

- 1.27 The Committee is of the view that Schedule 1 will not result in significant disadvantage for Australian families and recommends that the House of Representatives agree to pass Schedule 1 of the Family Assistance and Other Legislation Amendment Bill 2011.

### Recommendation 1

- 1.28 **The Committee recommends that Schedule 1 – Age of FTB child for family tax benefit of the Family Assistance and Other Legislation Amendment Bill 2011 be passed by the House of Representatives without amendment.**

## Schedule 2—Indexation

### Amendment proposed

- 1.29 Schedule 2 of the Family Assistance and Other Legislation Amendment Bill 2011 proposes to amend the *A New Tax System (Family Assistance) Act 1999* (the Family Assistance Act) and the *Paid Parental Leave Act 2010* on 30 June 2011 to enact measures announced in the 2011–12 Budget.
- 1.30 The substance of the proposed amendments is to pause indexation of the higher income free threshold for Family Tax Benefit (FTB) Part A, and the maximum income limits for eligibility for Family Tax Benefit (FTB) Part B, the baby bonus, and paid parental leave until 1 July 2014. The amendment will also pause indexation of FTB Part A and FTB Part B supplement payments until 1 July 2014.
- 1.31 Normally these income limits and supplement payments are indexed by the Consumer Price Index on the first day of the financial year. This Schedule proposes that these income limits and supplement payments are not indexed by the Consumer Price Index on 1 July 2011, 1 July 2012 and 1 July 2013.
- 1.32 The Australian Government expects that the income limit indexation amendment would save \$1 201.9 million over four years, and the FTB

supplement indexation amendment would save \$803.2 million over five years.

## Issues and impacts

### Family Tax Benefit Part A

- 1.33 An income test is applied to FTB Part A payments when family income exceeds \$45 114 per annum. At that point, FTB Part A payments are reduced by 20 cents per additional dollar earned, until the payment reaches the FTB Part A base rate. This range is called the income free area.
- 1.34 Another income test is applied when family income exceeds \$94 316, plus \$3 796 per annum per additional child. At that point, FTB Part A payments are reduced by 30 cents per additional dollar earned, until the payment is cut off. This range is called the higher income free area.
- 1.35 The income cut-off rates vary depending on the number and age of the children. For example, a family with one child under the age of 17 would cease receiving FTB Part A payments when the family income (not including the FTB Part A supplement) exceeds \$98 769. A family with one child under the age of 17 and one child aged between 18 and 24 would cease receiving the FTB Part A payments when the family income exceeds \$108 539.<sup>2</sup>
- 1.36 It is the indexation of the higher income free threshold (\$94 316, plus \$3 796 per additional child) that the Schedule proposes to pause until 1 July 2014.
- 1.37 The Family Assistance Act was amended in 2009 in the *Social Security and Family Assistance Legislation Amendment (2009 Budget Measures) Act 2009* to pause indexation of the higher income free threshold for FTB Part A from 1 July 2009 to 1 July 2012. The amendment proposed will extend the period of that pause to 1 July 2014.
- 1.38 This amendment would affect approximately 31 000 families who would have received a part rate FTB Part A payment with indexation but will cease to receive FTB Part A in 2012–13 without indexation, rising to 39 000 families in 2013–14. In the first year, less than 2 per cent of families will

---

2 Centrelink, 'Income Test' <[www.centrelink.gov.au/internet/internet.nsf/payments/ftb\\_a\\_iat.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/ftb_a_iat.htm)> viewed 8 June 2011.

become ineligible for FTB Part A.<sup>3</sup> The higher number represents about 2.6 per cent of families who receive FTB Part A payments.<sup>4</sup>

- 1.39 This 2.6 per cent represents families who earn more than double the average family income of FTB Part A eligible families.<sup>5</sup> These families, being above the income free area, would have been receiving the FTB Part A base rate only (plus the FTB Part A supplement) which stands at \$2 062.25 for children aged under 18 years and \$2 518.50 for children aged 18–24 years. Depending on the number and age of children in the family, the CPI-related wage increase may not compensate for the loss of the FTB Part A payment.
- 1.40 The Committee understands that the savings from this measure will go to fulfilling the Australian Government's election promise to increase the FTB Part A rates for full-time students between the ages of 16 and 19 in order to encourage teenagers to achieve a year 12 qualification.

