



Family Assistance Legislation Amendment (Child Care Rebate) Bill 2011

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Family Assistance Legislation Amendment (Child Care Rebate) Bill 2011

Date introduced: 23 February 2011

House: House of Representatives

Portfolio: Employment Participation and Childcare

Commencement: See the detailed table in clause 2 of the Bill. Weekly payments of the Child Care Rebate are to commence on 1 July 2011.

Links: The links to [the Bill, its Explanatory Memorandum and second reading speech](#) can be found on the Bills home page, or through <http://www.aph.gov.au/bills/>. When Bills have been passed they can be found at the ComLaw website, which is at <http://www.comlaw.gov.au/>.

Purpose

- To provide for weekly or fortnightly payments of the Child Care Rebate (CCR) in addition to the quarterly and annual options presently available.
- To provide for payments to be made either directly to families or to child care services.

Background

Child Care Tax Rebate (CCTR)

The original model

During the 2004 election campaign, the then Howard Government announced that it would introduce a 30 per cent Child Care Tax Rebate (CCTR) for out-of-pocket child care costs. The CCTR was designed to complement the already existing Child Care Benefit (CCB), which was the main form of child care fee assistance. The CCTR was available to those in receipt of the CCB who used approved child care and who met the CCB work/study/training test.

Families were able to claim 30 per cent of their out-of-pocket costs (that is, costs in excess of CCB payments received) for approved child care up to a maximum of \$4000 per child per annum. This amount was increased annually in line with movements in the Consumer Price Index. Originally, out-of-pocket child care costs could be claimed at the end of the financial year after the costs were incurred. Consequently, costs during the first year of operation from 1 July 2004 for the 2004-05 year could not be claimed until the 2005-06 tax year. This delay was due to the need to establish out of pocket costs, after entitlement to CCB for each financial year had been finalised. This happens in the October after the end of each financial year.

The other problem with the CCTR was that it was a non-refundable tax offset. It could only reduce a person's tax liability to zero. Once a person's basic income tax liability had been reduced to nil, the

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taxpayer could not receive the excess as a refund. However, the remaining rebate could be transferred to the taxpayer's spouse. Likewise, where the child care user did not have enough income to have a tax liability, they did not benefit from a tax rebate.

The 2007 improvements

The 18-month to two-year delay between incurring costs and receiving the rebate was an obvious problem and was addressed in the 2007-08 Budget. The Howard Government changed the CCTR into a direct payment administered by Centrelink. It became a tax rebate in name only and was paid at the end of the year in which the costs were incurred after the correct entitlement to CCB had been established. In 2007 claimants received two years worth of CCTR in one payment shortly before the 2007 election.

This change also meant that the CCTR could now be paid in full, regardless of the tax liability of the claimant.

2007 Election Commitments and reform since then

The ALP included an increased rebate level and maximum payments in their 2007 election policy.

Recognising the delivery problems of the CCTR as originally implemented, both sides of politics offered enhancements to the delivery of CCTR in the 2007 election campaign. The ALP promised to implement quarterly payments, with this added promise:

New information systems enable out of pocket costs to be calculated faster and in office, a Rudd Labor Government will fast track the introduction of the new Child Care Management System with the goal of paying the 50 per cent rebate every fortnight.¹

The Coalition policy promised that:

From April 2008, a re-elected Coalition Government will pay the 30 per cent Child Care Tax Rebate directly to child care services so that they can pass on this benefit to parents immediately, when they need it most. This will have the effect of cutting by 30 per cent the amount parents have to pay upfront to their child care service each week.²

The Rudd Government increased the rebate to 50 per cent, increased the maximum payment to \$7500 and introduced quarterly payments in 2008. They also changed the name of CCTR to Child Care Rebate (CCR). The Child Care Management System which allows transmission of child care

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1. The Australian Labor Party, *Labor's affordable child care plan*, Policy Document, Election 2007, Canberra, 22 October 2007, pp. 6–7, viewed 1 March 2011, http://parlinfo/parlInfo/download/library/partypol/1SPO6/upload_binary/1spo64.pdf;fileType=application/pdf#search=%22child%20care%22
 2. The Liberal Party, *Better child care for families*, Policy Document, Election 2007, November 2007, viewed 1 March 2011, http://parlinfo/parlInfo/download/library/partypol/6LWO6/upload_binary/6lwo62.pdf;fileType=application/pdf#search=%22child%20care%22

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usage information between child care services and Centrelink was in use by all child care services by the end of June 2009.

On 9 July 2010, the Gillard Government announced that fortnightly payment of the CCR would be introduced from July 2011³. The Coalition called for a move to weekly payments of CCR in their 2010 election policy.⁴

The move to weekly or fortnightly payment of CCR has been made possible by the introduction of the Child Care Management System over the period July 2007 to June 2009. Payments close to the time that child care service providers charge fees is clearly an improvement for families over the present and past arrangements which have required families to pay fees and then wait months for the rebate.

The Bill will also allow payment of the rebate directly to services so that families can just receive a bill for the part of their fees that are not covered by CCB or CCR.

Financial implications

According to the Explanatory Memorandum, the cost over the five years 2010-11 to 2014-15 is estimated to be \$42.5 million.⁵

Key provisions

Schedule 1

Amendment of the *A New Tax System (Family Assistance) Act 1999*

Items 1 to 8 of Schedule 1 amend the *A New Tax System (Family Assistance) Act 1999* to include eligibility for weekly payments of CCR and provide a method to calculate the CCR amount for a week.

Item 3 includes provision for 15 per cent of the CCR entitlement to be withheld until after the end of the income year in order to minimise any debt due to changes of income during the income year.

Amendment of the *A New Tax System (Family Assistance) (Administration) Act 1999*

Item 13 inserts new Subdivisions AAA and AAB into Division 4AA of Part 3 of the *A New Tax System (Family Assistance) (Administration) Act 1999*. They provide for claimants for CCR to elect to have their CCR paid in a particular way and also provide for weekly payments of CCR. At present families claiming the CCR can choose between annual and quarterly payments that are paid directly to them. These payments are partial refunds of fees paid to a child care service. This bill expands that choice

3. Explanatory Memorandum, Family Assistance Legislation Amendment (Child Care Rebate) Bill 2011, p. 4.

4. The Liberal Party, *The Coalition's plan for real action on child care*, 1 January 2010, viewed 1 March 2011, http://parlinfo.parlinfo/download/library/partypol/DRFX6/upload_binary/drxf60.pdf;fileType=application/pdf#search=%22child%20care%22

5. Explanatory Memorandum, Family Assistance Legislation Amendment (Child Care Rebate) Bill 2011, p. 3.

in two ways. The choice of timing of payments is increased to include weekly and fortnightly payments. A new choice of payment method is provided as well. The option to have payments delivered as fee reductions where the payments are made to the child care service rather than to the family is made available in addition to the present method of direct payment to families who have already paid fees.

Item 62 inserts a **new section 219EB** imposing on an approved child care service, an obligation to provide additional information in section 219E statements. These statements set out the amounts of CCB and CCR that a service is passing on to child care users as fee reductions. Penalties are imposed for a failure to meet these obligations.

Item 71 inserts **new sections 219QC, 219QD and 219QE** which provide for weekly payments of CCR to approved child care services.

Schedules 2 and 3

Schedules 2 and 3 contain amendments of a technical nature. The reader is referred to the Explanatory Memorandum for an explanation.

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