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**Department of Family and Community Services**

House of Representatives Standing Committee  
on Family and Community Affairs

Supp.

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Mrs Kay Hull MP  
Chair  
House of Representatives Standing Committee on  
Family and Community Affairs  
Parliament House  
CANBERRA ACT 2600

Dear Mrs Hull

I refer to your letter of 8 October 2003 requesting additional information for the Committee's Inquiry into Child Custody Arrangements and my reply of 24 October.

Attached is an Additional Briefing Paper which provides the information requested during our appearance before the Committee on 15 September and the information requested in your letter.

Also included is further information on the family relationship services funded by this department and the Attorney-General's Department, including copies of the report on the evaluation of the Men's Relationship Services and maps showing the distribution of services across the country.

The Committee requested some further scenario work during our appearance on 17 October. We expect to be able to provide this information later this month.

I trust this will be of assistance to the Committee.

Yours sincerely

Mark Sullivan  
14 November 2003

*facs* making a difference

# Additional Briefing Paper

## Introduction

The purpose of this paper is to provide additional information to the House of Representatives Standing Committee on Family and Community Affairs Inquiry into Child Custody Arrangements in the Event of Family Separation, as requested in the letter of 8 October 2003 from the Chair of the Committee, Mrs Kay Hull, following the public hearing with the Department of Family and Community Services on Monday 15 September 2003. The information presented below addresses the six issues raised in the Chair's letter, as well as twelve questions raised by members of the Committee at the 15 September hearing.

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## ***Issues raised by Committee Chair in letter of 8 October 2003***

### **Issue 1: Modelling - The child support formula based on net income**

*“What would the cost to government be if the current child support formula were to retain the current payer exempt income and payee disregarded income amounts, and were to be calculated on income net of tax, rather than on taxable income as is the case now?”*

### **Issue 2: Modelling - Equalising payer exempt income with payee disregarded income**

*“What would be the cost to government to be of having the payer exempt income equal to the payee disregarded income? We are seeking to find a more equitable solution to allow both parents to re-establish themselves after separation. Would you please undertake some modelling to show the impact if the exempt income amount and the disregarded income amount were to be equal, at either the amount of the current payer exempt income or the payee disregarded income, or any other income amount which may assist the committee to determine what may be an acceptable and appropriate level.”*

In relation to Issues 1 and 2 above, FaCS has undertaken indicative modelling to estimate the broad financial impact of a number of proposals altering the child support assessment parameters and the use of net rather than taxable income to assess the level of child support. These estimates have been produced using a number of simplified assumptions as there are some limitations of readily available data. These include:

- assuming there are no behavioral impacts due to changes in entitlement (eg no change in employment level by either parent;
- noting limitations on data from payee families receiving FTB. It was assumed that all children in the FTB family are children for whom child support is paid. In reality some children in a number of families are not receiving child support;
- noting that the modelling does not include the variables associated with shared care or blended family situations.

### **Proposal 1: Assess child support liability based on after tax income**

The financial impact would be as follows:

- the expenditure on FTB Part A would increase in the range of \$ 145 million to \$178 million;
- child support transfers would reduce in the range of \$ 540 million to \$730 million; and
- this means that children would receive between \$395 million to \$552 million less in financial support or up to 36 per cent less in child support.

We have previously provided the Committee with further information around the many issues that would arise if the formula was to be based on after tax rather than gross income.

**Proposal 2:** All sub-proposals below do not recognise that children in resident parent households generally have access to the income and means of the household, but the support they receive from payers who do not provide significant care comes largely through any child support paid. This understanding is also reflected (to a greater extent than in Australia) in the Child Support Formulae of the United Kingdom, New Zealand and Canada where the payee income is not included or considered at all in the calculation of child support.

**Proposal 2 (a):      Equalise payer exempt income with payee disregarded income – both \$36 213**

The financial impact would be as follows:

- the expenditure on FTB Part A would increase in the range of \$ 305 million to \$370 million;
- child support transfers would reduce in the range of \$1.1 billion to \$1.5 billion;
- this would result in some 518 000 payers or (76 per cent) being on the \$260 minimum assessment, with the remainder on significantly reduced amounts of child support. For example, a payer on an income of \$50 000 would normally pay on average \$7752 per year in child support compared with only \$3097 per year or 60 per cent less under this new arrangement; and
- this means that children would receive between \$795 million to \$1.1 billion less in financial support or up to 77 per cent less in child support.

**Proposal 2 (b):      Equalise payer exempt income with payee disregarded income – both \$24 264**

The financial impact would be as follows:

- the expenditure on FTB Part A would increase in the range of \$210 million to \$255 million;
- child support transfers would reduce in the range of \$780 million to \$1050 million; and
- this means that children would receive between \$570 million to \$795 million less in financial support or up to 53 per cent less in child support.

**Proposal 2 (c):      Equalise payer exempt income with payee disregarded income – both \$12 315**

The financial impact would be as follows:

- the expenditure on FTB Part A would increase in the range of \$33 million to \$40 million;
- child support transfers would reduce in the range of \$122 million to \$167 million; and.
- this means that children would receive between \$89 million to \$127 million less in financial support or up to 9 per cent less in child support.

### **Issue 3: The impact on welfare payments if more parents moved to shared care of their children**

*“What would the impact on welfare payments be if more parents moved to shared care of their children? In your analysis of this issue, it would be appreciated if you would consider the points raised in the submission to this inquiry from the National Welfare Rights Association.”*

The following section discusses the impact that an increase in the level of 50/50 shared care would have on various social security and family assistance payments. Quantitative estimates of this impact were provided in Section 3 of the FaCS Supplementary Submission provided to the committee on 16 October 2003.

#### **Parenting Payment and Newstart Allowance**

The National Welfare Rights Network (NWRN) proposes that both parents of a child should be eligible for Parenting Payment when the care provided by each parent is at least 40 per cent. NWRN states two rationales for this proposal, namely:

- the additional costs associated with raising children (such as housing costs and clothing); and
- inequities in the treatment of parents in similar situations.

Parenting Payment is not currently paid to recipients in recognition of the costs of children, but instead is paid in recognition of the role of parents who have primary care of at least one child under 16 years of age. Assistance with the costs of children are recognised through FTB Part A (provided to help families with the cost of raising dependent children) and FTB Part B (provides extra assistance for families with only one main income earner). On this basis, the FaCS perspective is that this first rationale is inappropriate.

FaCS agrees that it is preferable for parents in similar situations to be treated in a similar fashion. However, placing both parents on Parenting Payment will have consequences for vertical equity. Under the NWRN proposal, parents with 40 per cent care of their children will receive the same income support entitlement and participation requirements as those who provide 100 per cent care to their children.

As stated in the FaCS Submission, paid work is considered by most to provide the best long-term outcomes for families. It is therefore important that people with substantial capacities to participate should have appropriate participation requirements to ensure they make the most of their opportunities. Their capacity to participate and their care responsibilities should be taken into account when determining requirements.

Participation requirements for ‘part-time’ carers should be different from ‘full-time’ carers as their capacity to participate is greater. The department is concerned that current participation requirements for Parenting Payment, designed for ‘full-time’ parents, may not be suitable for ‘part-time’ parents. Placing both ‘part-time’ parents on Parenting Payment may result in an increase in long-term welfare dependence.

