CCB paid as an hourly rate for a session of care (up to 50 hours per week for working families)
- 'Maximum weekly benefit' MWB depends on type of care & number of children
- Restricted CCB eligibility for non-working families (support for up to 24 hours of care)
- CCB rate means tested on taxable family income
- CCR paid as % of 'out-of-pocket' costs of childcare (net of CCB) to a threshold (50% up to a cap of \$7,778 in 2008/09)

Structure of existing CCB



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Structure of existing CCB+CCR support



HTR child care assistance proposals

- Child care (and child care assistance) part of participation agenda
- Still universal + targeted but increased emphasis on targeting
- Proposed changes not expressed as radical overhaul

“The level of child care assistance currently provided to families is broadly adequate. However, the current payment structure could be simpler and more transparent” (Australian Treasury 2009, p. 490)

HTR child care assistance proposals

- Single payment
- Based on % of actual costs rather than flat hourly rate (CCB) combined with % of out of pocket costs (CCR)
- Base rate to all, higher rates to low income families
- Participation requirement for possibly >15 hours (for more than base rate and possibly even for base rate)
- No co-payment or participation requirement for children 'at-risk' or facing 'multiple disadvantages'
- Means test based on family income

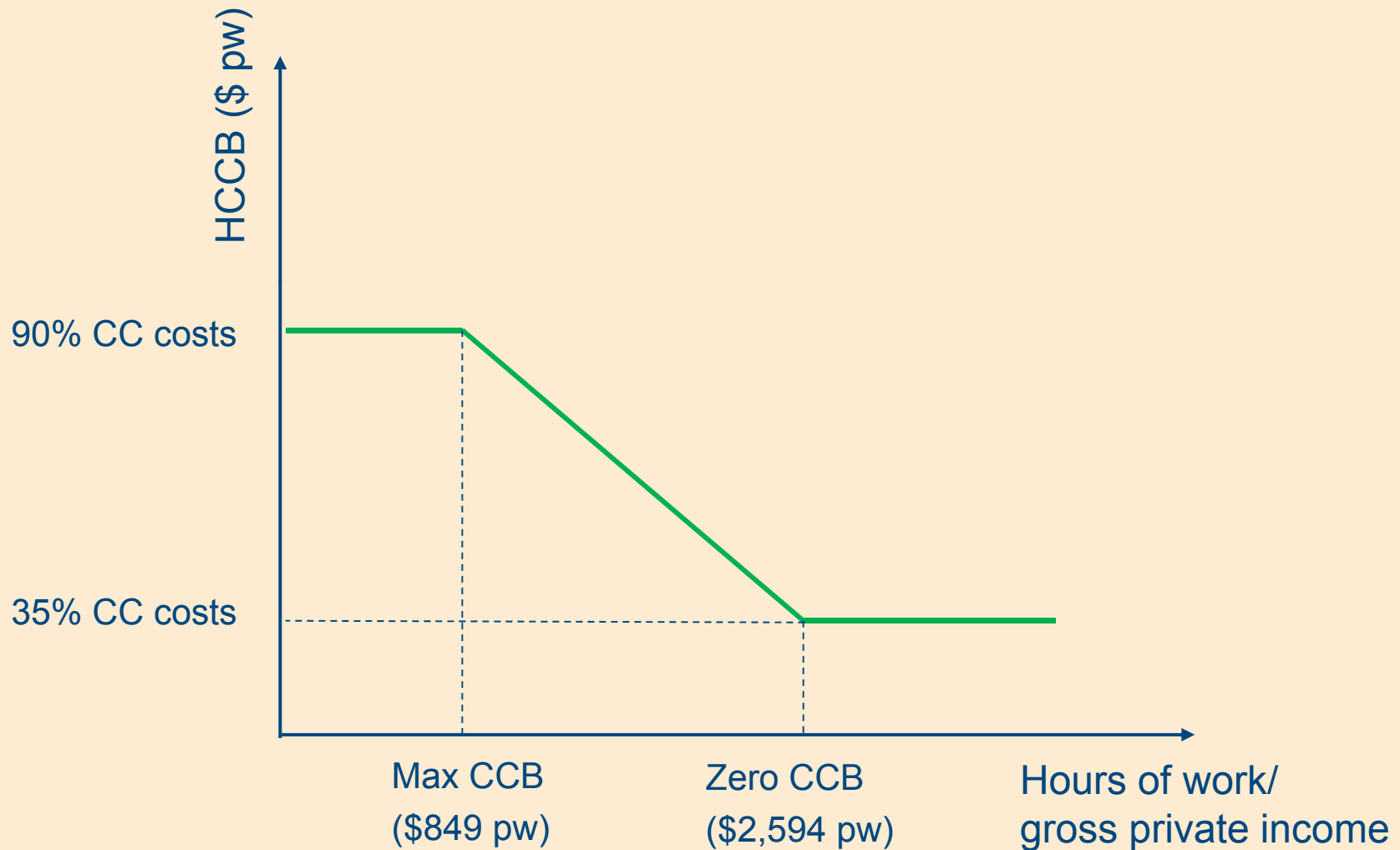
HTR child care assistance proposals

- Regular payments to low income families, possibly directly to providers; possibly quarterly for base rate or portion of base rate directly to parents (ie base rate may be paid in part directly to parents; more than base rate probably paid directly to providers)
- Emphasis on interactions of means testing with other payments to avoid high EMTRs
- Removal of FBT exemption for employer-based care

A (tentative) interpretation of child care support under HTR

- Integrate CCB and CCR into a **single benefit** assessed on childcare costs, and means tested on private income
- Support for up to 90% of the childcare costs of “low income families”
- Support falls to a base rate of 35% of child care costs for “higher income” families
- **Interpretation:**
 - take existing income cut-off for maximum CCB (\$849 per week) as low income threshold
 - take existing income threshold above which no CCB is received (\$2,549 per week) as high income threshold

A (tentative) interpretation of childcare support under the Henry Tax Review...



A (tentative) interpretation of childcare support under the Henry Tax Review...

- **Illustrations:**

- one-parent family, one child (aged 2), 20 hours of childcare per week at **\$6.20** per hour (\$124 per week)
- couple family, one child (aged 2), 20 hours of childcare per week at **\$6.20** per hour (\$124 per week)
- one-parent family, one child (aged 2), 20 hours of childcare per week at **\$8.20** per hour (\$164 per week)

Illustration: one-parent family, one child (aged 2), 20 hours childcare per week at **\$6.20** per hour (\$124 per week) – modelled estimates

	CCB/CCR		HCCB		difference
	\$	%cost	\$	%cost	\$
Childcare support at different levels of private income:					
<\$849pw (maximum support)	\$ 98.80	(80%)	\$111.60	(90%)	+12.80
\$1,500pw	\$ 85.08	(69%)	\$ 86.22	(70%)	+1.14
>\$2,594pw (minimum support)	\$ 62.00	(50%)	\$ 43.44	(35%)	-18.56
withdrawal taper %	2.11%		3.91%		

Modelled estimates using hypothetical families in static incomes model STINMOD at NATSEM

Illustration: one-parent family, one child (aged 2),
 20 hours childcare per week at **\$6.20** per hour
 (\$124 per week) – modelled estimates

