
AUSTRALIA 2005

1. Overview of the tax-benefit system

The Australian social security system is funded from general taxation revenue and not from employer or employee social security contributions. The system provides flat-rate, means-tested, income support payments for people of workforce age and the retired. Duration of payment receipt is not time limited with income support payments being paid subject to the continued meeting of eligibility criteria. Additional assistance is available for those paying rent in the private rental market and for families with dependent children, including assistance with child care costs.

The Australian income support system consists of various pensions and benefits, each with its own eligibility criteria and, where applicable 'looking for work' or other 'activity' requirements, relating to the reason claimants are unable or not expected to fully support themselves through paid work. For example, there are categories of payment for the aged, people with a disability and their carers, primary carers of dependent children, the unemployed and full-time students. Income support payments do not include spousal assistance and partners of unemployment payment recipients must claim an income support payment, generally an unemployment or parenting payment, in their own right. Income support payments are both income and asset tested with regimes differing depending on whether a payment is classified as a pension or benefit. Unemployment and parenting payments for members of a couple are benefits, while the parenting payment for lone parents is classified as a pension. Unemployment and parenting payments are taxable.

Most payments for families with dependent children are subject to income testing either on parental income or the income of the 'second-earner'. Family and Rent Assistance payments are non-taxable.

The information contained in this document is that required to calculate the social security benefits and taxes for workforce age individuals and couples where one or both members are receiving an unemployment payment and for lone parents receiving Parenting Payment.

The reference period is from July 1st 2004 to June 30th 2005.

1.1. Average worker wage (AW)

The 2005 AW level is AUD 51 169.¹

1. AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see Taxing Wages 2004-2005, OECD, 2005, part 5, sections 2 and 3.

2. Unemployment insurance

There is no unemployment insurance.

3. Unemployment assistance

Australia's unemployment payments are Newstart Allowance (NSA) and Youth Allowance (YA(Other)) for non full-time students. NSA is paid to unemployed people aged 21 or over and under Age Pension age. The Age Pension age for men is 65. The Age Pension age for women for 2004-05 was 62 and a half.

YA is generally paid to unemployed people aged 16 to 20 years and to full-time students aged between 16 and 24 years. YA(Other) recipients aged between 18 and 20 years must be looking for work, undertaking a combination of part-time study and part-time work or some other approved activity. Generally young people aged under 18 years must be participating in full-time study or training.

All income support recipients need to establish an entitlement in their own right. For example, each member of a workforce age couple must either claim an unemployment payment or another income support payment, generally NSA or Parenting Payment (PP), in order to receive assistance. PP is an income support payment available to lone parents and one member of a couple with the care of a dependent child under 16 years of age. A child can only be a 'PP child' of one person.

Other income support payments to people of workforce age, though not specifically covered in this document include:

- Special Benefit, payable to people in severe financial need who have no other means of support and for whom no other income support payment is available. Special Benefit customers are activity tested if they would be required to meet the NSA or YA activity test had they otherwise qualified for that payment (for further information see Section 4).
- payments for full-time students, including Youth Allowance (full-time student), Austudy and payments under the ABSTUDY scheme; and
- payments for the disabled, their carers and wives of pensioners, including Disability Support Pension and Carer Payment. Wife Pension, a payment for partners of Age Pension and Disability Support Pension, is closed to new entrants.

3.1 *Conditions for receipt*

All income support payments are flat-rate in that they do not reflect prior work history or social security contributions, however, maximum rates of payment are dependent on age, marital status, presence of dependent children, whether people are renting in the private rental market and, for dependent Youth Allowance recipients, whether they live with their parents. Maximum rates of payment are subject to personal and partner income testing with dependent young people also subject to parental income testing arrangements.

- Benefits are not payable if assets exceed specified levels and newly arrived migrants must generally serve a two-year waiting period prior to receiving payment, except where individuals are given refugee or humanitarian status. Customers may also be subject to various other waiting periods. These are outlined in Section 3.4.

To receive payment, an unemployed person (NSA or YA(Other) recipient) must be actively seeking suitable work or undertaking an activity to improve their employment prospects and must be available for, and willing to accept, suitable work, including part-time and casual employment. In certain circumstances, recipients may be exempt from these requirements (e.g. incapacitated, personal crisis or caring duties).

PP recipients whose youngest child is aged six or over may be required to attend an annual ‘participation’ interview. Parents with a youngest child aged 13 or over must enter into a participation agreement committing them to participation for 150 hours over a 26 week period in one or more of a broad range of activities with a vocational focus where possible. For example, paid work, job search, vocational training, education or participation in a labour market or rehabilitation programme. Further information on PP(single) for lone parents is at Section 9.

Unemployment and parenting payments are not payable if assets exceed specified value limits. The asset value limits vary depending on whether the payment recipient is single or partnered and whether the person is a homeowner or non-homeowner. For partnered recipients, the asset test applies to the combined assets of the claimant and their partner. Lower limits apply to homeowners and reflect that the value of the ‘principal home’ is exempt from the asset test. The asset value thresholds are indexed on 1 July each year by Consumer Price Index (CPI). For 2004-05 the value limits are as follows:

- Single: homeowner AUD 153 000, non-homeowner AUD 263 500.
- Partnered (combined): homeowner AUD 217 500, non-homeowner AUD 328 000.

