
AUSTRALIA 2007

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 single parents is classified as a 'pension'. Unemployment-related and parenting payments and the Age Pension 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 entitlements and taxes for workforce age individuals and couples where one or both members are receiving an unemployment payment and for single parents receiving Parenting Payment.

The reference period is from July 1st 2006 to June 30th 2007.

1.1. Average production worker wage (AW)

The 2006-07 AW level is AUD 54619.¹

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 2006-2007, OECD, 2008, 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 2006-07 was 63.

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 aged under six for partnered recipients, aged under eight for single recipients, or aged under 16 if the person was in receipt of Parenting Payment prior to 1 July 2006.

. 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 (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 recipients, is generally 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 Youth Allowance recipients, whether they live with their parents. Maximum rates of payment are subject to personal and partner income testing with dependent Youth Allowees also subject to parental means testing arrangements.

- Social security 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. Some of 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 exempted from meeting any or full activity test requirements (e.g. where they are temporarily incapacitated by injury or illness, personal crisis or caring duties).

PP recipients, both single and partnered, granted on or after 1 July 2006 are required to look for part-time work of at least 15 hours per week when their youngest child turns six. New Parenting Payment recipients after 1 July 2006 will generally be transferred (if eligible) to Newstart Allowance once their youngest child turns six (if partnered) or eight (if single).

Further information on PP (Single) for single parents is at Section 9.

Social security benefits (such as 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/recipient and their partner. Lower limits apply to homeowners and reflect the fact that the value of the 'principal home' is exempt from the asset test. The asset value limits are indexed on 1 July each year to reflect changes in the broad cost of living as measured by the Consumer Price Index (CPI). For 2006-07 the value limits are as follows:

- Single: homeowner AUD 161 500, non-homeowner AUD 278 500.
- Partnered (combined): homeowner AUD 229 000, non-homeowner AUD 346 000.

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 2007 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 changes in the broad cost of living as measured by the Consumer Price Index (CPI). Maximum rates of YA are indexed to changes in the CPI in January each year.

Youth Allowance	(AUD fortnightly)	(AUD per month)**
Single, under 18, at home*	190.50	412.75
Single, 18 and over at home*	229.10	496.38
Single, away from home	348.10	754.22
Partnered, no dependent child(ren) (each)	348.10	754.22
Single, with dependent child(ren)	456.00	988.00
Partnered, with children (each)	382.20	828.10

Newstart Allowance (NSA), Parenting Payment (partnered)	(AUD fortnightly)	(AUD per month)**
Single, 21 and over, no children	424.30	919.32
Single, 21 and over, with dependent child(ren)	458.90	994.28
Single, 60 and over, after 9 months# on payment	458.90	994.28
Couple, over 21 (each)	382.80	829.40

* 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 Australian Government payments, 20 March to 30 June 2007.

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. Each dollar of income above AUD 62 and up to AUD 250 reduces the rate of payment by 50 cents. Thereafter the withdrawal rate for payments is 60 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 731.34 per fortnight for NSA recipients) the partner remaining on income support will have their payment reduced by 60 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 AUD 1 000). A participant's Working Credit 'balance' can be used to increase the amount they can earn before their income support payment is reduced. For example, a social security beneficiary who is also a Working Credit scheme participant with a Working Credit 'balance' of

AUD 200 can earn AUD 262 for a given fortnight (i.e. the amount of the participant's Working Credit 'balance' plus the fortnightly ordinary income free area for social security beneficiaries covered by the Working Credit scheme) before their payment starts to reduce for that fortnight.

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 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' will generally 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 will have to wait up to 26 weeks before receiving payment.

3.5 Treatment of particular groups

3.5.1 Young people

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 payable 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 is generally closed to new entrants.

Partner Allowance is payable to partners of income support recipients who have no recent workforce experience and who were born on or before 1 July 1955. From 20 September 2003, Partner Allowance is generally closed to new entrants.

Widow Allowance is payable to women with no recent workforce experience who were widowed, divorced or separated since turning 40 years of age and born on or before 1 July 1955.

