

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 44

Topic: Modelling of tax deductibility and other child care spending proposals

Hansard Page: Written

Senator SHERRY asked:

Objective –

To find out whether Treasury has modelled some of the high-profile spending proposals touted by backbenchers and industry groups, and what this modelling shows.

Background –

(a) Fringe Benefits Tax

In early February 2006 Deloitte got a lot of media attention on a budget submission they made to the Treasurer, together with 37 other top-200 companies in November 2005.

The submission:

...aimed to seek reform of the Fringe Benefits Tax (FBT) legislation relevant to the provision of child care benefits. Initial discussions have been held with the representatives of the Department of Treasury, and further dialogue is anticipated to occur in February 2006.

(b) Tax deductions on child care

Various industry groups and backbenchers, including Jackie Kelly and Bronwyn Bishop, have called for child care expenses to be classed as a work-related expense and thus be allowed as a tax deduction.

The Treasurer was asked about this by John Laws on 2 February 2006:

LAWS:

...why not forget all of those special payments and all of the other things and just say you can claim as a tax deduction the childcare payments that you make during the year?

TREASURER:

Well if you are on the top marginal rate that would be advantageous but if you weren't on the top marginal rate you would end up paying more. You see, a 30 per

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cent rebate means that for most people who are on the 30 per cent rate or less it is the same as or better than tax deductibility. You see John, most parents and particularly most women don't pay the top marginal tax rate. If you say to them we will give you a tax deduction, they won't get the top marginal tax rate deduction, they will get less than that, they would actually get less than they are currently getting.

LAWS:

Okay, I'd like to think about that. What about this suggestion that you drop the Fringe Benefits Tax on childcare?

TREASURER:

Well there is no Fringe Benefits Tax where an employer provides childcare at their premises. There have been suggestions that you should allow employers to provide it somewhere else and have the same treatment. Look, I am not going into the ins and outs of policies, obviously there are some good points in that policy, there are some bad points.

Questions –

FBT

- (1) What work has been done as a result of receipt of the Deloitte's submission on extending child care fringe benefit tax exemptions? i e, What analysis has been done off the back of it?
- (2) Has Treasury examined the (a) likely take-up rate and (b) cost of expanding the range of child care expenses that are FBT exempt?
- (3) Has the department provided advice to the Treasurer on FBT and child care?
- (4) Deloitte's stated in its budget submission that:
The present FBT exemption...requires employers to operate a child care facility on their business premises in order to claim the exemption. The cost of such a facility and the associated administration costs will usually outweigh the benefits for most employers. Does Treasury accept this analysis, that the FBT exemptions don't help most businesses?
- (5) How many employers for each FY since 2002-03 claimed FBT exemptions for child care expenses?
- (6) Does Treasury regard the current FBT regime as applies to child care as successful policy? Is it achieving the objective of enabling employer investment in child care?

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Tax deductibility

- (1) Has Treasury examined the (a) labour force implications and (b) lost revenue implications of making any child care expenses incurred by working parents tax deductible?
- (2) Has Treasury looked at how much child care users in a range of income groups would get, if child care expenses were made a work-related tax deduction?
- (3) The Treasurer has said that any move to get rid of the current forms of federal financial assistance for child care and replace it with tax deductions would benefit some, and leave others worse off.
- (4) Is this the view of Treasury? Has advice been provided to the Treasurer to this effect?

Answer:

FBT

Refer to the Treasurer's response on 14 August 2006 to Question No. 3108.

Tax deductibility

- (1)-(2) Refer to the Treasurer's response on 15 June 2006 to Question No. 3109.
(3)-(4) Yes. Yes.