Submission

on the

Family Assistance Legislation Amendment (Child Care Measures) Bill 2014

to the

Senate Education and Employment Legislation Committee

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1. Introduction

On 5 June 2014 the Senate referred the provisions of the *Family Assistance Legislation Amendment (Child Care Measures) Bill 2014* (the Child Care Measures Bill) for inquiry and report by 16 June 2014.

The Bill proposes amendments to the *A New Tax System (Family Assistance) Act 1999* (New Tax Act) to implement Budget savings measures. Specifically, the Bill proposes to amend the New Tax Act to:

- Maintain the current Child Care Rebate (CCR) limit at $7,500 per child, per financial year, by continuing to pause the indexation of the CCR limit for a further three income years to 30 June 2017; and
- Maintain the Child Care Benefit income thresholds at the amount applicable as at 30 June 2014, for three income years to 30 June 2017.

FamilyVoice Australia is a national Christian voice – promoting true family values for the benefit of all Australians. Our vision is to see strong families at the heart of a healthy society: where marriage is honoured, human life is respected, where families can flourish, Australia's Christian heritage is valued, and fundamental freedoms are enjoyed.

We work with people from all major Christian denominations. We engage with parliamentarians of all political persuasions and are independent of all political parties. We have full-time FamilyVoice representatives in all state capitals.

FamilyVoice Australia has a longstanding interest in family assistance provisions and is pleased to address this inquiry into childcare benefits and rebates.

Submissions are due by 11 June 2014.

2. General principles

Before addressing the specific measures in the Child Care Measures Bill, it is important to consider some basic principles that apply to government funding of families and the care of children.

2.1 Family is the basic group of society

Families are the basic group of society. They are responsible for socialisation, economic activity, emotional nurturing and reproduction, all of which are essential for a functioning society. The Australian Bureau of Statistics provides a workable definition of family as "a group of two or more people that are related by blood, marriage, adoption, step or fostering who usually live together in the same household".[1]

The Universal Declaration of Human Rights (UDHR) and the International Covenant on Civil and Political Rights (ICCPR) internationally recognises the importance of the family. The UDHR Article 16(3) states: "The family is the natural and fundamental group unit of society and is entitled to protection by society and the state.[2] The ICCPR also states this principle in article 23.[3]

Families provide emotional support and nurture that are essential for healthy development. The first exposure to love and nurture comes from the family unit and from this process important emotional bonds are created. Deprivation of emotional support from the family unit in the early stages of life can lead to children who are immature, insecure and educationally adrift.[4]

> ***Recommendation 1:***
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> ***Any provision of government support for raising children should recognise the family as the fundamental group unit of society that has primary responsibility for bearing, raising and socialising children to become productive members of society.***

2.2 Family is the fundamental economic unit of society

The family is not only the basic social unit of society; it is also the fundamental economic unit. This is apparent across society and over time. Families are economic units; they share resources internally and expend resources as a single unit externally with society. This concept has been standardised by Nobel Prize winner in Economics Becker, who argued for the household acting as a single decision-maker.[5]

Within the family, there is the sharing of food, bills, utilities, shelter and resources. This means that the income earners provide for the household and sharing of the costs of living together occurs. When financial decisions are made within the family, the vast majority of the finance goes towards mutually beneficial items such as housing, food and transport – these three categories alone taking up 51% of the average expenditure of households.[6] The income-pooling hypothesis describes this income sharing within a family. This has largely been a staple economic principle since the 1970's.