3.5.3 *Others if applicable*

Single parents with a dependent child aged under 8 years of age generally do not claim unemployment benefits (such as NSA or YA) as they also qualify for Parenting Payment (Single). PP (Single) has a higher maximum rate of payment and income test free area, a lower withdrawal rate and limited participation requirements (see Section 9). It is possible for single people receiving unemployment benefits to have substantial responsibility for a dependent child, for example, parents with shared care of children (as a dependent child can only be the 'PP child' of one person at a time) or care of a dependent child aged 8 years or older. In these instances, a higher rate of unemployment benefit 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 shorter-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 Families, Community Services and Indigenous Affairs (FaCSIA), but cannot exceed the maximum NSA or YA payment rates otherwise applicable to the person. The benefit is income tested against all income with no income test free area and a withdrawal rate of 100 cents in the dollar. 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 benefits and those receiving more than the minimum rate of Family Tax Benefit Part A (FTB Part A).

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 private rent paid above the specified minimum rent threshold until the maximum rate of RA is reached. The maximum rates and thresholds vary according to a person's family situation, the number of children they have and, for singles without children, whether accommodation is shared with other adults. Rent thresholds and maximum rates are indexed in March and September each year to reflect changes in the broad cost of living as measured by the Consumer Price Index (CPI).

Rent Assistance (RA)

20 March to 30 June 2007 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	104.00	92.60	231.27
Single, no children, sharer	69.33	92.60	185.04
Couple, no children*	98.20	150.60	281.53
Single, 1 or 2 children	122.22	121.80	284.76
Couple, 1 or 2 children	122.22	180.18	343.14
Single, 3 or more children	138.18	121.80	306.04
Couple, 3 or more children	138.18	180.18	364.42

Source: A guide to Australian Government payments, 20 March to 30 June 2007.

*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 at least one 'FTB child' aged under 16 years, RA forms part of the maximum rate of FTB Part A for income testing purposes (see Section 6.2). Otherwise, RA is paid as part of the maximum rate of adult income support and is 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 and Territory Governments at levels that ensure that tenants pay no more than between 20-25 per cent of their net income in housing costs. Net income for public rent purposes generally includes adult income support payments and some or all of 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 (FTB Part A) 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 (FTB Part B) is paid to families with one main income, including single parents. Families have three choices in the way that they receive FTB:

- through the Family Assistance Office as either a fortnightly or lump sum payment directly into their bank account; or
- as a lump sum when they lodge a tax return; or
- as reduced income tax instalment deductions in anticipation of a lump sum entitlement for a particular financial year.

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 49.40 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 one-off lump sum payment of AUD 4 133 for each baby born (or adopted). MIA is a one-off payment of AUD 229.70 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 FTB Part A, a 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 FTB purposes 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 if aged 16 years or more.
- To receive FTB Part B, a family must have an 'FTB child' aged under 16 years, or a dependent full-time student up to the age of 18.

In cases where the care of a child is shared between two (or more) adults who are not members of the same couple, the 'per child' rate of FTB Part A for the child can be 'shared' between the adults based on the percentage of care provided to the child by each adult (so long as an adult's percentage of care provided to the child is equal to or in excess of 10 per cent). Adults with at least 10 but less than 30 per cent of the care of a child can elect to waive their right to claim FTB in respect of the child.

6.2 *Calculation of benefit amount*

The amount families receive varies according to the number, ages and personal circumstances of the children, and the personal circumstances and income of parents.

6.2.1 *Calculation of gross benefit*

The maximum rate of FTB Part A 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 FTB Part

A also include Rent Assistance, calculated as outlined in Section 5. FTB Part A 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 FTB children and also includes Large Family Supplement and Multiple Birth Allowance.

FTB Part B is a family-based payment where the maximum rate of payment is based on the age of the youngest child. The 2006-07 maximum rates of FTB are outlined in the following tables. The fortnightly rates of FTB Part A and FTB Part B exclude the 'per child' FTB Part A supplement and the 'per income unit' FTB Part B supplement, as the supplements can only be paid after the end of the income year when family income can be fully assessed.