3.2 Calculation of benefit amount

3.2.1 Calculation of gross benefit

Basic payment rates for NSA, PP (partnered) and YA for the period 20 March to 30 June 2005 are listed below. Supplementary payments, such as Rent Assistance (RA) (see Section 5) and Pharmaceutical Allowance, may also be payable depending on the person’s circumstances. Payment rates are set, income tests operate and payments are made on a fortnightly basis. Maximum rates for NSA and RA are indexed in March and September each year to reflect increases in the CPI. Maximum rates of YA are indexed in January each year.

20 March to 30 June 2005 rates

Youth Allowance	(AUD fortnightly)	(AUD per month)**
Single, under 18, at home*	178.70	387.18
Single, 18 and over at home*	214.90	465.62
Single, away from home	326.50	707.42
Partnered, no dependent child(ren) (each)	326.50	707.42
Single, with dependent child(ren)	427.80	926.90
Partnered, with children (each)	358.50	776.75
Newstart Allowance (NSA), Parenting Payment (partnered)	(AUD fortnightly)	(AUD per month)**
Single, 21 and over, no children	399.30	865.15
Single, 21 and over, with dependent child(ren)	432.00	936.00
Single, 60 and over, after 9 months# on payment	437.80	948.57
Couple, over 21 (each)	360.30	780.65

- * Rent Assistance is unavailable where a young person receives an 'at home' rate of payment.
- **Payments are made fortnightly. Monthly rates are 26 times the fortnightly amount divided by 12.
- # Rate includes Pharmaceutical Allowance.

Source for fortnightly rates: A Guide to Commonwealth Government Payments, 20 March to 30 June 2005.

3.2.2 *Income and earnings disregards*

Benefit receipt and rates of payment are determined by the operation of income and assets tests. Income for the purposes of income support income tests is 'ordinary income'. This concept differs to that used for taxation and family assistance purposes. 'Ordinary income' includes employment, financial investment income and various other sources of income not considered taxable income. Ordinary income excludes child maintenance income and other social security payments. Income is generally assessed in the first fortnight it is earned, derived or received.

The personal income test for unemployment payment recipients (NSA and YA(Other)) and PP(partnered) has an income disregard or "free area" of AUD 62 per fortnight. For NSA and YA each dollar of income above AUD 62 and up to AUD 142 reduces the rate of payment by 50 cents. For PP(partnered) each dollar of income over AUD 62 and up to AUD 245 reduces the rate of payment by 50 cents. Thereafter the withdrawal rate for payments is 70 cents in the dollar.

Where both members of a couple receive an allowance (NSA or PP(partnered)) and one recipient's rate is reduced to zero by the personal income test (when personal income exceeds AUD 600 per fortnight for NSA recipients) the partner remaining on income support will have their payment reduced by 70 cents for each dollar of partner income in excess of that amount.

Youth Allowance for dependent young people is subject to the personal income test and parental means testing arrangements that include parental income and family asset tests.

A person's rate of payment may also be affected by the operation of 'working credit'. Working credit allows customers to build up a 'credit' of up to AUD 48 of their unused income disregard (or free area) per fortnight up to a maximum of 1 000 credits. When the person does find work these working credits can be used to increase the amount they can earn before their income support payment is reduced. For example, someone with 200 working credits can earn an extra AUD 200 before their payment starts to reduce.

If a person receives leave entitlements from their previous employment, including annual leave, long service leave, sick leave and maternity leave, they may have to serve an 'income maintenance period' during which these entitlements are treated as income. The income maintenance period is equal to the leave period to which the leave payment entitlement relates.

3.3 *Tax treatment of benefit and interaction with other benefits*

NSA and YA are taxable payments, however, a tax rebate (or tax offset) operates so that a person in receipt of an income support payment for the entire income tax year does not pay tax on that payment.

3.4 *Benefit duration*

While there are no restrictions on the duration of unemployment payments, recipients may be required to serve a waiting period or periods prior to payments commencing to be paid if they do not meet various hardship or waiver criteria. Waiting periods may apply in the following circumstances:

- A one-week waiting period for NSA may apply after lodgement of an application form.
- A 'liquid asset test waiting period' may apply if a person has liquid assets beyond a set level on the day they or their partner become unemployed or incapacitated, or on the day the person lodged their claim. The maximum waiting period is 13 weeks. Liquid assets include cash, shares and debentures, and bank (including term) deposits.
- A 'seasonal work preclusion period' may apply if a person or their partner is engaged in high-income seasonal work in the six months prior to claim.
- A person who reduces their likelihood of getting a job without sufficient reason by relocating to an area with lower employment prospects may have to wait 26 weeks before receiving payment.

3.5 *Treatment of particular groups*

3.5.1 *Young persons*

The YA rate structure differs to that applying to adult income support. Rates for single and partnered young people without children are lower than equivalent adult rates and the rates structure further differentiates between young people living 'at home' or 'away from home' and, if they live 'at home' whether they are under or over the age of 18. The payment has a higher income disregard (or free area) for full-time students.

YA has parental means testing arrangements for young people who have not met specified independence criteria. Parental income and asset testing does not apply where a parent receives an income support payment.