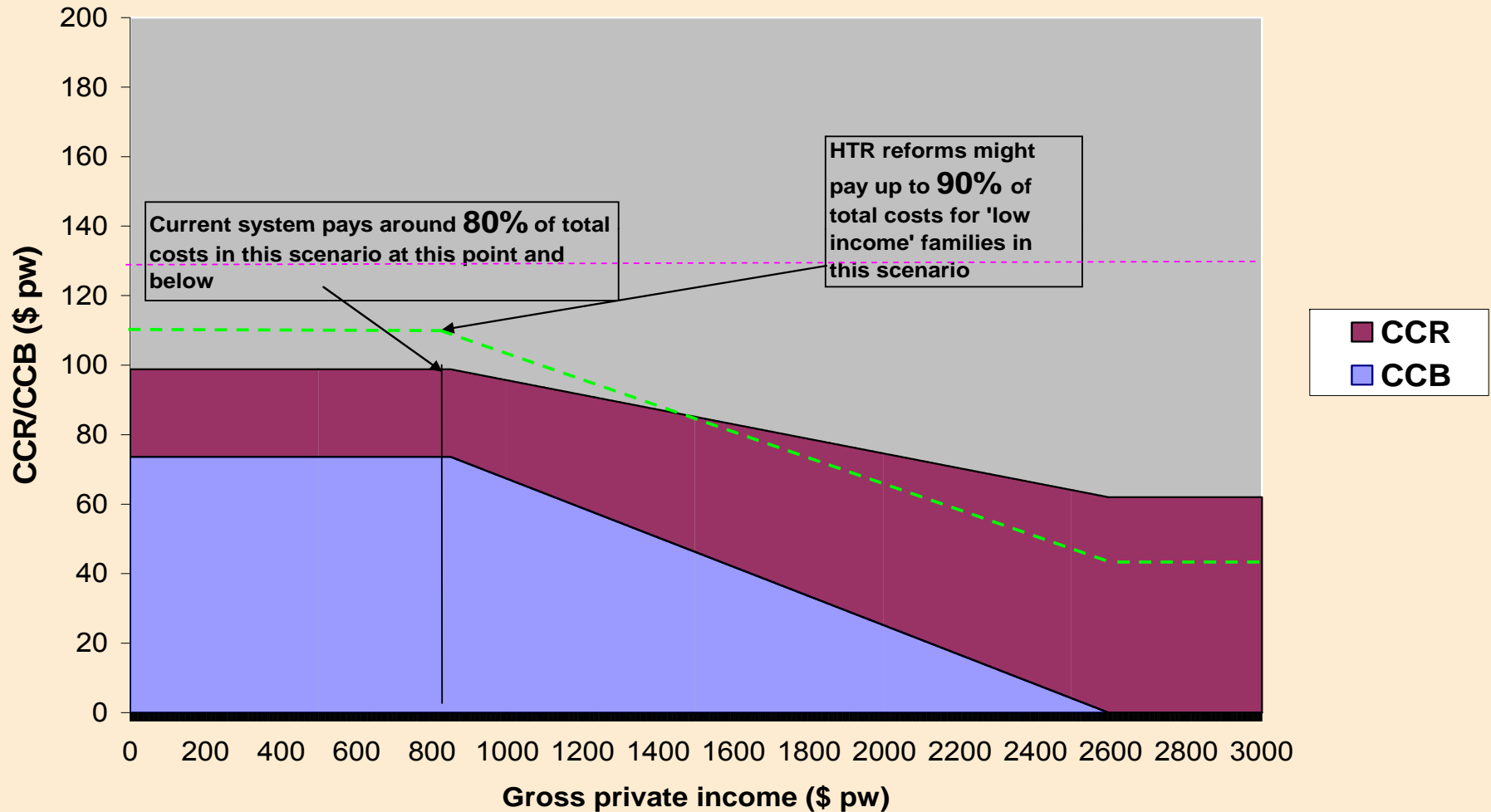


Illustration: couple family, one child (aged 2), 20 hours childcare per week at \$6.20 per hour (\$124 per week) – modelled estimates

