

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 45

Topic: Unfunded liability from 30% child care tax offset

Hansard Page: Written

Senator SHERRY asked:

Objective

- to find out why Treasury has not updated the revenue cost of the 30% tax offset, in light of Government estimates that around 85,000 parents will go from welfare to work over the next few years (Treasurer's figures of welfare to work parents from 2005 Budget) and uncapping family day care and outside school hours care creating 60 000 new places (2006 budget).
- to find out Treasury forecasts of the number of child care users who will not benefit from the 30% tax offset, or will not get the full benefit.

Background

The 30% child care tax offset was a key election promise.

It is payable on out-of-pocket child care expenses – that is, the fee paid by the parent after Child Care Benefit (CCB) has been paid to them by the Fed Govt – for formal child care (ie, long day care, family day care and outside school hours care).

The tax offset is payable for expenses incurred from 1 July 2004.

However these expenses cannot be claimed until tax returns filed for FY 2005-06, so child care users will receive the tax offset towards the end of 2006.

In December 2004 Costello announced the Government would cap the offset at \$4000 per child. Thus parents for whom 30% of their child care expenses exceed \$4000 will not get 30% back, but a flat \$4000.

The Government will save money from capping the rebate at \$4000 per year per child – it has not said how much to date.

There were very minor adjustments made to figures for the cost of the rebate between the election, MYEFO figures and the 2005/06 Budget papers.

However, these minor adjustments do not appear to take into account the extra child care users the Government expects to result from its welfare to work policy.

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Curiously, the cost of the offset in 2006-07 is lower than the out years, despite the fact that parents will be claiming the offset in their 2005-06 tax returns for 2 years : 2004-05 and 2005-06.

<i>Revenue (\$m)</i>	2005-06	2006-07	2007-08	2008-09
ATO	-	-\$280	-\$305	-\$330
<i>Related expense</i>				
FACS	12.9	15.6	20.0	25.6
ATO	4.1	2.7	1.6	1.6
Total	17.0	18.3	22.5	27.2

(p 117, *Making Australia Stronger, Budget 2005-06*)

Questions

Cost of the rebate (revenue loss)

- (1) Will families 30% child care tax offset entitlement for FY 2004-05 be calculated against their income in FY 2004-05, or 2005-06? (note that the offset cannot be claimed for FY 2004-05 until 2005-06).
- (2) Why is only \$280 million allocated to the rebate in 2006/07, less than the out years following, despite this amount representing revenue loss from the tax offset for 2 entire financial years?
- (3) Shouldn't the cost in 2006-07 be approximately double that of the out years, as it represents two years of loss revenue not one?
- (4) Confirm that the Government allocated \$266.5 million to create another 83 000 outside school hours care places in the 2005 Budget.
- (5) What is the forecast revenue cost resulting from the 30% tax child care offset of another 83 000 places?
- (6) Where is this additional cost noted in the budget papers? Why has this additional cost not been adjusted for in the cost of the tax offset? Isn't this a costing black hole?

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Number of child care users who will not get the full benefit of the 30% rebate

- (1) How many families using approved child care are forecast to hit the cap this financial year?
- (2) How many families using approved child care are forecast to have tax liabilities lower than their entitlement under the 30% tax offset? (Ie, how many won't get the full benefit of the rebate, because their child care expenses are higher than their tax bill?)

Amount families will get back from the rebate

- (1) Has Treasury modelled the amount families with different incomes and child care expenses will get back from the tax offset?
- (2) How much will a family with two parents earning the minimum wage and \$5000 of out-of-pocket child care expenses get back from the rebate?
- (3) How much will a family with a combined income of \$150 000 and \$20 000 of out of pocket child care expenses get back from the rebate?

Answer:

Cost of the rebate (revenue loss)

1. Families are able to claim the child care tax offset for the costs of approved child care incurred in 2004-05 against their income from 2005-06 in their 2005-06 income tax return.
2. The \$280 million estimated loss to revenue reflects the revenue loss for one financial year of child care costs – those incurred in 2004-05. An offset for child care costs incurred in 2005-06 can be claimed in the 2006-07 income tax return.
3. The cost in 2006-07 represents the loss to revenue from one year.
4. The Government allocated \$266.5 million to create another 83,000 outside school hours care places in the 2005-06 Budget.
5. Variations are included in 'other variations' published in the 2005-06 Budget, but not separately identified.
6. Variations to the forward estimates and projections published in the Budget Papers are reflected in the revenue estimates through parameter variations.

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Number of child care users who will not get the full benefit of the 30% rebate

1. The child care tax offset is designed to ensure that the benefit is transferable between parents to maximise the tax liability available for offset.
2. The number of families expected to have a tax liability less than their child care tax offset is not published.

Amount families will get back from the rebate

1. Treasury has modelled some family types as cameos.
- 2 – 3 These can be calculated from publicly available information.