



Net Family Tax Benefit 2004–05 to 2006–07

Recently there has been some interest in the Net Family Tax Benefit received by families at certain levels of income.¹ This interest has, in part, been sparked by recent comments by the Treasurer about the possible policy concerns that may have to be addressed in the 2006–07 Federal Budget.² Further, there has been some concern that the current system for the payment of Family Tax Benefit is already generous, and may not warrant further changes to increase benefits paid.³ This point appears to have been acknowledged by the Treasurer.⁴

This Research Note seeks to provide additional background on these matters by illustrating the overall position of a particular family type after tax has been paid and some government benefits have been received.

Net Family Tax Benefit

Net Family Tax Benefit (NFTB) is the overall position of a family once the amount of tax and Medicare Levy has been offset by the amount of Family Tax Benefit (FTB),⁵ Child Care Benefit (CCB)⁶ and, if appropriate, Rent Assistance (RA),⁷ has been taken into account. The Net Family Tax Benefit can be positive or negative. A positive NFTB is where the amount of benefits received exceeds the amount of tax paid. A negative NFTB is where the amount of tax paid exceeds the benefits received.

Basis of calculations

Family type

The following tables show the net family tax benefit for the following family type:

- a couple, with one wage earner, the other partner living at home
- two children, one aged 5 the other aged 8
- the family claim 20 hours a week child care, and
- in one set of tables the family are assumed to be homeowners. In the other table the family is assumed to be in rental accommodation, and receiving rent assistance at the maximum possible rate.

Modelling was undertaken for a single income earner to illustrate the impact of changes in rates of FTB, tax and CCB on a family type that qualifies for the full range of these benefits.

Benefits received

This family claims the FTB A & B, as well as CCB and where appropriate RA. The rate of FTB received includes the FTB lump sums payable in various years.

The family on the lowest wage level in these calculations (\$25 200 p.a.) is also entitled to parenting payment (PP). However, families on the other wage levels for which these calculations were undertaken are not eligible for PP.

To preserve a constant basis for comparison across all wage levels, these calculations have not included PP in the benefits received for the family on the lowest yearly income.

Wages received

In the following tables the wages for the family are as follows:

- \$25 200 p.a. (current minimum wage)
- \$30 000 p.a., \$40 000 p.a., \$45 000 p.a., \$50 000 p.a.
- \$53 144 (average weekly ordinary time earnings for August 2005), and
- \$55 000 p.a. and \$60 000 p.a.

In addition, the breakeven point for net family tax benefit has calculated for each year. The breakeven point is where the amount of benefits received roughly equals the amount of tax paid. The figures in bold note the calculated breakeven point in each year.

These yearly wage levels have not been discounted back in each year, as this enables a comparison of net tax benefits at these wage levels across all years for which calculations have been done.

Calculation method

These calculations were undertaken by the STINMOD 04A package, from the National Centre for Economic and Social Modelling at the University of Canberra. The assumptions and calculations underlying the simulation results were prepared by the author and the responsibility for the use and interpretation of these data is entirely that of the author.

Limitations on results

The following tables show the net family tax benefit from the 2003–04 to the 2006–07 financial years. The figures from 2005–06 years onwards are only estimates due to:

- the exact family Medicare Levy thresholds are not known until after the close of the financial year in question. The estimates for these years uses the current thresholds
- likewise, the extent of the low income earners rebate is unknown for these years, as the rate of this tax offset and the income levels at which it begins to apply are also not known until after the close of the relevant financial year,
- further, the exact FTB rates and income test thresholds are also not known until after the end of the relevant financial year. The STINMOD package estimate these rates based on assumptions about inflation and wages growth

- the 30 per cent tax offset for 'out of pocket' child care expenses has also not been included, as these expenses will be different for each particular family and are not accurately known until after the close of the financial year, and
- social security payments for the 2005–06 and 2006–07 years are estimated based on assumed rates of growth in AWOTE and the CPI.

Further, estimates of the breakeven point, at which this particular family do not have a net tax benefit (i.e. their net tax benefit is \$0) are within a \$4 range of accuracy, due to the difficulty of exactly calculating the family income at which this effect occurs. This point is often called the net tax threshold.⁸

Interpreting the tables

As noted above, in the following tables a positive figure notes the amount by which the benefits received exceed the tax paid. A negative figure notes the amount by which the tax paid exceeds the benefits received. A negative figure can be taken as the effective amount of tax paid after the receipt of these benefits have been taken into account.

Home owners

The following tables give the net tax benefits for a family from 2004–05 to 2006–07.

