

## Family Incomes - Impact of Federal Income Support Measures

### Major Findings:

1. On 1993 figures, Australia is among the least generous to middle-income families in the OECD - 18th (out of 24).
2. The Australian tax/benefit system yields significant benefits to low income families with children and to low and middle income families with children in childcare.
3. Children of other middle and high income families are treated as having little effect on their parents' capacity to pay tax.

Governments in Australia support families directly through cash benefits as well as indirectly by providing or subsidising social services such as education and health care; this note addresses the former. The Commonwealth provides the following cash benefits to families:

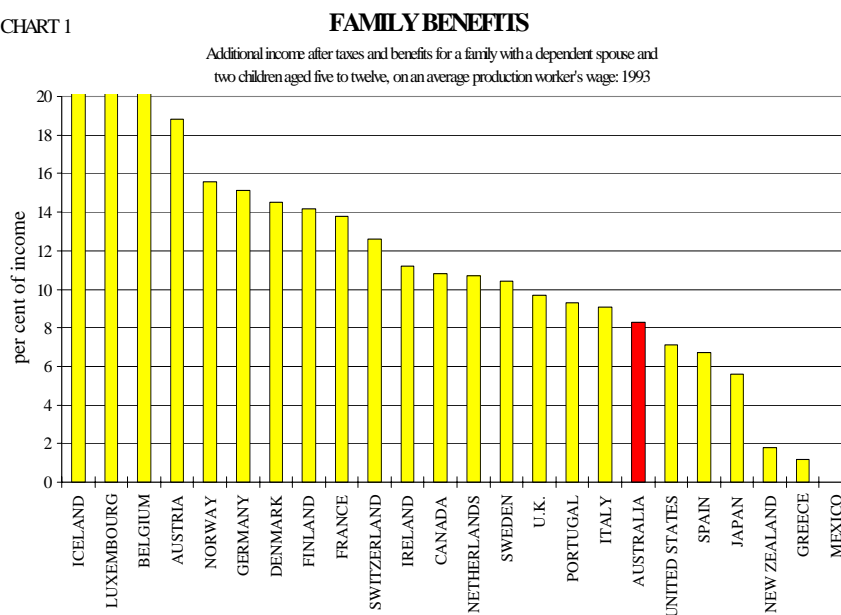
- Basic Family Payment, Additional Family Payment, Home Childcare Allowance (all delivered by the Department of Social Security);
- Childcare Assistance (Department of Human Services and Health);
- Childcare Cash Rebate (Health Insurance Commission);
- Dependent Spouse Rebate and reduced Medicare levy for low income families (both through the tax system).

### International Comparison

The OECD shows taxes and benefits of a person earning the average production worker's income, as either a single taxpayer or with a family (dependent spouse and two children aged between five and twelve)<sup>1</sup>. Chart 1 shows total family benefits, derived as the difference in net taxes paid by single people and families.

There was considerable variation in assistance for families, with Australia 18th highest of the 24 countries (or 7th lowest). The

CHART 1



highest tended to be wealthier European countries. Countries with lower benefits than Australia included US, Japan and several poorer countries. (Given difficulties in comparability, small differences should not be emphasised.) There was also variation in the forms of assistance and the proportions for dependent spouses and children<sup>2</sup>.

### Assistance to Different Family Types

Charts 2 to 4 show the extra assistance given to different kinds of Australian families compared to single taxpayers on the same income<sup>3</sup>.

For single income families, dependent spouse benefits do not vary with income. Poorer families, especially with three or more children gain substantially from

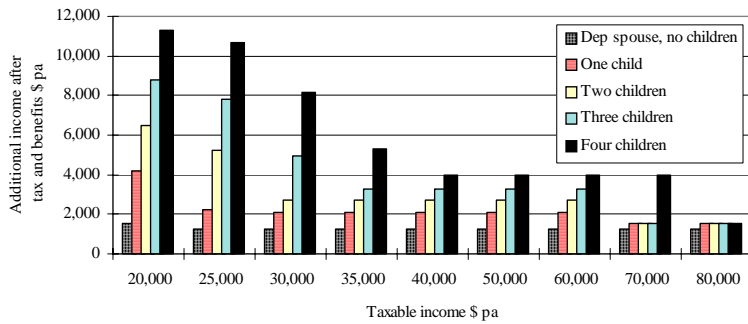
the Additional Family Payment, which began under another name in 1987. Its means test causes very high effective marginal tax rates at lower middle incomes (peaking at 50% Additional Family Payment phase-out + 34% tax + 20% Medicare levy phase-in). At average earnings (\$30,000-\$35,000), only Basic Family Payment is received, unless the family is very large. High incomes get only the Dependent Spouse Rebate.

