Taskforce on Care Costs

Policy Research Paper

Creating Choice: Employment and the cost of care

24 February 2005

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1 Introduction and Executive Summary

Supporting workers with caring responsibilities (for children, elders and people with a disability) is a critical issue for individuals, business and the national economy. The Australian Bureau of Statistics estimates that in NSW alone nearly 2 million people over 18 years of age care for another adult or child, however only 1 million of those carers are in employment[1]. Whilst some of this gap reflects personal choice, anecdotal reports by carers and preliminary academic research indicate that the high cost of care forces workers with caring responsibilities to choose *between* work and caring. This forced choice has a direct impact on quality of life for workers[2] and their dependents, as well as flow on effects for business and the national economy.

The Federal Government has identified workforce participation as a strategic issue for Australia's future economic prosperity, because of our ageing population and lower fertility rates.[3] Ensuring that workers with caring responsibilities are able to participate in the workforce at their optimal level is a clear pathway for the Government to achieve its objective. By enhancing financial support for workers with caring responsibilities the Government will create real choice for carers, improve business outcomes (by reducing employee turnover and skill wastage) and boosting the economy (by increasing tax contributions and reducing government outlays). Notwithstanding these potentially significant benefits, a comprehensive analysis of the connection between the cost of care and workforce participation has not been undertaken, and consequently these issues have not received significant attention or support.

In 2003 a Taskforce on Care Costs was established by key Australian business, government, and non-government stakeholders[4] to investigate the financial cost of care and how it impacts workforce participation, and to promote reforms within a policy framework of financial sustainability, equity and choice. The Taskforce:

1. reviewed the current cost of care in Australia;
2. reviewed the available forms of financial support for carers;
3. compared the forms of financial support for carers in Australia and other countries (eg the USA, Canada, European countries, and New Zealand);
4. undertook micro economic modelling on options for reform in terms of different tax treatments (eg a rebate, fringe benefits tax and a tax deduction); and

1 Australian Bureau of Statistics (2001) *Managing Caring Responsibilities and Paid Employment, New South Wales*, Cat 4903.1

2 "Participating in the workforce makes people wealthier during their lives, and also means that they have higher incomes in retirement. There is also evidence that those who participate are, in general, healthier than those who do not": Australian Federal Government (2004) Australia's Demographic Challenges, Social Policy Division, The Treasury, p. 1 http://demographics.treasury.gov.au.

3 Australian Federal Government, *Intergenerational Report 2002*

4 The Taskforce on Care Costs is supported by Aequus Partners, Australian Women Lawyers, Baker and McKenzie, the Bar Council of NSW, Blake Dawson Waldron Lawyers, Blue Scope Steel, the Equal Employment Opportunity Network of Australia, Ernst & Young, Freehills, the Human Rights and Equal Opportunity Commission, IAG, ING (Australia), the Law Society of NSW, McDonalds (Australia), the NSW Equal Employment Opportunity Practitioners Association, Qantas, Reuters, Rialto Consulting, Talent Management Australia, Wee Wunz, Westpac Banking Corporation, Women's Council of the Liberal Party, Women in Finance, and the Women Lawyers Association of NSW. For more information visit www.neeopa.org

5. commissioned a random sample national survey entitled *Creating Choice: Employment and the cost of caring survey*[5].

This Policy Paper presents the Taskforce's research on each of these 5 issues (i.e. (i) cost; (ii) financial supports; (iii) international comparison; (iv) micro economic modelling; and (v) survey results) in discrete chapters. This opening section identifies in summary form the Taskforce's key findings and recommendations. On 24 February 2005 the Taskforce published its findings and recommendations at a public launch in Sydney, Australia[6]. Australian business and community leaders attended the launch.

1.1 Executive summary of key findings

The Taskforce made key findings in relation to:

(i) the cost of care in Australia;

(ii) current forms of financial support for carers in Australia;

(iii) the international position;

(iv) micro economic modelling; and

(v) Survey results.

Each of the Taskforce's key findings are set out below, with a summary finding at the conclusion of each of the 5 topics.

1. Cost of care in Australia

1.1 In 2002 69.1% of children 0-4 years and 33.0% of children 5-11 years of age were in formal childcare (either solely or in combination with some form of informal care). This represented a 39% increase for children 0-4 years since 1993 and a 60% increase for children 5-11 years.

1.2 Between November 2002 and March 2004 childcare costs increased at a rate 2.2 times more than wage and salary earnings and 4.5 times more than prices generally. This continued a trend identified in a study conducted by the Australian Institute of Health and Welfare (AIHW) in 2003. These increases were reflected in the average cost of full-time childcare for pre-school aged children nationally ($249 per week), and in New South Wales ($348 per week) and Victoria ($313 per week), which is significantly higher than those reported by AIHW in 2002.

1.3 Whilst there is some debate about the impact of cost of care on parents' employment decisions, the Taskforce found a direct relationship between the cost of care and employment choices. In particular, 35.8% of workers who cared for children under school age have considered leaving the workforce because of the cost of care, and 37.3% are likely to leave the workforce in the future because of the cost of care. This finding is supported by research conducted by the National Centre for Social and Economic Modelling (NATSEM) which concluded that the interaction between childcare costs, income and government tax and benefit structures can limit the benefit of increasing workforce participation, particularly for low income earners.

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5 The survey was designed and analysed by Dr Graeme Russell, Associate Professor, Macquarie University and administered by an independent research house, AMRInteractive.

6 Copies of the policy paper can be obtained by visiting www.neeopa.org.

1.4 The Taskforce Survey responses indicated that the average actual weekly cost (i.e. including full-time and part time usage) for elder care ($162 per week) or disability care ($118 per week) was similar to or more than that paid for by respondents paying for childcare ($117 per week). Research by Carers Australia showed that other carers paying for care had similar issues to people paying for childcare in terms of affordability and availability of care, and its impact on their workforce participation decisions.

1.5 The potential of the Government's proposed introduction of a childcare rebate (which is set at 30% of out-of-pocket expenses and capped at $4,000 per annum) to generate a significant increase in workforce participation is questionable. The current level of cost for childcare would result in a low income earner still having to pay on average $4,000 per annum after government benefits and rebates if they wanted to have one child in full time care. Middle and higher income earners paying for full-time childcare (particularly in New South Wales and Victoria) have on average out-of-pocket expenses which exceed the $13,333 at which the $4,000 cap is reached.

1.6 The Taskforce's analysis has been informed by research conducted the Department of Family and Community Services, which found that every dollar spent by the Government on childcare results in a net return to the Government and to the economy in general.

1.7 In summary the Taskforce found that the Government's proposed introduction of a 30% childcare rebate would be of some, but not significant benefit in alleviating the cost of care and therefore increasing levels of workforce participation. Further the $4,000 cap would unduly limit the effectiveness of the proposed rebate, and discriminates against workers using care in those States (eg NSW and Victoria) where the cost of care is higher. Finally the proposed childcare rebate unfairly excludes care costs for the elderly and those with a disability.

2. Current forms of financial support for carers in Australia

2.1 Fringe benefit tax exemptions for working carers tend to assist large employers only and do not therefore assist the majority of Australian employees.

2.2 Care costs are not tax deductible.

2.3 Various tax credits and benefits are available under Australian taxation law, including the Baby Bonus, Family Tax Benefits, the invalid relative tax offset, parent or spouse's parent tax offset and the beneficiary tax offset; these amounts are generally dependent upon income and range from approximately $500 to $1,381 per dependent per annum (for the income year 2003/2004).

2.4 In the 2005/2006 tax year, the Government has promised to introduce a 30% childcare rebate in relation to out of pocket expenses from 1 July 2004 onwards; this rebate will be capped at $4,000, and will be collectable in the following tax year. Legislation has not yet been introduced to implement the Government's promised childcare rebate.

2.5 Various allowances in respect of formal childcare, carers of people with disabilities and other dependents are available independently of the taxation system.

2.6 In summary, the Taskforce found that the various tax credits, benefits and allowances currently in place in Australia do not adequately meet the high cost of care for the majority of families, especially in urban areas where the costs of care are particularly high. Further current forms of support for workers with caring responsibilities are narrow (focussing on young children) and the Government has not introduced legislation to implement its promised 30% childcare rebate.

3. The international position

3.1 Care costs are tax deductible in Canada, Austria and Belgium.

3.2 Tax credits to offset the costs of care are available in the United States, the United Kingdom, the Netherlands, France and New Zealand.

3.3 Carer and other allowances are available in the United States, the United Kingdom, Canada, the Netherlands, Sweden, Austria, France, Germany, Belgium and New Zealand.

3.4 Generally speaking, the tax deductions and tax credits available in the countries examined appear to be structured to enable workforce participation by carers. By contrast, the allowances available appear to be structured to facilitate the provision of care independently of the carer receiving paid income.

3.5 The variety of tax treatments and allowances available reflect the different social and economic frameworks operating in the countries examined. Notwithstanding these differences, general comparisons can be drawn between taxation and benefits structures available in Australia, and those available in the countries examined.

3.6 Countries that appear to exemplify best practice include Belgium (in which up to 80% of childcare costs are deductible up to a maximum of €11.20 per day) and the United Kingdom (in which a tax credit is available of up to 70p for every £1 paid in childcare costs).

3.7 In summary, in comparison with international provisions, Australian financial support for workers with care costs via a tax deduction or tax credit/rebate falls short of examples of "best practice".

4. Micro economic modelling

4.1 The most equitable solution to improve the financial position of working carers across all income groups would be the introduction of a rebate for care costs, rather than an FBT exemption or tax deduction.

4.2 The Taskforce considers that there are good grounds to increase the proposed childcare rebate to a more meaningful level (i.e. closer to a dollar for dollar rebate) based on:

- the Department of Family and Community's research that initial expenditure on childcare costs yields an overall positive return on investment (see finding 1.6);
- the Taskforce's Survey results on workers' intentions to increase hours of work if care was more affordable (see finding 5.4); and

- the likely reduction in the cash economy in paid care if the formal declaration of income for paid care is encouraged (see finding 5.8).

4.3	In summary, the most equitable and sustainable tax treatment to alleviate workers' care costs is the introduction of a rebate. The Government's proposed introduction of a 30% rebate for childcare expenses, capped at $4,000 per annum, is a positive first step. However, the Taskforce finds that a rebate which is uncapped and approximates dollar for dollar out of pocket expenses will have a greater impact on workforce participation rates and reducing the cash economy.

5. Survey results

5.1 *Strategies to reduce the cost of care will have a direct impact on employment outcomes* as there is a strong causal relationship between the financial cost of care and employment choices, and affordability is a key issue for all employees with caring responsibilities.

5.2 *The current cost of care increases workforce attrition rates:* 1 in 4 employees surveyed (i.e. employees with caring responsibilities) indicated they would be likely to leave the workforce in the future because of the cost of care. This relationship is amplified for employees caring for children under school aged (37%) and the elderly (40%).

5.3 *The current cost of care reduces the level of workforce participation*: 1 in 4 employees surveyed (i.e. employees with caring responsibilities) had already reduced their hours of work because of the cost of care. This relationship is amplified for employees caring for children under school age (30%).

5.4 *Employment levels (and by implication income tax revenue) could be increased by reducing the financial cost of care:* 35% of employees surveyed would increase their hours of work if care were more affordable. This relationship is amplified for employees caring for people with a disability (approximately 40%).

5.5 *Strategies to reduce the cost of care should target the full range of caring relationships.* The focus of current policies is on children under school age, but of the employees surveyed, only 38% fitted this category, whilst 67% cared for school aged children, and 20% had responsibilities for elders and people with a disability. As this latter group is likely to increase in number in light of the ageing population, strategies to address the cost of care should ensure that the focus is broader than children.

5.6 *The cost of care is linked to the type of caring arrangement selected.* Informal care arrangements (eg shared arrangements between a husband and a wife, or an arrangement with friends/neighbours) are most commonly used for school aged children (83%), people with a disability (45%) and the elderly (58%). In contrast formal care arrangements (eg private care inside or outside the home) are most commonly used for pre-school aged children (59%). It is of note however that a significant proportion of elderly (36%) and people with a disability (31%) also use formal care arrangements inside and outside the home. These data suggest that there may be an unmet need for formal care arrangements for school aged children, people with a disability and the elderly, if the mix of cost and availability of care is addressed appropriately.