YA activity test arrangements allow young people to combine elements of study and work to a greater degree than NSA.

3.5.2 *Older workers*

Mature Age Allowance is paid to longer-term unemployed people with no recent workforce experience aged 60 and over and below Age Pension age. From 20 September 2003, Mature Age Allowance was closed off to new entrants.

Partner Allowance is paid to people aged 50 and over who are partners of income support recipients and have no recent workforce experience. From 20 September 2003, Partner Allowance was closed off to new entrants.

Widow Allowance provides income support for women aged 50 and over born before 1 July 1955 who were widowed, divorced or separated (including de facto) since turning 40 and who have no recent workforce experience.

3.5.3 *Others if applicable*

Lone Parents with a dependent child aged under 16 generally do not claim unemployment benefits (NSA or YA (Other)) as they also qualify for Parenting Payment (single). PP(single) has higher maximum rates of payment and income disregards, a lower withdrawal rate and low-level participation requirements (see Section 9). There are some circumstances where single people receiving unemployment benefits may have substantial responsibility for a dependent child, for example, parents with shared care of children (as a child can only be the PP child of one person) or care of a dependent child aged 16 to 17. In these instances, a higher rate of payment may be paid (see Section 3.2).

4. Social assistance

In the Australian social security system Special Benefit serves as a benefit of last resort. It is paid to people in severe financial hardship, who have no other means of support and for whom no other benefit is available. For long-term cases, Special Benefit is not payable when the available funds and liquid assets of the person are AUD 5 000 or more. In cases of short-term need, the benefit is not payable if readily available funds exceed two weeks' Special Benefit plus family assistance payments. Payment rates are at the discretion of the Secretary of the Department of Family and Community Services (FaCS) but cannot exceed the maximum NSA or YA payment rates that would otherwise be payable to the person. The benefit is means-tested against any income with a 100 per cent reduction rate. Any amount of regular in-kind support, such as the provision of board and lodging, also reduces the rate of payment.

5. Housing benefits

Housing assistance exists in two main forms: Rent Assistance and public housing provided by state and territory governments with financial assistance from the Australian Government.

5.1 Conditions for receipt

Rent Assistance (RA) is a non-taxable income supplement paid to eligible individuals and families who rent in the private rental market. RA is paid to eligible recipients of social security pensions and allowances and those receiving more than the base rate of Family Tax Benefit Part A (FTBA).

State and territory governments provide public and community housing to households subject to various eligibility criteria and housing stock availability. The Australian Government provides financial support for this through a joint Commonwealth-State Housing Agreement.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

RA is paid at the rate of 75 cents for every dollar of rent the customer pays above the specified minimum rent threshold until the maximum rate is reached. The maximum rates and thresholds vary according to a customer's family situation, the number of children they have and, for singles without children, whether accommodation is shared with others. Rent thresholds and maximum rates are indexed in March and September each year to reflect CPI increases.

Rent Assistance (RA)

20 March to 30 June 2005 rates (in AUD)

Family situation	Maximum payment per fortnight	No payment if fortnightly rent is less than	Maximum payment if fortnightly rent is more than
Single, no children	98.00	87.00	217.67
Single, no children, sharer	65.33	87.00	174.11
Couple, no children*	92.40	141.80	265.00
One of a couple, separated due to illness, no children	98.00	87.00	217.67
One of a couple, temporarily separated, no children	92.40	87.00	210.20
Single, 1 or 2 children	115.08	114.66	268.10
Couple, 1 or 2 children	115.08	169.68	323.12
Single, 3 or more children	130.06	114.66	288.07
Couple, 3 or more children	130.06	169.68	343.09

Source: A Guide to Commonwealth Government Payments, 20 March to 30 June 2005.

*Other rates of payment are available for couples separated due to illness or temporarily separated.

5.2.2 *Income and earnings disregards*

For families with dependent children aged under 16, RA forms part of the maximum rate of FTBA for income testing purposes (see Section 6.2). Otherwise, RA is paid as part of the maximum rate of income support and subject to the relevant payment's income test regime (see Section 3.2).

5.2.3 *Public housing rents*

Public housing rents and rebate structures are set and operated by state governments at levels that ensure that tenants pay no more than 20-25 per cent of their income in housing costs. Income generally includes income support and for some states or territories includes Family Tax Benefit.

5.3 *Tax treatment of benefit and interaction with other benefits*

Rent Assistance is not taxable.

6. Family benefits

Family Tax Benefit Part A (FTBA) is provided to families with children, subject to a family income test, and includes additional supplements for large families and multiple births. FTB Part B (FTBB) is paid to families with one main income, including lone parents. Families have three choices in the way they claim FTB:

- through the Family Assistance Office as either a fortnightly payment directly into their bank account; or
- as a lump sum when they lodge a tax return; or
- a family can anticipate the end-of-year tax claim through reducing income taxation withholdings from their wages and lodging an FTB tax claim with their tax return.

Other, non-means tested, family payments include Double Orphan Pension (DOP), Maternity Payment (MP) and Maternity Immunisation Allowance (MIA). DOP is a fortnightly payment of AUD 46.30 available for carers of children who are orphaned or who have one parent deceased and the other absent for an indefinite period. MP is a payment of AUD 3 079 for each baby born (or adopted) on or after 1 July 2004. MIA is a one-off payment of AUD 216.20 for parents of children aged 18-24 months who are fully immunised.