FTB rates of payment are indexed on 1 July each year to reflect changes in the broad cost of living as measured by the Consumer Price Index (CPI).

2006-07 rates (AUD)

Family Tax Benefit Part A (FTB Part A)

	Fortnightly rate	Yearly rate*
Child under 13	140.84	4 317.95
Child 13-15	179.76	5 332.65
Child 16-17	45.36	1 828.65
Child 18-24	61.04	2 237.45
Large Family Supplement (for fourth and subsequent children)	9.80	255.50
Multiple Birth Allowance for children under six years	118.02 (triplets) 157.36 (quads or more)	3 076.95 (triplets) 4 102.60 (quads or more)
Base rate, child under 18	45.36	1 828.65
Base rate, child 18-24	61.04	2 237.45

*FTB Part A per year figures include the FTB Part A Supplement (AUD 646.05 per child for the 2006-07 income year) but the fortnightly figures do not.

Family Tax Benefit Part B

Age of youngest child	Fortnightly rate	Yearly rate*
Under 5 years	120.96	3 467.50
5 - 15 years, (or 16 - 18 years if a full-time student)	84.28	2 511.20

*The FTB Part B yearly figures include the FTB Part B Supplement of AUD 313.90 per year but the fortnightly figures do not.

Source: A guide to Australian Government payments 20 March to 30 June 2007.

6.2.2 *Income and earnings disregards*

FTB Part A 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 taxable income support payments), foreign income, certain employer provided fringe benefits, certain tax-free pensions or 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 social security pension or benefit, or a Department of Veterans' Affairs service pension.
- The family income test does not apply to families with income below AUD 40 000.
- Each dollar of family income above AUD 40 000 reduces the maximum rate of FTB Part A by 20 cents in the dollar. The payment rate is calculated using this income test until the rate is reduced to the base (or minimum) rate of FTB Part A for the family.
- The base rate of FTB Part A is available until family income reaches AUD 88 622 per year (plus AUD 3 504 for each FTB child after the first). FTB Part A 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 more-than-minimum rate of FTB Part A (including Rent Assistance) by 50 cents in the dollar until the base rate of FTB Part A 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		57 520	75 040	92 560
One	52 447	69 967	87 487	105 007
Two	64 893	82 413	99 933	117 453
Three	77 340	94 860	112 380	129 900

Note: The income limit is higher if the claimant is eligible for Rent Assistance.

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		96 081	107 043	118 857
One	94 718	105 680	117 494	129 308
Two	104 317	116 131	127 945	139 759
Three	114 769	126 582	138 396	150 210

*Income limits include the effect of the 'per child' AUD 627.80 per year FTB Part A supplement. Families with income approaching these amounts may only be paid FTB Part A 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 Australian Government payments 20 March to 30 June 2007.

FTB Part B in couple families has an income test on the 'second' or lower income earner. Single parents receive payment without an income test. For second earners every dollar of income (including income

support payments) above AUD 4 234 a year reduces payment by 20 cents in the dollar. A second earner can still get some FTB Part B if their income is below*:

- AUD 21 572 a year if their youngest FTB child is under 5 years of age; or
- AUD 16 790 a year if their youngest FTB child is between 5 and 18 years of age inclusive.

*Income limits include the FTB Part B Supplement of AUD 313.90 per year that can only be paid after the end of the income year.

FTB income test thresholds are indexed on 1 July each year to reflect changes in the broad cost of living as measured by the Consumer Price Index (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 the September quarter 2006, 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	0.00	1.50	5.02	0.13	6.63
1	0.00	5.76	23.47	0.64	29.68
2	0.00	7.34	37.36	0.95	45.31
3	0.02	7.22	46.62	1.08	54.34
4	0.69	5.92	43.10	0.79	49.56
5	8.22	3.81	18.70	0.29	29.22
6	14.02	2.46	3.39	0.02	18.74
7	15.50	2.08	2.51	0.01	19.04
8	14.93	1.77	1.90	0.00	17.69
9	13.56	1.40	1.31	0.00	15.56
10	11.16	1.10	0.86	0.00	12.60
11	8.28	0.79	0.55	0.00	9.27
0-11	7.33	3.36	14.96	0.31	25.25