> ***Recommendation 2:***
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> ***The Australian taxation system should recognise each family as an economic unit and allow pooled family income to be shared among family members for income tax purposes.***

2.3 Parenting benefits should be equal

The role of unpaid work in the home is an essential part of the overall economic activity of the family. However, some economists perceive unpaid work as having little or no economic value. They say that improving the economy is only achievable when both parents are paying taxes and are partaking in paid work.[7] This view undermines the importance of unpaid work and ignores the reality that the family is the fundamental economic unit of society. Senior Fellow of the Centre for Independent Studies, Barry Maley states:

> "There is no good reason why production in the market should be accorded higher value or importance than home production and child rearing. Productive labour in traded goods and services and the growth of human capital depend for their continuance upon the regeneration, socialisation and education of those who will be workers in the future".[8]

Maley recognises the value of unpaid family work. He questions why paid work holds a higher social value and points out the importance of the socialisation and education of children. Furthermore, he notes the importance of children for the future and the significant role they will play in contributing economically.

Patrick Byrne and Tempe Harvey from the Australian Family Association also highlight the value of unpaid work in the family for roles such as childcare and community services. They note that the

2010 Senate report on Paid Parental Leave (PPL) omitted any reference to the value of unwaged family, child-care and community services. Byrne and Harvey state:

> "This omission implies an assumption in both reports that the unwaged work done principally by mothers (but also by some fathers) in the home has no economic value. Rather, the prevailing trend in economic analysis assumes that the economy is best stimulated when both parents are in paid work and paying taxes".[9]

Byrne and Harvey point out that when a parent chooses to undertake unpaid work they are allowing the family to provide their own social services, which include childcare. Furthermore, they argue that this unpaid work represents a substantial saving to the welfare bill of the state, since services such as childcare require state support.[10] This is an important observation and reinforces Maley's view that measuring economic output as GDP ignores important contributions made to society by parents (and others) who undertake unpaid community and household work.

The government should have a policy of neutrality for parenting benefits and recognise that families are best placed to make appropriate decisions for themselves. Current family benefits are not equitable, since different families with the same number of dependents are not treated equally.

> ***Recommendation 3:***
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> ***Government-funded family benefits should embody the principle of government neutrality. Families should have the freedom to make their own decisions about employment and childcare – without government pressure. Equal benefits should be provided to families that make different decisions about balancing home and work responsibilities.***

2.4 Provide parenting benefits to parents

Consumer choice is the ability for consumers "to choose among competing products and services".[11] This has the advantage of allowing the consumer (in this case, a family) to make the best decision possible, free from government interference. This is a principle that should be applied to parenting choices: let the parents decide what is best for their family.

The 2009 report, *Australia's Future Tax System Review,* favours funding parents as opposed to child care providers. One section of the report addresses the question: "What is the role of child care assistance?" The conclusion is that funding parents directly provides "a number of advantages".[12]

Firstly, it "allows parental needs to drive where child care centres are established and the type of care available". More broadly speaking, it allows other choices to be made as needed, such as a choice to contract a special carer for disabled kids, to employ a qualified nanny, or to care for their own children at home.

Secondly, "the government does not have to determine where child care centres should be located or which ones should receive additional funding." Furthermore, the government would not have to spend resources at all on the area of childcare or other related services if they were not the primary funding agent of these services. Regular market forces can already provide satisfactory outcomes for whatever parents need.

Thirdly, "providing funding directly to parents allows for better targeting of assistance to particular groups of parents and children based on their individual characteristics."

Providing parenting benefits to parents also reinforces the important concept of government neutrality. Families receiving benefits can make decisions for themselves in the best interests of their children.

Institutional childcare subsidies undermine consumer choice by favouring one option over others. Parents should be given the opportunity to choose how parenting benefits are spent.

> ***Recommendation 4:***
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> ***Parenting benefits should be provided directly to parents, so they can freely choose their own childcare options in the best interests of their children in their particular situation. The market can then respond to parental demand with childcare options that best meet the needs of parents.***

2.5 Provide parenting benefits as tax rebates

The large administrative costs of collecting taxes and delivering welfare services can be substantially reduced by providing family benefits through income tax rebates. The more money that stays with the family, the less that is lost through "tax-welfare churn"—the practice of taxing people then returning those taxes in the form of welfare payments.[13]

> ***Recommendation 5:***
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> ***Reduce the wastage associated with tax-welfare churn and help families to be self-supporting by replacing the existing system of childcare subsidies and benefits with a single income tax rebate for all families raising children.***

2.6 Provide welfare support to the needy

A clear distinction should be made between self-supporting families with a taxable income earned by one or more members and those families with little or no income.