Placing both parents on Parenting Payment may also create an unintended incentive for parents to share care so that they can both receive greater levels of assistance with limited participation requirements. This arrangement may not necessarily be in the best interests of the children.

An alternative to the NWRN suggestion is to provide both parents with Newstart Allowance. This would address NWRN's equity concerns while also addressing concerns about participation as Newstart Allowance participation agreements can be modified to take into account caring responsibilities. This would also retain the distinction between payments made to parents in their own right and payments that recognise the additional cost of children.

### ***Correction***

We also note that the NWRN appeared before the Committee on 20 October 2003. In relation to evidence on pages 88 and 89 of the Family and Community Affairs Hansard (proof copy) 20 October 2003, NWRN incorrectly state the arrangements for Parenting Payment recipients under Australians Working Together. The correct arrangements are:

- Parenting Payment recipients with a youngest child aged 6 and over attend an annual participation planning interview to encourage and assist them to plan for a return to work.
- Parenting Payment recipients with a youngest child aged 13-15 will need to do a modest activity with flexible requirements (of 150 hours over a six month period, averaging about 6 hours per week) to help them prepare to return to work.

All new Parenting Payment claimants are given information about the benefits of work for themselves and their families, and about opportunities and assistance for economic participation.

### **Carer Payment**

Carer Payment is an income support payment for those unable to participate full-time in the workforce because of their caring responsibilities. For example, a child under 16 years of age must have a profound disability if their carer is to qualify for Carer Payment. Consequently, it is unlikely that a carer would be able to work full-time in this situation. Both parents in an intact couple may be entitled to Carer Payment (partnered rate) if it can be demonstrated that the care requirements of the profoundly disabled child require both parents to provide full-time care. Carer Payment has no co-residency requirement for carers or care receivers.

If more separated parents move to shared care of their children, this would affect Carer Payment entitlement only if the outcome is that neither parent provides constant care. Carer Payment would be cancelled in these circumstances because it is a condition of entitlement that care be provided full-time – whether by one or both parents.

## **Youth Allowance**

There is a possibility that the Youth Allowance program outlays may increase as more people become eligible for the higher “with dependent child” rate of payment. The Department would also need to consider the impact of 50/50 shared custody upon current definitions of “dependent child” in social security law with a view to possible amendment of current legislation.

The current method of assessing parental income in shared care cases assumes that the level of care is not equal and requires the young person to nominate a primary carer whose income and maintenance received is assessed.

Shared care arrangements would require development of more appropriate parental income test policy that fairly recognises the resources available for the support of the child. The potential flow on effect of a change in policy could mean major system changes for Centrelink in the administration and delivery of youth allowance payments.

There will be possible impacts of shared care arrangements upon a parent’s ability to meet activity test obligations, eg a job-seekers’ availability for employment and ability to become self-reliant may be reduced.

Under current Social Security Law Youth Allowance for under 18 year olds is paid to a nominated parent/guardian, Centrelink systems cannot currently split the payment between separated parents.

An increase or decrease to program outlays will not be known until further investigation is undertaken into how shared care arrangements will be administered in regard to the parental income test and other aspects of the program.

## **Family Tax Benefit**

As outlined in FaCS Supplementary Submission, the major impact to Family Tax Benefit from an increase in the level of 50/50 shared care is primarily through the interactions between Family Tax Benefit and Child Support payments. Increased levels of shared care would result in lower levels of child support transfers, which in turn would lead to increases in outlays of Family Tax Benefit.

In relation to the circumstances described in the NWRN case study, such overpayments will only occur where a customer fails to declare a shared care arrangement when making their claim for family assistance (either by way of instalments or as a retrospective claim via the FAO or tax system). A parent in a shared care arrangement claiming 100 per cent of the FTB entitlement is claiming more than their individual entitlement and such claims should not be made without the prior agreement of the other parent. For this reason, FaCS does not support the NWRN view that where one parents’ shared care overpayment exceeds the amount paid to the other parent there is a windfall to government. The amount recovered in these circumstances is an amount to which the recipient was not entitled, and to limit

the amount recovered creates an inequity when compared to customers who have incurred an overpayment for other reasons.

It should be noted that non-resident parents who exercise between 10 and 30 per cent care have the option of waiving their FTB entitlement either retrospectively or prospectively in favour of the resident parent. Where this occurs, the resident parent is then entitled to receive 100 per cent of FTB.

Current FAO procedures require all parents claiming FTB to indicate any shared care arrangements in relation to each child, and the FAO then verifies the care percentages through consultation with both parents. FaCS considers that these procedures should assist in addressing the concerns raised by NWRN in this regard. Some customers did incorrectly receive 100% for a shared care child in 2000-01 (the transition period) due to a failure to notify FAO of their existing shared care arrangements, however the incidence of this diminished in 2001-02.

#### **Issue 4: Additional information on the case scenarios**

*“The committee would appreciate some further analysis of the impact on parent’s incomes of different care arrangements. This would build on the information you presented in Attachment E of your department’s submission. The committee would like the information in the tables expanded to show the amounts of any benefits payable to the parents in each of the scenarios presented. The type of benefit payable and any conditions applying to its payments should also be included, and the tables should clearly show which parent is the resident/payee parent and which is the non-resident/payer parent.*

*If not already included, the committee would also like to see the following scenarios explored:*

- a. Where Parent A earns zero income and has 60% care of one child and Parent B earns \$45 000 and has 40% care of one child, what income and /or benefits and child support would each parent receive/pay; and*
- b. Where Parent A earns zero income and has 80% care of one child and Parent B earns \$45 000 and has 20% care of one child, what income and /or benefits and child support would each parent receive/pay? For this scenario, please include the impact of the previously proposed contact measures.*
- c. What would the income situation be for both parents if they moved to equal shared care of their child?”*

Case scenarios 1 to 6 are provided on the following pages, with an explanation of the payments at the end of the scenarios.



**Table One**

*Couple with one child aged 10 have separated. Both parents are reliant on social security. Neither person has repartnered.*

Note: The 10-19% and 20%-29% care brackets represent **previously proposed contact measures.**

	Payee Sole Care		10-19% Care Payer has 10% Care		20-29% Care Payer has 20% Care		40-60% Care Payer has 40% Care		50% Care for Payer and Payee	
	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee
Private Income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tax Liability (on private income)										
<b>Gross Income Less Tax</b>										
Newstart Allowance	\$9 883		\$9 883		\$9 883		\$9 883		\$9 883	
Parenting Payment		\$11 599		\$11 599		\$11 599		\$11 599		\$11 599
FTB Part A		\$3 402	\$340	\$3 062	\$680	\$2 722	\$1 361	\$2 042	\$1 701	\$1 701
FTB Part B		\$2 037	\$204	\$1 833	\$407	\$1 630	\$814	\$1 222	\$1 018	\$1 018
Child Support	(\$260)	\$260	(\$260)	\$260	(\$260)	\$260				
<b>Total Disposable Income</b>	<b>\$9 623</b>	<b>\$17 298</b>	<b>\$10 167</b>	<b>\$16 754</b>	<b>\$10 710</b>	<b>\$16 211</b>	<b>\$12 058</b>	<b>\$14 863</b>	<b>\$12 602</b>	<b>\$14 318</b>
Total Government Payments	\$9 883	\$17 038	\$10 427	\$16 494	\$10 970	\$15 951	\$12 058	\$14 863	\$12 602	\$14 318

**Table Two**

*Couple with one child aged 10 have separated. Payer earns \$25 000, payee is not in the workforce and is reliant on social security. Neither person has repartnered.*

Note: The 10-19% and 20%-29% care brackets represent **previously proposed contact measures**.

