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The Secretary
Standing Committee on Family and Human Services
Parliament House
CANBERRA
ACT

STANDING COMMITTEE
18 MAR 2005
on Family and Human Services

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Submission
Inquiry into Balancing Work and Family

I make the following brief submission to the Inquiry into Balancing Work and Family. My focus is on terms of references 1 and 3: "the financial, career and social disincentives to starting families; and "the impact of taxation and other matters on families in the choices they make in balancing work and family life". These two terms of reference are inter-related particularly when it comes to taxation arrangements.

Under current arrangements the average Australian young couple is saving for the purchase of a house as well as for a future family. Both partners are also usually working, paying substantial taxation (income plus others) and making compulsory contributions to superannuation.

When it comes time to start a family one invariably has to leave the workforce at least for some weeks. If they then return to work they have substantial costs for childcare (excepting in a 'traditional' extended family situation where grandparents play a major role). For the period they are out of work any income is invariably taxed at a lower average rate than in previous years. Young women leave the workforce to have and raise children but the tax system for them is inequitable compared to those on a constant income stream. It is also inequitable for a young father who leaves work to care for children. This situation is known as 'period inequity' and also applies to primary producers, sports people and artists but for these people the taxation system makes some allowances.

In particular, for primary producers with less than $50,000 in off-farm income and not operating as a company they can place pre-tax income into Farm Management Deposits (FMD) up to a maximum level of deposits of $300,000. These deposits must stay there for a full year or they will be added back on to the taxpayers income and attract income tax. This scheme has been very successful in increasing savings of primary producers for withdrawal in hard times to provide for example income during drought or market downturn, or funds for the next crop planting following drought.

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A scheme similar to FMDs could be developed for couples planning to start a family to boost their savings for use after the arrival of a child/children. Introduction of such a scheme (which I suggest might be called Family Saving Deposits - FSD) would enable them to choose to stay at home and mind their child/children longer. This would not only make for better parenting (in general) but also reduce demand for expensive childcare. Given the tax system works on individual's incomes (rather than a families) such a scheme would also mean that both parents would be encouraged to play a role in child raising.

There would of course be a need for some consideration and discussion of issues such as:

- Should there be an upper limit on deposits;
- Should there be an age restriction on making deposits (say 45)
  - although exceptional situations as in a grandparent assuming custody or care of a child might suggest this is not a good idea;
- What conditions would qualify for withdrawal
  - demonstration of the birth of a new child (as for the current lump sum benefits)
  - demonstration of adoption of a child (or legal fostering of a relatives child?)
- What should happen to any deposits not used
  - they could be rolled over into a superannuation fund with the 15% superannuation tax paid on entry thus maintaining the philosophy of compulsory saving for retirement;
- Should the making of deposits be permitted instead of contributions to super (in whole or part); and
- Should, as in the case of Farm Mangagement Deposits, the deposits be managed by the financial sector.

These are some important issues that would need to be discussed in the public domain with appropriate contributions from taxation and other experts but the idea of people saving in advance for their families also fits with the Governments philosophy of self-help (rather than mutual obligation). It also should have few direct interactions with related welfare payments as the withdrawals would still be counted as income and taxed accordingly. What it does however is smooth income streams over years when one is caring for a child.

Attachments A (lower income) and B (higher income) provide calculations to demonstrate the 'period inequity' of the tax system (Case B) and the benefits of a Family Saving Deposit scheme (Case C). Note these are very simplified examples to demonstrate the points.

Case A is the control situation of a person not giving up work.

Case B shows that over a ten year period the average annual tax is higher than if the income had been steady over the whole ten years.

Case C shows the effect of using FSDs. In both cases the average tax paid over the ten years is more equitable than for the respective Case B – by chance the lower income example provides a neutral 'period inequity' situation, that is if the person had been on the average income over the period the amount of tax paid would have been the same reflecting the impact of operating within tax rate bounds.

Given the progressive nature of income tax rates the most benefit accrues to those on higher marginal tax rates. However, these are the people currently with the most capacity to pay for childcare. Even so, if some of them choose to stay at home longer it would reduce the demand for childcare services.