6.1 Conditions for receipt

FTB payments are for the parents or guardians of dependent children and are paid subject to income testing and residence requirements.

- To receive FTBA, the family must have a dependent child aged under 21, or a qualifying dependent full-time student aged 21 to 24 years. A person is not a qualifying child for FTBA if they receive an income support payment in their own right, for example Youth Allowance (see Section 3), or have personal income exceeding a specified limit.
- To receive FTBB, the family must have an FTBA child that is aged under 16, or a dependent full-time student up to the age of 18.

In cases where the care of children is shared between two (or more) adults who are not members of the same couple, the maximum rate of FTB is 'shared' based on the percentage of care where each has at least 10 per cent of care. Parents with more than 10 but less than 30 per cent of the care of their children can elect to waive their right to claim FTB.

6.2 Calculation of benefit amount

The amount families receive varies according to the number and ages of the children and their income.

6.2.1 *Calculation of gross benefit*

The maximum rate of FTBA comprises a rate paid for each dependent child, the Large Family Supplement for families with four or more children and Multiple Birth Allowance for families with children with triplets or quadruplets aged under six years. For private renters, maximum rates of FTBA also include Rent Assistance payable, calculated as outlined in Section 5. FTBA is also available at a lower per child 'base rate' of payment that is subject to an income test with a higher income disregard. The base rate of payment for a family is calculated as the sum of the base rates for all FTBA children and also includes Large Family Supplement and Multiple Birth Allowance.

FTBB is a family-based payment where the maximum rate of payment is based on the age of the youngest child. The 2004-05 maximum rates of FTB are outlined in the following tables. The fortnightly rates of FTBA and FTBB exclude the FTBA and FTBB Supplements, as the supplements can only be paid after the end of the financial year.

FTB rates of payment are indexed 1 July each year to reflect increases in the CPI.

2004/2005 rates (AUD)
Family Tax Benefit Part A (FTBA)

	Fortnightly rate	Yearly rate*
Child under 13	133.56	4 095.30
Child 13-15	169.40	5 029.70
Child 16-17	42.98	1 733.75
Child 18-24	57.82	2 120.65
Large Family Supplement (for fourth and subsequent children)	9.24	240.90
Multiple Birth Allowance for children under six years	111.86 (triplets) 149.10 (quads or more)	2 916.35 (triplets) 3 887.25 (quads or more)
Base rate, child under 18	42.98	1 733.75
Base rate, child 18-24	57.82	2 120.40

*FTBA per year figures include the FTBA Supplement (AUD 613.20 per child for the 2004-05 income year) but the fortnightly figures do not. The supplement can only be paid after the end of the income year.

Family Tax Benefit Part B (1 January to 30 June 2005)

Age of youngest child	Fortnightly rate	Yearly rate*
Under 5 years	114.66	3 139.58
5 - 15 years, (or 16 - 18 years if a full-time student)	79.94	2 234.38

*The FTB B yearly figures include the FTBB Supplement of AUD 150.23 that was available for the period 1 January to 30 June 2005 and can only be paid after the end of the income year.

Source: A Guide to Commonwealth Government Payments 20 March to 30 June 2005.

6.2.2 *Income and earnings disregards*

FTB and its components (Rent Assistance, Multiple Birth Allowance and Large Family Supplement) are income tested. Income for the purposes of FTB income tests is 'adjusted taxable income' (ATI) and includes taxable income (including income support payments), foreign income, certain employer provided fringe benefits and net rental property loss. Child support or maintenance income is not included and is subject to a separate income test. FTBA is subject to a family income test and the maintenance income test (MIT). 'Family income' is the ATI of the parent claiming payment and their partner.

- The family income test does not apply to those who receive, or whose partners receive, an income support payment such as a pension, benefit or allowance, or a Department of Veterans' Affairs Service Pension.
- The income test does not apply to families with income below AUD 32 485.
- Each dollar of family income above AUD 32 485 reduces the maximum rate of FTBA by 20 cents in the dollar. The payment rate is calculated using this income test until the rate is reduced the base rate of FTBA for the family.
- The base rate of FTBA is available until family income reaches AUD 84 023 per year (plus AUD 3 358 for each FTB child after the first). FTBA is then reduced by 30 cents for every dollar over that amount until the payment reaches nil.
- Maintenance income above specified income disregards (or free areas) reduces the maximum rate of FTBA (including supplements) by 50 cents in the dollar until the base rate of FTBA for the family is reached.

Income limit beyond which only base rate of Family Tax Benefit Part A is paid (In AUD per year)

Number of children 0-12 years	Number of Children 13-15 years			
	None	One	Two	Three
None	-	48 964	65 444	81 924
One	44 292	60 772	77 252	93 731
Two	56 100	72 580	89 059	105 539
Three	67 908	84 387	100 867	117 347

Note: The income limit is higher if the claimant is eligible for Rent Assistance or Multiple Birth Allowance.