	Payee Sole Care		10-19% Care Payer has 10% Care		20-29% Care Payer has 20% Care		40-60% Payer has 40% Care		50% care for Payer and Payee	
	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee
Private Income	\$25 000	\$0.00	\$25 000	\$0.00	\$25 000	\$0.00	\$25 000	\$0.00	\$25 000	\$0.00
Tax Liability (on private income)	\$3 948		\$3 948		\$3 948		\$3 948		\$3 948	
<b>Gross Income Less Tax</b>	<b>\$21 052</b>		<b>\$21 052</b>		<b>\$21 052</b>		<b>\$21 052</b>		<b>\$21 052</b>	
Newstart Allowance										
Parenting Payment		\$11 599		\$11 599		\$11 599		\$11 599		\$11 599
FTB Part A		\$2 824	\$340	\$2 610	\$680	\$2 334	\$1 361	\$1 978	\$1 701	\$1 638
FTB Part B		\$2 037	\$204	\$1 833	\$407	\$1 630	\$814	\$1 222	\$1 018	\$1018
Child Support	(\$2 283)	\$2 283	(\$2 030)	\$2 030	(\$1 903)	\$1 903	(\$1 254)	\$1 254	(\$1 254)	\$1 254
<b>Total Disposable Income</b>	<b>\$18 769</b>	<b>\$18 743</b>	<b>\$19 566</b>	<b>\$18 072</b>	<b>\$20 236</b>	<b>\$17 466</b>	<b>\$21 973</b>	<b>\$16 053</b>	<b>\$22 517</b>	<b>\$15 509</b>
Total Government Payments		\$16 460	\$544	\$16 042	\$1 087	\$15 563	\$2 175	\$14 799	\$2 719	\$14 255

**Table Three**

*Couple with one child aged 10 have separated. Payer earns \$35 000, payee is not in the workforce and is reliant on social security. Neither person has repartnered.*

Notes: The 10-19% and 20%-29% care brackets represent **previously proposed contact measures**.

	Payee Sole Care		10-19% Care Payer has 10% Care		20-29% Care Payer has 20% Care		40-60% Payer has 40% Care		50% care for Payer and Payee	
	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee
Private Income	\$35 000	\$0.00	\$35 000	\$0.00	\$35 000	\$0.00	\$35 000	\$0.00	\$35 000	\$0.00
Tax Liability (on private income)	\$7 197		\$7 197		\$7 197		\$7 197		\$7 197	
<b>Gross Income Less Tax</b>	<b>\$27 803</b>		<b>\$27 803</b>		<b>\$27 803</b>		<b>\$27 803</b>		<b>\$27 803</b>	
Newstart Allowance										
Parenting Payment		\$11 599		\$11 599		\$11 599		\$11 599		\$11 599
FTB Part A		\$1 924	\$340	\$1 811	\$680	\$1 584	\$1 123	\$1 378	\$1 464	\$1 038
FTB Part B		\$2 037	\$204	\$1 833	\$407	\$1 630	\$814	\$1 222	\$1 018	\$1 018
Child Support	(\$4 083)	\$4 083	(\$3 630)	\$3 630	(\$3 403)	\$3 403	(\$2 454)	\$2 454	(\$2 454)	\$2 454
<b>Total Disposable Income</b>	<b>\$23 720</b>	<b>\$19 643</b>	<b>\$24 717</b>	<b>\$18 873</b>	<b>\$25 487</b>	<b>\$18 216</b>	<b>\$27 286</b>	<b>\$16 653</b>	<b>\$27 831</b>	<b>\$16 109</b>
Total Government Payments		\$15 560	\$544	\$15 243	\$1 087	\$14 813	\$1 937	\$14 199	\$2 482	\$13 655

**Table Four**

*Couple with one child aged 10 have separated. Payer earns \$45 000, payee is not in the workforce and is reliant on social security. Neither person has repartnered.*

Note: The 10-19% and 20%-29% care brackets represent **previously proposed contact measures**.

	Payee Sole Care		10-19% Care Payer has 10% Care		20-29% Care Payer has 20% Care		40-60% Payer has 40% Care		50% care for Payer and Payee	
	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee
Private Income	\$45 000	\$0.00	\$45 000	\$0.00	\$45 000	\$0.00	\$45 000	\$0.00	\$45 000	\$0.00
Tax Liability (on private income)	\$10 347		\$10 347		\$10 347		\$10 347		\$10 347	
<b>Gross Income Less Tax</b>	<b>\$34 653</b>		<b>\$34 653</b>		<b>\$34 653</b>		<b>\$34 653</b>		<b>\$34 653</b>	
Newstart Allowance										
Parenting Payment		\$11 599		\$11 599		\$11 599		\$11 599		\$11 599
FTB Part A		\$1 095	\$109	\$1 011	\$219	\$876	\$438	\$778	\$547	\$547
FTB Part B		\$2 037	\$204	\$1 833	\$407	\$1 630	\$814	\$1 222	\$1 018	\$1 018
Child Support	(\$5 883)	\$5 883	(\$5 230)	\$5 230	(\$4 903)	\$4 903	(\$3 654)	\$3 654	(\$3 654)	\$3 654
<b>Total Disposable Income</b>	<b>\$28 770</b>	<b>\$20 614</b>	<b>\$29 736</b>	<b>\$19 673</b>	<b>\$30 376</b>	<b>\$19 008</b>	<b>\$32 251</b>	<b>\$17 253</b>	<b>\$32 564</b>	<b>\$16 818</b>
Total Government Payments		\$14 731	\$313	\$14 443	\$626	\$14 105	\$1 252	\$13 599	\$1 565	\$13 164

**Table Five**

*Couple with one child aged 10 have separated. Payer earns \$75 000, payee is not in the workforce and is reliant on social security. Neither person has repartnered.*

Note: The 10-19% and 20%-29% care brackets represent **previously proposed contact measures**.

