



## Families, Community Services and Indigenous Affairs Legislation Amendment (Child Care and Other 2007 Budget Measures) Bill 2007

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## Families, Community Services and Indigenous Affairs Legislation Amendment (Child Care and Other 2007 Budget Measures) Bill 2007

**Date introduced:** 31 May 2007

**House:** House of Representatives

**Portfolio:** Families, Community Services and Indigenous Affairs

**Commencement:** Sections 1 to 3 of the Act commence on Royal Assent. The amendments relating to the child care benefit and the child care tax rebate (Schedule 1) commence on 1 July 2007 whilst those relating to health care cards commence on 1 October 2007.

### Purpose

To amend laws relating to family assistance and social security to implement child care measures announced in the 2007 Budget. In essence, these changes provide for an increase of more than 13% in the rate of child care benefit (CCB) commencing on 1 July 2007 and more rapid access by families to the Child Care Tax Rebate (CCTR) by delivering rebates via the Family Assistance Office and not the taxation system as is currently the case.

The Bill will also extend the benefits of the health care card to a number of young students with disabilities or severe medical conditions.

### Background

Background to the child care and health care card measures

The Child Care Benefit (CCB)

The CCB was introduced in July 2000 and replaced Childcare Assistance and the Childcare Cash Rebate. Under the current rules, families can claim up to 50 hours per week of CCB for approved childcare if they satisfy the 'work/study test' - that is, they are either working, are looking for work, are involved with volunteer work, are studying or training - or are otherwise exempt, such as if they have a disability or if they are caring for a child that has a disability. Families are able to claim up to 24 hours per week of CCB without having to pass the work/study test. Details available here: [http://www.familyassist.gov.au/Internet/FAO/fao1.nsf/content/-work\\_study\\_test.htm](http://www.familyassist.gov.au/Internet/FAO/fao1.nsf/content/-work_study_test.htm)

There are currently about 730,000 Australian families eligible to receive the CCB.

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Families who earn less than \$34,310 a year (or families on income support) are eligible for the maximum rate of CCB which is \$148 per week for one child. This amount rises for families that have additional children in care. Part rates of CCB are paid for families with incomes higher than \$34,310 per year and there is a minimum rate of CCB (\$24.85 per child per week) for families who have incomes in excess of \$98,348 (with one child). Higher income rates apply for families with more than one child. CCB rates are indexed each July in line with rises in the Consumer Price Index (CPI). The Bill proposes a one-off 10% increase in the CCB from 1 July 2007 – this combined with the normal yearly indexation will mean a net increase of a little over 13% from the current rate. For families on the maximum rate of CCB, and claiming for 50 hours care, this equates to an extra \$20.50 per week per child. For more details on CCB rates see the Centrelink information page at [http://www.centrelink.gov.au/internet/internet.nsf/payments/childcare\\_benefit.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/childcare_benefit.htm).

In recent years the increase in child care fees has far exceeded increases in the CPI and as a consequence some families have found it increasingly difficult to afford child care. One study reported in February 2007 found that child care costs had risen by 64% over the last five years, while inflation had only risen by 14% over the same period.<sup>1</sup> No doubt the one-off 10% increase in the rate of CCB will help improve affordability, but if child care fees continue to increase at the rate they have in recent years, then much of the increase may be eaten up by increased costs of care.

### **The Child Care Tax Rebate (CCTR)**

The CCTR allows families with children in approved care to claim, through the tax system, 30% of out-of-pocket child care expenses. This refers to the amount that families themselves have to pay after their CCB entitlement is taken into account. Families currently receive the 30% rebate when they finalise their taxation returns, that is, from July onwards each year. Claims can be made back to July 2004.

Families began to receive the 30% rebate for their 2004-05 child care expenses when they finalised their 2005-06 tax returns, that is, from July 2006 onwards. This delayed payment is caused by the need to reconcile CCB entitlement for the financial year before an accurate assessment of out-of-pocket expenses can be made. That happens too late for a claim to be possible in the tax return at the end of the year in which the child care was used. So CCTR can only be claimed at the end of the following financial year. That means that the payment might be made up to two years after the out-of-pocket expense was incurred. The changes in this Bill mean that, from 1 July this year, the rebate will be paid directly to families at the end of the financial year in which they incurred their child care expenses and it will be paid to all families regardless of their tax liabilities.

The original decision to deliver assistance through the tax system imposed rigidities that have prevented timely delivery of the benefit of the CCTR. For this reason the CCTR has been criticised for delivering assistance much too long after child care costs are incurred, therefore providing little immediate assistance to working families coping with high child care costs. Delivering it as a payment via the Family Assistance Office and bringing it

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forward by twelve months is therefore a logical improvement to the program, since it goes some way to address the problem of timeliness.

Another criticism that has been made about CCTR is that it is not income tested and that it provides greater benefits to higher income families. This is on account of their higher out-of-pocket expenses because they have lower entitlements to CCB which is income tested. However, it is misleading to look at CCTR in isolation. Viewed with CCB, the whole package of child care assistance has directed most assistance to lower income families.

This situation will continue with the Budget's changes. However, the change to providing CCTR as a direct payment will also allow low-income families to access their full rebate. The amount of the CCTR entitlement will no longer be limited by the extent of the tax liability of the eligible individual. That change together with the increase in the rate of CCB is in fact likely to improve the progressiveness of the child care assistance system by tipping the balance somewhat more in favour of lower and middle income families.

For further details on the history of the CCTR and it how operates, see the Parliamentary Library Research Note, 'The new Child Care Tax Rebate'.<sup>2</sup> The Research Note includes a table showing how the CCB and the CCTR interact.

