

# National Tax & Accountants' Association Ltd.

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23 January 2004

Tim Watling  
Senior Research Officer  
Senate Select Committee on Medicare

Dear Tim

**Re: Family Tax Benefit (Part A) and its proposed relationship with the Medicare levy safety net**

I refer to a phone conversation we had on 19 January 2004, in which I committed to outlining the concerns held by the National Tax and Accountants' Association on using the Family Tax Benefit (Part A) to determine a taxpayer's entitlement to the Medicare levy safety net.

By way of background, the Family Tax Benefit ("FTB") Part A can be claimed by taxpayers in one of two ways. A taxpayer can claim their FTB entitlement through fortnightly payments from the Family Assistance Office or it can be claimed through the tax system at the end of the year.

For the purposes of my observations, we will focus upon those taxpayers who choose to claim their FTB Part A entitlement through the tax system.

### **Problems with using FTB Part A for Medicare levy safety net purposes**

Ideally, the government should be able to limit the Medicare levy safety net to those taxpayers who are entitled to the FTB Part A, where the eligibility criteria is identical for both concessions.

However, the eligibility criteria assumes that all taxpayers who are entitled to FTB Part A are claiming it and that no inherent problems exist with the administration of the FTB system.

We believe that certain problems (see below) with the FTB Part A have meant that some taxpayers who are eligible for this concession are not claiming it. Some of the problems with FTB Part A that have contributed to this situation include:

1. FTB Part A is very complex. Therefore, some taxpayers are not claiming FTB Part A because they don't even realise they are entitled to claim the tax concession.

By way of example, the 2003 Tax pack for individuals devotes almost 12 pages to discussing a taxpayer's entitlement to FTB and related issues. The formulas contained in Tax pack are also complex (they run for a number of pages) and reflect the complex nature of the rules contained in the FTB.

We believe that taxpayers who attempt to use Tax pack to prepare their 2003 individual return would find it almost impossible to correctly calculate their entitlement. These taxpayers may therefore choose to ignore their claim because they are concerned about making errors.

2. Our members (ie, tax agents) have also indicated that claiming FTB Part A for their clients through the tax system is very time consuming and costly.

Some members have indicated that their clients have decided not to make a claim for FTB to reduce the cost of preparing their individual income tax return. The client was concerned that the time and cost needed to correctly claim the FTB may, in some cases, have exceeded the actual claim.

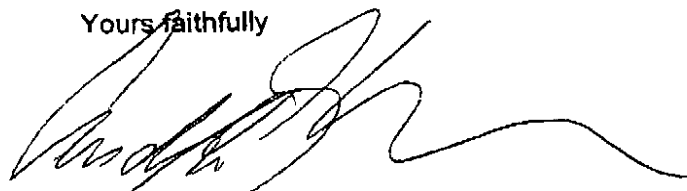
3. As it currently stands, a taxpayer forfeits their entitlement to claim the FTB where they fail to make the claim by 30 June of the year after the year in which they are entitled to make the claim. For example, a taxpayer who has an FTB claim in the 2003 income year must make that claim by 30 June 2004 or the entitlement is forfeited.

Our concern is that relying upon the FTB system as the basis for qualifying for the Medicare levy safety net may lead to taxpayers being penalised twice. These taxpayers may have missed out, or decided not to claim, their entitlement to the FTB and this decision also results in them forfeiting their entitlement to the Medicare levy safety net concessions.

A manifest problem will always arise where the entitlement to the Medicare levy safety net concessions is determined by an entitlement that has fundamental compliance problems.

We strongly recommend that consideration be given to changes to the process for claiming the FTB before it is used for the basis for determining a taxpayer's entitlement to the Medicare levy safety net concessions.

Yours faithfully



**ANDREW GARDINER**  
**SENIOR TAX MANAGER**