

## Labor searches for savings amid family benefits reform

Written by The Conversation

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Labor is trying to find savings by [targeting the family tax benefit](#) as part of its plan for budget repair. Even though its measures don't go as far as the Coalition's, outlined in the budget, its cuts will hurt families with a higher income.

Labor will tighten the means test on end-of-year supplements for [Family Tax Benefit A](#), reducing the payment by 50% for families with incomes over \$100,000.

Halving the Family Tax Benefit Part A supplement for families earning \$100,000 a year or more [is estimated to save](#) \$500 million over the next four years. The policy would also pause the indexation of the higher income test threshold where families lose more of their family tax benefits at \$94,000 a year, raising \$275 million over the forward estimates.

### How this compares with the Coalition's "zombie" measures

The so-called "zombie measures", remaining from the [2015 Budget](#) would have gradually - but completely - abolished the supplements to both family tax benefit Part A and Part B. The Part A supplement would have been cut from \$726.35 per child to zero by July 1, 2018. The Family Tax Benefit Part B supplement would have been cut from \$354 per family to zero by July 1, 2018.

In addition, the 2015 budget proposed wide-ranging changes to the structure of Family Tax Benefit Part B, that at the time would have saved about \$1.362 billion over the forward estimates (after accounting for some protection of some groups - lone parents and other families). Overall, the total net savings from the three measures would have amounted to around \$4.8 billion over the estimates period starting from the 2015 Budget.

Because these measures have not actually passed by the Senate, it is difficult to compare these savings measures directly, not least because they now apply to different years. But the savings of around \$775 million over the four years of the current forward estimates are clearly a lot less than those planned in the 2015 budget.

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The fact that the savings are so much less under the Coalition's policy means that the impact on families would also be much less. The targeting of the reduction in the threshold freeze to families over \$94,000 and \$100,000 for the halving of the lump sum payments means that the impact is less and will not affect families with combined family incomes below \$94,000. Unless of course they enjoy wage increases that push them above this income level.

The 2015 budget involved using some of the savings to fund its more generous child care assistance package, which also has not come into effect. The Labor Party has also proposed [a somewhat cheaper](#) child care package.

### Who it affects the most

In net terms, the families most affected had the Coalition's 2015 Budget proposals passed would have been those with children over the age of 13. If all the changes had been fully phased in, a sole parent with one child of this age would have lost roughly \$2,500 per year.

Those with two children would have lost around \$3,000 per year, and low-income couples between \$3,500 and \$4,000 per year. These impacts would have been on families with incomes well below \$100,000 a year.

Families with younger children would lose less. The biggest losses would arise from the ending of the Part A supplement of nearly \$730 per year per child, offset to some extent by a small increase in base rates of Family Tax Benefit Part A. The larger the family the more they would have lost.

If Labor is elected, and this proposal passed, families over \$100,000 would lose \$365 per year per child, so again families with greater numbers of children would lose more. The [Labor Party statement](#) does not clearly specify what would happen to the supplement to Family Tax Benefit Part B.

### How the family tax benefit came to be

It is worth noting that these end of year lump sum supplements were introduced by the Howard Government as part of [the compensation for the GST](#). This was because under this system

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families have to estimate their income in advance for determining their level of family payments.

In the first few years of the new scheme, hundreds of thousands of families were overpaid and incurred tax bills because they had underestimated their incomes. These lump sum end of year supplements were intended as a solution to [the political angst these over-payments caused](#) .

In the 2015 budget, it was effectively assumed that new computer systems in the Tax Office and Centrelink would make these end of year supplements unnecessary by 2018. However if you look at similar computer systems envisaged for [the introduction of Universal Credit in the UK](#) as a precedent, then these supplements may still be required.

Having said this, the Labor Party approach of halving the supplements only for those with family incomes over \$100,000 per year suggests that the impact of such a problem would be likely to be less than under the 2015 Budget proposals.

The Labor Party is proposing a somewhat less expensive child care package than the Coalition, but significantly lower cuts in family payments than proposed in the 2015 Budget, with those cuts impacting more on higher income families.

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