5.7 *The caring arrangements used for people with a disability and the elderly do not fall as neatly into the formal/informal categories* commonly used to identify caring arrangements for children. Approximately 30% of employees identified that the care they provide is "other" than formal or informal and further investigation needs to be undertaken about the nature of these caring arrangements, and whether cost reduction strategies should be refined to address these arrangements.

5.8 *There is a significant loss of tax revenue associated with caring arrangements*, suggesting that the cost of care (and the lack of a deduction/rebate) acts as a disincentive to formalise the arrangements. Approximately 45% of employees surveyed (i.e. employees with caring responsibilities) pay for their caring arrangements, however between 53-70% of that group do not pay for services formally (i.e. on a tax declared basis). This lack of formality has implications which are broader than taxation, and include the Government's capacity to understand, and therefore monitor, the quality of care provided.

5.9 *A significant proportion of employees surveyed support reforms to reduce the cost of care*. Approximately 1 in 3 employees surveyed (31%) perceive the cost of care as "too high" relative to their income, and over half of that group (54.3%) are supportive of a change in the tax system in order to make carers' costs more affordable. 78% of the tax reform group support the introduction of a rebate or tax deduction.

5.10 *The relationship between the cost of care and employment choices affects employees on all incomes*, i.e. from those on relatively high incomes (defined as AUS$90,000 and above) to those on relatively low family incomes (defined as below $50,000) with the impact on employees on low incomes amplified. Hence strategies to address all income groups will have a significant impact upon choice and workforce participation for all employees.

5.11 *The cost of care was important to the employees surveyed, as was the quality of care and its availability.* For maximum impact, a strategy to improve choice for carers should be developed holistically, i.e. addressing cost, quality and availability.

5.12 In summary, the survey results demonstrate that there is a direct and causal relationship between levels of workforce participation and the cost of care for elders, children and people with a disability. At present, workers with caring responsibilities lack real choice about working at their optimal levels, and choose *between* employment and caring when the financial cost of care is perceived as too high. Consequently, the survey identified both an opportunity and a risk for business, and the national economy, in relation to providing adequate forms of financial support for workers with caring responsibilities. The survey also provided evidence about the nature of caring relationships and the high proportion of income paid to carers that is undeclared in terms of the income tax system. The implementation of substantial financial support for carers in the form of a rebate would provide an incentive for workers to declare the amount of income paid to carers, thus ensuring that a greater number of caring arrangements were formalised and could therefore be monitored.

1.2 Executive summary of key recommendations

In summary the Taskforce recommends that to assist workers with caring responsibilities the Federal Government:

1. Immediately draft legislation (for consultation) to implement it promised 30% rebate for childcare costs.
2. Extend the proposed childcare rebate to cover elder and disability care costs.
3. Extend the proposed 30% rebate to a more meaningful level, i.e. closer to a dollar for dollar rebate, and remove the proposed $4,000 cap.
4. Introduce reforms to assist with the cost of care in combination with a strategy to improve the accessibility and quality of care.
5. By 30 June 2006, release a public report identifying the steps it has taken to implement the Taskforce's recommendations.

2 Scope and purpose

The terms of reference of the Taskforce were to:

1. investigate the financial cost of care for elders, children and people with a disability;
2. investigate the relationship between the cost of care and workforce participation;
3. promote policy reforms to ameliorate the cost of care for workers with caring responsibilities within a policy framework of:
    - ensuring financial sustainability,
    - supporting individual choice; and
    - promoting equity.

The Taskforce sought to investigate whether benefits would flow from the introduction on financial support for workers with caring responsibilities, and in particular to the Government, business, employees and their dependents. As a result of the Taskforce's investigation the Taskforce accepts that potential benefits will arise for all of these groups.

The potential benefits to *Government* include:

- increased levels of workforce participation and therefore a reduction in skill wastage;
- increased tax revenue and a reduction in expenditure on other government outlays (eg benefits and allowances);
- a reduction in the cash economy and increased tax revenue through the increased declaration of income paid to carers; and
- increased tax revenue by creating demand for care and thus creating more jobs in the formal care provider industry.

The potential benefits to *business* include:

- increased employee retention rates and therefore;

- decreased costs in re-training/hiring and other costs associated with employee turnover;
- increased labour pool from which to recruit employees; and

- increased levels of employee satisfaction.

The potential benefits to *employees* are:

- reduced financial burden for the cost of care;
- enhanced options to re-enter or remain in the workforce at their optimal level;
- greater choice in caring arrangements;
- improved quality of life; and
- flow-on improvements in choice, quality and accessibility of care.

The potential benefits to *dependents* are:

- increased caring options and availability;
- increased demand and quality of care; and
- support for privatised care arrangements.

In line with the primary aim of the Taskforce, this paper is limited in its scope to an analysis of the impact of the cost of care on *workers* with caring responsibilities. Given resource constraints, the Taskforce did not examine the impact of the cost of care on individuals who have already left the workforce, or who are unable to enter the workforce because of the cost of care. The Taskforce recommends that these issues should be the subject of further investigation.

3 Definitions

(a) **Allowance** means a government-funded payment made to a claimant otherwise than under taxation legislation.

(b) **Carers** are family members who have responsibilities to provide care and support for their dependents, eg children or adults who have a disability, mental illness, chronic condition or who are frail aged[7].

(c) **Childcare** is principally provided, either formally or informally, for children under 12 by someone other than the child's parent or legal guardian. Formal arrangements can include long day care centres, family day care, occasional care, after-school hours care and vacation care.

(d) **Childcare – Approved -** is care provided by a service provider that has been approved to receive Childcare Benefit payments on behalf of eligible families. Most long day care, family day care, before and

7 This definition is intended to include relationships established by blood ties or affinity (ie through a marriage or a defacto relationship). See section 49S of the *Anti-Discrimination Act 1977* (NSW) for a guiding definition on "responsibilities as a carer".

after school care, vacation care, some occasional care and some in-home care are approved childcare providers. [8]

(e) **Childcare – Registered -** is care for work related purposes that is provided by grandparents, relatives, friends or nannies who are registered with the Family Assistance Office. Registered care also includes care provided by some private preschools, kindergartens, some outside school hours care services and some occasional care centres.[9]

(f) **Deductible expenses** are after tax expenses that a taxpayer can offset against taxable income.

(g) **Family day care services** are networks of experienced carers who provide care and developmental activities in their own homes for other people's children. [10]

(h) **In-home care** is a flexible form of childcare where care is provided in the child's home by an approved carer. In-home care may be available for families who do not use a standard childcare service, or where their childcare needs cannot be met by an existing service.[11]

(i) **Long day care centres** usually care for children under school age, in premises specially built or adapted for childcare. Private operators, local councils, community organisations, employers and non-profit organisations may run long day care centres. They provide quality, all-day or part-time care for working families and offer developmental programs within their care programs. Some long day care centres provide care for limited numbers of primary school children before and after school, and during school holidays.[12]

(j) **Outside school hours care services** provide care for primary school children before and/or after school and, in some services, on 'pupil free' days. Some outside school hours care services also provide school holiday care or are linked to vacation care services. There are some services that provide care for primary school children all year.[13]

(k) **Tax credit** means a tax-free amount payable to a taxpayer through the taxation system (eg a rebate).

(l) **Vacation care services** provide care, including creative indoor and outdoor activities during the school holidays for primary school children. A vacation care service must be available for a child for at least eight continuous hours on each normal working day. This

8 Family Assistance Office website, www.familyassist.gov.au

9 Ibid.

10 Department of Family and Community Services website, http://www.facs.gov.au/internet/facsinternet.nsf/childcare/families-nav.htm

11 Ibid.

12 Ibid.

13 Ibid.

must be over a period of at least seven weeks of school holidays in a year.[14]

4 The cost of care in Australia

4.1 Introduction

Identifying the cost of care in Australia is difficult and will depend on how care is defined, the types of care that are included and the costs that are included.

The Australian Bureau of Statistics (ABS) estimates that in NSW alone nearly 2 million people over 18 years of age care for another adult or child, however only 1 million of those carers are in employment[15]. In relation to people with a disability and the aged, the ABS estimates that there are 2.6 million carers in Australia[16], and Carers Australia estimates that unpaid care alone was estimated to be worth $18.3 billion per annum whilst the government's spending on community care and support carers and welfare payments totalled $2.547 billion.[17]

In a paper presented at the Australian Institute of Family Studies Conference on 13 February 2003, Richard Percival and Ann Harding estimated that in March 2002, it cost $448,000 ($264,000 for the first child and $184,000 for the second) to raise two children form birth to their twentieth year[18]. Of this total cost, $49,600 ($30,000 for the first child and $19,600 for the second child)[19] was the average cost to provide for the education and childcare for the children.

Both studies provide important information on the cost of care in Australia. However, in order to determine which costs should be tax deductible or rebatable, it is important to separate normal living expenses from the costs of care, which had they not been incurred, would have prevented, or restricted the earning of assessable income. These are issues that need to be considered in order to address the affordability of care and its impact on the participation of carers in the workforce.

Although the cost of elder and disability care is covered in part, this section will mainly concentrate on the cost of childcare arrangements to illustrate the impact of those costs on income. This focus has been chosen because data is more readily available in relation to the cost of childcare arrangements than other forms of care. Further, when considering the cost of providing care and the tax deductibility or rebatability of care costs, there is a need for a clear delineation between costs that are personal and

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14 Ibid.

15 Australian Bureau of Statistics (2001) *Managing Caring Responsibilities and Paid Employment, New South Wales*, Cat 4903.1

16 Australian Bureau of Statistics (2003) *Disability, Ageing and Carers, Australia: Caring in the Commu*nity Cat. No. 4430.

17 Carers Australia, *Pre Budget Submission 2004-05*, October 2003, p1.

18 Percival, R and Harding, A., National Centre for Social and Economic Modelling (NATSEM), University of Canberra, *The Costs of Children in Australia Today*, Paper presented at the Australian Institute of Family Studies Conference, Melbourne, 13 February 2003, p 8.

19 Percival and Harding, *ibid* p 8.

domestic in nature and those that are incurred to enable a taxpayer to earn an income. Most of the data on other forms of care does not sufficiently separate these items to allow for an accurate assessment.

4.2 Types of childcare arrangements

According to the most recent information from the Australian Bureau of Statistics (the **ABS**), in June 2002, there were 1,510,500 (49%) children less than 12 years of age in some form of formal or informal childcare[20]. **Table 1** shows the types of childcare used for children under 12 years in 2002.

Table 1: Children aged less than 12 years in childcare, by type of care, 2002

Type of care	0-4 years old Number ('000)	% Of total in care	5-11 years old Number ('000)	% Of total in care
Formal care				
Before and after school care	*4.3	0.5	166.8	23.4
Long day care centre	282.2	35.3	14.8	2.1
Family day care	76.8	9.6	19.1	2.7
Occasional care	33.8	4.2	*2.4	0.3
Preschool	195.2	24.4	44.0	6.2
Other formal care	8.5	1.1	*3.2	0.4
Total children who used formal care [(a)]	*552.4*	*69.1*	*235.0*	*33.0*
Informal care				
Grandparent	312.6	39.1	279.1	39.2
Brother/sister	10.4	1.3	60.1	8.4
Other relative	84.5	10.6	123.8	17.4
Other person	85.9	10.8	141.3	19.9
Total children who used informal care [(a)]	*456.0*	*57.1*	*563.2*	*79.2*
Total children in care	**799.0**	**100.0**	**711.5**	**100.0**

*Estimate has a relative standard error of between 25% and 50% and should be used with caution.
(a) Components do not add to total as children could use more than one type of care.
Source: ABS 4402.0, Childcare, Australia, 16/05/2003, reproduced in Department of Family and Community Services, 2002 Census of Childcare Services, Summary Booklet, p231.

Table 1 indicates that in 2002, of the 49% of children under 12 years who were in some form of childcare, formal childcare was used by significantly more children aged 0-4 years (69.1%) than by children aged 5-11 years (33%). Of the 0-4 years group who were in formal childcare, long day care (35.3%), preschool (24.4%) and family day care (9.6%) were the most common forms of care whilst before and after school care (23.4%) was the most common form of care for children aged 5-11 years.

The data also indicates that 57.1% of children in care aged 0-4 were in informal care, and 79.2% of children in care aged 5-11 were in informal

20 Australian Bureau of Statistics, 4402.0, *Childcare, Australia*, 16/05/2003.

care. Grandparents and other relatives predominantly provided informal care.