	Payee Sole Care		10-19% Care Payer has 10% Care		20-29% Care Payer has 20% Care		40-60% Payer has 40% Care		50% care for Payer and Payee	
	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee
Private Income	\$75 000	\$0.00	\$75 000	\$0.00	\$75 000	\$0.00	\$75 000	\$0.00	\$75 000	\$0.00
Tax Liability (on private income)	\$23 182		\$23 182		\$23 182		\$23 182		\$23 182	
<b>Gross Income Less Tax</b>	<b>\$51 818</b>		<b>\$51 818</b>		<b>\$51 818</b>		<b>\$51 818</b>		<b>\$51 818</b>	
Newstart Allowance										
Parenting Payment		\$11 599		\$11 599		\$11 599		\$11 599		\$11 599
FTB Part A		\$1 095	\$109	\$985	\$219	\$876	\$438	\$657	\$547	\$547
FTB Part B		\$2 037	\$204	\$1 833	\$407	\$1 630	\$814	\$1 222	\$1 018	\$1 018
Child Support	(\$11 283)	\$11 283	(\$10 030)	\$10 030	(\$9 403)	\$9 403	(\$7 254)	\$7 254	(\$7 254)	\$7 254
<b>Total Disposable Income</b>	<b>\$40 535</b>	<b>\$26 014</b>	<b>\$42 101</b>	<b>\$24 447</b>	<b>\$43 041</b>	<b>\$23 508</b>	<b>\$45 816</b>	<b>\$20 732</b>	<b>\$46 129</b>	<b>\$20 418</b>
Total Government Payments		\$14 731	\$313	\$14 417	\$626	\$14 105	\$1 252	\$13 478	\$1 565	\$13 164

**Table Six**

*Couple with one child aged 10 have separated. Payer earns \$119 470, payee is not in the workforce and is reliant on social security. Neither person has repartnered.*

Note: The 10-19% and 20%-29% care brackets represent **previously proposed contact measures**.

	Payee Sole Care		10-19% Care Payer has 10% Care		20-29% Care Payer has 20% Care		40-60% Payer has 40% Care		50% care for Payer and Payee	
	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee	Payer	Payee
Private Income	\$119 470	\$0.00	\$119 470	\$0.00	\$119 470	\$0.00	\$119 470	\$0.00	\$119 470	\$0.00
Tax Liability (on private income)	\$44 750		\$44 750		\$44 750		\$44 750		\$44 750	
<b>Gross Income Less Tax</b>	<b>\$74 720</b>		<b>\$74 720</b>		<b>\$74 720</b>		<b>\$74 720</b>		<b>\$74 720</b>	
Newstart Allowance										
Parenting Payment		\$11 599		\$11 599		\$11 599		\$11 599		\$11 599
FTB Part A		\$1 095		\$985		\$876		\$657		\$547
FTB Part B		\$2 037	\$204	\$1 833	\$407	\$1 630	\$814	\$1 222	\$1 018	\$1 018
Child Support	(\$19 288)	\$19 288	(\$17 145)	\$17 145	(\$16 073)	\$16 073	(\$12 590)	\$12 590	(\$12 590)	\$12 590
<b>Total Disposable Income</b>	<b>\$55 432</b>	<b>\$34 019</b>	<b>\$57 779</b>	<b>\$31 562</b>	<b>\$59 054</b>	<b>\$30 178</b>	<b>\$62 944</b>	<b>\$26 068</b>	<b>\$63 148</b>	<b>\$25 754</b>
Total Government Payments		\$14 731	\$204	\$14 417	\$407	\$14 105	\$814	\$13 478	\$1 018	\$13 164

## **Information on Payments**

The following descriptions provide information on the basic eligibility conditions for payments detailed in the previous scenarios. The figures in the above scenarios were the rates at 1 July 2003, as the previous scenarios provided in Attachment E of the FaCS Submission of 5 September 2003 were also the rates at 1 July 2003.

### **Newstart Allowance (NSA)**

To receive NSA, the Australian resident must be unemployed, capable of undertaking, available for and actively seeking work, or temporarily incapacitated for work. Additionally, they must be aged 21 or over, but under the Age Pension age and registered as unemployed.

Full allowance for a single person with no children is \$380.10 pf (\$9883 pa). For these individuals, full allowance is paid if income is less than \$62 pf. Income between \$62 pf and \$142 pf reduces the fortnightly allowance by 50 cents in the dollar. For income above \$142 pf, the fortnightly allowance reduces by 70 cents in the dollar.

### **Parenting Payment**

In order to receive Parenting Payment, sole and partnered parents must have a qualifying child under 16. The payment can only be paid to one member of a couple. The parent must be an Australian resident.

Sole parents can receive a payment of up to \$446.10 pf (including Pharmaceutical Allowance of \$5.80). Sole parents with one child can earn up to \$144.60 pf without it affecting their payment. For each extra dependent child this increases by \$24.60 pf. Income over this amount reduces the rate of payment by 40 cents in the dollar.

Partnered parents can receive a payment of up to \$345.70 pf (including Pharmaceutical Allowance of \$2.90). For maximum payment, the customer's income must be less than \$62 pf and partner's income no more than \$575 pf. Customers' income reduces rate by 50 cents for every dollar between \$62 and \$245, and 70 cents for every dollar above \$245 pf. Partner's income over \$575 reduces rate by 70 cents for each extra dollar.

### **Family Tax Benefit (FTB)**

Where the care of a child is shared between separated parents, FTB is paid according to the percentage of time children are in each parent's care, provided it is between 10 and 90 per cent of the year.

#### ***FTB Part A***

Parents must have a dependent child aged under 21, or a qualifying dependent full-time student aged 21 to 24. The claimant must be an Australian resident, or the holder of a certain temporary visa, and the child must also meet these requirements or must be living with the claimant.

For family income under \$31 755 pa, the maximum rate of \$3401.80 pa for each child under 13 years is payable. Higher rates apply for children over the age of 13 to 15. For family income above \$31 755, payment is reduced by 30 cents in every dollar,

until payment reaches the base rate of \$1095 (for children under the age of 18 years). FTB Part A continues to be paid until family income reaches \$82 052 pa (plus \$3285 for each FTB child after the first). Payment will decrease by 30 cents for every dollar over that amount until the payment reaches nil.

### ***FTB Part B***

The family must have a dependent child under the age of 16, or a qualifying dependent full-time student up to the age of 18 in order to receive FTB Part B. Assistance targets single income families. Secondary earners must have income under a certain amount to qualify.

Sole parents receive the maximum payment of FTB Part B of \$2037 pa, irrespective of the parent's income, for a child aged 5-15 (or 16-18 for full time students). Parents with children under 5 years receive a higher rate of FTB Part B.

### ***Maintenance Income***

Maintenance income above \$1127.85 (plus an additional \$375.95 per child) will reduce the FTB Part A entitlement by 50 cents in the dollar, until the base rate of FTB Part A is reached.

## **Issue 5: International comparisons**

*“The committee would appreciate a summary of other child support administrations around the world, showing which of these uses the cost of children in calculating child support payable, and which uses a formula based model similar to the Australian approach.”*

The Committee has asked for information about how child support is determined in different countries. The Child Support Agency produced a report in March 2001, “Child Support Schemes: Australia and Comparisons”. Copies of that report are provided. Although the calculations are out of date, the descriptions remain accurate for most countries (a notable exception is the UK<sup>1</sup>).

Our examination of the systems in different jurisdictions has not identified any jurisdiction where there is a set amount based on the cost of a child. In every jurisdiction the calculation is linked to the income of one or both parents.

This paper provides an overview of those methods and some dollar comparisons for some of those jurisdictions.