The revenue forgone for the Government would be in part offset by reduced demand on outlays but I do not have the means to make such calculations. From a tax equity basis alone a FSD scheme should be enacted.

I trust that you find this useful as we attempt to find better and more equitable ways to address a significant change in our societies way of raising its next generations. I would be more than happy to discuss these points.

Yours sincerely

Noel Beynon
Director *CapitalAg*

Attachment A

	Impact on tax paid and net incomes of using Family Saving Deposits (FSD)										
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Totals**
Case A											
Income	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	450,000
Income Tax	9,672	9,672	9,672	9,672	9,672	9,672	9,672	9,672	9,672	9,672	96,720
								Average tax rate over 10 years =			21.49
Case B											
Income	45,000	45,000	45,000	45,000	45,000	12,000	45,000	45,000	12,000	45,000	384,000
Income Tax	9,672	9,672	9,672	9,672	9,672	1,020	9,672	9,672	1,020	9,672	79,416
Tax Rate	21.49	21.49	21.49	21.49	21.49	8.50	21.49	21.49	8.50	21.49	
								Average tax rate over 10 years =			20.68
					Average rate if annual income over 10 years had been $38,400pa =						20.03
Case C											
Income	45,000	45,000	45,000	45,000	45,000	25,000	45,000	45,000	23,000	45,000	408,000
FSD	8,000	8,000	8,000	8,000	8,000	-25,000	4,000	4,000	-23,000	0	0
Taxable Income	37,000	37,000	37,000	37,000	37,000	25,000	41,000	41,000	23,000	45,000	360,000
Income Tax	7,272	7,272	7,272	7,272	7,272	3,672	8,472	8,472	3,072	9,672	69,720
Tax Rate	19.65	19.65	19.65	19.65	19.65	14.69	20.66	20.66	13.36	21.49	
								Average tax rate over 10 years =			19.37
					Average rate if annual income over 10 years had been $36,000pa =						19.37
Assumptions:											
Tax calculated using the ATO simplified tax tool with 1994 rates and full year residency (see http://calculators.ato.gov.au/scripts/axos/AXOS.asp)											
Excludes medicare, HECS etc											
In Case B the taxpayer returns to work for part of the year - about 3 months											
Constant wages and no changes in tax rates etc											

Attachment B

Impact on tax paid and net incomes of using Family Saving Deposits (FSD)

Year	1	2	3	4	5	6	7	8	9	10	Totals
Case A											
Income	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	650,000
Income Tax	17,357	17,357	17,357	17,357	17,357	17,357	17,357	17,357	17,357	17,357	173,570
								Average tax rate over 10 years =			26.70
Case B - Period Inequity											
Income	65,000	65,000	65,000	65,000	65,000	25,000	65,000	65,000	25,000	65,000	570,000
Income Tax	17,357	17,357	17,357	17,357	17,357	3,672	17,357	17,357	3,672	17,357	146,200
Tax Rate	26.70	26.70	26.70	26.70	26.70	14.69	26.70	26.70	14.69	26.70	
								Average tax rate over 10 years =			25.65
					Average rate if annual income over 10 years had been $57,000pa =						24.34
Case C - FSD											
Income	65,000	65,000	65,000	65,000	65,000	25,000	65,000	65,000	23,000	65,000	568,000
FSD	8,000	8,000	8,000	8,000	8,000	-25,000	4,000	4,000	-23,000	0	0
Taxable Income	57,000	57,000	57,000	57,000	57,000	25,000	61,000	61,000	23,000	65,000	520,000
Income Tax	13,872	13,872	13,872	13,872	13,872	3,672	15,552	15,552	3,072	17,357	124,565
Tax Rate	24.34	24.34	24.34	24.34	24.34	14.69	25.50	25.50	13.36	26.70	
								Average tax rate over 10 years =			23.95
					Average rate if annual income over 10 years had been $52,000pa =						22.64

Assumptions:

Tax calculated using the ATO simplified tax tool with 1994 rates and full year residency (see http://calculators.ato.gov.au/scripts/axos/AXOS.asp)

Excludes medicare, HECS etc

In Case B the taxpayer returns to work for part of the year - about 3 months

Constant wages and no changes in tax rates etc