According to the 2002 Census of Childcare Services, the figures shown in Table 1 show a significant increase in use of formal care from those shown in a similar census in 1993, with these figures representing a 39% increase between 1993 and 2002 in children aged 0-4 years in formal care only, with an increase of 60% for those aged 5-11 years.[21]

The *Creating Choice: Employment and the cost of caring survey* ("the Survey"), conducted by the Taskforce in October 2004, confirmed the high usage of formal care, particularly by parents with children under school age with 56% of this group having children in paid formal care.

The data above indicates a strong ongoing demand for formal childcare places. Consequently, it will be important that the additional 40,000 outside school hours childcare places and 4,000 family day care places promised in the 2004-05 Federal Budget[22] are created, along with a continued review of available services in order to meet current and future demand.

4.3 Cost of childcare arrangements

The 2002 ABS survey also indicated that of the 1,019,200 children who received informal care, 911,700 (89%) did not pay for the care[23]. According to the same survey, the cost of formal childcare was less than $20 per week for 46% of children who used formal care, while it was $100 or more per week for 8% of children (62,520), with a median cost of $38 per week for long day care and $21 for family day care[24]. However these figures are based on actual total cost, irrespective of hours in care. As 45% of children have less than 10 hours of formal childcare per week, this significantly impacts on the median costs. The Australian Institute of Health and Welfare (**AIHW**) in *Australia's Welfare 2003*, indicated the average attendance per week for long day care was 19.9 hours per week and for family day care 18.6 hours per week.[25]

The results of the Taskforce's Survey on the average cost paid by respondents for childcare was $117 per week nationally while results for Melbourne and Sydney were higher, $138 and $181 respectively. This also reflects that most children are currently not in full time paid formal childcare.

However, to illustrate the costs of care, **Table 2** shows the average full-time weekly fees for Commonwealth–supported long day care as at May 2002.

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21 Department of Family and Community Services, *2002 Census of Childcare Services*, Summary Booklet, p 229.

22 Commonwealth of Australia, *2004-05 Budget – Overview, More Help for Families*, 11 May 2004.

23 ABS, 4402.0, *Childcare, Australia*, 16/05/2003.

24 ABS, 4402.0, *Childcare, Australia*, 16/05/2003.

25 Australian Institute of Health and Welfare, *Australia's Welfare 2003*, AIHW Cat. No. AUS41, p. 246.

Table 2 Average full-time weekly fees for Commonwealth-supported long day care, by type of service, May 2002

Type of Service	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
Long day care centres	196	184	172	176	181	186	203	171	186
Community-based	201	186	167	178	180	185	198	169	188
Private	193	182	173	173	182	189	211	175	184
Family day care	172	156	171	171	176	178	188	155	163

Notes:

1. Community = Community-based, state and local government long day care centres. Private = Private-for-profit long day care centres.
2. Data for family day care services are for 50 hours of care per week.

Source: Australian Institute of Health and Welfare, Australia's Welfare 2003, AIHW Cat. No. AUS41, p246

Table 2 indicates that in 2002, family day care was an average of $163 per week (with a range of $156 to $188), making it less expensive than other forms of day care services. Community-based long day care was an average of $188 (with range of $167 to $201), making it the most expensive form of day care. The average cost of childcare for 2002 across all categories was $180 per week.

However, as noted by the Australian Institute of Health and Welfare (**AIHW**) in *Australia's Welfare 2003*, the averages above are for full-time care (i.e. 40 hours per week except for family day care), while the average attendance per week for long day care was 19.9 hours per week and for family day care 18.6 hours per week[26]. **Table 3** shows the proportion of disposable income, at different family income levels, that is consumed on childcare costs for one child, based on the average weekly fees for day care in Australia as set out in Table 2. Further, recognising that average attendance is not fulltime, figures are provided for both 20 hours per week and 40 hours per week.

26 Australian Institute of Health and Welfare, *Australia's Welfare 2003*, AIHW Cat. No. AUS41, p246

Table 3 – Cost of childcare as a proportion of disposable income, July 2000 and May 2002

Type of service/family type and income level	20 hours 2000	20 hours 2002	40 hours 2000	40 hours 2002
Community-based long day care centres				
Sole parent working – 0.75 AWE	3.2	3.3	8.3	8.4
Couple family with one income – AWE	3.6	3.8	8.6	9.0
Couple family with two incomes – 1.75 AWE	4.5	4.7	9.6	10.0
Couple family with two incomes – 2.5 AWE	4.9	5.0	9.9	10.2
Private long day care centres				
Sole parent working – 0.75 AWE	2.6	3.0	7.0	7.8
Couple family with one income – AWE	3.0	3.5	7.5	8.5
Couple family with two incomes – 1.75 AWE	4.2	3.6	8.9	9.6
Couple family with two incomes – 2.5 AWE	4.6	4.9	9.4	9.9
Family day care services				
Sole parent working – 0.75 AWE	0.0	0.0	0.0	0.0
Couple family with one income – AWE	0.8	0.9	1.7	2.1
Couple family with two incomes – 1.75 AWE	3.0	3.3	6.0	6.6
Couple family with two incomes – 2.5 AWE	3.9	4.1	7.4	8.4

Notes:

1. Gross income includes any earned income and Centrelink payments and allowances. Net income is gross income minus tax and Medicare levy.
2. In couple families with one income the assumption is one parent working and the other studying. In other couple families, both parents are working.
3. For couples with two incomes, the taxable income split is assumed to be 1.0:0.75.
4. Average weekly earnings (AWE) at November 2002, were $688.40

Source: Australian Institute of Health and Welfare, Australia's Welfare 2003, AIHW Cat. No. AUS41, p246

A number of conclusions can be drawn from Table 3 regarding the relationship between childcare costs, earnings and Centrelink payments between 2000 and 2002:

(a) Childcare costs increased by a larger percentage than Average Weekly Earnings or Centrelink payments.

(b) The proportion of disposable income required to pay for one child to be in childcare increased in almost all cases.

(c) As family disposable income increased the proportion of disposable income required to pay for one child to be in childcare increased due to a decrease in Centrelink payments.

(d) Due to higher average costs, the proportion of salary used to fund one child in childcare was higher for community-based and private long day care than for family day care.

The trend of childcare costs increasing at a rate faster than income has continued since the AIHW study was completed. In the period between

November 2002 and March 2004, average weekly earnings increased by 5.6% in the year to November 2003 with a further increase of 1.2% in the quarter to February 2004[27]. The consumer price index (CPI) rose by only 2.4% in the year to December 2003 with a further increase of 0.9% in the quarter to March 2004[28]. However, childcare costs over the same period rose by 10.5% in the year to December 2003 with a further increase of 4.4% in the quarter to March 2004[29]. In this period, childcare costs have increased at a rate 2.2 times more than earnings and 4.5 times more than prices generally, continuing the trend shown in AIHW study.

The increased cost of childcare indicated by the CPI figures was borne out by confidential evidence received by the Taskforce. This indicated that full-time weekly childcare costs nationally have increased to $249, with New South Wales ($348) and Victoria ($313) substantially above the national average, and a significant increase since May 2002 on the figures shown in Table 2.

The increase in the cost of childcare outlined above and the demand pressure (as mentioned in 4.2 above) indicate that unless there are effective measures to make childcare affordable and available, the proportion of disposable family income required to pay for childcare will continue to increase beyond the rate of prices and wages generally in the economy.

4.4 Impact of childcare costs on workforce participation

In *Labour Force Projections 1999-2016*, the ABS estimated that male workforce participation rates will decrease from 73% in 1999 to 67% in 2016 due to a significant increase in males over 65 years and a decrease in the number of males aged 25-44, a group that usually makes up a major portion of the workforce (35% in 1998). By contrast, it was predicted that females will increase to 45% of the workforce with a 6-7% points increase in the 25-54 age group and 12% points for females 55-59 years of age[30]. Based on these projections, Australia will need a greater participation of women in the workforce than at any time in the post World War II period. This raises questions about the impact of care costs on the decision of women with caring responsibilities, both about whether they will choose to work and, if so, whether there is a financial benefit to increasing participation.

The question of whether changes in childcare costs impacted on workforce participation, particularly of women, was the subject of research by Deborah Cobb-Clark, May Lui and Deborah Mitchell of the Australian National University, Centre for Economic Policy Research in August 1999. They identified that researchers are divided on whether childcare costs impact the workforce participation decisions of carers.

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27 ABS, 6302.0, *Average Weekly Earnings*.

28 ABS, 6401.0, *Consumer Price Index*, Australia.

29 ABS, 6401.0, *Consumer Price Index, Australia*, Table 7k: cpi: miscellaneous. Weighted average of eight capital cities.

30 Australian Bureau of Statistics, 6260.0, *Labour Force Projections, Australia*, 1/9/1999.

For example a 1996 study conducted by the Economic Policy Advisory Commission concluded "women's decisions on whether to participate or not are sensitive to the cost of childcare"[31]. The alternative argument, supported by researchers such as F. Teal in Australia and D. Ribar internationally, is that there is only a minor labour supply effect from changes in childcare costs, particularly for parents with pre-school aged children. However, both groups of researchers agree that the cost of care impacts on decisions as to the type of care chosen[32].

Research conducted by Cobb-Clark supported the views of Ribar and Teal. This indicated that the personal preference of both partners regarding childcare, or the availability of a suitable job had more impact on decisions of non-working mothers not to be in paid employment than any issues to do with childcare[33]. However, this study has limited value as it did not consider the impact of childcare costs on the decisions of parents (including single parents) who are currently in part-time or casual employment and wanting to increase their workforce participation.

According to the ABS series *4903.1 NSW Men and Women: Balancing Work and Care* published 25 May 2001, there were 573,900 carers not in the workforce in NSW in 2000, of which 40% were not looking for work[34]. This indicates that 60% of carers not working would like to be in paid employment. In its Childcare Survey in 2002, the ABS also identified that 6% (173,500) of children required additional formal childcare, mainly because of the parent's work commitments or because the parent(s) were seeking employment or undertaking work-related studies[35]. This was a similar level to that observed in the ABS survey in 1999. The type of care sought was mainly before and after school care (27%), long day care (27%), occasional care (22%) and family day care (16%)[36]. Whilst ABS figures do not explain why carers are not in the workforce or whether childcare costs impact parents' decisions as to whether or not to work or the type or length of childcare chosen, they do indicate both a desire by the majority of carers currently not working to be in paid employment and a current demand for increased childcare services.

In 2003, Matthew Toohey and Gillian Beer of the National Centre for Social and Economic Modelling (NATSEM) from the University of Canberra conducted research, which was reported in a paper titled, *"Is it worth working now?"*. The research aimed to determine the effects of increases in working hours of the primary care giver on family incomes. The study considered a range of incomes, having regard to income from work and tax benefits. Based on their financial modelling, the study concluded that some mothers do face a difficult decision as to whether

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31 Cobb-Clark, D, Lui, A; Mitchell, D, Australian National University Centre for Economic Policy Research, Discussion Paper No.409, *Reassessing the Role of Childcare Costs in the Work and Care Decisions of Australian Families*, August 1999, p4

32 Cobb-Clark, D et al, ibid p4

33 Cobb-Clark, D et al, ibid p10

34 Australian Bureau of Statistics, 4903.1 NSW *Men and Women: Balancing Work and Care*, 25 May 2001.

35 ABS 4402.0, *Childcare, Australia*, 16/05/2003.

36 ABS 4402.0, *Childcare, Australia*, 16/05/2003.

they return to work or increase their hours due to an interaction between the tax system, social security payments and increased childcare costs as a result of increased hours of care. This was particularly true for lower income earners who, according to Toohey and Beer, get to keep less than a third of any income increases due to additional hours of work and consequently the financial benefits of working or increasing their hours of work are low[37].

They concluded that this is particularly an issue for women taking on lower paid casual or part-time work with the view of progression to higher paid work. At the time they aim to re-enter the workforce or increase their participation, the financial benefit could be small or in fact result in a reduction in family income[38]. From the perspective of the projected changing structure of Australia's labour force mentioned earlier, this is worrying and works to limit female labour supply.

The issue of the impact of the cost of childcare on parents' decisions to work was also explored in the Taskforce Survey. Results from the Survey indicate that because of the cost of care: 25% of carers (who are currently employed) are likely to leave the workforce, and a further 25% have already reduced their workforce participation.

These results suggest that where a parent (or guardian) has an inclination to be in paid employment, the costs of childcare have a greater impact on workforce participation decisions than has been indicated in studies of non-working mothers. On this basis, the affordability of care will need to be addressed in order to achieve an increase in the workforce participation of females (particularly those with carer responsibilities)[39] and address the projected labour supply structural issues mentioned above.