**Two income families** are eligible for the Basic Family Payment where the incomes average around average weekly earnings or less. Few two income families qualify for the Additional Family Payment. Substantial benefits are paid for childcare and are the only benefits for higher income

CHART 2

**SINGLE INCOME FAMILY**

Income after taxes and benefits compared to single taxpayer on same taxable income, without outside childcare: 1994-95



benefits paid to lower incomes (eg a low income family with four children gets around \$10,000 extra, while high income ones are treated the same as single taxpayers).

Sometimes derided as “middle class welfare” and for people who “don’t need it,” tax concessions or benefits for families can also be seen as recognition of differences in **capacity to pay**. For example, taxpayers on \$80,000 pa with four children do not *need* assistance, but their capacity to pay tax is still less than equivalent single taxpayers<sup>4</sup>. Alternatively, if children are regarded as just another form of consumption, like cars or pets, then parents have the same capacity to pay as childless people .

CHART 3

**TWO INCOME FAMILY WITH CHILDCARE**

Income after taxes and benefits compared to single taxpayer on same taxable income, two parents earn equal income, third and fourth children not in childcare: 1994-95

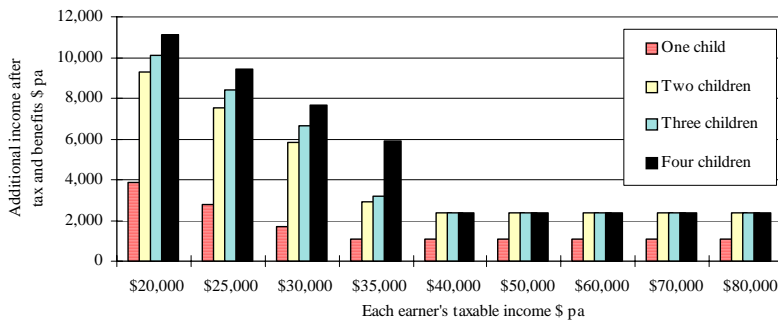
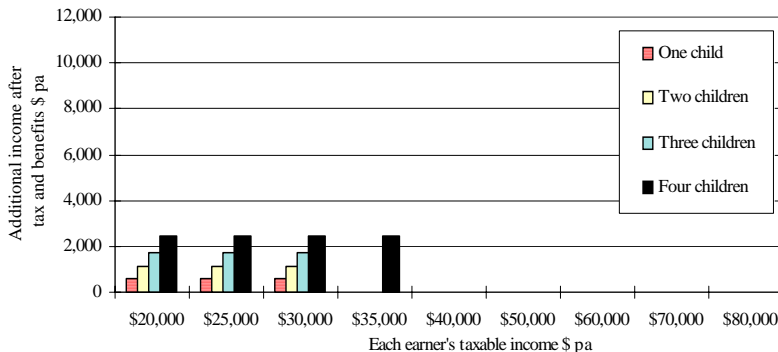


CHART 4

**TWO INCOME FAMILY WITHOUT CHILDCARE**

Income after taxes and benefits compared to single taxpayer on same taxable income, two parents earn equal income, without outside childcare: 1994-95



families. These are concentrated on families with children below school age. Other middle to

higher income earners receive few benefits, much less than the child rearing costs implicit in the

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1 OECD, *The Tax/Benefit Position of Production Workers: Annual Report 1990-93*, Paris, 1994.  
 2 While not comprehensive, the OECD makes a reasonable attempt to use internationally consistent definitions. A narrower survey with different categories of taxpayers, showed Australian tax as having family tax concessions below USA and Japan (*Australian Financial Review*, February 7, 1995, pp 1,10-11).  
 3 Examples assume: any dependent spouse earns under \$10.85 per fortnight; any children are aged under 13 (Additional Family Payment is higher aged 13-15); in two income families, both spouses earn the same; family lives in owner-occupied or public housing; and childcare costs at least \$110 pw per child. Estimates cover 1994-95, so new childcare benefits have effect for nine months. Other examples are possible, but beyond the capacity of this note.  
 4 In the jargon, “horizontal equity” for families with children.