



The new Child Care Tax Rebate

Background

During the 2004 election campaign the Howard Government announced, in its statement [Extra Assistance for Families](#), that it would introduce a 30 per cent Child Care Tax Rebate (CCTR) for out-of-pocket child care costs. The CCTR will complement the already existing Child Care Benefit (CCB) which is the Commonwealth's main form of child care subsidy. The CCB provides fee relief to parents who have their children in approved or registered child care. Families, if eligible, can claim up to 50 hours of CCB per week, per child.

The legislation that will enable the introduction of the CCTR was introduced in to the Federal Parliament in late June this year. Further details were given in the Treasurer's press release of 20 December 2004.¹

The Child Care Tax Rebate (CCTR)

It is envisaged that the CCTR will only be available to families who are:

- in receipt of the CCB
- use approved child care, and
- who meet the CCB work/study/training test (or are otherwise eligible for up to 50 hours of CCB per week).

The essence of the CCTR is that families will be 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 will be indexed on an annual basis in line with movements in the Consumer Price Index. Out-of-pocket child care costs from 1 July 2004 will be able to be claimed in 2005–06 taxation returns.

The CCTR is a non-refundable tax offset that can only reduce a person's tax liability to zero. Once a person's basic income tax liability has been reduced to nil, the tax payer cannot receive the excess as a refund. The rebate is transferable, so that any excess may be transferred to the taxpayer's spouse.

When the CCTR was originally announced in September 2004 there was no limit on the amount that could be claimed per child. The Treasurer's 20 December 2004 press release² announced the introduction of the \$4000

limit and also changed the starting date for claims for the CCTR from 1 January 2005 to 1 July 2004.

It is estimated that the CCTR will cost \$915 million over the first four years of its operation.³ By contrast, outlays on the CCB are estimated to exceed \$1.6 billion in 2005–06 alone.⁴

While the announcement of the CCTR has been welcomed in terms of the provision of significant additional funding to the child care sector, there have been a number of adverse comments made about the way in which it will operate. Some of these concerns are briefly outlined and discussed below.

Higher income families benefit the most

There have been suggestions that it is unfair because families on higher incomes will receive the highest levels of rebate. This is true and the table below clearly shows this. However, it should be noted that the CCTR operates in tandem with the CCB (you must be receiving the CCB to get the CCTR) and because lower income families get the most CCB (see table below) it necessarily follows that the families with the largest out of pocket expenses will be those on higher incomes.

Delay in payment

There has been criticism about the delay in getting the Rebate. No families will receive any benefit from the CCTR until they complete their 2005–06 taxation returns, even though it applies to out-of-pocket child care costs incurred from 1 July 2004. This will mean that some families will no longer have children in child care when they finally receive their rebate. Perhaps a different method could have been used to deliver the extra subsidy to families. For example if the subsidy was based on estimated out-of-pocket expenses and not delivered through the tax system, then such a delay may be avoided. By using the tax system for the CCTR and the need for a finalised reconciliation between CCB received and out of pocket expenses, a prolonged delay will occur before any CCTR is paid. However, the problems experienced by the Government in recent years with underpayment and overpayment of various family benefits, (essentially due to many families either over estimating or underestimating their yearly incomes) has probably led to a more cautious approach being taken with the CCTR.

Combined impact of CCB and CCTR at differing family income levels*

Family adjusted taxable income ^o	CCB received (per week)	Out of pocket amount	CCTR Received (per week equivalent)	Combined CCB and CCTR received (per week equivalent)	% of child care costs covered by CCB and CCTR
\$	\$	\$	\$	\$	
30 000	144.00	56.00	16.80	160.80	80.4
50 000	112.00	88.00	26.40	138.40	69.2
70 000	73.54	126.46	37.94	111.48	55.7
100 000	24.15	175.85	52.76	76.91	38.5

*Calculations assume 1 child in Long Day Care costing \$200 per week. CCB rates are as at 1 July 2005.

^o For CCB purposes family income adjusted for various factors including fringe benefits, value of rental property losses or gains etc.

Fee increases?

There is the possibility that child care fees may rise and that much of the extra support available from the CCTR will be soaked up by these higher fees. This is most likely to occur in areas where there is a high demand for child care places. Child care fees have been growing rapidly in recent years (estimated to be at double the inflation rate between 2002 and 2004)⁵ and with demand for places exceeding supply in many parts of Australia, this rate of fee increase may be exacerbated by the CCTR.

Supply concerns?

It has been suggested that the CCTR will do little to increase the number of child care places available. It is difficult to know whether in fact this will be the case. Indeed, it is possible that there may be some incentive effect created by the CCTR. If there is more Commonwealth support available because of the CCTR, this may have the effect of encouraging new operators into the sector.

Examples of how the CCB and the CCTR will impact on families with differing incomes

The table above shows the rates of the CCB and the CCTR for families on taxable incomes of \$30 000 per annum, \$50 000 per annum, \$70 000 per annum and, \$100 000 per annum. The calculations in the table assume that the families at each income level have one child under 5 years of age in full time long day care (50 hours per week) and that the weekly child care fee is \$200.⁶ The calculations would change if the weekly fee was higher or lower than \$200 per week, and also if more than one child is receiving care.

The table shows that, families on \$30 000 per year would see 80.4 per cent of their long day care costs covered by CCB and CCTR. By contrast, higher income families would receive a lesser percentage of their child care costs covered by government support—69.2 per cent for families on \$50 000 per year, 55.7 per cent for families on \$70 000 per year and 38.5 per cent for families on \$100 000 per year.

However, it should be noted that as the cost of childcare increases, the CCTR will become more advantageous (in percentage terms) to higher income families. This is because the out-of-pocket costs will become a greater proportion of the overall cost of childcare.

1. The Hon. Peter Costello MP (Treasurer), [New early start date for child care rebate](#), media release, Parliament House, Canberra, 20 December 2004.
2. *ibid.*
3. Explanatory Memorandum, [Tax Laws Amendment \(2005 Measures No. 4\) Bill 2005](#).
4. Department of Family and Community Services, [Portfolio Budget Statements 2005-06](#), p. 165.
5. [Australian](#), 'Childcare costs growing at double the inflation rate' 1 July 2005.
6. The 2004 Australian Government Census of Childcare Services found the average long day care fees in 2004 were approximately \$210 per week.

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