4.5 Costs of elder and disability care

While care for elders and people with a disability is not dealt with in detail in this paper, the need to consider the impact of the costs of the care on workers with caring responsibilities and its flow on effects is important.

As previously mentioned, the ABS has estimated 2.3 million carers across Australia care for a person who is an elder or has a disability.[40] Of these:

- 75% of carers were workforce age;
- 70% of primary carers were female, of which 78% were 25-64 years of age;
- 33% of carers were not employed, with many perceiving lack of suitable alternate care as a barrier to employment;

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37 M Toohey and G Beer, National Centre for Social and Economic Modelling (NATSEM), University of Canberra, *Is it worth working now? Financial incentives for working mothers under Australia's new tax system*, 9 July 2003, pp 20-21.

38 M Toohey and G Beer, *ibid* p. 21.

39 According to ABS data a significantly higher proportion of females (46%) than males (37%) over the age 18 provide care to an adult or child: ABS *Managing Caring Responsibilities and Paid Employment, New South Wales*, ibid.

40 Australian Bureau of Statistics (2003) *Disability, Ageing and Carers, Australia: Caring in the Comm*unity Cat. No. 4430 and Carers Australia, *Pre-Budget Submission 2004-05*, p. 1.

- 158,200 primary carers were in paid employment, with only 48% in full-time employment;
- 49% of carers were dependent on government for income support;
- 22% of carers had reduced working hours to provide care.[41]

The Taskforce's Survey also showed that:

- 26% of people providing elder care and 29.2% of people providing disability care had reduced their working hours due to the cost of care;
- 40% of people providing elder care and 33.3% of people providing disability care were likely to consider leaving the workforce due to the cost of care;
- the average costs for elder care ($162 per week) and care for a person with a disability ($118 per week) were higher than the Survey's national average childcare figures ($117 per week).

The Taskforce's Survey and the statistics from the ABS and Carers Australia show that for child, elder and disability similar issues exist regarding the cost and availability of care, and the impact of the cost of care on the workforce participation decisions of carers. Consequently, the Taskforce formed the view that any remedial action to address care costs should encompass costs incurred by workers caring for children, elders, and people with a disability.

4.6 Impact of the proposed 30% childcare rebate

While Australian tax and Centrelink benefits will be dealt with in more detail in section 5 below, it is worth noting that since the AIHW study, the Commonwealth Government has provided the maternity payment, increased Family Tax Benefits Part A and changed the income test withdrawal rate and threshold for Family Tax Benefits Part B[42], all of which eases the burden of the cost increases. The introduction of the proposed 30% childcare rebate for out of pocket expenses promised during the October 2004 election campaign[43], which it was announced on 20 December 2004 would be capped at $4,000 per child per annum[44], will help further.

However, it is questionable whether the 30% rebate is adequate to either significantly lessen the burden on families due to childcare costs or to provide sufficient incentive for parents to stay in the workforce and/or increase their level of participation. Based on the current costs mentioned in 4.3 above, lower income families (less than $32,485 per annum)[45] would still have costs of approximately $4,000 (based on the national average weekly cost) after Childcare Benefit, Parenting Payments and tax

41 Carers Australia, *ibid* p. 6.

42 Liberal Party of Australia, *Election Policies, Australian Women – Opportunities for Life*, 6 October 2004.

43 Liberal Party of Australia, *Election Policies, Australian Women – Opportunities for Life*, 6 October 2004.

44 The Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, *New Early start date for childcare rebate*, Press Release 20 December 2004.

45 Family Assistance Office, www.familyassist.gov.au, based on family income limit for Childcare Benefit for one child in care.

rebate, if they wished to place there one child into full time care.

In New South Wales ($7,500) and Victoria ($6,200) this cost is higher. Middle and higher income families nationally will still have average costs for one child in full time care of $6,500 and $8,200 p.a., given the effect of the reduction in Childcare Benefits and Parenting Payments above $32,485 per annum.

In New South Wales and Victoria this is also higher, on average between $8,800 and $13,500, to the extent that average net out of pocket expenses (before rebate) for middle income families (less than $93,299 per annum)[46] in New South Wales and higher income families in both New South Wales and Victoria exceeds the $13,333 per annum limit, at which the $4,000 annual cap on the 30% rebate will be reached. On these figures childcare costs after rebate will still be a substantial proportion of net family income, as the benefit of the rebate will be undercut by the $4,000 cap.

The value of the limiting the rebate to 30% and applying a cap is also questionable on consideration of research undertaken by the Department of Family and Community Services: *"More than just play dough: A preliminary assessment of the contribution of childcare to the Australian economy"*. The paper concluded both the Government and the economy in general benefit directly from every dollar spent by the Government on childcare. According to the paper:

> *"In terms of return which the Government gets to its investment in childcare, these figures lead to estimates that:*
>
> - *Every dollar spent on childcare returns total economic benefits of $8.11.*
> - *Every dollar spent on childcare directly and indirectly supports earnings of $5.63.*
> - *A dollar spent on childcare returns $1.86 directly to the government's bottom line, in the form of increased taxation and reduced government outlays."*[47]

Consequently, rather than limiting the rebate to 30% and capping at $4,000, there is evidence that substantial economic benefit would be achieved by increasing the rebate and in extending it to other forms of care. This would assist in reducing the impact on families as a result of care costs, increasing demand for care with the resultant increase in employment, and providing benefit to the government in increased tax receipts and reduced government benefit payments.

4.7 Key Findings

In summary, key findings on the cost of care in Australia are:

46 Family Assistance Office, www.familyassist.gov.au, based on family income limit for Childcare Benefit for one child in care.

47 Martin, J (2004) Childcare Benefits Branch, Department of Family and Community Services: "More than just play dough: A preliminary assessment of the contribution of childcare to the Australian economy " *Australian Social Policy*. www.facs.gov.au

1. In 2002 69.1% of children 0-4 years and 33.0% of children 5-11 years of age were in formal childcare (either solely or in combination with some form of informal care). This represented a 39% increase for children 0-4 years since 1993 and a 60% increase for children 5-11 years.
2. Between November 2002 and March 2004 childcare costs increased at a rate 2.2 times more than wage and salary earnings and 4.5 times more than prices generally. This continued a trend identified in a study conducted by the Australian Institute of Health and Welfare (AIHW) in 2003. These increases were reflected in the average cost of full-time childcare for pre-school aged children nationally ($249 per week), and in New South Wales ($348 per week) and Victoria ($313 per week), which is significantly higher than those reported by AIHW in 2002.
3. Whilst there is some debate about the impact of cost of care on parents' employment decisions, the Taskforce found a direct relationship between the cost of care and employment choices. In particular, 35.8% of workers who cared for children under school age have considered leaving the workforce because of the cost of care, and 37.3% are likely to leave the workforce in the future because of the cost of care. This finding is supported by research conducted by the National Centre for Social and Economic Modelling (NATSEM) which concluded that the interaction between childcare costs, income and government tax and benefit structures can limit the benefit of increasing workforce participation, particularly for low income earners.
4. The Taskforce Survey responses indicated that the average actual weekly cost (ie including full-time and part time usage) for elder care ($162 per week) or disability care ($118 per week) was similar to or more than that paid for by respondents paying for childcare ($117 per week). Research by Carers Australia showed that other carers paying for care had similar issues to people paying for childcare in terms of affordability and availability of care, and its impact on their workforce participation decisions.
5. The potential of the Government's proposed introduction of a childcare rebate (which is set at 30% of out-of-pocket expenses and capped at $4,000 per annum) to generate a significant increase in workforce participation is questionable. The current level of cost for childcare would result in a low income earner still having to pay on average $4,000 per annum after government benefits and rebates if they wanted to have one child in full time care. Middle and higher income earners paying for full-time childcare (particularly in New South Wales and Victoria) have on average out-of-pocket expenses which exceed the $13,333 at which the $4,000 cap is reached.
6. The Taskforce's analysis has been informed by research conducted the Department of Family and Community Services, which found that every dollar spent by the Government on childcare results in a net return to the Government and to the economy in general.
7. In summary the Taskforce found that the Government's proposed introduction of a 30% childcare rebate would be of some, but not

significant benefit in alleviating the cost of care and therefore increasing levels of workforce participation. Further the $4,000 cap would unduly limit the effectiveness of the proposed rebate, and discriminates against workers using care in those States (eg NSW and Victoria) where the cost of care is higher. Finally the proposed childcare rebate unfairly excludes care costs for the elderly and those with a disability.

5 The Australian position

5.1 Introduction

This section focuses on the current position in Australia in relation to the tax deductibility of care expenses and the tax credits and allowances currently available for carers. The information that follows is largely based on information available on the ATO, Centreline and Family Assistance office websites and is not based on a direct analysis of Australian taxation and other legislation.

5.2 Fringe benefits tax

Under the current law, childcare facilities are exempt from fringe benefits tax if the facilities are provided to employees on an employer's business premises. The facilities will also be exempt if they are provided on business premises of a related company in a wholly owned company group[48].

This exemption tends to assist large employers who can afford to establish such facilities on their premises and does not therefore assist employees who are employed by small to medium employers.

By way of comment, one of the broad objectives underpinning the aim of the Taskforce is to develop a policy that provides equitable outcomes for the largest number of employees. The Taskforce is of the view that, in light of the fact that many Australian employees are employed by small to medium employers which may not be in a position to provide relevant fringe benefits, the focus of any remedial care cost policy should not be on an extension of the fringe benefits tax.

5.3 Deductible expenses

The current position under Australian law is that child and other care costs are not deductible under section 8-1 of the *Income Tax Assessment Act 1997*. Relevant authorities indicate that childcare costs and other care costs are considered to be:

(a) neither relevant nor incidental to gaining or producing assessable income; or

(b) private or domestic in nature.

48 Australian Taxation Office website – www.ato.gov.au

For example, the High Court of Australia in *Lodge v Federal Commissioner of Taxation* (1972) 128 CLR 171 held that a law costs clerk working mainly from home was not entitled to deductions for nursery fees.

This reasoning has also been applied to a taxpayer who asserted that her employer had required her to incur child minding expenses to ensure that her child did not distract her from her work: *Martin v Federal Commissioner of Taxation* (1984) 2 FCR 260. For the same reasons, a taxpayer who had to arrange for child minding in order to undertake external study was not allowed to claim the childcare costs as deductible self education expenses: *Jayatilake v Federal Commissioner of Taxation* (1991) 101 ALR 11.

There are also a number of public and private taxation rulings which have concluded that childcare costs are not deductible for the reasons set out above. Accordingly, the introduction of financial assistance for carers who are employees requires legislative change, rather than change generated by litigation.

By way of comment, the introduction of a tax deduction would necessarily provide a greater benefit to those on higher incomes. As one of the Taskforce's objectives is to promote changes which are equitable across all income groups, the Taskforce is of the view that an isolated tax deduction should not be introduced to offset care costs.

5.4 Tax credits

Because the impact of a flat rebate returns the same amount of "cash in hand" to all taxpayers regardless of income level, the Taskforce considers that the most equitable solution to the cost of care dilemma is the introduction of a tax rebate. Unlike a tax deduction, a rebate does not discriminate by returning proportionately more income to those in higher tax brackets. The following sections identify the tax credits and rebates which are currently available to carers in Australia.

(a) Baby Bonus

The Baby Bonus is a refundable tax offset available to Australian residents who have attained legal responsibility and care for a child after 30 June 2001. The Baby Bonus may be claimed for each year until the child turns five.

The amount of the Baby Bonus depends on the claimant's taxable income. If a claimant's taxable income is $25,000 or less per annum, the claimant will receive an annual amount of $500[49].

(b) Family Tax Benefits

The Family Tax Benefit Part A (**FTB (A)**) is available to Australian residents who have a dependent child less than 21 years of age (or between 21 and 24 years if the dependent is a full-time student). The FTB

49 Australian Taxation Office website – www.ato.gov.au

(A) is income tested, and the amount available depends on the family's taxable income and the number of dependent children[50].

As of the end of the 2003/2004 income year, families eligible to receive the FTB (A) will receive an additional yearly payment of $600 per child. As of 1 July 2004, more generous income testing for FTB (A) was also introduced[51].