### **Australia**

- New Zealand
- United Kingdom
- Canada – Ontario
- USA – New York State

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<sup>1</sup> The method of establishing income and expenditure details for parents in the UK was extremely difficult and time consuming. A target was to produce an assessment within 6 months of an application being made. Legislation has been passed to simplify that process and it applies to parents who apply for child support since March 2003. It is expected that the new method will eventually apply to all parents. The current method is similar to that used in Australia, but still not as simple.



- USA – Wyoming State
- USA – Washington State

### **Australia**

- Uses taxable income
- Provides an exempt income of \$12,315 for personal support
- Uses 18% for one child and 27% for two children
- Maximum income used in the formula is \$119,470
- Minimum amount payable is \$260 per year
- Payees income is taken into account when it reaches \$36,213
- All child support collected is paid to the parent with care of the children

### **New Zealand**

- Uses taxable income
- Provides an exempt income of \$(NZ)12,226 for personal support
- Uses 18% for one child and 24% for two children
- Maximum income used in the formula is \$(NZ)86,648
- Minimum amount payable is \$(NZ)677 per year
- Payees income is not used in calculating child support
- If the parent with care of the children receives benefits, only the amount greater than those benefits is paid to the parent with care

### **United Kingdom**

- A new formula is being used for new clients that is more simple than the formula used for existing clients. The new formula is used in this paper.
- Uses after tax income
- Does not have any exempt income
- Uses 15% for one child and 20% for two children
- Maximum income amount used in the formula is GBPounds 163,798
- Minimum amount payable is GBPounds 260
- Payees income is not used in calculating child support
- If the parent with care of the children receives benefits, only ten pounds per week is paid to the parent with care, unless the child support is greater than the total benefits

### **Canada - Ontario**

- Federal tables have been established that vary slightly from province to province. The amounts in the tables are not automatic – they need to be confirmed by the court.
- The formula used to calculate the amounts is not transparent – they are simply laid out in a table. The income, the number of children and the province where the payer lives determine the amount payable
- Once the paying parents income reaches \$(Canadian)150,000 a flat percentage is payable on income above that amount.
- Payees income is not used in calculating child support

### **USA – New York State**

- Although there is a formula to guide the amount of child support the actual amounts payable are confirmed by the court
- Uses after tax income of both parents – the child support is calculated using the combined incomes of the parents and is then prorated between them based on their relative incomes (referred to as the ‘Williams/Colorado Income shares method’)
- Does not have any exempt income
- Uses 17% for one child and 25% for two children
- If income is greater than \$80,000 the court can, but is not required to, continue to use the guidelines to calculate child support. The tables show \$33,893 child support for one child with an income of \$(US) 199,999
- There are two ‘minimum amounts’ – if income is less than \$(US)8980 then \$(US)300 per year is payable. If it is more than \$(US)8980 but less than \$(US)12,123 then \$(US)600 per year is payable
- Additional amounts are payable for child care, medical expenses and educational expenses – these are prorated between the parents in line with their income. This can mean that where a parent with care starts to earn an income, the child support payable increases because of the need to pay child care
- It is not clear what child support a parent who is receiving benefits is paid

### **USA – Wyoming State**

- As is the case in New York, the amounts need to be confirmed by the court
- Uses after tax income of both parents (similar to New York) – the child support is calculated using the combined incomes of the parents and is then prorated between them based on their relative incomes
- Does not have any exempt income
- The percentages vary, depending on the income. For one child the percentage is 25.4% for an annual income of \$8784, 21.7% for an annual income of \$24,696, 18.2% for an annual income of \$45,552 and 15.9% for an annual income of \$70,620. For two children the percentage ranges from 35.9% to 22.3%
- There does not appear to be a maximum amount used in the formula, but for one child 10% of income greater than \$70,620 is payable (15% for two children)
- Some, if not all, child support is assigned to the state if the parent with care receives benefits
- The minimum amount payable is \$600 per year

### **USA – Washington State**

- Again, the amounts need to be confirmed by the court
- Uses after tax income of both parents (similar to New York) – the child support is calculated using the combined incomes of the parents and is then prorated between them based on their relative incomes
- Does not have any exempt income
- The amounts payable are shown in tables, rather than as a percentage. From the table it is not clear how the amounts are calculated. The amount payable

depends on the age of the child – there are two groupings 0-11 years and 12-18 years. For an annual income of \$24,000 child support for a younger child is 21.35% and 26.35% for an older child. For two younger children it is 33.1% and for two older children, 40.9%. At an income of \$48,000 it is 15.225% for a younger child, 18.825% for an older child, 23.65% for two younger children and 29.2% for two older children. At an income of \$84,000 it is 14.08% for a younger child, 17.4% for an older child, 21.91% for two younger children and 27.02% for two older children.

- Additional amounts can be payable for day care and health care
- If the annual income is greater than \$84,000 the court can set the amount payable above the tables
- Minimum amount payable is \$300 per child per annum

### **Other jurisdictions**

Full details are not provided, but the following information may be of interest to the Committee:

- **Wisconsin USA** does not have a maximum amount of child support but uses different percentages for income above certain amounts, for example for one child the normal percentage is 17 but for income between \$84,000 and \$150,000 it reduces to 14% and for income over \$150,000 it further reduces to 10%.
- **Delaware USA** uses a combination of a minimum cost of a child together with a standard of living adjustment based on both parents' incomes. Firstly, the net incomes of both parents is determined and an amount of \$10,200 per annum is set aside for each parent for their self support. The parents income above that amount is used to determine the proportion they should contribute in child support. The minimum amount is \$936 per annum. The court has determined the minimum amount needed to provide basic support – this is \$4,200 per annum for one child and 7,800 for two children. Added to that basic amount is the actual cost of child care, private schooling and medical expenses above \$350 per year. The total of those amounts is divided between the parents according to the proportion of their incomes above the self support amount. After deducting the self support component and paying their share of the basic child support, a parent then contributes 16% for one child (26% for two children) of their remaining income. A parent earning \$45,000 and the other parent receiving benefits would result in \$7,188 child support per annum for one child (16%) and \$11,724 for two children (26%).

It is not clear how the minimum amount to support a child was calculated, nor how frequently it is updated.

- **France** – the courts set child support liabilities and there are no formal guidelines for the amounts. The judge usually takes into account the needs of the children and the income of the non-resident parent. The average was approximately \$200 per child per month in 1998.
- **Germany** – has a mixture of court and administrative based calculations. As at July 1998, the minimum payable (where a parent has an annual income of

less than \$(A)24,480) was \$(A)3,552 per year for a child under 7 and \$(A)5,112 per year for a child aged 13-18 years. The suggested upper limits (based on an annual income of \$(A)81,660 was \$(A)6792 for a child under 7 and \$(A)11,088 for a child aged 13-18 years.

- **Netherlands** – parents are encouraged to reach agreement but if agreement is not reached the courts set the amount. Low voluntary payments can be overturned if the lone parent applies for benefits.

### **Comparison of amounts payable**

Tables are attached that show the amounts payable in the jurisdictions listed at the start of this paper.

Table 1 shows the amounts payable for one and two children at different incomes. The currency used in Table 1 is the currency of the jurisdiction, i.e. for Australia, Australian dollars are used, for UK the pound is used, etc. This table would provide a valid comparison if the purchasing power of one Australian dollar in Australia is equivalent to one USA dollar in America and with one Great Britain Pound in Great Britain, etc.

