

## **BUDGET 2017 – FAMILY PAYMENTS**

The 2017 Budget proposes two main measures affecting the Family Tax Benefit (FTB) program:

- an increase to the maximum rate income test taper for Family Tax Benefit Part A (FTB-A) and
- an extension of the immunisation requirements for FTB-A.

The Government also announced that it will no longer pursue a number of previously announced measures seeking savings from the FTB program.

Finally, the Budget includes changes to the child support program which will affect some single parents receiving FTB-A. The NSSRN will analyse these changes in an upcoming Budget 2017 update.

### **The Family Tax Benefit program**

The Family tax benefit (FTB) program is the main form of direct financial support to families with children in the Commonwealth income support system. FTB-A is a per child payment paid to families with dependent children aged up to 19. Family tax benefit part B (FTB-B) is a per family payment paid to:

-single parent families with dependent children until the end of the year they turn 18, or

-couple families with dependent children up to age 12 (unless a grandparent or great grandparent carer), where one parent has a low income or is not in paid work.

Both FTB-A and FTB-B are income tested to target them to lower income households with children. They are also subject to other requirements including school attendance requirements for older children, care and residence requirements.

### **Measures no longer proceeding**

Since its election in 2013, the Coalition Government has sought to enact a range of savings measures for the FTB program. Since the 2015-16 Budget, it has linked some FTB savings measures with its child care reforms.

It successfully enacted a number of significant savings measures, including

- Reduction of the FTB-B income limit for the primary earner to \$100,000 per year or less
- Closing FTB-B to most couple families when their youngest child turns 13
- Abolition of the large family supplement and the FTB-A per child add-on
- Closing the FTB-A end of year per child supplement to families with income over \$80,000 per year and
- Closing the energy supplement to new recipients of FTB-A.

Most recently, FTB-A and FTB-B payment rates were paused for two years, so that indexation to the consumer price index will not commence until 1 July 2019. This saves around \$1.9 billion over five years from 2016-17.

However, the Government was unable to win the Senate's support for a number of other measures. In this Budget the Government has confirmed that it is abandoning those measures including:

- The phasing out of the FTB-A and FTB-B end of year supplements

- An increase in the fortnightly per child rates of FTB-A (and related youth payment rates), linked to the phase out of the supplements and
- Changes to the rate structure of FTB-B, including reduction in payment rates for most single parents once their youngest child turned 13 and closure of FTB-B from the start of the calendar year their youngest child turned 17.

### **Proposed change to the FTB-A maximum rate income test taper**

This measure increases the maximum rate income test taper for FTB-A from 20 cents to 30 cents for each dollar over the higher income threshold. The Government estimates savings of about \$415 million over five years.

The FTB-A income test is complex.

Two income tests are used, with the test which results in the higher rate of payment for a family applied. Under the first test, the family's maximum rate of payment is reduced by 20 cents for each dollar over a lower income free area, currently annual adjusted taxable income of \$51,903. Under the second, test, the family receives the base rate of FTB-A (currently \$2,255.70 per child per year including the end of year supplement), reduced by 30 cents in the dollar for each dollar over the higher income free area, currently annual adjusted taxable income of \$94,316.

The effect is that:

- Families with income below \$51,903 receive the maximum rate of payment
- Families with income between \$51,903 and \$94,316 receive the rate worked out under the first test, unless the base rate is higher and
- Families with income over \$94,316 receive the rate worked out under whichever income test is higher depending on their circumstances.

Relevantly, larger families with incomes over \$94,316 tend to have their rate worked out using the first income test (as their maximum rate is higher, due to the number of children).

Under this measure, the first income test will change so that the taper rate will increase to 30 cents for each dollar over \$94,316. The 20 cent taper rate will still apply to families with incomes between \$51,903 and \$94,316.

This will tend to affect larger families with three or more children and incomes over \$94,316, as only these family types tend to have their rate worked out using the first income test at higher income levels. The Government estimates that about 24,900 families will no longer be eligible for FTB-A and 71,800 will have a reduced payment rate.

### **No Jab No Pay**

Under this measure fortnightly payment rates of FTB-A recipients will be reduced if children do not meet immunisation requirements.

The immunisation requirements for FTB and child care payments were extended from 1 January 2016. Since 1 January 2016:

- Children of all ages were required to meet immunisation requirements as a condition of eligibility for the FTB-A end of year supplement (children aged 1 or older) and child care payments and
- Conscientious objection was removed as an exemption from these requirements

A child meets the immunisation requirements if immunised in accordance with the National Immunisation Program schedule or on an approved catch-up schedule. Exemptions exist on medical grounds, natural immunity or if the Secretary grants an exemption in limited circumstances.

If the child does not meet the immunisation requirements after the end of the financial year, their FTB-A supplement is withheld, they have one year to meet the requirement and be paid the supplement (or up to a further if an extension is granted in special circumstances).

Under the Budget measure, from 1 July 2018 fortnightly FTB-A payments will be reduced by about \$28 per fortnight if a child does not meet immunisation requirements.

The Government estimates savings of \$15 million over four years from this measure.

### **Analysis**

The NSSRN welcomes the Government's abandonment of previously announced FTB savings measures which would have, overall, reduced payments to the lowest income families receiving FTB and were regressive. However, the largest savings in the social security and welfare area of spending in this Budget are in the FTB program. The largest savings come from the already enacted pause on FTB payment rates for two years. This is regressive, as it has the largest proportional impact on the disposable incomes of low income families.

The NSSRN does not oppose the changes to the FTB-A maximum rate income test taper, which affects families on incomes over about \$100,000.

The detail of the further extension of the immunisation requirements for FTB-A needs careful consideration, given the more immediate impact of this measure on the regular fortnightly incomes of some families (rather than the end of year supplement withheld).

It is unclear whether the withheld payments will be later paid if the child meets immunisation requirements (or enters an approved catch-up schedule) but this should be the case.

The measure should also be supported by administrative processes within the Department of Human Services. Given the impact on fortnightly income, consideration should be given to targeted reminders and warnings for the most vulnerable families (especially those also receiving income support), such as targeted outbound calls which include assistance connecting with appropriate support services if necessary rather than simply standard letters.

The current exemptions also need review, including the range of exemptions which may be granted by the Secretary, to ensure they are appropriate given the more immediate impact of this measure on family income. Consideration needs to be given, for instance, to the impact on: carers who acquire care of children who do not meet immunisation requirements (such as grandparents, foster carers) or families unable to reasonably access vaccinations due to geographic location or other circumstances.

Looking more widely, it is very concerning to see that FTB program again the source for some of the largest savings in the social security budget.

Budget Paper No. 1 notes that the main increase in spending in the social security and welfare budget to 2019-2020 is largely due to increased spending on the National Disability Insurance Scheme and the impact of an ageing population on age, disability and carer payments and aged care. Spending on other areas is projected to fall in real terms, including the FTB program.

This reflects a decade of significant cuts to the FTB program, including the decision of the previous Labour government to link the indexation of FTB to prices, not earnings.

Instead of further cuts, the FTB program needs reform aimed at ensuring the adequacy of payments to low income families, 44% of whom also received an income support payment as at June 2016. This is a core measure for the prevention of child poverty. There is also a case for simplifying the program and reducing distortions in the income test, including because of a range of recent changes such as: closing energy supplement to new recipients, a complex FTB-B rate structure for couples depending on whether they are parents or grandparent carers and the \$80,000 cut out point for the FTB-A supplement.