The Family Tax Benefit Part B (**FTB (B)**) provides extra assistance to families with one main income (including single parents) whose youngest dependent child is less than 16 years (or up to 18 years if a full-time student). Further extra assistance is available to families who have a child under the age of five. FTB (B) is income tested and only available to Australian residents. The amount available depends on the family's taxable income and the number of dependent children[52].

As of 1 July 2004, the applicable income threshold was increased from $1,825 per annum to $4,000 per annum and more generous income testing for FTB (B) was introduced. Further, as of 1 July 2005 when a secondary earner returns to work, income from their employment will not be counted towards eligibility for the FTB (B) already received, so that the amount received from the FTB (B) before re-entering the workforce can be kept[53].

(c) Invalid relative tax offset

A tax offset is available to Australian residents who maintain a dependent invalid relative. An invalid relative is "maintained" if the claimant lives with them, provides them with food, clothing and lodging or helps them pay for their living, medical and educational costs.

The invalid relative must be an Australian resident, over 16 years and the claimant's child, brother or sister. The invalid relative must also receive certain disability pensions or have a medical certificate stating that they have a continuing inability to work. The invalid relative's income must also be below a certain amount.

For the income year 2003/2004 the maximum tax offset was $691 for each dependent invalid relative[54].

(d) Parent or spouse's parent tax offset

This tax offset is available to Australian residents who maintain a dependent parent or spouse's parent who is also an Australian resident. A parent is "maintained" if the claimant lives with them, provides them with food, clothing and lodging or helps them pay for their living, medical and educational costs. The dependent parent's income must also be below a certain amount.

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50 Australian Taxation Office website – www.ato.gov.au

51 Australian Government Family Assistance Office website – www.familyassist.gov.au

52 Australian Taxation Office website – www.ato.gov.au

53 Australian Government Family Assistance Office website – www.familyassist.gov.au

54 Australian Taxation Office website – www.ato.gov.au

For the income year 2003/2004, the maximum tax offset was $1,381 for each dependent parent[55]. Claimants may receive this payment whether or not they are employed.

(e) Beneficiary tax offset

This tax offset is available to people who receive certain Centrelink payments and allowances (including the Parenting Payment) and have no other assessable income[56]. This benefit is not directly relevant to employees, however it has been included in this section for completeness.

(f) Childcare rebate

Prior to the October 2004 Election, the Federal Government announced plans to introduce a 30% childcare rebate on out-of-pocket expenses.[57] The rebate will be backdated in relation to all such expenses from 1 July 2004 onwards, and may be claimed when the 2005-2006 tax returns are lodged. The rebate will be capped at $4,000 per child per year and only applies to fees paid after the Childcare Benefit has been deducted.

5.5 Allowances

(a) Parenting Payment

A maximum fortnightly payment of $356.00 (for partnered parents) and $470.70 (for single parents) is available to Australian residents who are caring for and have legal responsibility for a dependent child less than 16 years, and who have lived in Australia for a minimum period of time. The Parenting Payment is income and asset tested. Additional Pharmaceutical Allowances, Education Entry Payments, Employment Entry Payments and Pensioner Education Supplements may also be available[58].

(b) Childcare Benefit

A Childcare Benefit is available for people who pay childcare fees at approved or registered childcare centres and whose child is immunised or exempt from the immunisation requirements.

“Approved childcare” is care provided by certain approved services. Benefits for approved care can be paid directly to the childcare service or paid to parents as a lump sum after the end of the financial year. Parents may receive up to 20 hours of care per child per week, or 50 hours if they are working, studying or training. This payment is income tested, but not asset tested. For example, the upper income threshold for two children in care is $101,149. For a family income of $32,485 per annum or less the payment for 20 hours of approved care is $56.20 per week. At this income level, the maximum payment for approved care is $140.50 per week for a non-school age child in 50 hours of care.

“Registered childcare” is care provided by relatives, friends or certain private care centres that are registered with the Family Assistance Office.

55 Australian Taxation Office website – www.ato.gov.au

56 Australian Taxation Office website – www.ato.gov.au

57 Liberal Party of Australia, *Election Policies, Australian Women – Opportunities for Life*, 6 October 2004

58 Centrelink website – www.centrelink.gov.au

This payment is made by direct credit to the claimant and is not income or asset tested. The maximum payment for registered care is $23.55 per week for a non-school age child in 50 hours of work-related care[59].

(c) Double Orphan Pension

A non-taxable fortnightly payment of $45.20 is available for Australian residents who have the care and control of a child whose parents have died or have been imprisoned or who are refugees. The pension is available if the child is less than 16 years (or between 16 and 21 years if a full time student) and if the claimant is eligible for the Family Tax Benefit. The pension is not income or asset tested[60].

(d) Carer Allowance

A non-taxable fortnightly payment of $90.10 is available to Australian residents who live with and care for a child or adult (who is also an Australian resident) with a severe disability or medical condition who requires additional care and attention. The allowance is not income or asset tested[61].

In or about June 2004, recipients of the Carer Allowance received a one-off payment of $600[62].

(e) Carer Payment

A maximum fortnightly payment of $470.70 (for singles) and $393.00 (for each member of a couple) is available for Australian residents who provide constant care in the home of the person being cared for.

The payment is available for the care of a person over 16 years with a severe disability or medical condition or an adult with moderate care needs and supervision of their dependent child if the child is less than 6 years (or up to 16 years in certain limited circumstances). This payment is income and asset tested. The person being cared for must be an Australian resident and must meet certain income tests[63].

In or about June 2004, recipients of the Carer Payment received a one-off payment of $1,000[64].

As part of its Election 2004 Policy, the Federal Government stated that it would provide $19 million over four years to increase the hours carers can participate in work, training or study (without losing eligibility to receive the Carers' Payment) from 20 to 25 hours per week[65]. The Taskforce considers this to be a positive step, however notes that it does not prevent

59 Centrelink website – www.centrelink.gov.au

60 Centrelink website – www.centrelink.gov.au

61 Centrelink website – www.centrelink.gov.au

62 Australian Government Family Assistance Office website – www.familyassist.gov.au

63 Centrelink website – www.centrelink.gov.au

64 Australian Government Family Assistance Office website – www.familyassist.gov.au

65 Liberal Party of Australia, *Election Policies, Supporting People with a Disability and their* Carers

a carer's level of workplace participation from being tied to the costs of care.

(f) Maternity payment

A one-off, non-taxable payment of $3,000 is available to Australian residents for each child that is born or adopted. This figure will increase to $4,000 in July 2006 and $5,000 in July 2008. The payment is not income or asset tested[66].

(g) Maternity Immunisation Allowance

A one-off, non-taxable payment of $213.60 per child is available to certain Australian residents. Parents will be eligible if their child is fully immunised between 18 and 24 months (or various other exemptions apply) and if they receive the Maternity Allowance or are eligible for the Family Tax Benefit Part A with a child between 18 and 24 months[67]. The allowance is not income or asset tested[68].

5.6 Key findings

The key findings in relation to the Australian position are as follows:

1. Fringe benefit tax exemptions for working carers tend to assist large employers only and do not therefore assist the majority of Australian employees.
2. Care costs are not tax deductible.
3. Various tax credits and benefits are available under Australian taxation law, including the Baby Bonus, Family Tax Benefits, the invalid relative tax offset, parent or spouse's parent tax offset and the beneficiary tax offset; these amounts are generally dependent upon income and range from approximately $500 to $1,381 per dependent per annum (for the income year 2003/2004).
4. In the 2005/2006 tax year, the Government has promised to introduce a 30% childcare rebate in relation to out of pocket expenses from 1 July 2004 onwards; this rebate will be capped at $4,000, and will be collectable in the following tax year. Legislation has not yet been introduced to implement the Government's promised childcare rebate.
5. Various allowances in respect of formal childcare, carers of people with disabilities and other dependents are available independently of the taxation system.
6. In summary, the Taskforce found that the various tax credits, benefits and allowances currently in place in Australia do not adequately meet the high cost of care for the majority of families, especially in urban areas where the costs of care are particularly high. Further current forms of support for workers with caring responsibilities are narrow

66 Australian Government Family Assistance Office website – www.familyassist.gov.au, Centrelink website – www.centrelink.gov.au

67 Centrelink website – www.centrelink.gov.au

68 Australian Government Family Assistance Office website – www.familyassist.gov.au

(focussing on young children) and the Government has not introduced legislation to implement its promised 30% childcare rebate.

6 The international position

6.1 Introduction

This section identifies the current position in the United States, the United Kingdom, Canada, the Netherlands, Sweden, Austria, France, Germany, Belgium and New Zealand in relation to the deductibility of care expenses and the tax credits and allowances currently available for carers.

The information that follows is largely based on information available on the relevant country websites (not all of which are government sponsored) and is not based on a direct analysis of taxation and other legislation relevant to each country.

6.2 Deductible expenses

In **Canada,** childcare expenses may be tax deductible for children less than 16 years living with the claimant.[69] The age limit does not apply if the child was mentally or physically infirm. Expenses can be claimed if they are amounts paid to a childcare provider to allow the claimant to earn income from employment, run a business or attend an educational program. The maximum amount deductible is:

(a) CAN$5,000 per year for each eligible child who either is under seven years of age or is a person in respect of whom the disability tax credit may be claimed; and

(b) CAN$3,000 per year for each other eligible child.[70]

Deductions are also available for "attendance care" expenses for persons with a disability that enable the person to carry out specific activities.[71] These expenses are deductible where they allow the claimant to be employed, carry on a business, take a specified training course or carry on research or similar work for which a grant was received. The amount deductible is generally limited to CAN$5,000 or less.[72]

In **Austria** “extraordinary burdens” are considered tax deductible in certain circumstances. These are burdens which occur unavoidably and seriously impair economic performance for the purposes of the tax system. A burden will be considered “extraordinary” if it exceeds an individual’s personal reserve amount, which is income based and expressed as a percentage. The system of extraordinary burdens works in tandem with

69 Canada Customs and Revenue Agency, "*Childcare Expenses Deduction for 2004*", form T778E(4) – www.ccra-adra.gc.ca

70 Ibid.

71 Canada Customs and Revenue Agency, "*Medical Expenses Disability Tax Credits and Attendant Care Expense Deduction*", form IT – 519R2 – www.cra-arc.gc.ca.

72 Ibid.

the system of tax credits – for every tax credit a taxpayer is entitled to, the personal reserve is reduced by one percentage point.

Childcare costs are considered to be extraordinary burdens if they are necessitated by the professional activity of the main taxpayer who is a sole earner and/or single parent. The cost of accommodation in a nursing home will be considered to be extraordinary burdens if the income of the person requiring the care is insufficient to cover the costs. Further extraordinary burdens may apply for the care of children with a disability depending on the degree of their disability.[73]

In Austria, a certain amount per child is also tax deductible by recipients of the Child Benefit (which is discussed below).

In **Belgium** childcare costs for children under the age of three are deductible where there is an occupational income and the nursery is a recognised institution. Up to 80% of the actual cost of childcare can be deducted, up to a maximum of €11.20 per child per day. Lone parents and parents of children born after a divorce also receive an extra tax-free amount of €1,140.[74]

6.3 Tax credits

In the **United States**, tax credits may be claimed in respect of certain expenses if those expenses are associated with the care of a "qualifying person" (defined as a dependent under the age of 13, or a spouse or dependent who is unable to physically or mentally care for him or herself). In order to claim the tax credit, a claimant must be responsible for the cost of running a home and must have earned an income during the year.[75]

Expenses for the care of a qualifying person can be claimed as a tax credit if they allow the claimant or the claimant's spouse to work or look for work. The cost of care provided outside the home can be claimed for a dependent under 13 years or another qualifying person who regularly spends at least 8 hours a day in the claimant's home.[76]

As at FY2003, the sum of the tax credit could constitute up to 35% of a claimant's annual care expenses and was generally capped at US$3,000 for one qualifying person and US$6,000 for two or more. The percentage rate was dependent on the claimant's gross income (for instance, the tax credit is 35% of annual expenses where the claimant earns US$15,000 or less). The rate decreases by 1% for each additional US$2,000 increment (or portion thereof) in income until the rate reaches 20% for taxpayers with incomes over US$43,000.[77]

73 Federal Ministry of Finance, "*Austrian Taxbook 2003*", November 2003.

74 University of York Social Policy Research Unit, "*Comparison of Child Benefit Packages in 22 Countries: National Informants Questionnaire Belgium*", 2002

75 Department of the Treasure, Internal Revenue Service, "*Child and Dependent Care Expenses: For use in preparing 2003 returns*", publication 503, Cat no. 15004M.