Income limit at which Family Tax Benefit Part A stops* (In AUD per year)

Number of children 0-17 years	Number of Children 18-24 years			
	None	One	Two	Three
None		91 092	101 519	111 946
One	89 803	100 229	110 656	121 886
Two	98 940	109 367	120 596	131 826
Three	108 077	*119 307	*130 537	*141 766

*Income limits include the effect of the AUD 613.20 FTBA Supplement that is available only after the end of the income year when annual family income can be assessed. Families with income approaching these amounts may only be paid FTBA at the end of the income year and not as fortnightly payments. The income limit is higher if the claimant is eligible for Multiple Birth Allowance.

^Income limit is higher than stated for three children aged 13-15.

Source: A Guide to Commonwealth Government Payments 20 March to 30 June 2005.

FTBB has an income test on the 'secondary', or lower income earner. Lone parents are considered single income families and receive payment without an income test. For secondary earners every dollar of income (including income support payments) above AUD 4 000 a year reduces payment by 20 cents. A secondary earner can still get some FTBB if their income is below*:

- AUD 20 462 a year if the youngest child is under 5; or
- AUD 15 936 a year if the youngest child is between 5 and 18 years inclusive.

*Income limits are for the period 1 January to 30 June 2005 and include the FTBB Supplement of AUD 150.23 that can only be paid after the end of the income year.

FTB income test thresholds are indexed 1 July each year to reflect increases in the CPI.

6.3 *Tax treatment of benefit and interaction with other benefits*

Family payments are not taxable.

7. **Childcare**

Proportion of Australian population using 'approved' child care in June 2005, by type of child care and age of child

Ages	Outside school hours care (a)	Family day care (b)	Centre based long day care	Occasional care	Total (c)
0	0	1.73	5.25	0.17	7.04
1	0	5.98	22.61	0.72	28.78
2	0	7.55	36.82	1.05	44.48
3	0.02	7.49	46.51	1.14	53.79
4	0.99	6.06	40.67	0.73	46.81
5	9.38	3.62	12.26	0.19	23.74
6	13.84	2.57	3.36	0.04	18.76
7	14.47	2.22	2.51	0.01	18.34
8	14.29	1.81	1.78	0.01	17.18
9	12.73	1.44	1.29	0	14.92
10	10.83	1.15	0.91	0	12.48
11	7.69	0.81	0.51	0	8.78
0-11	7.16	3.47	14.11	0.33	24.23

(a) Includes before and after school hours care and vacation care.

(b) Includes in-home care

(c) Represents a count of distinct children. Children using more than one type of service during a quarter are only counted once within the total count.

Note: Children aged over 11 years have been excluded from this analysis.

Source: Centrelink administrative data June 2005 quarter. ABS estimated resident population June 2005 (ABS Cat. No. 3222.0, Population Projections, Australia, 2004 to 2101, Series B).

School Starting Age

Compulsory and minimum school starting ages are determined in each Australian state and territory. Variations between the states and territories regarding school starting ages and the nomenclature used in respect of the first year of compulsory schooling are detailed below.

STATE	NOMENCLATURE	MINIMUM STARTING AGE	COMPULSORY STARTING AGE
NSW	Kindergarten	Turning 5 by 31 July	6
VIC	Preparatory	Turning 5 by 30 April	6
QLD	Year 1	Turning 6 by 31 Dec	6
WA	Pre-primary	Turning 5 by 30 June	From the beginning of the year that the child turns 6 yrs and 6 months
SA	Reception	At the beginning of the term after they turn 5 (continuous intake)	6
TAS	Transition	Turning 5 by 1 January	Within the year in which the child turns 5
NT	Preparatory	Turning 5 by 30 June	6
ACT	Kindergarten	Turning 5 by 30 April	6

7.1 *Out-of-pocket child care fees paid by parents*

The Australian Government does not set or regulate the fees that parents are charged by individual child care services. The average fee charged for full-time centre-based long-day care (50 hours) is AUD 210 per week (2004 FaCS child care census data). Child care fees are not tax deductible and are not taken into account when assessing entitlements for other benefits. A means-tested fee subsidy, Child Care Benefit (CCB), is payable to parents using approved child care. The out-of-pocket cost payable by parents is dependent on their CCB entitlement. Higher rates of CCB apply for more than one child in care.

From 1 July 2004, taxpayers with out-of-pocket child care costs, who are eligible for CCB, are eligible for the child care tax offset (CCTO). Under the CCTO, parents using approved care for work related purposes can claim 30 per cent of their out-of-pocket costs for child care (after CCB) up to an annual limit of AUD 4 000 per child as a tax rebate, in their income tax returns for the income tax year following the year in which the expenses were incurred. For example, the CCTO for out-of-pocket child care costs incurred in 2004-05 will be available as a tax rebate after the end of the 2005-06 (see Section 7.2.3).

7.2 *Child care benefits*

Child Care Benefit

The Australian Government provides fee assistance with the cost of child care by way of Child Care Benefit (CCB). Families using child care provided by approved child care services or registered carers may receive CCB. Approved child care services include most long day care, family day care, outside school hours day care, vacation care, some occasional care services and some in-home care. For CCB purposes, registered care is care for work-related purposes that is provided by relatives, friends or nannies registered with the Family Assistance Office.

Families using approved child care services can either elect for their child care service to receive CCB on their behalf, which reduces the amount of fees the family pays, or claim CCB as a lump sum at the end of the financial year. Families using registered care can access CCB at the minimum rate from the Family Assistance Office upon presentation of child care fee receipts and a claim form.