### Family Tax Benefit Part B

- 1.41 Family Tax Benefit (FTB) Part B is available to families with one or two parents where the primary earner's income is \$150 000 or less. In the case of a secondary earner, the secondary earner's income is subject to an income test.
- 1.42 If the secondary earner's income exceeds \$4 745 per annum, FTB Part B payments are reduced by 20 cents per additional dollar earned. This range is called the income free area.
- 1.43 The Schedule proposes to extend the pause on indexation of the \$150 000 primary earner income limit for FBT Part B. There is no change to the income free area for the secondary earner income.
- 1.44 The Family Assistance Act was amended in 2009 in the *Social Security and Family Assistance Legislation Amendment (2009 Budget Measures) Act 2009* to pause indexation of the income limit for FTB Part B from 1 July 2009 to 1 July 2012. The amendment proposed will extend the period of that pause to 1 July 2014.
- 1.45 This amendment would mean that approximately 9 000 families who would have received a part rate FTB Part A payment with indexation will cease to receive FTB Part A in 2012–13 without indexation, rising to 11 400

---

3 The Hon. Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs, *House of Representatives Hansard*, 2 June 2011, p. 19.

4 DPS Parliamentary Library, Research Paper No 13, 2010–11, 'Budget Review 2011–11', p. 161.

5 DPS Parliamentary Library, Research Paper No 13, 2010–11, 'Budget Review 2011–11', p. 161.

families in 2013–14. The higher number represents about one per cent of families who receive FTB Part B payments.<sup>6</sup> The Committee understands that a CPI-related wage increase that renders a family ineligible may not compensate for the loss of the FTB Part B payment.

- 1.46 Mr Alan Tudge, MP, claims that this measure will affect 7 900 families in his electorate of Aston.<sup>7</sup>

### Baby Bonus

- 1.47 The maximum income limit for eligibility for the baby bonus is \$75 000 of family income in the six months following the birth or adoption of a child.

- 1.48 The Schedule proposes to extend the pause on indexation of the \$75 000 family income limit for the baby bonus. This measure will result in approximately 700 families becoming ineligible for the baby bonus in the first year. The Committee understands that a CPI-related wage increase that renders a family ineligible may not compensate for the loss of the baby bonus payment.

- 1.49 The Family Assistance Act was amended in 2009 in the *Social Security and Family Assistance Legislation Amendment (2009 Budget Measures) Act 2009* to pause indexation of the family income limit for the baby bonus from 1 July 2009 to 1 July 2012. The amendment proposed will extend the period of that pause to 1 July 2014.

### Paid Parental Leave

- 1.50 Paid Parental Leave (PPL) was introduced by the passing of the *Paid Parental Leave Act 2010* (the PPL Act). The PPL Act stipulates that an income test applies to the primary carer income, with a maximum income limit of \$150 000 in the financial year before the birth or adoption of a child. The PPL Act provided for indexation of this maximum income limit from 1 July 2012.
- 1.51 Schedule 2 proposes to amend the PPL Act to pause the indexation of primary carer income for PPL until 1 July 2014. This measure will bring the indexation for PPL in line with indexation for the baby bonus.
- 1.52 This measure will result in a number of families becoming ineligible for paid parental leave. The Committee understands that a CPI-related wage

---

6 DPS Parliamentary Library, Research Paper No 13, 2010–11, 'Budget Review 2011–11', p. 161.

7 Mr Alan Tudge, MP, *House of Representatives Hansard*, 31 May 2011, p. 117.

increase that renders a family ineligible may not compensate for the loss of paid parental leave.