### **The Health Care Card**

The third measure in the Bill, which is due to commence on 1 October 2007, allows eligible full time students (aged 16 to 25) who are ex-carer allowance (child) care receivers ongoing access to the health care card.

Carer allowance (child) is paid to people who care for a child (under 16 years) with a disability or severe medical condition in their own home. The benefit can be either a fortnightly payment plus the health care card or just the health care card. The benefit received depends upon the severity of the child's disability.

At present, once the child reaches 16 years of age, continuing access to a concession card only occurs if the child is eligible for a low income health care card (which is not available to students aged 16 to 18 years) or another payment such as the disability support pension that includes a pension concession card.

The measure in this Bill will allow all full time students who were formerly eligible for the carer allowance (child) to continue to have access to a health care card until they are 26. The health care card allows the holders to get PBS prescriptions and certain Medicare items at cheaper rates. The Second Reading Speech indicates that approximately 26,000 students aged between 16 and 25 may benefit from this measure.

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## Financial implications

The Explanatory Memorandum provides estimates for the costs of the various measures over four years from 2006-2007 (the current financial year) to 2009-2010 inclusive. These are:

CCB - \$412.6 million over four years. In 2006-07 the estimated cost is minimal, at \$0.6 million.

CCTR - \$1,234.2 million over four years. In 2006-07 the estimated cost is \$451 million.

Health care card - \$19.3 million over four years. This includes a figure of \$4.5 million for 2006-07. However, as the measures will only commence on 1 October 2007, it is not clear why there should be significant costs for the 2006-2007 year. Certainly the Explanatory Memorandum does not shed light on whether the relevant transitional provisions of the Bill (item 2 of Schedule 2) are responsible for the estimated costs for 2006-2007.

## Main provisions

Schedule 1 - Amendments relating to the child care benefit rate and the child care tax rebate

The child care tax rebate - Amendments to the *A New Tax System (Family Assistance) Act 1999*

**Item 5** inserts a **proposed Division 5** into existing Part 3, entitled '**Eligibility for child care tax rebate**'. The Explanatory Memorandum states that the eligibility criteria for the CCTR 'are substantially the same as the current child care tax offset criteria'.<sup>3</sup> However, it is not clear what the change (or changes) is, as the criteria cross-reference other sections of the *A New Tax System (Family Assistance) Act 1999* and other Acts. It would be useful if the Government clarified that no persons are likely to be significantly disadvantaged by the new criteria.

**Item 6** inserts a **proposed Division 4A** into existing Part 4 entitled '**Child care tax rebate**'. This sets out the rules about how the amount of CCTR is calculated for eligible persons.

The amount cannot exceed the upper limit set out in **proposed section 84F**. For the current financial year (ending 30 June 2007), the limit is \$4211 per child and for the 2008 financial year it is \$4354. Due to **items 9 and 11**, the limit will be indexed for subsequent years. For reference, the current limit is \$4000.

Essentially, the amount claimable - subject to the upper limit mentioned above - remains at 30% of the claimant's out of pocket expenses. Such expenses are calculated after

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deducting any payments through the CCB and the Jobs, Education and Training (JET) Child Care Fee Assistance.

#### The child care tax rebate - Amendments to the *A New Tax System (Family Assistance) (Administration) Act 1999*

These amendments deal with the administrative mechanics of the CCTR. Notably, **item 13** covers situations where the CCTR was paid to a person who was not entitled to it or where there was an overpayment. In such cases, a debt is owed to the Commonwealth and thus recoverable in the same way other family assistance debts are recoverable under existing subsection 82(1) of the *A New Tax System (Family Assistance) (Administration) Act 1999*.

#### The child care tax rebate - Amendments to the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*

Again these are administrative amendments reflecting the change from the current child care tax offset system to the proposed CCTR from the 2007 financial year.

#### The child care benefit - Amendments to the *A New Tax System (Family Assistance) Act 1999*

The standard amount that can be claimed per hour of approved care when this Act was first passed was set at \$2.40 and that amount still appears in the relevant part of the table in clause 4 of Schedule 2. However, as the amount has been indexed yearly through the operation of Schedule 4, the actual amount payable is currently a little under \$3 per hour (for historical rates see

[http://www.familyassist.gov.au/internet/fao/fao1.nsf/content/historical\\_rates-ccb-approved\\_care.htm](http://www.familyassist.gov.au/internet/fao/fao1.nsf/content/historical_rates-ccb-approved_care.htm).) **Item 7** inserts a new standard hourly amount of \$3.37, which will apply from 1 July 2007. As mentioned earlier in this Digest, this figure is an increase of 10 per cent plus the usual CPI indexation. The system of yearly indexation will continue.

### Schedule 2—Amendments relating to health care cards

**Schedule 2** amends the *Social Security Act 1991* to insert eligibility requirements for a health care card for certain Australian residents living in Australia, who are studying full-time and are aged 16 to 25 years inclusive. The detail of the measure is discussed in the background to this Digest. Note that any dependants of the student cannot be listed on the card and thus are not eligible for benefits under it: **item 4**.

## Concluding comments

The measures contained in this Bill are likely to be non controversial and supported by the wider community. Some groups and individuals may argue that more needs to be done to

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help families get and pay for childcare and that more needs to be done to help students with disabilities. However, as stand-alone measures, the three main changes introduced in this Bill are likely to receive general support.

## Endnotes

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- 1. J. Hildebrand, 'Child HQs for Suburbs', *Daily Telegraph*, 5 February 2007 p. 1.
- 2. Greg McIntosh, 'The new Child Care Tax Rebate' *Research Note* no. 3 2005–06, <http://www.aph.gov.au/library/pubs/rn/2005-06/06rn03.htm>
- 3. Explanatory Memorandum, p. 4.

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