(a) Includes after and before 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 September 2006 Quarter (4 July 2006 to 1 October 2006), ABS 2006 Census, catalogue number 2068.0)

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	5 by 31 July in year of entry	6
VIC	Preparatory	5 by 30 April in year of entry	6
QLD	Preparatory	5 by 30 June in year of entry	6
WA	Kindergarten	4 by 30 June in year of entry	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	Kindergarten	4 by 1 January in year of entry	5 by 1 January in year of

			entry
NT	Preparatory	5 by 30 June in year of entry	6
ACT	Kindergarten	5 by 30 April in year of entry	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) was AUD 210 per week in 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. The rate of CCB depends on a number of factors. See Section 7.2.2.1 below.

In addition to CCB, the Australian Government provides the Child Care Tax rebate (CCTR). The CCTR covers 30 per cent of the family's out-of-pocket expenses for approved child care (the amount of the fee less the CCB entitlement) where the parents meet the work, training, study test, up to a maximum amount which is indexed annually to reflect changes in the broad cost of living as measured by the Consumer Price index (CPI). The maximum CCTR payable for expenses incurred in 2006-07 is AUD4,211 per child.

7.2 *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, 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 are (or a single parent is) 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 child per week. Other families are eligible for CCB for up to 24 hours of continuous approved care, but are not eligible for CCB for 24 hours of continuous 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 CCB 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 (non-school) 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 37.5 hours of care, and tapers progressively from 33.33 per cent to 0 per cent from 37.5 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 2006-07 income year, the maximum rate of CCB for one non-school child in an approved centre based long day care service is AUD 2.96 per hour. The maximum rate of CCB for one school child in approved child care is AUD 2.52 per hour. This is a maximum of AUD 148 per week for a non-school child using 50 hours of care (maximum of AUD 309.35 per week for two children, and AUD 482.84 per week for three children) and AUD 126 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 0.497 per hour for non-school children and AUD 0.422 per hour for school children; or AUD 24.85 for a non-school child and AUD 21.12 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 changes in the broad cost of living as measured by the Consumer Price Index (CPI).

7.2.2.2 Income and earnings disregards

CCB for approved child care is income tested on family income using the same measure of income that is used for FTB Part A, namely, family 'adjusted taxable income' (ATI). The CCB rate for approved child care is gradually reduced as family income increases, to the point where families receive the minimum rate of CCB. The taper rate applied varies according to the number of children in child care.

Families with yearly income below AUD 34 310 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 24.85 per week (for 50 hours of care) 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 98 348 per year.
- A family with two children has a 15 per cent taper up to the second threshold of AUD 80 088 per year. Thereafter, a 25 per cent taper applies up to the income limit of AUD 106 629 per year.
- A family with three or more children has a 15 per cent taper up to the second threshold of AUD 80 088 per year. Thereafter, a 35 per cent taper applies up to the income limit of AUD 121 130 per year (plus AUD 20 221 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. CCB is taken into account when assessing entitlement for CCTR. See Section 7.3 below.

7.3 *Child Care Tax Rebate*

From 1 July 2004, taxpayers with out-of-pocket child care costs, who are eligible for CCB, may also be eligible for the Child Care Tax Rebate (CCTR). Under the CCTR, parents using approved care for work related purposes can claim 30 per cent of their 'out-of-pocket' (or net of CCB) costs for child care up to an annual limit which is indexed annually in line with changes in the broad cost of living as measured by the Consumer Price Index (CPI). The maximum amount was AUD \$4000 per child for care costs incurred in 2004-05, and has increased to AUD 4 211 per child for 2006-07 care costs.

The CCTR for care costs incurred in 2004-05 and 2005-06 can be claimed by families as a tax rebate in annual income tax returns for the income tax years 2005-06 and 2006-07, respectively. The CCTR can reduce their tax liability, but if they have insufficient tax liability, they will not receive the full benefit of the CCTR.