7.2.1 *Conditions for receipt*

Families where both parents (or a lone parent) are working, studying, training or looking for work may be eligible for CCB for both approved care and registered care for up to 50 hours of care per week. Other families are eligible for CCB for up to 20 hours of approved care, but are not eligible for CCB for registered care.

7.2.2 *Calculation of benefit amount*

7.2.2.1 Calculation of gross benefit

Families with children in approved child care services are eligible for CCB at a rate determined by their family income, the number of children in care and the type of child care they use. Families with children in registered care are eligible for CCB at the minimum rate only. CCB is paid at a standard hourly rate, not determined by fee charging practices. Non-school children are eligible for 100 per cent of the current CCB rate. School children are eligible for 85 per cent of the current CCB rate.

Part-time loadings apply to CCB payments for family day care and long day care. For one child in part-time family day care a loading of 33.33 per cent applies up to 37 hours of care, and tapers progressively from 33 per cent to 0 percent from 38 to 50 hours of care. For one child in long day care a 10 per cent loading applies up to 33 hours of care, and tapers progressively from 8 per cent to 0 per cent from 34 to 38 hours of care.

For the 2004-05 income year, the maximum rate of CCB for one non-school child in an approved centre based long day care service is AUD 2.81 per hour. The maximum rate of CCB for one school child in approved child care is AUD 2.39 per hour. This is a maximum of AUD 140.50 per week for a non-school child using 50 hours of care (maximum of AUD 293.66 per week for two children, and AUD 458.32 per week for three children) and AUD 119.43 per week for a school child using 50 hours of care.

The minimum rate of CCB for children in approved child care services and in registered care is AUD 0.47 per hour for non-school children and AUD 0.40 per hour for school children; or AUD 23.55 for a non-school child and AUD 20.02 for a school child using 50 hours of care per week.

CCB rates of payment are subject to annual indexation on 1 July each year to reflect increases in the CPI.

7.2.2.2 Income and earnings disregards

CCB for approved child care is means-tested on family income using the same measure of income that is used for FTBA, family adjusted taxable income. The CCB rate for approved child care is gradually reduced as family income increases, to the point where families receive the minimum rate. The taper rate applied varies according to the number of children in child care and the type of care used.

Families with yearly income below AUD 32 485 per year receive the maximum rate of CCB. Family income above this reduces CCB at a rate determined by the number of children in approved child care until the minimum CCB rate of AUD 23.55 per week for each child is reached. The minimum rate of CCB is not subject to family income testing.

- A family with one child has a 10 per cent income test taper up to AUD 93 299 per year.
- A family with two children has a 15 per cent taper up to the second threshold of AUD 75 933 per year. Thereafter, a 25 per cent taper applies up to the income limit of AUD 101 149 per year.
- A family with three or more children has a 15 per cent taper up to the second threshold of AUD 75 933 per year. Thereafter, a 35 per cent taper applies up to the income limit of AUD 114 910 per year (plus AUD 19 199 for each additional child after the third).
- CCB for registered care is only available at the minimum rate and as such is not means-tested.

CCB income thresholds are subject to annual indexation on 1 July each year to reflect increases in the CPI.

7.2.3 Tax treatment of benefit and interaction with other benefits

CCB is not taxable. As outlined in Section 7.1 the child care tax offset (CCTO) applies to child care fees incurred from the 1 July 2004. CCB is taken into account when assessing entitlement for CCTO (as CCTO is based on out-of-pocket costs, which are gross fees less CCB), but not taken into account when assessing entitlements for other benefits.

8. Employment-conditional benefits

The Employment Entry Payment is a lump sum payment of AUD 104 made to people moving into full-time employment. To be eligible, a person must be either a lone parent receiving Parenting Payment, or a long-term income support recipient (12 months or more) receiving Newstart Allowance, Partner Allowance, Widow Allowance or Mature Age Allowance. Each individual may receive the payment only once in a 12 month period.

8.1 Tax Treatment of benefit

EEP is non-taxable.

9. Lone-parent benefits

9.1 Conditions for receipt

As outlined in Section 3, Parenting Payment (PP) is an income support payment available to lone parents, and one member of a couple, with the care of a dependent child under 16 years of age. A child can only be the PP child of one person. There are two different categories PP(single) for single parents and PP (partnered) for a parent who is a member of a couple.

- To qualify, a claimant must have been resident in Australia for at least two years or have become a sole parent while resident in Australia. PP is a non-activity tested payment but some customers are subject to participation requirements as outlined in Section 3.1. PP is subject to an asset test as outlined in Section 3.1.

9.2 Calculation of benefit amount

9.2.1 Calculation of gross benefit

The maximum rate of PP (Single) between March and June 2005 is AUD 476.30 per fortnight, plus Pharmaceutical Allowance of AUD 5.80 per fortnight. The rate is indexed in line with the CPI in March and September each year and benchmarked to 25 per cent of male total average weekly earnings and since July 2000 it has included an additional supplement that is indexed to the CPI, which is currently AUD 17.30. Recipients are also entitled to the maximum rate of Family Tax Benefit Part A (unless the rate is reduced by the maintenance income test) and Family Tax Benefit Part B.