Self-supporting families can be helped with the cost of raising children, through a significant tax rebate during the years when the children are dependent on their parents. This should be considered an entitlement and be administered through the taxation system.

Families with little or no income should be assisted through the welfare system, applying the principle of mutual obligation:

> "[I]t is fair and reasonable to expect unemployed people receiving income support to do their best to find work, undertake activities that will improve their skills and increase their employment prospects and, in some circumstances, contribute something to their community in return for receiving income support."[14]

> ***Recommendation 6:***
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> ***Families with little or no income should be assisted through the welfare system, applying the principle of mutual obligation.***

3. Child Care Measures Bill

3.1 Child Care Benefit

The Child Care Benefit (CCB) is a means tested payment that provides financial assistance to help families with childcare costs. The CCB upper and lower income thresholds are used as part of calculating the rate of an individual's CCB. The lower and upper CCB thresholds are currently $41,902 and $97,632. Families with an income under the lower threshold are eligible for the maximum CCB payment. CCB can be claimed by a parent, foster-parent or grandparent.

The CCB also takes into account the type of care chosen by the family. Under the CCB, there are two different types of care – approved care and registered care. Approved childcare must meet additional requirements set by the Australian Government and includes long day care, family day care, outside school hours care, occasional care and home care. Registered care is work-related childcare that is provided by grandparents or other relatives, friends or nannies, who are registered with the Department of Human Services as registered care providers.

The requirements for registered care fail to include parents as an option for providing care. The Child Care Measures) Bill should be amended to recognise mothers or fathers as carers of their own children, and eligible to register through the Department of Human Services, subject to the same regulations as other registered carers. This would allow practical recognition of the valuable work of parents in caring for their own children.

> ***Recommendation 7:***
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> ***The* Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 *should be amended to allow parents to be included as potential registered carers so they can claim the CCB on an equal footing with parents who outsource their childcare.***
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> ***Recommendation 8:***
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> ***If Recommendation 7 is not adopted, the provision in the* Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 *to maintain the Child Care Benefit income thresholds at the amount applicable as at 30 June 2014, for three income years to 30 June 2017 should be supported.***

3.2 Child Care Rebate

The Child Care Rebate (CCR) is a non-income tested rebate that allows parents to claim 50% of out-of-pocket expenses to a value of $7,500 per child per year. To receive the rebate the parents must place their children in an approved childcare institution. The rebate is fundamentally unfair as it is not available to single-income families who choose to have one parent forgo a whole salary in order to care for the children at home.

The CCR is thus inequitable. A fairer model would be to pay a smaller benefit to all parents as argued in Section 2.4, so they can decide if they want to have the mother stay at home or place their child in daycare.

The CCR is not income tested, unlike the Family Tax Benefit Part B. Families earning an extremely high income would still be eligible for the CCR. This is fundamentally unfair – if a benefit to single income families is income tested, any benefit to double income families should also be income tested.

> ***Recommendation 9:***
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> ***Since the Child Care Rebate is inequitable by discriminating against families who do their own child care, the Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 should be amended to abolish the Child Care Rebate.***

Recommendation 10:

If the Child Care Rebate is not abolished, the Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 should be amended to provide the same income test required for families receiving the Family Tax Benefit Part B.

Recommendation 11:

If neither of Recommendations 10 or 11 is adopted, the provision in the* Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 *to maintain the current Child Care Rebate limit at $7,500 per child, per financial year, by continuing to pause the indexation of the CCR limit for a further three income years to 30 June 2017 should be supported.

4. References

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