For costs incurred in the 2006-07 income tax year, and for ongoing years, families will no longer claim CCTR through the tax system. Instead, the CCTR will be a payment made to families after determination of their Child Care Benefit entitlement, effectively bringing this assistance forward by 12 months. In addition, because the CCTR is no longer linked to tax liability, all eligible families, even those with low or no tax liability, can now receive it. All other eligibility requirements remain the same.

7.3.1 *Conditions for receipt*

Parents receiving CCB for approved care for work related purposes can claim the CCTR. However, for child care costs incurred in 2004-05 and 2005-06, parents also needed to have sufficient tax liability in the tax years 2005-06 and 2006-07 respectively to claim the full benefit.

7.3.2 *Calculation of benefit amount*

The per child amount is indexed to changes in the Consumer Price Index (CPI).
For the period 1 July 2004 to 30 June 2005, the CCTR amount is AUD 4 000 per child.
For the period 1 July 2005 to 30 June 2006, the CCTR amount is AUD 4 096 per child.
For the period 1 July 2006 to 30 June 2007, the CCTR amount is AUD 4 211 per child.

8. Employment-conditional benefits

The Employment Entry Payment is a lump sum payment that is not subject to a separate income or assets test, and is made to people moving into full-time employment. A payment of AUD 312 is made to people who receive a Disability Support Pension, or who have a partial capacity to work and receive either Newstart Allowance or Youth Allowance. A payment of AUD 104 is made to people who are 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. Single-parent benefits

9.1 Conditions for receipt

As outlined in Section 3, Parenting Payment (PP) is an income support payment available to single parents or one member of a couple with the care of a dependent child (a) under 8 years of age in the case of a single parent and (b) under 6 years of age in the case of a couple. 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 be eligible for PP (Single), a claimant must have been resident in Australia for at least two years or have become a single parent whilst resident in Australia. PP (Single) is a non-activity tested payment for new (i.e. post 30 June 2006) recipients whose youngest 'PP child' is under 6 years of age, and an activity tested payment for those recipients whose youngest 'PP child' is 6 years of age or older, but under 8 years of age (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 2007 is AUD 525.10 per fortnight, plus Pharmaceutical Allowance of AUD 5.80 per fortnight. The rate is indexed to changes in the broad cost of living as measured by the Consumer Price Index (CPI) in March and September each year and is also benchmarked to 25 per cent of male total average weekly earnings; since July 2000 it has included an additional supplement that is indexed to changes in the CPI, which is currently AUD 18.30. 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 152.60 (AUD 128.00 plus AUD 24.60 for the first dependent child) per fortnight plus AUD 24.60 for each dependent child after the first. Income above the free area reduces payment at the rate of AUD 40 cents for each AUD. A single parent with one child is entitled to a part payment if their income is below AUD 1 479.85 a fortnight.

The rate of PP (Single) may also be affected by the income maintenance period and the Working Credit scheme 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 changes in the broad cost of living as measured by the Consumer Price Index (CPI).

9.3 Tax treatment of benefit and interaction with other benefits

PP is assessable income for tax purposes. The pensioner tax offset ensures that a year-long recipient with other assessable income below the income free area of AUD 152.60 per fortnight 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 2006-07 income tax year.

10.1 Income tax

10.1.1 Tax allowances and credits

Basic reliefs: Taxable income earned up to AUD 6 000 per year 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). The credit is AUD 1 655 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 286 per year. 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 until the child's 5th birthday.

Relief for low income earners: A tax credit of AUD 600 is available for taxpayers whose taxable income was less than AUD 25 000 per year. This credit is reduced by AUD 4 cents for every AUD 1 by which the taxpayer's taxable income exceeds AUD 25 000 per year, and no tax credit is available once the taxpayer's taxable income equals AUD 40 000 per year.