Table 2 shows the amounts payable for one and two children at the same income levels. In this table everything is converted into Australian dollars. For example, an income of \$(A)45,000 was converted into 18,630 GBP which was then used to work out how much child support would be payable using the UK formula. This was 2,284 GBP which converts back to \$(A)5517. This can then be compared with the amount that would be payable under the Australian formula (\$5,883). This table would provide a valid comparison if the purchasing power of one Australian dollar in Australia is the same as one Australian dollar in America or Great Britain, etc.

The reality is that the purchasing power of the Australian dollar in different jurisdictions lies somewhere between the two tables. Table 2 is used in the following analysis.

For one child, at incomes up to \$35,000 child support is lowest in Ontario, Canada and second lowest in Australia. At an income of \$45,000 Ontario remains the lowest, followed by the UK that is some \$300 per annum lower than Australia which is third lowest. This trend continues until the income reaches about \$75,000. At that level, Wyoming and Washington State both fall below the level payable in Australia – New York State and New Zealand remain higher than Australia. At an income of \$90,000 the rate in Australia is the second highest, behind New York and at an income of \$120,000 Australia becomes the highest. However, when the income increases to \$150,000 both New York and Wyoming require higher amounts than in Australia.

For two children, the relativities change, with Ontario, Canada no longer being the lowest at any level of income. Australia pays the lowest child support at low incomes (up to nearly \$25,000). At \$25,000 New Zealand and Australia are the lowest. At \$35,000 Australia is the third lowest (but nearly equally with Ontario which is fourth). From \$45,000 to \$75,000 Australia is fourth, fifth or sixth lowest and becomes the highest when the income reaches \$90,000, however at an income of \$150,000 two of the US states pay more than in Australia.

**Table 1.**  
**Child support payable based on income within the jurisdiction**

**Table 1a: Calculations for 1 child**

	Jurisdiction						
	AUS AU\$	NZ NZ\$	UK GB£	Ontario CAS	NY State US\$	Wyoming US\$	Washington US\$
<b>Income</b>							
Minimum	260	<b>677</b>	260	0	300	600	300
25000	2283	2299	3029	2264	3925	<b>4484</b>	4272
35000	4083	4099	4062	3660	5495	5729	<b>5784</b>
45000	5883	5899	4962	4644	<b>7065</b>	6529	6540
60000	8583	8599	6312	6084	<b>9420</b>	7872	6912
75000	11283	11299	7662	7260	<b>11775</b>	9144	7920
90000	13983	13396	9012	8472	<b>14130</b>	10319	9156
120000	<b>19288</b>	13396	11712	10884	18839	12468	11688
150000	19288	13396	14412	13296	<b>23549</b>	14449	11832

**Table 1b: Calculations for 2 children**

	Jurisdiction						
	AUS AU\$	NZ NZ\$	UK GB£	Ontario CAS	NY State US\$	Wyoming US\$	Washington US\$
<b>Income</b>							
Minimum	260	<b>677</b>	260	0	300	600	600
25000	3425	3066	4039	4320	5772	6243	<b>6600</b>
35000	6125	5466	5416	6072	8081	7902	<b>8976</b>
45000	8825	7866	6616	7620	<b>10389</b>	9059	10176
60000	12875	11466	8416	9876	<b>13853</b>	10991	10728
75000	16925	15066	10216	11748	<b>17316</b>	12795	12312
90000	<b>20975</b>	17861	12016	13632	20779	14453	14232
120000	<b>28932</b>	17861	15616	17376	27705	17586	18192
150000	28932	17861	19216	21132	<b>34631</b>	20558	18408

**Table 2.**  
**Child support payable based on income within the jurisdiction**

**Table 2a: Calculations for 1 child**

	Jurisdiction						
	AUS AUS\$	NZ AUS\$	UK AUS\$	Ontario AUS\$	NY State AUS\$	Wyoming AUS\$	Washington AUS\$
<b>Income</b>							
Minimum	260	595	628	0	441	<b>882</b>	441
25000	2283	2567	2773	2643	3925	<b>4948</b>	4340
35000	4083	4366	4348	3686	5495	<b>6360</b>	5981
45000	5883	6167	5517	4664	7064	<b>7602</b>	7427
60000	8583	8866	7273	6144	<b>9419</b>	9035	9332
75000	11283	11566	8952	7386	<b>11774</b>	10391	9968
90000	13983	11771	10302	8589	<b>14130</b>	11733	10179
120000	<b>19288</b>	11771	13002	11984	18840	18381	14466
150000	19288	11771	15703	14640	<b>23549</b>	21663	17395

**Table 2b: Calculations for 2 Children**

	AUS	NZ	UK	Ontario	NY State	Wyoming	Washington
	AUS\$	AUS\$	AUS\$	AUS\$	AUS\$	AUS\$	AUS\$
<b>Income</b>							
Minimum	260	595	628	0	441	<b>882</b>	882
25000	3425	3422	3630	4202	5772	<b>6911</b>	6739
35000	6125	5821	5797	6157	8081	8863	<b>9209</b>
45000	8825	8222	7357	7677	10389	10742	<b>11502</b>
60000	12875	11822	9696	9989	13853	12502	<b>14713</b>
75000	16925	15422	11937	11998	<b>17315</b>	14459	15419
90000	<b>20975</b>	15694	13737	13861	20779	16388	15807
120000	<b>28932</b>	15694	17336	19133	27705	25910	22581
150000	28932	15694	20937	23268	<b>34632</b>	30366	27062

## **Issue 6: Numbers of child support payers and payees by electorate**

*“Further to questions asked at the public hearing on 15 September 2003, would you please provide details of the number of child support payers and payees by electorate?”*

The response to this request was provided to the Committee by the Child Support Agency on Wednesday, 15 October 2003 (via email sent to Alison Millett).

## **Issues raised at public hearing of 15 September 2003**

### **Issue 7: The level of child support debt by income range**

*Question from Mr Quick (Hansard Reference page FCA 95) – “Of the \$800 million that is still owing to the Child Support Agency, does that come from the top 21 per cent or the bottom 95 per cent? I am interested in the level of debt by income range.”*

The response to this question was provided to the Committee by the Child Support Agency on Wednesday, 15 October 2003 (via email sent to Alison Millett).

### **Issue 8: Changes to child support assessment taking into account legal costs**

*Question from Mr Price (Hansard Reference page FCA 102) – “How many variations of assessment have included legal costs?”*

The answer to this question is provided in Section 8.2 (pages 31-32) of the FaCS Supplementary Submission provided to the Committee on 15 October 2003.

### **Issue 9: Treatment of income derived from a partnership, a trust or self-employment**

*Request from Mr Price (Hansard Reference page FCA 102) – “The committee would be interested in any views the department or the agency had in terms of strengthening the current legislation to ensure that a person involved in a partnership, a trust or self-employment is caught in the scheme too rather than just salary and wage earners.”*

A response to this question was provided by the department in the answers given to the Committee at the public hearing of 17 October 2003. This was as follows: Self employed parents are subject to the same formula assessment and collection and enforcement methods as those on salary and wages, however, self employed parents have greater opportunity to manipulate their taxable income.