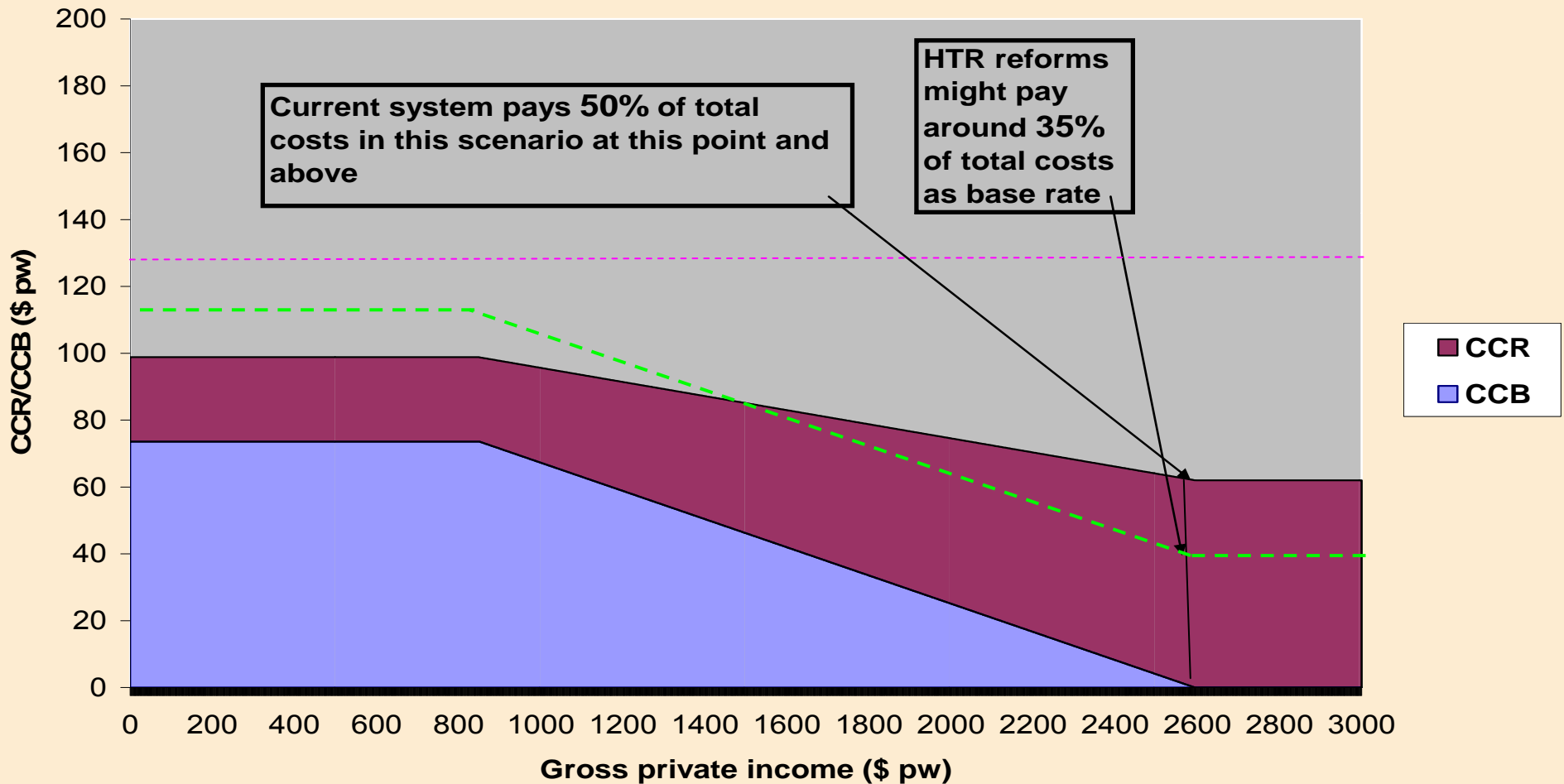
