



## Family Assistance Legislation Amendment (Adjustment of Certain FTB Child Rates) Bill 2004

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## **Family Assistance Legislation Amendment (Adjustment of Certain FTB Child Rates) Bill 2004**

**Date Introduced:** 18 November 2004

**House:** House of Representatives

**Portfolio:** Family and Community Services

**Commencement:** 1 July 2004

### **Purpose**

To adjust the indexation provisions of the *Family Assistance Act 1999* so that changes made by the *Family Assistance Legislation Amendment (More Help for Families – Increased Payments) Act 2004* to the calculation of benchmarks for Family Tax Benefit part A will be reversed.

### **Background**

Soon after the 2004 Budget was delivered, two family assistance bills were passed by the Parliament. They contained a package of family assistance measures that came into force in June and July 2004.

The *Family Assistance Legislation Amendment (More Help for Families – Increased Payments) Act 2004* included the introduction from the 2003-04 income year of an additional \$600 lump sum component of Family Tax Benefit part A (FTBA). FTB is usually paid fortnightly on the basis of an income estimate made by each family at the beginning of the financial year. The new lump sum is paid at the end of the financial year when the actual entitlement of each family is calculated based on the family's actual taxable income. This process is called reconciliation and often produces debts or top up payments for families. The new lump sum will in many cases be sufficient to offset any debt accrued during the course of the previous year as a result of underestimation of family actual income. The lump sum payment is indexed to movements in the CPI in July each year.

After the passage of the bill concerns were raised in Senate Estimates about the effect of apparently minor adjustments to the indexation provisions for FTBA.<sup>1</sup> The concerns centred on the proposition that existing adequacy benchmarks for the rate of FTBA had been compromised by the amendment and that as a result the value of the \$600 rate increase would be eroded over the next five to seven years. These benchmarks had been introduced under the last Labor Government and carried over into the new *Family Assistance Act* in 1999. They ensured that the maximum rates of FTBA for children aged 0 – 12 years and 13 – 15 years would be at least 16.6% and 21.6% respectively of the combined partnered pension rate (CPC).

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These benchmarks have not been influencing FTBA rates recently because the rate rises that occurred with the establishment of FTBA in 2000 ensured that rates have been well above those benchmarks. However the linking of pension rates to movements in Male Total Average Weekly Earnings (MTAWE) in 1997 has meant that the benchmarks will eventually catch up with the CPI indexed FTBA rates. This will occur because MTAWE has been increasing at a much higher rate than the CPI and is likely to continue to do so for some years to come. From December 1995 to December 2003, the CPI increased by 20.5 per cent, while the AWE (full-time adult) increased by 42 per cent.<sup>2</sup>

The May 2004 changes altered the formulas used to calculate the benchmarks. 16.6% or 21.6% of the annualised combined partnered pension rate (CPC) was still calculated, but then the result of that calculation was reduced by the \$600 FTB supplement. These new formulas therefore resulted in lower benchmarks. These lower benchmarks would still increase in line with movements in MTAWE, but would have taken longer to rise to match the CPI indexed FTBA rate. It would only be at that time that the benchmarks started to influence the rate of FTBA. So the new benchmarks would eventually produce lower rates of FTBA than the original benchmarks. Hence the claim that the effective value of the \$600 supplement would be eroded over time by this change to indexation arrangements.

This concern was pursued by then Shadow Minister for Family and Community Services Wayne Swan MP and the Australian Council of Social Services (ACOSS) over the following months.<sup>3</sup> Minister for Family and Community Services Senator the Hon. Kay Patterson responded initially by guaranteeing that the real value of the \$600 increase would be maintained and later undertook to amend the legislation to 'correct the legislation passed after the Budget, which unintentionally delayed the year in which the existing safety net benchmark provisions would have come into effect'.<sup>4</sup> The Minister maintained that the claims made about the new payment being eroded were wrong.

On the eve of the introduction of this Bill to the Parliament Minister Patterson further stated in a press release that:

"I am also pleased to deliver on the commitment I made earlier in the year to introduce legislation to correct the legislation passed after the Budget, which unintentionally delayed the year in which the existing safety net benchmark provisions would have come into effect. Despite Labor's scaremongering this legislation is being introduced before it is due to have any impact. This amendment will ensure that there is no delay in the benefits of high growth in real wages delivered by the Howard Government being passed onto families in the form of higher FTB payments".<sup>5</sup>

This bill reverses the May changes to the benchmarks. The impact of these changes on the rate of FTBA can be gauged by examining the financial cost associated with them. It is estimated that there will be no cost until 2006-07 (\$1.4m) and 2007-08 (\$24.5m). The full cost for the years after that can only increase if recent trends in movements in MTAWE and the CPI continue.

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## Main Provisions

**Items 1 and 2 of Schedule 1** repeal the new benchmark formulas in subclauses 7(1) and 7(3) of Schedule 4 of the *Family Assistance Act 1999*, introduced by the *Family Assistance Legislation Amendment (More Help for Families – Increased Payments) Act 2004*. They also substitute the formulas that were in the Act before the new formulas were inserted.

**Item 3 of Schedule 1** repeals a redundant subclause that referred to the FTB supplement. That supplement no longer figures in the benchmark formulas.

**Item 4 of Schedule 1** ensures that the new formulas will apply for the 2003-04 income year and later income years.

## Endnotes

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- 1 Community Affairs Legislation Committee, Budget Estimates, Senate, *Debates*, 4 June 2004, pp. 28-44.
- 2 See ABS catalogue No. 6401.0 for CPI movements and ABS catalogue No. 6302.0 for AWE movements.
- 3 W. Swan (Shadow Minister for Family and Community Services), *Coalition caught out on budget family benefit clawback*, media release, 6 June 2004.  
W. Swan (Shadow Minister for Family and Community Services), *Larry misleads parliament over family benefit clawback*, media release, 15 June 2004  
McCallum A. *Warning: \$600 increase could make family payments lower later*, media release, 21 June 2004
- 4 K. Patterson (Minister for Family and Community Services), *Howard Government guarantees the real value of the new \$600 per child family payment to be maintained over time*, media release, 6 June 2004.  
K. Patterson (Minister for Family and Community Services), *Value of Family Tax Benefit will be maintained*, media release, 4 August 2004.
- 5 K. Patterson (Minister for Family and Community Services), *New legislation to deliver on Howard Government election commitments*, media release, 17 November 2004.

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