9.2.2 Income and earnings disregards

PP (single) has an income free area of AUD 146.60 (AUD 122 plus AUD 24.60 for first child) per fortnight plus AUD 24.60 for each child after the first. Income above the free area reduces payment at the rate of AUD 0.40 in each AUD. A single parent with one child is entitled to a part payment if their income is below AUD 1 351.85 a fortnight.

The rate of PP may also be affected by the income maintenance period and working credit that operate as outlined in Section 3.2.

The income free area, excluding the additional amount for each dependent child, is indexed in July each year to reflect increases in the CPI.

9.3 Tax treatment of benefit and interaction with other benefits

PP is assessable income for tax purposes. Tax offsets ensure that a year-long recipient with other income below the income free area of AUD 146.60 pays no tax.

9.4 Benefit duration

There are no restrictions on the duration of payment.

10. Tax system

As the Australian income tax year commences on 1 July, the following relates to the 2004-05 income tax year.

10.1 Income tax

10.1.1 Tax allowances and credits

Basic reliefs: Income earned up to AUD 6 000 by resident taxpayers is subject to tax at a zero rate.

Standard marital status relief: A taxpayer may claim a tax credit where he or she contributes to the maintenance of a dependent spouse (legal or de facto). During 2004-05, the credit is AUD 1 566 for a dependent spouse without dependent children. The credit is reduced by AUD 1 for every AUD 4 by which the spouse's separate net income exceeds AUD 282. The rebate for a dependent spouse with a dependent child has been replaced by the Family Tax Benefit system (see Section 4.2 for details).

Relief(s) for children: A refundable tax offset, the Baby Bonus, is available for families with a child born between 1 July 2001 and 30 June 2004.

Relief for low income earners: A tax credit of AUD 235 is available for taxpayers whose taxable income was less than AUD 21 600. This credit is reduced by AUD 0.04 for every AUD 1 by which the taxpayer's taxable income exceeds AUD 21 600, and no tax credit is available once the taxpayer's taxable income equals AUD 27 475.

The **beneficiary tax offset** is generally available to recipients of taxable income support payments that are classified as benefits. The benefits included are Newstart Allowance, Youth Allowance, Widow Allowance, Mature Age Allowance, Partner Allowance, Parenting Payment (partnered), Sickness Allowance, Special Benefit and Austudy. The tax offset is calculated using the following formula:

- If the person's benefit amount is not more than AUD 21 600:
$$\text{Beneficiary tax offset} = 0.17 \times (\text{amount of benefit or allowance received} - \text{tax free threshold, which is AUD 6 000})$$
- If the person's benefit amount is more than AUD 21 600:
$$\text{Beneficiary tax offset} = (\text{the same formula as above}) + 0.13 \times (\text{amount of benefit or allowance received} - \text{AUD 21 600}).$$

If the amount of benefit or allowance received in the income tax year is less than the tax free threshold then no beneficiary tax offset is available. It should also be noted that very few people receive more than AUD 20 000 in rebatable benefits in a year (so the modified formula affects only a few).

The **pensioner tax offset** is available to people who receive taxable Australian Government pensions who are not eligible to receive the senior Australians tax offset because they have not met the eligibility conditions. For example, they have not reached Age Pension age within the meaning of the *Social Security Act 1991*. Parenting Payment (single) recipients are typically eligible to claim this offset.

Pensioner tax offset (generally for pensioners under Age Pension age)

AUD per annum

	Maximum tax offset amount	Shade-out threshold ^a	Cut-out threshold ^b
Single	2 117	18 453	35 389
Couple ^c			
General	1 585	15 324	28 004

- The shade-out threshold is the maximum taxable income at which pensioners eligible for the pensioner tax offset will receive the maximum tax offset amount. The tax offset reduces by 12.5 cents for each dollar of taxable income in excess of the shade-out threshold. The pensioner tax offset shade-out threshold does not allow for the low-income tax offset.
- The cut-out threshold is the level of taxable income where the pensioner tax offset is reduced to nil.
- Any unused portion of the pensioner tax offset of a partnered pensioner can be transferred to his or her partner if they are eligible for the pensioner tax offset or senior Australians tax offset. A higher level of offset is available to pensioner couples separated due to illness.

The mature aged worker tax offset is available to eligible taxpayers aged 55 years and over, who have income from working in 2004-05 and subsequent years. For the 2004-05 year, the maximum tax credit of AUD 500 is available where income from working is between AUD 10 000 and AUD 48 000. Where assessable income from working is below AUD 10 000, the tax credit tapers in at a rate of AUD 0.05 for every AUD 1 earned. Where assessable income from working is in excess of AUD 48 000, the tax credit is reduced by AUD 0.05 for each additional AUD 1 earned, so that no tax credit is available where income from working exceeds AUD 58 000.