76 Ibid.

77 Ibid; see also Gish, M, Domestic Social Policy Division, Congressional Research Service, The Library of Congress, "*Report for Congress: Childcare Issues in the 108th Congress*", updated 31 March 2003.

An additional child tax credit of up to US$1,000 may also be available for dependent children under 17 years where the claimant is otherwise unable to claim the child tax credit. The amount of the credit may be reduced depending on the claimant's gross income.[78]

The two types of tax credits available to carers of children in the **United Kingdom** are called the Child Tax Credit and the Working Tax Credit. The Child Tax Credit is a weekly or monthly payment to a claimant who is mainly responsible for at least one child under 16 years (or up to 18 years if studying full time). The Child Tax Credit is not means tested.

The Working Tax Credit is available to individuals who are employed in paid work for more than 16 hours per week and who are responsible for a child. Additional entitlements can be paid to single parents. The amount payable will depend on a number of circumstances, including the number and ages of the children and the claimant's net income.

The Working Tax Credit also has a component referred to as, the "Childcare Element" which entitles certain claimants, who are mainly responsible for the child, to contributions towards the cost of childcare whilst they are working. The entitlement applies to claimants who work at least 16 hours per week and applies until the child is just over 15 years old. The childcare element of the Working Tax Credit can be up to 70p for every £1 paid in childcare costs. The cap on costs is £135 per week for one child and £200 for two or more children. This translates to a maximum Childcare Element of £94.50 for one child and £140 for two or more children.[79]

In **Austria** tax credits are available for an amount of up to €610.80 per annum per child. This amount is paid together with the family allowance. Sole earner or single parent tax credits are available for an amount of up to €364 per year, but can be paid as negative tax.[80]

In the **Netherlands** tax credits may be claimed in respect of the costs of childcare in certain circumstances.[81] The amount of the credit per child appears to be up to €492 per annum where the claimant is under 65 years of age and €240 per annum where the claimant is 65 years of age or older. These amounts appear to increase to €4,248 and €1,956 respectively where the joint income of the claimant and "partner" does not exceed €29,108 per annum. These amounts increase again for families with three or more children living at home and/or where the joint annual income falls below €27,438.

In **New Zealand**, a tax rebate is allowed for childcare expenses for a solo parent, or where both spouses work. The amount of the tax rebate is NZ$310 or 33% of the childcare/housekeeper payments, whichever is less. Household earnings do not affect the tax rebate.[82]

78 Department of the Treasury, Internal Revenue Service, "*Child Tax Credit*", 2003.

79 Inland Revenue Website – http://www.inlandrevenue.gov.uk/

80 European Commission, Employment, Social Affairs and Equal Opportunities, "*Austria: Family Benefit*" – www.europa.eu.int

81 The Netherlands Ministry of Finance, "*Taxation in the Netherlands 2003*" – www.saralisinfostartpagina.nl.

82 Section KC 4 of the Income Tax Act 1994.

A Child Tax Credit is available to certain low to middle income families who do not receive other government assistance and who have dependent children who are 18 years or younger. However, this Tax Credit is to be phased out over time, and replaced by an In-Work Payment of up to NZ$60 per week per family, with NZ$15 extra for the fourth child and subsequent children.

The Family Tax Credit is an additional payment for low income families who have at least one parent who is working for salary or wages to ensure that each family has a minimum net income of NZ$17,000.

There is also a Parental Tax Credit available which is available during the first 56 days after a baby is born. The amount of the payment depends on the level of the family income and the number of children.[83]

6.4 Allowances

(a) Carer allowances

In the **United States**, the Childcare and Development Fund provides financial assistance for the costs of childcare to those who are the primary caregiver to children under 13 years (or under 19 if incapable of self-care or under court supervision) and employed with a very low or low income.[84] A "low" or "very low income" has different definitions in different States, although most States continue to set income eligibility limits well below 85% of State Median Income.[85] In order to qualify, a claimant must also be either employed or in some States enrolled in a training or education program.

In the **United Kingdom** there is a Carers' Allowance available to full-time carers where the carer is aged 16 years or over and spends at least 35 hours per week caring for someone who is receiving or eligible to receive disability, industrial injuries or war pensions benefits, or is an individual requiring help to look after him or herself.[86] The allowance is means tested and the amount depends on the individual's circumstances. A claimant must earn £79 a week or less in order to receive the Carers' Allowance.[87] The weekly amount of the Carers' Allowance is up to £44.35.[88]

A Sure Start Maternity Grant is also available for each new baby expected, born or adopted to parents who receive certain income-related benefits. A Child Maintenance Bonus is also available for people who receive child maintenance and who are also claiming income support or income-based job seekers' allowance (including a child maintenance payment decided by

83 Ministry of Social Development Work and Income website – http://www.workandincome.govt.nz/

84 US Department of Health and Human Services, Administration for Children and Families, National Childcare Information Center – www.nccic.org.

85 The State Median Income for a four person family for FY2005 differs across the States. The amount is estimated at US$62,732 across the United States: Employment Support Institute, School of Business, Virginia Commonwealth University – http://www.workworld.org/.

86 United Kingdom Department for Work and Pensions, Benefits and Services - http://www.dwp.gov.uk/.

87 Ibid.

88 Ibid.

a court order or child support agency).[89] The Child Maintenance Bonus is a one-off payment of up to £1,000. Child Support Maintenance is available for individuals raising a child where one parent lives elsewhere within the United Kingdom, or works abroad for a United Kingdom based employer, or is a member of HM Armed Forces living abroad, and where the claimant receives income support or income based job seekers' allowance.[90]

A Child Benefit is payable to individuals raising a child who is aged under 16, or aged under 19 and studying full time, or is aged between 16 and 17 years of age and registered for work.[91] The amount payable is not affected by income or savings and is an amount of £16.50 per week for the eldest child who qualifies and £11.05 per week for each other child who qualifies.[92]

In **Canada**, the Canada Child Tax Benefit is a tax-free monthly payment made to eligible families to help them with the cost of raising children under age 18.[93] The basic benefit is CAN$100.66 per month for each child. A supplement of CAN$7.00 per month is payable for a third child and each additional child. A supplement of CAN$19.91 per month is also available for each child under the age of seven (which is reduced by 25% of any amount claim for child care expenses). The total benefit will be reduced if the family net income is more than CAN$35,000 per annum.

There is also a Child Disability Benefit is a tax-free benefit of up to CAN$137.75 per month for low and modest income families caring for children under the age of 18 who have a severe and prolonged mental or physical impairment.

In addition, there is the National Child Benefit Supplement, which is a monthly benefit for low-income families with children. A monthly amount of CAN$125.91 is available for one-child families, CAN$233.82 per month is available for two-child families and CAN$233.82 per month plus an additional CAN$1215 per year is available for families with three or more children.[94] These amounts are reduced by specified percentages of the amount of family net income that is more than CAN$22,615 per annum.[95]

Social assistance is also available in some provinces, supplementing the National Child Benefit Supplement. There is also a child supplement to earnings-related disability benefits and an orphan survivor benefit under the "old age, disability" system. Varying by province, there are child survivor benefits under the work-injury system. The Child Disability Benefit helps low- and modest-income families with children who have a severe and prolonged physical or mental disability.

89 Ibid.

90 Ibid.

91 United Kingdom Inland Revenue - http://www.inlandrevenue.gov.uk/

92 Ibid.

93 Canada Customs and Revenue Agency, "About the Canada Child Tax Benefit" http://www.cra-arc.gc.ca

94 Ibid.

95 Ibid.

In the **Netherlands**, a Child Benefit is available to insured claimants who are responsible for the maintenance of a child under 17 years.[96] The amount payable for children born on or after 1 January 1995 is €648 per annum for children up to 5 years, €792 per annum for children between 6 and 11 years and €936 per annum for children between 12 and 17 years.[97] For children born before 1 January 1995 who reach the relevant age after 1 October 1994, the basic amount payable per child aged between 12 and 17 years is €936 per annum in one-child families.[98] This amount increases incrementally where families have more children. An amount of 85% of the basic amount is payable for children between 6 and 11 years. The amounts payable are not means tested. Additional supplements are available for children with a disability, unemployed children and students.

As of 1 January 2005, a new law regulating the funding and quality of day care was implemented in the Netherlands under which parents, employers and the government are concurrently responsible for funding childcare.[99] The government will make payments to parents in respect of childcare dependent upon the level of income. After 1 January 2009, parents with a taxable income of more than €45,000 per annum are not entitled to the compensation. The government contribution is based on a maximum hourly rate set at €5.68 for childcare and €6.13 for after school care. The law only covers formal childcare for children up to four years of age, extra curricula care for primary school children and care by day centres with parent participation or by host parents.[100]

In **Sweden** the Child Benefit System is compulsory and covers all children resident in Sweden.[101] The Child Benefit is an amount of €1,284 per annum for children up to the age of 16 years. This amount is not means tested and does not vary with age. A similar allowance is, in addition, said to be payable for children in "upper secondary schools".[102] A supplement for "large families" is also payable in the sum of €348 per annum for the third child, €1,032 per annum for the fourth child and €1,284 per annum for the fifth and each subsequent child.[103] A further allowance is also available for children with a disability, depending on the needs of the child.

In order to be eligible for special government grants, there is a maximum rate that local municipalities in Sweden can charge for pre-school services and school age childcare. These rates depend on the income of the relevant household and the number of children in the household.

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96 European Commission, Employment, Social Affairs and Equal Opportunities, "*Netherlands: Family Benefit*" – www.europa.eu.int.

97 Ibid.

98 Ibid.

99 Dutch Childcare Act (Wet Kinderopvang) – http://www.kintent.nl./. Employers of both parents of a child can voluntarily contribute up to one third of the cost of childcare tax free through a corporate scheme. Where employers do not make these contributions, the government can partially compensate this.

100 Ibid.

101 European Commission, Employment, Social Affairs and Equal Opportunities "*Family Benefits*" – www.europa.eu.int

102 Ibid.

103 Ibid.

In **Austria,** a Child Benefit is available to carers of children 19 years or younger.[104] For children under 10 years of age, the amount payable is €1,260 per annum for the first child, €1,416 for the second child and €1,572 per annum for the third and each subsequent child.[105] For children between 10 and 19 years the amount payable is €1,488 per annum for the first child, €1,632 per annum for the second child and €1,788 per annum for the third and each subsequent child. A further €1,572 per annum is payable for "severely handicapped children". These amounts are not means tested. The age limit may be extended for job seekers, students and children with earning incapacity. The benefit is not means tested and supplements are available for large families, children with a disability and low incomes.

A further amount of €348 per annum is payable for the third and subsequent children where the annual taxable income does not exceed €38,720 per annum (as at 2001).[106] There is, in addition, an infants allowance payable to the primary carer for the first year of care of €73 per annum (this amount appears to be means tested).[107]

There is also a child raising allowance available in Austria to the carer of a child under three years. Supplements are available to single parents and low-income families. The allowance is available for one child only, and is means tested.

France has a multitude of different allowances available to carers of children. A Child Benefit is available to families with at least two dependent children 20 years or younger where the child's income does not exceed 55% of the minimum wage. The monthly benefit is not income tested and supplements are available according to age. The amount of the benefit depends on the number of children in the family. The monthly amount for 2 children is €109.40 and increases €140.17 for each subsequent child.

A further means tested Birth Grant is available:

(a) from the fourth month of pregnancy until the child is three years old; and

(b) for the adoption of a child for a maximum period of 21 months,

for the monthly amount of €157.09.

There is also a Child Raising Allowance available to a parent who interrupts or reduces his/her professional activity in order to raise a child. It is available to families of two or more children, which include one child under the age of three. The allowance is not means tested. A supplement is available for larger families.

A Child Home Care Allowance is also available to parents who stay at home to care for a child less than 6 years. The amount varies according to

104 European Commission, Employment, Social Affairs and Equal Opportunities, "*Austria: Family Benefits*´- www.europa.eu.int

105 Ibid.

106 Ibid.

107 Ibid.

the age of the child and the family income from between a maximum amount of €1,524.03 and a minimum amount of €507.81 per quarter. A further amount is available if the child is seriously sick.

There is also a Private Childcare Allowance for the employment of approved maternal assistance for a child less than 6 years. This allowance is dependent on the family's income.