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

- If the person's benefit amount is not more than AUD 25 000 per year:

Beneficiary tax offset = (lowest marginal tax rate, which is 0.15) x (amount of benefit or allowance received per year – tax free threshold, which is AUD 6 000 per year)

- If the person's benefit amount is more than AUD 25 000 per year:

Beneficiary tax offset = (the same formula as above) + 0.15 x (amount of benefit or allowance received per year – AUD 25 000 per year).

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.

The **pensioner tax offset** is available to people who receive taxable Australian Government pensions who are not eligible to receive the Senior Australian tax offset (see below) because they have not met the eligibility conditions for the Senior Australian tax offset (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 the pensioner tax offset.

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

AUD per year

	Maximum tax offset amount	Shade-out threshold ^a	Cut-out threshold ^b
Single	2 018	19 454	35 598
Couple ^c			
General	1 522	16 147	28 323

- 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 Australian tax offset. A higher level of offset is available to pensioner couples separated due to illness.

The Senior Australian tax offset is available to taxpayers who, at 30 June in a financial year, are of Australian Age Pension age, were notionally or actually eligible for an Australian Age Pension or similar payment, have taxable income for the relevant financial year less than the applicable cut-out threshold (see below) and were not in gaol for the whole of the financial year.

Senior Australian tax offset (generally for taxpayers who've reached Age Pension age)

AUD per year

	Maximum tax offset amount	Shade-out threshold ^a	Cut-out threshold ^b
Single	2 230	24 867	42 707
Couple ^c			
General	1 522	20 680	66 992

- The shade-out threshold is the maximum taxable income at which Senior Australians eligible for the Senior Australian 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 cut-out threshold is the level of taxable income of a single person or a couple where the Senior Australian tax offset is reduced to nil.
- Any unused portion of the Senior Australian tax offset of a partnered recipient can be transferred to his or her partner if they are eligible for the pensioner tax offset or Senior Australian tax offset. A higher level of offset is available to senior or senior/pensioner couples separated due to illness.

The mature age 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 2006-07 year, the maximum tax credit of AUD 500 per year is available where income from working is between AUD 10 000 and AUD 53 000 per year. Where assessable income from working is below AUD 10 000, the tax credit tapers in at a rate of AUD 5 cents for every AUD 1 earned. Where assessable income from working is in excess of AUD 53 000 per year, the tax credit is reduced by AUD 5 cents for each additional AUD 1 earned, so that no tax credit is available where income from working exceeds AUD 63 000 per year.

10.1.2 *Income tax schedule*

General rates of tax - resident individuals

Taxable income per year (AUD)		Tax at general rates on yearly total taxable income
Not less than	Not more than	
0	6 000	NIL
6 001	25 000	NIL + 15c for each AUD in excess of AUD 6 000 per year
25 001	75 000	AUD 2 850 per year + 30c for each AUD in excess of AUD 25 000 per year
75 001	150 000	AUD 17 850 per year + 40c for each AUD in excess of AUD 75 000 per year
150 001 and over		AUD 47 850 per year + 45c for each AUD in excess of AUD 150 000 per year

To contribute towards the cost of basic medical and hospital care, a Medicare levy is imposed on the taxable incomes of resident taxpayers. 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. An individual taxpayer only pays the levy where their taxable income exceeds AUD 16 740 per year. A taxpayer in a couple or sole parent family only pays the levy if the taxable family income exceeds AUD 28 247 per year. The threshold is increased by AUD 2 594 per year for each dependent child. Where an individual's taxable income exceeds AUD 16 740 per year but does not exceed AUD 19 694 per year, shading-in provisions apply under which the levy payable is 20 per cent of the excess of taxable income over AUD 16 740 per year.

Individual pensioners under Age Pension age only pay the levy where their taxable income exceeds AUD 21 637 per year. Where taxable income exceeds AUD 21 637 per year but does not exceed AUD 25 455 per year, shading in provisions apply under which the levy payable is 20 per cent of the excess of taxable income over AUD 25 455 per year.