In determining the amount of child support payable, CSA uses a number of different methodologies for the self-employed. These include:

- Using registrar initiated change of assessment, involving both parents, to examine the income that is available, but may not be reflected in the taxable income because of the use of partnerships, trust and company structures and ‘non-cash’ taxable deductions;
- Using ABS data to determine an amount that can reasonably be earned in a particular industry;
- Using information about the income available prior to arrangements changing;
- Access to Tax Office data such as ‘Business Activity Statements’.

To enforce the child support, CSA attempts to identify bank accounts, income streams or assets that are being sold so that the garnishee powers can be used. If this is not successful then CSA can take enforcement action through the court.

In addition the following range of additional enforcement powers have been suggested, and include:

- Access to Austrac (currently before the Parliament);
- Amend CSA garnishee powers to they can be used to collect current child support from non-salary and wage earners;
- Compulsory notification to CSA from insurers re settlements (similar to HIC and Centrelink);
- Collection from compulsory preserved superannuation;
- Possibility of being able to access joint accounts;
- Credit reference agencies – use of agencies to obtain information about parents and reporting of delinquent child support accounts to CRA’s; and
- Cancellation of drivers/other licences.

## **Issue 10: Government assistance for families with children**

*Question from Mr Price (Hansard Reference page FCA 102) – If we have a family and someone was made a widow and they have one child, the next one has two and the next one has three, they are entitled to the Family Tax Benefit and the Parenting Payment. How much in those three cases is that? What proportion does the department provide by way of support for one, two or three children?*

A lone parent (including a widow) with a child or children under the age of 16 may qualify for Parenting Payment (single), Family Tax Benefit (FTB), Rent Assistance and ancillary payments such as Pharmaceutical Allowance and Telephone Allowance. The maximum rates for Parenting Payment, Pharmaceutical Allowance and Telephone Allowance are the same regardless of the age and number of dependent children.

However, the rates of FTB will differ depending on the age of children. For example, FTB Part A is paid per child and the maximum rate is \$130.48 per fortnight for a child under 13, and \$165.48 per fortnight for a child between 13 to 15 years. The FTB Part B is paid per family, depending on the age of the youngest child. \$112.00 per



fortnight is paid if the youngest child is under 5, or \$78.12 per fortnight is paid if the youngest child is between 5 to 15 years.

Also, the rate of Rent Assistance will differ depending on the number of children in a family and the amount of private rent paid. For a lone parent with one or two children, the maximum amount of Rent Assistance payable is \$110.88 per fortnight which is paid at a fortnightly rent of \$258.30 or more. A lone parent with three or more children will receive the maximum amount of Rent Assistance of \$125.30 per fortnight, if the fortnightly rent is \$277.53 or more.

The following Tables 3-5 show the maximum rates if all children were under the age of 13, and the youngest child were aged under 5.

**Table 3: Lone parent with one child under 5**

Payment Type	Maximum rate paid per fortnight*
Parenting Payment (single)	\$452.80
Family Tax Benefit Part A	\$130.48
Family Tax Benefit Part B	\$112.00
Pharmaceutical Allowance	\$5.80
Telephone Allowance**	\$2.95
Rent Assistance	\$110.88
<b>Total</b>	<b>\$814.91</b>

**Table 4: Lone parent with one child under 5 and one aged 5 - 12**

Payment Type	Maximum rate paid per fortnight*
Parenting Payment (single)	\$452.80
Family Tax Benefit Part A	\$260.96
Family Tax Benefit Part B	\$112.00
Pharmaceutical Allowance	\$5.80
Telephone Allowance**	\$2.95
Rent Assistance	\$110.88
<b>Total</b>	<b>\$945.39</b>

**Table 5: Lone parent with one child under 5 and two aged 5 - 12**

Payment Type	Maximum rate paid per fortnight*
Parenting Payment (single)	\$452.80
Family Tax Benefit Part A	\$391.44
Family Tax Benefit Part B	\$112.00
Pharmaceutical Allowance	\$5.80
Telephone Allowance**	\$2.95
Rent Assistance	\$125.30
<b>Total</b>	<b>\$1090.29</b>

Notes:

\* Rates are current from 20/9/03 to 31/12/03

\*\*Telephone Allowance is paid quarterly (\$19.20 per quarter)

In comparison, government assistance for a single person aged 21 and over who has no dependent children, would generally be an allowance (eg. Newstart Allowance) of \$385.00 per fortnight. However, depending on his/her personal circumstances, a single person may be eligible for a pension (eg. Disability Support Pension, Carer Payment or Age Pension), which is the same rate as Parenting Payment (single), ie. \$452.80 per fortnight. The maximum amount of Rent Assistance payable to a single

person with no dependent children (and not sharing accommodation) is \$94.40 per fortnight which is paid at a fortnightly rent of \$209.67 or more.

**Table 6: Child component as a proportion of total government assistance**

Family Circumstances	Maximum Government Assistance*	
	Total	Child component
		\$ %
A lone parent with one child under 5 (Table 1)	<b>\$814.91</b>	\$258.96 32%
A lone parent with one child under 5 and one aged 5 - 12 (Table 2)	<b>\$945.39</b>	\$389.44 41%
A lone parent with one child under 5 and two aged 5 - 12 (Table 3)	<b>\$1090.29</b>	\$534.34 49%

Note:

\* Amounts are current from 20/9/03 to 31/12/03

Table 6 shows that the extra amount received for one child under the age of 5 is \$258.96 or 32% of the total amount that a lone parent receives in government assistance. This amount equals the amount of FTB Part A and Part B, and the extra amount of Rent Assistance due to having a child in care. The value of the child component and its percentage of total government assistance increases with additional children. It should be noted that the extra amounts and proportion of government assistance for children will vary depending on the particular circumstances of the family, including the age and number of children, whether the person is a lone parent or partnered, and the level of private income.

### **Issue 11: Taking new partner income into account in the child support formula**

*Question from Mr Dutton (Hansard Reference page FCA 106-107) – “Where a payer is paying a level above what would be regarded as the cost of living of the biological child, the argument is that in those circumstances the income of the payee’s new partner should be taken into account. Should there be an obligation for new partners coming into the respective relationships to have some sort of financial responsibility for a child whether or not that child is their biological child?”*

This question has been addressed in Section 6 (pages 15-20) of the FaCS Supplementary Submission provided to the Committee on 16 October 2003.

### **Issue 12: Taking new partner’s income into account in the change of assessment process**

*Question from Mrs Hull (Hansard Reference page FCA 109) – “Why would you not look at the income of both the payee’s new partner when doing a change of assessment for a reduction or an increase?”*

This question has been answered in Section 8.3 (pages 32-33) and Section 6 (pages 15-20) of the FaCS Supplementary Submission provided to the Committee on 16 October 2003.

