The government claims budget savings will more than offset its additional spending on child care.AAP/Mick Tsikas

The Turnbull government has introduced a [new omnibus savings bill] to parliament. It has combined and revised several previously blocked welfare measures into a single piece of legislation to try to achieve nearly A$4 billion in net savings over the next four years.

This bill builds on a range of measures introduced by the Abbott and Turnbull governments. Some go all the way back to the [2014 budget] . But they have evolved since then, particularly with bills proposed by the Turnbull government in
[October 2015]
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By far the most significant projected savings – A$4.7 billion over the next four years – in the bill are made by phasing out end-of-year supplements for family tax benefit recipients.

However, there are potential risks – either to the government's budget strategy or to its political popularity over the next four years – should these payments be phased out, or Centrelink's new computer systems not deliver as envisaged.

What else is in the bill?

The omnibus bill includes the government's [proposed changes to child care] . This involves about A$1.7 billion in increased spending between 2016-17 and 2019-20, including some measures not requiring legislation.

The most notable sweetener in the revised package is an increase in rates of family tax benefit by about A$20 per child per fortnight. This will have a much larger overall cost, of close to $2.4 billion over four years. But the government claims budget savings will more than offset these additional expenditures.

The bill's financial impact statement shows more than A$900 million will be saved through closing the Energy Supplement to new welfare recipients. Changing the age of eligibility for a range of payments will save a further A$430 million.

The end-of-year Family Tax Benefit A supplement, which is currently around A$730 per year per child, will be progressively cut and phased out by July 2018. The Family Tax Benefit B supplement of A$350 per year per family will also be phased out.

Offsetting this is the increase in fortnightly rates. But this will still mean families with combined annual incomes below A$80,000 will lose around A$200 per year per child, plus an additional A$350 per year if they are a single-earner household.

Where did these payments come from?

The phasing out raises the question: why did we have these end-of-year lump-sum payments as part of the family tax benefit system in the first place?

The Howard government introduced these payments in the 2004-05 budget, initially as an increase in the rate of Family Tax Benefit A of A$600 per child. This was to be paid as a lump sum upon reconciliation of entitlement following the end of the financial year.

The annual lump sum was available, if required, to offset any overpayment of family tax benefits that may have occurred during a previous year.

Some saw this as middle-class welfare, or even vote-buying, before the 2004 election. But the lump sums tackled an overpayment and debt problem the Howard government created when it introduced reforms to family payments, to compensate for the introduction of the GST in July 2000.

Under the previous system of family payments for low-income working families, entitlement to these payments was based on a family's incomes in the previous financial year. There were differing ways of adjusting for changes in incomes in the year in which the payment was actually made.

Under the new system, payments were significantly increased. And families were given the option of taking their payments in the form of reductions in income tax paid by their employer.

An annual reconciliation process was introduced to ensure families who took their payments through the tax system were treated in the same way as those who received cash benefits from Centrelink.

Before the beginning of each financial year families were asked to estimate what their income would be in the subsequent tax year. After they filed their tax returns there was an end-of-year reconciliation. This meant families received extra payments if they had overestimated their incomes, but incurred debts if they had underestimated their incomes and been overpaid.

This end-of-year reconciliation made the system more responsive to changes in income and allowed people who had been underpaid to receive top-ups. However, the system's greater responsiveness led to a very large increase in debts.

Before the system's introduction, just over 50,000 families had debts at the end of each year. But in the new system's first year it is estimated around 670,000 families had been overpaid.

This led to considerable media and political controversy throughout 2001 and 2002. In July 2001, just before an important byelection, the Howard government announced the waiver of the first A$1,000 of all overpayments. This reduced the number with debts to around 200,000 families.

There was further fine-tuning in 2002. And an Ombudsman's report in 2003 concluded that, despite previous adjustments, the system would be likely to continue to result in significant numbers of unavoidable debts, and that the government should consider further policy changes.

Potential perils ahead

The controversy seems to have died down since the introduction of the end-of-year supplements in 2004. However, the Turnbull government's proposal to phase out the payments implies that it considers the overpayment problem has been solved.

Here, the issue has some apparent parallels with the Centrelink debt controversy – which seems likely to be subjected to a Senate inquiry.

There are important differences, however. Entitlement to income-support payments is primarily based on fortnightly income, whereas entitlement to family payments is based on annual income.

Why the government thinks the overpayments and the subsequent debt problem will be resolved so that the lump-sum payments can be phased out is not entirely clear. But it appears to reflect the 2015 update of Centrelink’s computer systems .

Complementing this are proposed changes in reporting systems to the Australian Tax Office (ATO), particularly the introduction of the “Single Touch Payroll” system . This will mean that when employers pay their staff, the employees' salary and pay-as-you-go withholding amounts will be automatically reported to the ATO, which can then share this data with Centrelink.

So, what the government appears to be assuming is that computer and system updates will provide a "technological fix" to the problem of family tax benefit overpayments – and thus it will be able to save A$4.7 billion over the next four years. But this may not occur if the new computer systems are not working in the ways envisaged.

Peter Whiteford has received funding from the Australian Research Council. He is affiliated with the Centre for Policy Development.

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