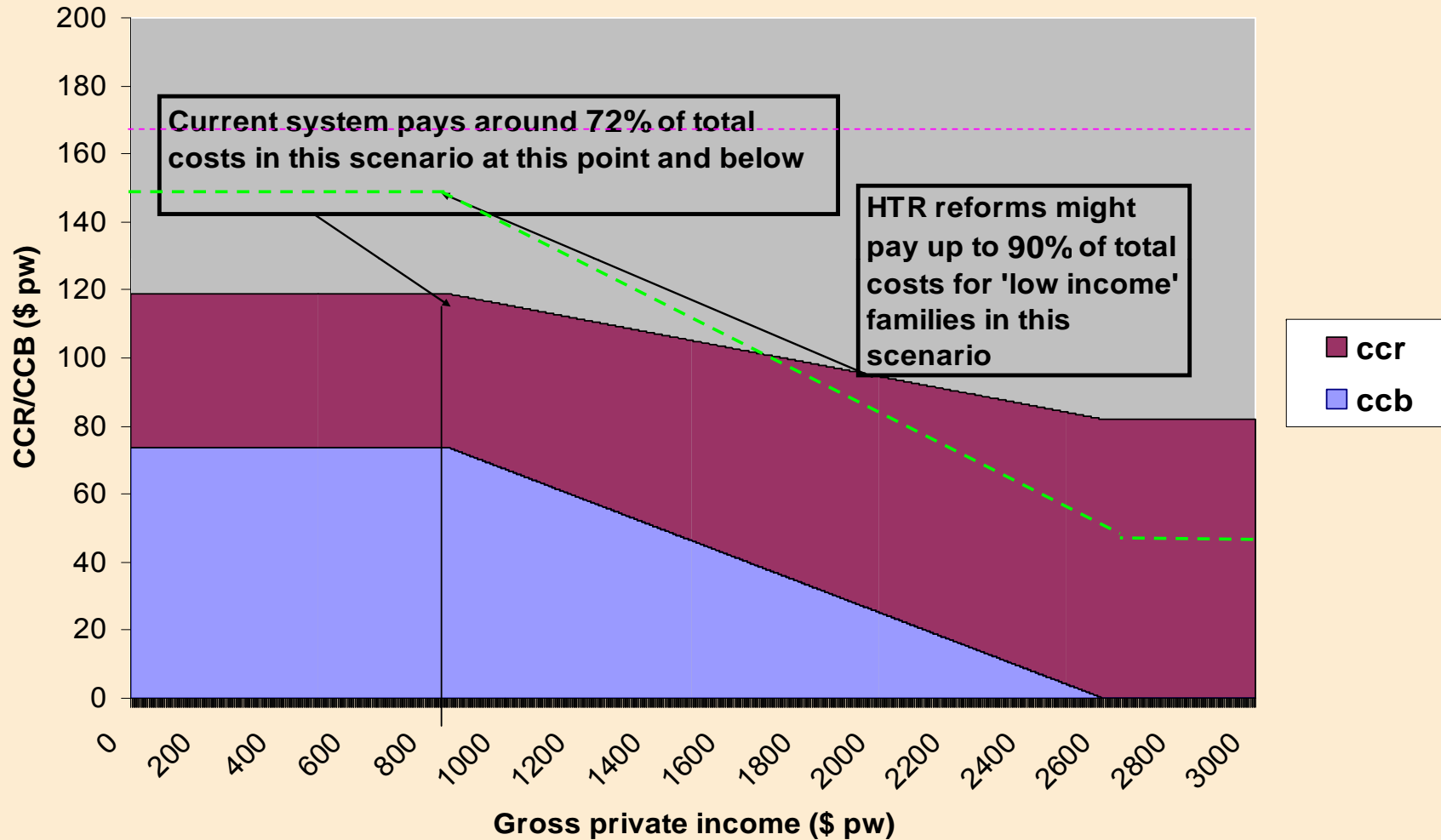