Table 1: Home owner net family tax benefit 2006–07

Annual Salary \$	Tax Liability \$	Medicare \$	Low Income Rebate \$	Net Tax \$	Family Tax Benefit \$	Child Care \$	NFTB \$
25 200	3 420	0	91	3 329	11 980	5 552	14 203
30 000	4 860	0	0	4 860	11 980	5 552	12 672
35 000	6 360	525	0	6 885	11 980	5 552	10 647
40 000	7 860	600	0	8 460	11 483	5 236	8 259
45 000	9 360	675	0	10 035	10 484	4 976	5 426
50 000	10 860	750	0	11 610	9 475	4 713	2 579
53 144	11 803	797	0	12 600	8 140	4 551	91
53 300	11 850	800	0	12 649	8 109	4 543	0
55 000	12 360	825	0	13 185	8 477	4 453	-254
60 000	13 860	900	0	14 760	7 479	4 193	-3 088

Source: Parliamentary Library and STINMOD

Table 2: Home owner net family tax benefit 2005–06

Annual Salary \$	Tax Liability \$	Medicare \$	Low Income Rebate \$	Net Tax \$	Family Tax Benefit \$	Child Care \$	NFTB \$
25 200	3 420	0	91	3 329	11 775	6 087	14 534
30 000	4 860	0	0	4 860	11 775	6 087	13 003
35 000	6 360	525	0	6 885	11 447	5 935	10 499
40 000	7 860	600	0	8 460	10 447	5 528	7 516
45 000	9 360	675	0	10 035	9 447	5 120	4 533
50 000	10 860	750	0	11 610	8 447	4 712	1 550
52 225	11 527	783	0	12 310	7 883	4 424	0
55 000	12 360	825	0	13 185	7 327	4 280.12	-1 577
60 000	13 860	900	0	14 760	6 928	3 896.81	-3 935

Source: Parliamentary Library and STINMOD

Table 3: Home owner net family tax benefit 2004–05

Annual Salary \$	Tax Liability \$	Medicare \$	Low Income Rebate \$	Net Tax \$	Family Tax Benefit \$	Child Care \$	NFTB \$
25 200	3 732	0	91	3 641	11 330	5 307	12 996
30 000	5 172	0	0	5 172	11 330	5 307	11 465
35 000	6 672	525	0	7 197	10 827	5 176	8 806
40 000	8 172	600	0	8 772	9 827	4 915	5 970
45 000	9 672	675	0	10 347	8 827	4 654	3 134
50 000	11 172	750	0	11 922	7 827	4 393	299
50 530	11 331	758	0	12 089	7 721	4 366	0
53 144	12 115	797	0	12 912	7 198	4 230	-1 484
55 000	12 672	825	0	13 497	6 827	4 133	-2 537
60 000	14 412	900	0	15 312	6 607	3 872	-4 833

Source: Parliamentary Library and STINMOD

Non-home owners

The following tables show the net tax benefit for a family in rental accommodation between 2004–05 and 2006–07. The only difference between the home-owner and non-

home owner results is that the non-home owners receive rental assistance.

Table 4: Non-home owner net family tax benefit 2006–07

Annual Salary \$	Tax Liability \$	Medicare \$	Low Income Rebate \$	Net Tax \$	Family Tax Benefit \$	Child Care \$	NFTB \$
25 200	3 420	0	91	3 329	15 070	5 552	17 293
30 000	4 860	0	0	4 860	15 070	5 552	15 762
35 000	6 360	525	0	6 885	15 070	5 552	13 737
40 000	7 860	600	0	8 460	14 572	5 236	11 349
45 000	9 360	675	0	10 035	13 574	4 976	8 516
50 000	10 860	750	0	11 610	12 565	4 713	5 669
53 144	11 803	797	0	12 600	11 230	4 551	3 181
55 000	12 360	825	0	13 185	11 567	4 453	2 836
60 000	13 860	900	0	14 760	10 568	4 193	0

Source: Parliamentary Library and STINMOD

Table 5: Non-home owner net family tax benefit 2005–06

Annual Salary \$	Tax Liability \$	Medicare \$	Low Income Rebate \$	Net Tax \$	Family Tax Benefit \$	Child Care \$	NFTB \$
25 200	3 420	0	91	3 329	14 770	6 087	17 529
30 000	4 860	0	0	4 860	14 770	6 087	15 998
35 000	6 360	525	0	6 885	14 442	5 935	13 494
40 000	7 860	600	0	8 460	13 442	5 528	10 511
45 000	9 360	675	0	10 035	12 442	5 120	7 528
50 000	10 860	750	0	11 610	11 442	4 712	4 545
53 293	11 847	799	0	12 647	10 783	4 443	2 580
55 000	12 360	825	0	13 185	10 382	4 279	1 477
57 540	13 122	863	0	13 985	9 833	4 147.52	0
60 000	13 860	900	0	14 760	9 341	4 019.60	-1 399