A Single Parent Allowance guarantees a minimum family income for single persons with at least one child. This allowance is means tested. The monthly amount is the difference between €512.81 plus €170.94 per child and the beneficiary's income. There is also an Orphan Allowance available, as well as a New School Year Allowance for children aged 6-18 years which is means tested.

A special education allowance is available in France for certain children with a disability whose parents are required to suspend their work or hire the assistance of the third person to care for them. The payment can be made up until the child is 20 years of age. The monthly payment is €109.40 and is not subject to a means test. Supplements are available depending on the degree of the disability and the level of care required.[108]

The amount seems to be geared towards both those staying at home and those who wish to continue to work ie. the allowances for people who have been disturbed in their professional capacity and paying a maternal assistant.

In **Germany** a Child Raising Allowance is available to parents who are unemployed or work part time, parents who are civil servants, or the spouse of a recipient of welfare benefits, whose children are born in or after 2001 until the child is 2 years. An annual income ceiling is applicable. The allowance is €307 per month for the first 24 months following the child's birth. Alternatively, parents can choose to receive up to €460 per month for a shorter period of 12 months.[109]

Further, a Child Benefit is available to all families for each child under 18 years. This entitlement is not means tested and can be provided in cash form or in the form of a tax allowance for the amount of €154 per month for each of the first, second and third children, and €179 per month for the fourth and subsequent children.[110] The age limit may be extended to 21 or 27 in certain circumstances, for example, for unemployed children, children with a disability and students. A supplementary benefit is available for families who have built or purchased their own home.

In **Belgium**, a Child Benefit is available for families where a parent has worked since the first child. The benefit is available for children 19 years or younger, and this age limit can be extended in certain circumstances, for example, for unemployed children, students or on cases of serious infirmity. The benefit is not income tested. The benefit is €72.61 per month

108 EUROPA, Mutual Information System on Social Protection in the EU Member States and the EEA, Comparative Tables on Social Protection in the Member States – http://europa.eu.int/

109 ILO website – http://www.ilo.org/

110 European Commission Employment and Social Affairs website – http://europa.eu.int/comm/employment_social_missoc

for the first child, €134.35 for the second child, and €200.59 for the third child and subsequent children.[111]

Supplements are available for children with a disability, pensioners, unemployed persons, workers unable to work and female workers on maternity leave. Orphans are also entitled to the benefit.

Further, for children less than 2.5 years, childcare centres in Belgium are supervised by a semi-official organisation that applies income-related rates of pay. From the age of 2.5 years, the government provides childcare that is usually free.

A birth or adoption grant is also available for each child in Belgium.[112]

In the **United Kingdom**, a Sure Start Maternity Grant is available for each new baby expected, born or adopted to parents who receive certain income-related benefits. The grant can be claimed 11 weeks before the baby is due, until 3 months after the baby is born. There are variations on this for adoption or a baby born by surrogacy. The one-off grant is for €500 if the baby is born after 16 June 2002.[113]

In **New Zealand**, a Family Support payment is available to families on low to middle incomes with children living at home who are 18 years or younger. It is made as a cash payment to families receiving other benefits, and as a tax credit to families who are not receiving other benefits. The age and rank of the child determines the amount of the benefit. The maximum amount payable for each bracket is between NZ$32 and NZ$60 per child per week. These rates are set to increase by up to NZ$25 on 1 April 2005.

A Child Disability Allowance is available to the parents of children with a serious disability who lives at home and requires constant care and attention. The allowance is not means tested and is an amount up to NZ$48.18 per child per week.

Parents of low to middle income families can also apply for a subsidy for childcare expenses if they are working. Currently, up to NZ$2.85 per hour per child will be paid (depending on income and number of children), with a maximum of 50 hours per week for childcare; 20 hours per week for out of school care and recreation; and 50 hours per week for out of school care and recreation during school holidays. This amount is due to increase to up to NZ$3.12 per hour from October 2005.[114]

(b) Housing allowances

In **Sweden**, a means tested housing allowance is available for households with children. The allowance consists of two amounts, one that is determined by housing cost, and another that is determined by the number

111 European Commission Employment and Social Affairs website – http://europa.eu.int/comm/employment_social_missoc

112 University of York Social Policy Research Unit, "*Comparison of Child Benefit Packages in 22 Countries: National Informants Questionnaire Belgium*", 2002

113 Department for Work and Pensions Website – http://www.dwp.gov.uk./

114 Ministry of Social Development Work and Income website – www.workandincome.govt.nz

of children in the household. As of September 2003, nearly 30% of Swedish households with children received housing allowance.[115]

In **France**, a housing allowance is available for those receiving various forms of family allowances. The amount of the allowance depends on the family's rent expenses, their situation and the resources of the claimant. It can be increased for beneficiaries with low incomes.[116]

6.5 Key findings

The key findings in relation to the international position are as follows:

1. care costs are tax deductible in Canada, Austria and Belgium.
2. tax credits to offset the costs of care are available in the United States, the United Kingdom, the Netherlands, France and New Zealand;
3. Carer and other allowances are available in the United States, the United Kingdom, Canada, the Netherlands, Sweden, Austria, France, Germany, Belgium and New Zealand.
4. The variety of tax treatments and allowances available reflect the different social and economic frameworks operating in the countries examined. Notwithstanding these differences, general comparisons can be drawn between taxation and benefits structures available in Australia, and those available in the countries examined.
5. Countries which appear to exemplify best practice include Belgium (in which up to 80% of childcare costs are deductible up to a maximum of €11.20 per day) and the United Kingdom (in which a tax credit is available of up to 70p for every £1 paid in childcare costs).

7. In summary, in comparison with international provisions, Australian financial support for workers with care costs via a tax deduction or tax credit/rebate falls short of examples of "best practice.

7 Summary of outcomes from micro economic modelling

7.1 Introduction

This section discusses the possibilities of alternate tax treatment of childcare costs. The section is limited to this discussion and does not purport to model the impact of these tax treatments on other variables (for example, government revenue). Childcare costs have been used to model these tax treatments given the Government's proposed rebate on childcare costs. Specifically, this paper summarizes the impact of childcare costs to an individual where these costs are:

(a) non-deductible for tax purposes (the existing treatment); and

115 Ministry of Health and Social Affairs, "*Swedish Family Policy: Fact Sheet*", No. 14 September 2003. See also Government Website – http://www.regeringen.se/

116 EUROPA, Mutual Information System on Social Protection in the EU Member States and the EEA, Comparative Tables on Social Protection in the Member States – http://europa.eu.int/

(b) rebateable for tax purposes (at a rate of 50%).

7.2 Discussion

Under the existing treatment, an individual would need to earn $9,364 before tax to generate sufficient funds to pay $8,652 per annum in childcare costs.

Where a rebate (in this case 50%) is provided to the individual in respect of childcare costs incurred, an individual paying $8,652 per annum in childcare costs would receive $4,326 (offset against any tax owing at that time) when their tax return is processed.

Making childcare costs rebateable provides the greatest after tax benefit to individuals across all income levels and is consistent with a general equity position of returning proportionately more income to individuals on low levels of income.

7.3 Scenarios

The spreadsheet attached to this paper at Annexure A sets out four scenarios for the two tax treatments as set out above. These scenarios are based on an individual with a before tax income of:

(a) **Scenario 1:** $9,364 – this is the point under the existing treatment where an individual's entire after tax income would be consumed by childcare costs and is within the income band where an individual will pay tax at the lowest tax rate of 18.5% (including Medicare).

(b) **Scenario 2:** $21,601 – this is the point under the existing treatment where an individual will commence paying tax at the 31.5% (including Medicare).

(c) **Scenario 3:** $58,001 – this is the point under the existing treatment where an individual will commence paying tax at the 43.5% (including Medicare).

(d) **Scenario 4:** $70,001 – this is the point under the existing treatment where an individual will commence paying tax at the top tax rate of 48.5% (including Medicare).

The calculations in Annexure A assume that:

(a) there is a single child requiring full-time childcare for 48 weeks per year;

(b) full-time childcare costs are $180 per week; (which is the average cost of childcare for 2002 across all categories (refer Paragraph 4.3 Table 2); and

(c) personal income tax rates (including Medicare) for the 2004-2005 tax year apply.

It should be noted that the calculations have been performed having consideration to the before tax income of one working spouse only. That is, the total income of the family unit is not considered. Further, the impact of existing family allowances (for example, the Family Tax Benefits Parts A and B) have not been taken into account.

7.4 Discussion

Making childcare costs rebateable provides the greatest after tax benefit to individuals across all income levels. As can be seen from Annexure A, making childcare cost rebateable will result in individuals receiving $4326 additional take home cash under all scenarios. The proportional increase to individuals ranges from 43% for those on low-income levels to 10% at the upper limits. This is consistent with a general equity position of returning proportionately more income to individuals on low levels of income.

Setting the rebate at 50% with no limit on the costs incurred will significantly benefit individuals on low-income rates without exceeding the $4,000 threshold by any significant amount. Under Scenario 1, the proposed rebate of 30% capped at $4,000 would result in a total rebate of only $2,596 at existing cost of care levels. By contrast, setting the rebate at 50% with no limit would result in a total rebate under this scenario of $4,326 (which is only $326 greater than the current cap). This represents significant increased assistance to individuals in this category while still being in the vicinity of the $4,000 limit as proposed by the Federal Government.

7.5 Findings

The key findings in relation to the micro economic modelling and different tax treatments are as follows:

1. The most equitable solution to improve the financial position of working carers across all income groups would be the introduction of a rebate for care costs, rather than an FBT exemption or tax deduction.
2. The Taskforce considers that there are good grounds to increase the proposed rebate to a more meaningful level (ie closer to a dollar for dollar rebate) based on:
   - the Department of Family and Community's research that initial expenditure on childcare costs yields an overall positive return on investment (see finding 1.6);
   - the Taskforce's Survey results on workers' intentions to increase hours of work if care was more affordable (see finding 5.4); and
   - the likely reduction in the cash economy in paid care if the formal declaration of income for paid care is encouraged (see finding 5.8).
3. In summary, the most equitable and sustainable tax treatment to alleviate workers' care costs is the introduction of a rebate. The Government's proposed introduction of a 30% rebate for childcare expenses, capped at $4,000 per annum, is a positive first step. However, the Taskforce finds that a rebate which is uncapped and approximates dollar for dollar out of pocket expenses will have a greater impact on workforce participation rates and reducing the cash economy.

8 Summary of outcomes from Taskforce survey

In October 2004, the Taskforce engaged Dr Graeme Russell, Associate Professor of Macquarie University, to design a survey to identify whether there is a relationship between the cost of care and employment and the nature of any such relationship. The telephone survey instrument was administered by an independent research house, AMRInteractive to a national random sample[117].

8.1 Survey aims

The Taskforce hypothesised that a direct and causal relationship existed between the cost of care for children, elders and people with a disability and the level of workforce participation of their carers. The Taskforce expected that some survey participants would identify their care costs as "too high" relative to their income, and wished to identify the demographics of this group, as well as the level of interest in reducing these costs through tax reforms (eg a tax deduction or rebate).

In summary the aim of the survey was to investigate the:

(a) nature of employees' caring relationships (eg for children, people with a disability and elders);

(b) types of caring arrangements employees use to enable them to work;

(c) cost of care and in particular the proportion which is paid formally (ie with income tax implications) and informally;

(d) perception of the cost of care (ie the proportion of workers who perceive it to be too high);

(e) factors which impact caring arrangements (eg availability of care, accessibility of care and financial cost);

(f) the relationship between the cost of care and retention, as well as hours of work; and

(g) (for those who perceive the cost of care to be too high), suggestions as to reform.

8.2 Survey methodology

(a) Participant Characteristics

With the exception of the gender profile, the participants were representative of the national Australian profile. 32% of the sample were male and 68% were female, and 61% lived in metropolitan areas, whereas

117 Copies of the final survey report: Creating Choice: Employment and the cost of caring survey, can be obtained by emailing Juliet.Bourke@aequus.com.au

39% lived in regional areas of Australia. In terms of employment: 44.7% were employed full-time; 29.1% were employed part-time; 13.5% were employed on a casual basis and 12.7% were self-employed. Participants provided details of both their personal gross annual income as well as the gross household income. For personal income: 36.7% reported an income of $29,999 or lower, 39% reported an income between $30,000 and $59,999, 18% reported an income of $60,000 or more, while 6.3% did not respond. For gross household annual income: 25.8% reported it to be $49,999 or lower; 36.3% reported an income between $50,000 and $89,999; 27.2% reported an income of $90,000 or more, and 10.8% did not know or did not respond. The majority of participants were aged below 45, with the highest number (24.4%) being in the 40 to 44 year age category.