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. A single taxpayer with combined taxable income and reportable fringe benefits exceeding AUD 50 000 per year may be liable to pay the surcharge. A couple or sole parent family may be liable to pay the surcharge where their combined taxable income and reportable fringe benefits exceed AUD 100 000 per year. This family surcharge threshold is increased by AUD 1 500 per year 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 the 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 social security payments 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. • Austudy Payment. • Income support payments under the ABSTUDY scheme. • Sickness Allowance. • Mature Age Allowance • Partner Allowance. • Widow Allowance. • Special Benefit. • Age Pension. • Disability Support Pension (recipient is Age Pension age or over). • Wife Pension. • Carer Payment (care giver or any of the care receivers is Age Pension age or over). 	<ul style="list-style-type: none"> • Disability Support Pension (recipient under Age Pension age). • Carer Payment (care giver and all care receivers under Age Pension age). • Family Tax Benefit Part A (including Rent Assistance, Large Family Supplement and Multiple Birth Allowance). • Family Tax Benefit Part B. • Child Care Benefit. • Child Care Tax Rebate (as a transfer payment). • Maternity Payment. • Maternity Immunisation Allowance. • Double Orphan Pension. • Pharmaceutical Allowance. • Rent Assistance. • Employment Entry Payment.

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 groups

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 (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 single parent with one child if yearly income is below AUD 38 582 (AUD 1 483.92 per fortnight).

The Working Credit scheme can also help working-age income support recipients 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

Welfare to Work Reforms

In 2005-06 the Australian Government announced various changes to the Welfare to Work Reforms. The change of most relevance is that from 1 July 2006 qualifying child age limit for Parenting Payment (Single) will be reduced from 16 to eight, instead of the previously announced six. The announcement did not affect the qualifying child age limit for Parenting Payment (partnered), which is to be reduced from 16 to six. New claimants whose youngest child is aged six and over (if partnered), or eight and over (if single) are required to apply for another income support payment (typically Newstart Allowance).

Existing recipients of Parenting Payment who have a youngest child aged 0-15 years as of 30 June 2006 will retain their eligibility and continue to receive Parenting Payment. These Parenting Payment recipients will be required to look for paid part time work of at least 15 hours a week and participate in appropriate services.

New claimants (both partnered and single) will be subject to part-time participation requirements when their youngest child turns six. New claimants with youngest child under six years of age can volunteer for Job Network assistance at any time.

For more information on the Welfare to Work reforms see:

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

Additional assistance for families with children

The 2006-07 Budget increased the FTB Part A income free area. In the 2005-06 Budget it was announced that the free area would increase to AUD 37 500 from 1 July 2006, and the 2006-07 Budget announced a further increase in the free area to AUD 40 000 from that date. In addition, from 2006-07 onwards the number of children required to attract the large family supplement was reduced from four or more to three or more children. From 1 July, 2007, the income free area is AUD 41 318.

12.2 Policy changes announced

Personal income tax reform

All taxpayers will benefit from a further \$31.5 billion in tax cuts over the next four years.

From 1 July 2007, to improve work incentives for lower income and part-time workers, the low income tax offset will increase to \$750 per year and the threshold for the 30 per cent income tax rate will rise from \$25,000 to \$30,000 per year.

From 1 July 2008, the threshold for the 40 per cent income tax rate will increase to \$80,000 and the threshold for the 45 per cent income tax rate will increase to \$180,000.

Improving child care assistance

From 1 July 2007, rates of Child Care Benefit will increase by 10 per cent on top of the routine increase of CCB rates to reflect changes in the broad cost of living as measured by the Consumer Price Index (CPI).

From 1 July 2007, the Child Care Tax Rebate will be available as a direct payment shortly after the end of a financial year of entitlement.

These measures help more than 700,000 families.

Rewarding older Australians and carers

\$500 one-off bonus payment, to ensure older Australians share in the economic growth they helped create.

\$1,000 bonus payment to recipients of the Carer Payment and recipients of both the Carer Allowance and either the Wife Pension or Veterans' Affairs Partner Service Pension.

\$600 bonus payment to recipients of the Carer Allowance.

These bonuses will be tax-free and paid by 30 June 2007.