Source: Parliamentary Library and STINMOD

Table 6: Non-home owner net family tax benefit 2004–05

Annual Salary \$	Tax Liability \$	Medicare \$	Low Income Rebate \$	Net Tax \$	Family Tax Benefit \$	Child Care \$	NFTB \$
25 200	3 732	0	91	3 641	14 280	5 307	15 946
30 000	5 172	0	0	5 172	14 280	5 307	14 415
35 000	6 672	525	0	7 197	13 777	5 176	11 756
40 000	8 172	600	0	8 772	12 777	4 915	8 920
45 000	9 672	675	0	10 347	11 777	4 654	6 084
50 000	11 172	750	0	11 922	10 777	4 393	3 249
53 144	12 115	797	0	12 912	10 148	4 230	1 466
55 000	12 672	825	0	13 497	9 777	4 133	413
55 729	12 890	836	0	13 726	9 631	4 095	0
60 000	14 412	900	0	15 312	8 778	3 872	-2 662

Source: Parliamentary Library and STINMOD

Longer term changes

The following table shows the changes in the real breakeven point (otherwise known as the Net Tax Threshold (NTT)) for different family types. The assumed wages are expressed as a percentage of the then Average Weekly Ordinary Time Earnings (AWOTE) calculated by

the Australian Bureau of Statistics. For example, in the following table a person having an income expressed as '(100%)' means that their income is equal to AWOTE in that year. The families in this table are assumed to have two children, one aged 3 and the other 8 years. All values are in 2005–06 dollars.

Table 7: Increases in real net tax thresholds (NTT) for families 1996 to 2006-07

Family type and income	Household wages in 2006–07 \$	NTT 1996–97 \$	NTT 2006–07 \$	Per cent change
Sole parent (0%)	0	34 502	44 951	30.3
Single Income Couple (100%)	55 300	33 931	44 951	32.5

Source: Budget Paper No.1 2005–06, p. 5–16

The reasons why

There are a number of changes which may have contributed to the increase in the breakeven point or NTT, namely,

- increase in value of family payments
- increases in income tax thresholds
- the liberalisation of income tests for family payments, pensions and allowances, and

- the introduction of, and increases in, the value of several tax offsets.⁹

These factors have contributed to substantial increases in assistance to families since 1996–97. Further, the increase in real wages, and the subsequent rise in the real value of pensions, also increased the welfare of families over this period.¹⁰

1. L. Tingle, 'Trend to welfare state alarming', *Australian Financial Review*, 12 January 2006, p. 6, and E. Colman, 'Tax slug on poor singles', *Weekend Australian*, 14 January 2006, pp. 1,6, and Peter Martin, 'No tax but they're not happy, Pete', *Sydney Morning Herald*, 18 January 2006, p. 11.
2. The Hon. P. Costello, Treasurer, Doorstop Interview, Treasury Place, Melbourne, 8 January 2006.
3. E. Colman and J. Riley, 'Nats press Costello on tax reform', *Australian*, 12 January 2006, p. 1.
4. F. Anderson and S. Morris, 'Parents already getting plenty, Costello says', *Australian Financial Review*, 17 January 2006, p. 3.
5. Family Tax Benefit Part A is an annual payment to help families with the cost of raising children. A person may receive this payment if they have a dependent child under 21 (including a foster child), or have a dependent full time student aged 21 to 24, and have income under a certain amount, and are living in Australia (that is, Australia is their permanent home), and they are either an Australian citizen, a New Zealand citizen, the holder of a permanent visa or the holder of certain temporary visas. Family Tax Benefit Part B gives extra assistance to families with one main income, including sole parents, where the youngest dependent child is under 16 (or up to 18 if they are a full time student and do not receive Youth Allowance or a similar payment). It also gives extra assistance to families who have a child under the age of five.
6. Child Care Benefit is a payment for the cost of child care for long day care, family day care, occasional care, outside school hours care, vacation care and registered care.
7. Rent assistance is a payment for low income earners renting accommodation in the private rental market.
8. K. Bremner, 'Net tax thresholds for Australian Families', *Treasury Economic Round-up*, Winter 2005, Canberra, 1 September 2005, p. 41.
9. Bremner, *ibid.*, p. 40.
10. Pensions are indexed to the greater of increases in either the Consumer Price Index or the Male Total Average Weekly Earnings (MTAWE). As MATAWE has increased at a faster rate than the CPI, pensions have increased in real terms.

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