## Family Tax Benefit Supplements

- 1.53 Family Tax Benefit Part A and Family Tax Benefit Part B both include a supplement payment. These supplements are paid after the Family Assistance Office balances the FTB payments at the end of each financial year.<sup>8</sup>
- 1.54 For the 2010–11 financial year, the FTB Part A supplement is up to \$726.35 per child and the FTB Part B supplement is up to \$354.05 per family. These payments are indexed against the Consumer Price Index on the first day of each financial year.<sup>9</sup>
- 1.55 Schedule 2 proposes to amend the Family Assistance Act to pause the indexation of the FTB Part A and Part B supplement amounts until 1 July 2014.
- 1.56 The predicted indexation increase for 2011–12 for the FTB Part A supplement would be approximately \$18 per child, and for the FTB Part B supplement, \$11 per child, resulting in a maximum loss in real terms of about \$20 per child without indexation.<sup>10</sup> By 2014, the FTB Part A supplement would be \$58 higher per child if indexed, and the FTB Part B supplement \$31 higher per child.
- 1.57 The Committee notes that members of the Opposition have provided differing results arising from this measure. Mrs Louise Markus, MP, told Parliament that families could lose more than \$800 in 2012–13 due to the indexation freeze of the FTB supplements.<sup>11</sup> Mr Kevin Andrews, MP, states that ‘FTB A recipients will be \$81.28 worse off per child by 2014–15 while FTB B recipients will be \$39.62 worse off per child by 2014–15’.<sup>12</sup>
- 1.58 The Australian Government expects this measure to result in net savings of \$803.2 million over five years.<sup>13</sup>

---

8 Centrelink, ‘Family Tax Benefit Supplements’ <[www.centrelink.gov.au/internet/internet.nsf/payments/ftb\\_supplement.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/ftb_supplement.htm)> viewed 8 June 2011.

9 Centrelink, ‘Family Tax Benefit Supplements’ <[www.centrelink.gov.au/internet/internet.nsf/payments/ftb\\_supplement.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/ftb_supplement.htm)> viewed 8 June 2011.

10 This is based on calculations according to predicted CPI.

11 Louise Markus MP, *House of Representatives Hansard*, 31 May 2011, p. 102.

12 The Hon. Kevin Andrews MP, *House of Representatives Hansard*, 1 June 2011, p. 114.

13 DPS Parliamentary Library, Research Paper No 13, 2010–11, ‘Budget Review 2011–11’, p. 162.

## Committee comment

- 1.59 The Committee understands that these measures are designed to save around \$2 billion, some of which will be redistributed to other family assistance measures. These include the increase in the FTB Part A rates for full-time students between the ages of 16 and 19 which is part of the Government's policy to encourage teenagers to achieve a year 12 qualification.
- 1.60 The Committee notes these amendments will affect a very small percentage of eligible families (approximately 1.9 million for FTB Part A and 1.6 million for FTB Part B). In the first year following these changes, less than 2 per cent of these families will become ineligible for FTB Part A or Part B.<sup>14</sup> Moreover, this small percentage represents families at the very top of the eligibility range.
- 1.61 The Committee understands that a wage increase which results in a family becoming ineligible for one or more of the above payments may not compensate for the loss of the payment(s). However it will mitigate the impact, as no family assistance payments will be lost under these measures unless there has been a rise in income.
- 1.62 Furthermore, the pause on indexation for the FTB Part A and Part B supplements will result in small decreases in real terms for each child (approximately \$20) in each year, but collectively will save over \$800 million.
- 1.63 The Committee is of the view that Schedule 2 will not result in significant disadvantage for Australian families and recommends that the House of Representatives Parliament agree to pass Schedule 2 of the Family Assistance and Other Legislation Amendment Bill 2011 with no amendments.

---

### **Recommendation 2**

- 1.64 **The Committee recommends that Schedule 2 – Indexation of the Family Assistance and Other Legislation Amendment Bill 2011 be passed by the House of Representatives without amendment.**

---

14 The Hon. Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs, *House of Representatives Hansard*, 2 June 2011, p. 19.