### **Issue 13: Impact on child support, family assistance and social security of increased take-up of 50/50 shared care arrangements**

*Question from Mr Quick (Hansard Reference page FCA 110) – “Could you provide the committee with estimates of the likely financial impact by transfer type of child support, Family Tax Benefit and parenting payments, given a range of scenarios in the event we introduce fifty-fifty, of the take-up of, say, 10 per cent, 20 per cent and 30 per cent?”*

This question has been addressed in Section 3 (pages 10-11) of the FaCS Supplementary Submission provided to the Committee on 16 October 2003.

## **Issue 14: Impact of child support arrears on FTB and Parenting Payment**

*Question from Mr Quick (Hansard Reference page FCA 110-111) –*

*“With regard to a constituent who is owed \$40 000 through the CSA over a long period of time and who has been made an offer of \$25 000 to settle and all bets are off, can you explain to me and my constituent what impact that will have on the Parenting Payments and the Family Tax Benefit for that sole mother at the moment who has two children?”*

The receipt of child support arrears has no impact on Parenting Payment as the maintenance income test applies only to Family Tax Benefit (FTB) Part A.

An FTB customer can receive \$1127.85 per year (or \$2255.70 if each person in a couple receives maintenance), plus \$375.95 for each child after the first, before their FTB is affected. Therefore, a sole mother with two children has a free area of \$1503.80 per year. Any maintenance over the free area reduces the maximum rate of FTB Part A (including any rent assistance) by 50 cents in the dollar, until the base rate of FTB Part A is reached.

For a sole mother with two children under 13, and not paying private rent, the maximum rate of FTB Part A is \$6803.60 per year. This increases to \$9694.40 if maximum rent assistance of \$2890.80 is also received. The base rate of FTB Part A would be \$2190 per year. In this situation, child support payments can reduce FTB by a maximum of \$4613.60 if not receiving rent assistance, or by \$7504.40 if also receiving maximum rent assistance. These amounts are the difference between the maximum and base rates of FTB Part A. If a total of \$25 000 child support was received in the year, payment would be reduced to the base rate of \$2190. In contrast, if a total of \$5 000 child support was received in the year, the maximum payment would be reduced by \$1748.10 to the amount of \$5055.50 (where no rent assistance is received).

The impact of child support arrears being received by an FTB Part A customer depends on a number of factors. Generally, the following impact would apply:

- a customer who was receiving the base rate of FTB Part A due to income will be unaffected (because child support cannot reduce FTB Part A below this rate);
- for broken rate customers (ie those whose rate was between the base and maximum rate due to income), the likelihood of having an overpayment increases as their rate of FTB Part A increases; and
- a customer who was receiving FTB Part A at the maximum rate is most likely to have an overpayment at the end of the tax year.

The size of any overpayment will also be affected by other factors. These include:

- whether the customer elected for the estimated amount of CSA collected child support to be based on the amount the customer was entitled to, rather than the amount that was actually being paid each month;
- the time of year the arrears are received;
- whether or not the customer elects to adjust payments for the remainder of the year under the “More Choice for Families” measures that are now available; and

- the actual amount of the arrears.

For example, a sole mother with two children aged 9 and 12 years is receiving FTB and Parenting Payment (single). The customer's child support entitlement is \$8000 per year, however she has not received any child support from her ex-partner over a long period and is owed \$40 000. The customer has chosen to have her FTB Part A paid on the basis of the child support she is receiving, and so she is being paid at the maximum rate of \$6803.60 per year.

In December 2003, following discussions by CSA with the payer about the outstanding child support, an agreement is made between the payee and payer that he will pay \$25 000 as full settlement of the outstanding arrears and make regular ongoing monthly payments. After due consideration, the Family Assistance Office (FAO) decides that the agreement satisfies the reasonable maintenance action requirement for the payee as the CSA confirms that the amount agreed is the maximum amount that can be reasonably offered by the payer based on his financial circumstances.

The payee receives the arrears at the end of December 2003. Her annual entitlement of FTB Part A is now expected to be \$2190 for the year (i.e. the base rate). At this point she will have already received \$1212 more than her expected FTB Part A entitlement for the 2003-04 tax year (or \$193 more than her expected FTB Part A and Part B entitlement combined). The level of the overpayment that she will have at the end of the tax year will depend on which of the following choices she makes:

- if she does not take up any of the 'More Choice for Families' options i.e. she continues to be paid ongoing fortnightly FTB of \$162.12 (base FTB Part A and maximum Part B) she will have an overpayment of \$2307;
- if she elects to stop fortnightly payment of FTB Part A for the rest of the tax year, her ongoing rate will be \$78.12 (FTB Part B) and her overpayment will be \$1212;
- if she elects to stop fortnightly payments of FTB Part B for the rest of the tax year, her ongoing rate will be \$84 per fortnight (FTB Part A) and her overpayment will be \$1288;
- if she elects to stop fortnightly payments of FTB Parts A and B for the rest of the tax year, her overpayment will be \$193.

The effectiveness of such options is influenced by the amount of the arrears and the time of receipt. Where the arrears are small or are received early in the tax year there is greater opportunity for most of these choices to reduce the potential for overpayment. This opportunity diminishes as the amount of the arrears increases or the later in the tax year that the arrears are received.

It should also be noted that customers who do not receive their full child support payments when they are due would generally receive a higher rate of FTB Part A for that year. For example, in the case above the customer would have received FTB Part A at the maximum rate of \$6606.50 in 2002-03. Had the customer received her proper child support entitlement for that year she would have received a reduced FTB Part A rate of \$3336.50. The non-payment of child support in the years before 2002-03 would also have resulted in receiving the maximum rate rather than a reduced rate.

### **Issue 15: Location of separated families – Centrelink data**

*Question from Mrs Irwin (Hansard Reference page FCA 113) – “Has the department conducted any research into where separated families are living?”*

Whilst core FaCS has not specifically researched the location of separated families, research on single parents does show that they tend to be more concentrated on the fringes of capital cities and in regional and metropolitan centers. CSA has performed some analysis on the location of child support parents. This includes information contained in a paper titled “CSA Client Profile Series No. 2 - January 1999”. This paper examines the location of parents by same state residency and the distance of non-resident parents from their children. For Private Collect parents over 90% are in the same State as their children, compared with around 84% for Collect parents.

### **Issue 16: Location of separated families – CSA data**

*Question from Mrs Irwin (Hansard Reference page FCA 114) – “Could you also supply the committee with a breakdown by electorate of payers and payees in the child support scheme?”*

The information for this request was provided to the Committee by the Child Support Agency on Wednesday, 15 October 2003 (via email sent to Alison Millett).

### **Issue 17: Child support schemes in UK and Canada**

*Question from Ms George (Hansard Reference page FCA 117) – “There must be countries where a system operates that is based on some attempt to quantify the cost for one, two or three children. Can we just get a table, say, of what countries are operating a system and what the cost of raising one, two or three children is in the UK system or the Canadian system?”*

The information for this request is provided under Issue 5 of this paper.

### **Issue 18: Parents costs to re-establish themselves following separation**

*Question from Mrs Hull (Hansard Reference page FCA 119) – “In the case where it might be the scenario that a person is left in a substantial marital home with a substantial amount of amenities et cetera, is there any consideration taken of those circumstances when considering the child support formula?”*

This question has been addressed in Section 8.4 (page 33) of the FaCS Supplementary Submission provided to the Committee on 16 October 2003.