10.1.2 Income tax schedule

General rates of tax - resident individuals

Taxable income (AUD)		Tax at general rates on total taxable income
Not less than	Not more than	
0	6 000	NIL
6 000	21 600	NIL + 17c for each AUD in excess of AUD 6 000
21 600	58 000	AUD 2 652 + 30c for each AUD in excess of AUD 21 600
58 000	70 000	AUD 13 572 + 42c for each AUD in excess of AUD 58 000
70 000 and over		AUD 18 612 + 47c for each AUD in excess of AUD 70 000

To contribute towards the cost of basic medical and hospital care, a Medicare levy is imposed on the taxable incomes of resident taxpayers. In 2004-05 the levy applies at the rate of 1.5 per cent of the taxable income of an individual. Certain thresholds are applied before the levy is imposed. In 2004-05, an individual taxpayer only pays the levy where their taxable income exceeds AUD 15 902. A taxpayer in a couple or sole parent family only pays the levy if the taxable family income exceeds AUD 26 834. The threshold increased by AUD 2 464 for each dependent child. Where an individual's taxable income exceeds AUD 15 902 but does not exceed AUD 17 191, shading-in provisions apply under which the levy payable is 20 per cent of the excess of taxable income over AUD 15 902.

In 2004-05, individual pensioners under Age Pension age only pay the levy where their taxable income exceeds AUD 19 252. Where taxable income exceeds AUD 19 252 but does not exceed AUD 20 812, shading in provisions apply under which the levy payable is 20 per cent of the excess of taxable income over AUD 19 252.

A Medicare levy surcharge equal to 1 per cent of the taxpayer's taxable income and reportable fringe benefits may also be paid by high income taxpayers without adequate private patient hospital insurance. In 2004-05, a single taxpayer with combined taxable income and reportable fringe benefits exceeding

AUD 50 000 may be liable to surcharge. A couple or sole parent family may be liable to surcharge where their combined taxable income and reportable fringe benefits exceed AUD 100 000. This family surcharge threshold is increased by AUD 1 500 for each dependant after the first. The effects of the Medicare levy surcharge are not shown in this publication. Most taxpayers who would otherwise be liable to surcharge have private patient hospital insurance as the cost of this insurance tends to be lower than the surcharge. Therefore the surcharge is not typically imposed.

10.1.3 State and local income taxes

In Australia, no states or territories levy a tax based on a resident's income.

10.2 Tax unit and treatment of benefits

All individuals are taxed separately. Some benefits are taxable; some are not. The details, for payments referred to in this document, are given below.

These payments are taxable:	These payments are not taxable:
<ul style="list-style-type: none">• Parenting Payment.• Newstart Allowance.• Youth Allowance.	<ul style="list-style-type: none">• Family Tax Benefit, Child Care Benefit, Maternity Payment, Maternity Immunisation Allowance and related allowances.• Double Orphan Pension.• Pharmaceutical Allowance.• Rent Assistance.

10.3 Social security contribution schedule

No social security contributions are collected from employers or employees. There is however a Medicare levy which is based upon taxable income (see Section 10.1.2).

10.4 Treatment of particular group

10.4.1 Young persons

There is no special tax treatment for young persons.

10.4.2 Older workers

A mature age workers tax offset is available with respect to the 2004-05 income tax year and subsequent year (see Section 10.1.1).

10.4.3 Others if applicable

There are no other special tax treatments relevant to this report.

11. Part-time work

All income support recipients are able to engage in part-time work while receiving payment, subject to the operation of the relevant payment's income tests (see Sections 3.2.2, 4 and 9.2.2). While a person in full-time paid work is not eligible to receive unemployment payments, a person in full-time work is not excluded from all income support payments. For example, a part-rate of Parenting Payment (single) may be paid to a lone parent with one child if yearly income is below AUD 35 148.

The working credit also helps people to keep more of their payment when taking up work (see Section 3.2.2).

11.1 *Benefit rules for part-time work*

There are no benefit rules relating to part-time work.

11.2 *Special tax and social security contribution rules for part-time work*

There are no special tax or social security contribution rules for part-time work.

12. Policy developments

12.1 *Policy changes introduced during the previous year*

12.2 *Policy changes announced*

Welfare to Work Reforms

In the 2005-06 Budget the Australian Government announced a comprehensive reform of the welfare system for people of working age. The Welfare to Work reforms will come into effect from 1 July 2006. Included are changes to income support arrangements, participation requirements, child care and employment services.

Changes of most relevance to the calculation of social security benefits include changes to the eligibility criteria for Disability Support Pension and Parenting Payment (single) criteria that will broaden the customer base for Newstart Allowance, and more generous income test arrangements for allowance payments (including Newstart Allowance and Parenting Payment (partnered)).

For more information on the Welfare to Work reforms see:

<http://www.workplace.gov.au/workplace/Category/SchemesInitiatives/MovingIntoWork/AboutWelfaretoWorkreforms.htm>

Additional assistance for families with children

The 2005-06 Budget increased the FTBA income free area. From 1 July 2006, the free area will increase to \$37,500 from the 1 July 2005 threshold of \$33,361. Child Care Benefit arrangements for grandparents with primary care of grandchildren were relaxed with grandparents on income support becoming eligible for Grandparent CCB from 1 July 2005. Grandparent CCB covers the full cost of child care for this group.

Income support for New Apprentices

As one of its election commitments in 2004 the Government announced a package of initiatives to increase the participation and retention rates in apprenticeships and traineeships. From 1 July 2005 eligibility for Youth Allowance, Austudy and ABSTUDY payments for full-time students will be extended to full-time New Apprentices. Prior to these changes full-time New Apprentices were excluded from income support payment eligibility as they were considered to be in full-time paid work and not in full-time study.