(b) Procedure

The survey was conducted in October 2004 on a national random sample of 512 people who are currently in the paid workforce and who had day-to-day caring responsibilities for another person – either to provide direct care for, or to arrange care for this person. The survey was administered via telephone by an independent research house, AMRInteractive. The survey respondents (with the exception of the gender mix) were selected on the basis that they were representative of the national Australian profile. The sample size was selected on the basis that conclusions could be confidently drawn about the Australian population of working carers.

(c) The survey instrument

The survey questions covered the following areas: (i) Who the person has caring responsibilities for; (ii) The types of caring arrangements they make each week for each person to allow them to engage in paid work; (iii) How many hours per week the person is cared for to allow them to engage in work; (iii) Whether they pay for their caring arrangements; (iv) How much they pay and whether this is paid either formally or informally; (v) Whether they think the costs of care are too high relative to their income; (vi) Whether they would support a change in the tax system to enable the cost of care to be more affordable; (vii) Whether they would increase their hours of work if care was more affordable; (viii) Whether they have ever considered leaving the workforce because of the cost of care; (ix) Whether they have reduced their working hours because of the cost of care; (x) How likely they are to leave the workforce in the future because of the cost of care (responded to on a four point scale); (xi) How likely they are to reduce their hours of work in the future because of the cost of care (responded to on a four point scale); and (xii) How important 'availability of care', 'affordability of care' and 'quality of care' are in influencing their current working arrangements (rated on a four-point scale).

8.3 Survey results

In relation to the cost of care and workforce participation, the survey findings show that for a significant number of people, the cost of care directly impacts their decisions about employment, and this impact is particularly significant for those with children under school age. Key findings were:

(a) 22.7% indicated that they had considered leaving the workforce because of the cost of care. This figure was much higher for those with caring responsibilities for children under school age: 35.8%.

(b) 25.2% indicated they would be likely to leave the workforce in the future because of the cost of care. This figure was higher for those with caring responsibilities for children under school age: 37.3%

(c) 25.4% had already reduced their hours because of the cost of care. 30.1% of those with children under school age had done so.

(d) 27.9% indicated that in the future they would be likely to reduce their hours of work because of the cost of care. This figure was much higher for those with caring responsibilities for children under school age: 38.9%.

(e) 34.8% indicated they would increase their hours of work if care was more affordable. 42.5% of those with children under school age indicated they would increase their hours if care was more affordable.

Analyses were also conducted to investigate whether responses to these questions varied as a function of gender, caring responsibilities and level of income. These findings are summarised in Table 2 below (note: Low income = household income of less than $50,000; high income = household income greater than $90,000). As can be seen, the cost of care appears to have the greatest impact on employment decisions for those with caring responsibilities for a child under school age. Of interest though are the relative high numbers of people caring for elderly people and people with disabilities/chronic health issues whose employment decisions are also impacted by the cost of care.

Table 2: The impact of cost of care on working patterns for different groups of participants.

	Total sample	*Men*	*Women*	*Under school aged child*	*School aged child*	*Elder care*	*Disability/ Chronic health care*	*Low income*	*High income*
Would increase hours of work if care was more affordable	*34.8*	*34.6*	*34.9*	*42.5*	*34.4*	*30*	*39.6*	*55.4*	*23.1*
Cost of care is too high relative to my income	*30.7*	*32.7*	*29.7*	*45.6*	*27.1*	*24*	*33.3*	*38*	*25.9*
Likely to reduce hours in future because of the cost of care	*27.9*	*26.5*	*28.6*	*38.9*	*21.2*	*34*	*27.1*	*31.5*	*21.3*
Likely to leave workforce in future because of the cost of care	*25.2*	*17.9*	*28.6*	*37.3*	*16.9*	*40*	*33.3*	*27.1*	*20*
Have reduced hours because of the cost of care	*25.4*	*19.8*	*28*	*30*	*24.2*	*26*	*29.2*	*25*	*25*
Ever considered leaving the workforce because of the cost of care	*22.7*	*18.5*	*25*	*35.8*	*17.8*	*20*	*31.3*	*24*	*17*

8.4 Key findings

In summary key findings from the survey include:

1. *Strategies to reduce the cost of care will have a direct impact on employment outcomes* as there is a strong causal relationship between the financial cost of care and employment choices, and affordability is a key issue for all employees with caring responsibilities.

2. *The current cost of care increases workforce attrition rates:* 1 in 4 employees surveyed (ie employees with caring responsibilities) indicated they would be likely to leave the workforce in the future because of the cost of care. This relationship is amplified for employees caring for children under school aged (37%) and the elderly (40%).

3. *The current cost of care reduces the level of workforce participation*: 1 in 4 employees surveyed (ie employees with caring responsibilities) had already reduced their hours of work because of the cost of care. This relationship is amplified for employees caring for children under school age (30%).

4. *Employment levels (and by implication income tax revenue) could be increased by reducing the financial cost of care:* 35% of employees surveyed would increase their hours of work if care was more affordable. This relationship is amplified for employees caring for people with a disability (approximately 40%).

5. *Strategies to reduce the cost of care should target the full range of caring relationships.* The focus of current policies is on children under school age, but of the employees surveyed, only 38% fitted this category, whilst 67% cared for school aged children, and 20% had responsibilities for elders and people with a disability. As this latter group is likely to increase in number in light of the ageing population, strategies to address the cost of care should ensure that the focus is broader than children.

6. *The cost of care is linked to the type of caring arrangement selected.* Informal care arrangements (eg shared arrangements between a husband and a wife, or an arrangement with friends/neighbours) are most commonly used for school-aged children (83%), people with a disability (45%) and the elderly (58%). In contrast formal care arrangements (eg private care inside or outside the home) are most commonly used for pre-school aged children (59%). It is of note however that a significant proportion of elderly (36%) and people with a disability (31%) also use formal care arrangements inside and outside the home. These data suggest that there may be an unmet need for formal care arrangements for school aged children, people with a disability and the elderly, if the mix of cost and availability of care is addressed appropriately.

7. *The caring arrangements used for people with a disability and the elderly do not fall as neatly into the formal/informal categories* commonly used to identify caring arrangements for children. Approximately 30% of employees identified that the care they provide is “other” than formal or informal and further investigation needs to be undertaken about the nature of these caring arrangements, and whether cost reduction strategies should be refined to address these arrangements.

8. *There is a significant loss of tax revenue associated with caring arrangements*, suggesting that the cost of care (and the lack of a deduction/rebate) acts as a disincentive to formalise the arrangements.

Approximately 45% of employees surveyed (ie employees with caring responsibilities) pay for their caring arrangements, however between 53-70% of that group do not pay for services formally (ie on a tax declared basis). This lack of formality has implications which are broader than taxation, and include the Government's capacity to understand, and therefore monitor, the quality of care provided.

9. *A significant proportion of employees surveyed support reforms to reduce the cost of care*. Approximately 1 in 3 employees surveyed (31%) perceive the cost of care as "too high" relative to their income, and over half of that group (54.3%) are supportive of a change in the tax system in order to make carers' costs more affordable. 78% of the tax reform group support the introduction of a rebate or tax deduction.

10. *The relationship between the cost of care and employment choices affects employees on all incomes*, ie from those on relatively high incomes (defined as AUS$90,000 and above) to those on relatively low family incomes (defined as below AUS $50,000) with the impact on employees on low incomes amplified. Hence strategies to address all income groups will have a significant impact upon choice and workforce participation for all employees.

11. *The cost of care was important to the employees surveyed, as was the quality of care and its availability.* For maximum impact, a strategy to improve choice for carers should be developed holistically, ie addressing cost, quality and availability.

12. In summary, the survey results demonstrate that there is a direct and causal relationship between levels of workforce participation and the cost of care for elders, children and people with a disability. At present, workers with caring responsibilities lack real choice about working at their optimal levels, and choose *between* employment and caring when the financial cost of care is perceived as too high. Consequently, the survey identified both an opportunity and a risk for business, and the national economy, in relation to providing adequate forms of financial support for workers with caring responsibilities. The survey also provided evidence about the nature of caring relationships and the high proportion of income paid to carers that is undeclared in terms of the income tax system. The implementation of substantial financial support for carers in the form of a rebate would provide an incentive for workers to declare the amount of income paid to carers, thus ensuring that a greater number of caring arrangements were formalised and could therefore be monitored.

9 Concluding comments and recommendations

9.1 Comments

The Taskforce's investigation of current care costs in Australia and financial support for working carers demonstrates that workers are exposed to high care costs (for children, elders and people with a disability), and currently receive minimal financial support. The survey results demonstrate that this situation poses a significant risk for business and the national economy because of the direct relationship between the cost of care and workforce participation.

In addition the Taskforce's comparison of current financial support for carers in Australia and overseas demonstrates that Australia is falling behind best practice. In a global economy, supporting workers with caring responsibilities represents a competitive advantage which should be embraced.

During the Taskforce's investigation the Government announced that it would introduce a 30% childcare rebate, capped at $4,000 per annum. The Taskforce was pleased to learn of the Government's commitment, and encourages the Government to make that commitment a reality as it is a very positive first step to addressing the issues identified by the Taskforce.

Notwithstanding this first step, the Taskforce's investigation identified the need for more significant and comprehensive support for working carers. In particular the Taskforce found that there is an urgent need to address the issue of the affordability of care, and that strategies to reduce the cost of care should target:

(a) all forms of care (including care for children of all ages, as well as elder and disability care);

(b) all types of caring arrangements (including formal and informal care); and

(c) all income levels.

9.2 The Taskforce's recommendations

Within a policy framework of financial viability, choice and equity, the Taskforce makes the following recommendations to assist workers with caring responsibilities. The Taskforce recommends that the Federal Government:

1. Immediately draft legislation (for consultation) to implement it promised 30% rebate for childcare costs.
2. Extend the proposed childcare rebate to cover elder and disability care costs.
3. Extend the proposed 30% rebate to a more meaningful level, ie closer to a dollar for dollar rebate, and remove the proposed $4,000 cap.

4. Introduce reforms to assist with the cost of care in combination with a strategy to improve the accessibility and quality of care.

5. By 30 June 2006, release a public report identifying the steps it has taken to implement the Taskforce's recommendations.

In relation to recommendation 5, the Taskforce's intention would be to work in partnership with Government to evaluate outcomes, and recommends that the Government's report should include an evaluation of the impact of the implemented recommendations on key indicators: eg

- increased employee satisfaction with working and caring choices;
- reduced employee intention to exit the workforce as a result of the cost of care;
- increased employee participation in the workforce for carers (both part-time and full-time);
- increased government revenue (eg through a reduction in the payment of benefits to carers not in the workforce, an increase in declared income by carers, and an increase in income tax revenue).

Annexure A

Tax On Care Costs	30% capped	50% uncapped	50% uncapped	50% uncapped	50% uncapped
Current treatment (non-deductible)	**Scenario 1**	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Taxable income	9,364	9,364	21,601	58,001	70,001
Tax	572	572	2,652	13,572	18,612
Medicare	140	140	324	870	1,050
Total tax	712	712	2,976	14,442	19,662
Disposable income (pre care costs)	8,652	8,652	18,625	43,559	50,339
Average cost of care (refer below)	8,652	8,652	8,652	8,652	8,652
Disposable income (post care costs)	0	0	9,973	34,907	41,687

Proposed treatment (rebate)	**Scenario 1**	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Taxable income	9,364	9,364	21,601	58,001	70,001
Tax	572	572	2,652	13,572	18,612
Medicare	140	140	324	870	1,050
Total tax	712	712	2,976	14,442	19,662
Disposable income (pre care costs)	8,652	8,652	18,625	43,559	50,339
Average cost of care (refer below)	8,652	8,652	8,652	8,652	8,652
Disposable income (post care costs)	0	0	9,973	34,907	41,687
Rebate	2,596	4,326	4,326	4,326	4,326
Disposable income (post rebate)	2,596	4,326	14,299	39,233	46,013

Impact					
Dollar increase in disposable income	2,596	4,326	4,326	4,326	4,326
Percentage increase in disposable income	NA	NA	43%	12%	10%

Average cost of care					
Long day care centres	186	186			
Community based	188	188			
Private	184	184			
Family day care	163	163			
Average cost of care per week	180	180			
Annualised (based on 48 week year)	8,652	8,652			