Illustration: one-parent family, one child (aged 2), 20 hours childcare per week at **\$8.20** per hour (\$164 per week) – modelled estimates

	CCB/CCR		HCCB		difference
	\$	%cost	\$	%cost	\$
Childcare support at different levels of private income:					
<\$849pw (maximum support)	\$ 118.80	(72%)	\$147.60	(90%)	+28.80
\$1,500pw	\$ 105.08	(64%)	\$114.03	(70%)	+8.95
>\$2,594pw (minimum support)	\$ 82.00	(50%)	\$ 57.45	(35%)	-24.55
withdrawal taper %	2.11%		5.17%		

Modelled estimates using hypothetical families in static incomes model STINMOD at NATSEM

Illustration: one-parent family, one child (aged 2), 20 hours childcare per week at \$8.20 per hour (\$164 pw) – modelled estimates



Issues with current CCB/CCR systems

- Unusually complex and non-transparent
- Entitlements unclear to parents (indeed, to us!)
 - income means test for CCB is complicated
 - rate of CCR depends on CCB entitlement
- Combined eligibility rules for CCB and CCR contribute to overall complexity of transfer payments system
- Result:
 - 1) likely high administrative costs
 - 2) employment incentives from CCB/CCR obscured
- Opportunity to engage with HTR proposals on childcare support to simplify system and improve its efficiency

Examples of the many remaining questions before impact on women can be definitively assessed

Balance of universal vs targeted

- At what level of income would maximum subsidy start to be phased out?
- If some women with higher family incomes were to get less under proposed system, how much less, how many women, and what might be effects on labour force participation

Special provisions for at risk children

- How would this be defined
- How would this support be joined up with other services

What might changed arrangements for child care assistance for those who do not meet the work-study test mean for women not (or not always) in paid work?

References

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Gong, X, Breunig, R. and King, A. 2010, How responsive is female labour supply to child care costs – new Australian estimates. Treasury Working Paper 2010-03, April 2010.



www.natsem.canberra.edu.au