Updating Family Payments for Work and Shared Care

Submission to the Economic Reform Roundtable

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Submission date: 21 July 2025

This submission is a collaboration between the Life Course Centre and the Melbourne Institute.

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Social, economic and fiscal benefits can be achieved by reform of the tax-transfer system applicable to families with children. A reform of family payments can reduce marginal effective tax rates (ETRs) on work, encouraging more equal workforce participation. This can help ensure that skills of women are fully utilised and encourage men to share in care. It would build incomes and capacity to save of families and support equity, including gender equity. Increased workforce participation also supports fiscal sustainability through increased tax revenues. An integrated approach to tax-transfer policy for families with children is required.

The problem: High ETRs and workforce disincentives

Effective tax rates (ETRs) on work are produced by the income tax and the transfer system considered together. The personal income tax (PIT) rate structure for individuals (tax-free threshold and progressive marginal rates) is equitable and efficient because it applies lower tax rates to those with lower ability to pay and higher labour supply elasticity. How PIT rates interact with family payments is important, as tax rates and withdrawal rates can accumulate and cause high ETRs for certain groups (**Appendix 1**, Fig. 1).[1] Tax-transfer policies for families with children can either alleviate or exacerbate financial strain as well as affect work incentives.

Empirical evidence shows that the years following childbirth led to significant gender gaps in earnings, employment, and working hours – impacts borne almost entirely by mothers, with life-long consequences.[2] Recent evidence for Australia is in **Appendix 1** (Fig. 2). Among the highest ETRs on labour supply are experienced by individuals facing withdrawal of Family Tax Benefit (FTB) A and B combined with income tax rates, in particular secondary earners (predominantly mothers) in households with children. In addition to net childcare costs, they may face relatively high marginal ETRs from the first dollars they earn, depending on household income.[3]

Dual-earner families face much higher costs than sole-earner families, yet current rules for FTB A and B treat these families the same based on household (joint) income. The structure of FTB B requires that the secondary earner can earn only a minimal amount before the payment is withdrawn, and the structure of both FTB A and B operates to over-tax the labour income of the secondary earner. This reduces the capacity of the dual-earner family to generate disposable income. The current design of FTB A and B counteracts the beneficial effects of both Parental Leave Pay (PLP) which has a strong positive effect on both infant care and workforce participation (**Appendix 1**, Fig. 3), and undermines recent reforms to the Child Care Subsidy (CCS), which aim to support both care for children and work.

The solution: Updating family payments

It is efficient and equitable to target lower tax rates toward individuals with the highest labour supply elasticities. Women who care for children are frequently identified as having higher labour supply elasticities[4] and they often have greater flexibility to adjust their labour supply, being commonly the primary carer and secondary earner in the household. Evidence shows that this group works less paid hours when children are young, with long-lasting effects, reducing lifetime income and retirement savings through their working life.

We propose updating FTB A and B to deliver a simpler, more efficient and more equitable per-child family payment that encourages shared care. The reform could be budget neutral or budget positive by choosing appropriate payment rates, income thresholds and withdrawal rates. A reform that is budget-negative could deliver a tax rate cut to families and encourage more workforce participation of second earners, with additional expenditure paid for by higher taxes on high-income and/or high-wealth individuals. This would recognise that family payments

[1] As noted in Australian Treasury, *Review of Australia's Future Tax System* (2009).
[2] Kalb, G 'Taxes, transfers, family policies and paid work over the female life cycle' in Stewart, M (ed) *Tax, Social Policy and Gender* (2017, ANU Press).
[3] Stewart, M 'Tax and welfare policy: Removing embedded gender inequalities in work and care' in Baird, M et al. (eds) *At a Turning Point: Work, care and family policies in Australia* (2024) 145-169. Other categories of individuals facing relatively high marginal ETRs include those on Youth Allowance or Jobseeker payment, Disability Support and Age Pension.
[4] Hérault, N & Kalb, G 'Understanding the rising trend in female labour force participation' (2022) 43 *Fiscal Studies* 341-363, Table 3.

are an integral part of the tax system for labour income, so that budget trade-offs solely within the family payments or social welfare system are inappropriate.

A single per-child payment

We recommend combining FTB A and B into one payment per child. A universal per-child payment would be highly efficient as it would eliminate the higher ETRs on women's secondary earner labour income, arising from income-testing on joint income. The level of the payment should be determined based on existing levels taking account of evidence on the cost of children to achieve adequacy.[5] The payment could be further simplified by abolishing the base rate.

If targeting the payment is considered necessary for fiscal and equity reasons, this could be achieved more efficiently and equitably than the current system. Options include:

- Payment is taxable, not income-tested, so that PIT rates apply to it, similar to PLP, and eligibility for the payment could be capped in a similar way to PLP;
- Payment is income-tested on individual Adjusted Taxable Income (ATI)[6] of the recipient;
- Payment is income-tested on joint (couple) ATI but each partner has an individual income free area;
- Half the payment is allocated to each parent in two-parent families and withdrawn in a similar way to pensions and allowances, but with a much higher income free area applied for each parent (this approach is further developed below).

Paid to each parent recognising shared care

Couple families

The per-child family payment would be allocated half to each partner. This recognises the idea that care and paid employment are shared between partners. It is consistent with the design of PLP and the right of employees to a family-friendly workplace. Each individual partner in a couple would have their own income-free area for the per-child payment (up to a threshold) and the payment would be withdrawn once the individual partner earns over that amount. If one partner has exhausted their part of the per-child payment while the other partner still has part of it remaining, additional income from the parent with the higher income would start to reduce the family payment of the other parent. However, if the other parent (with the lower income) starts earning more and their income is still below the income threshold, their income would not reduce the family payment.

Single parent families

Single parents, being both the primary carer and earner, would receive the combined full payment and the same income threshold as a partner in couple families to acknowledge this double role. For this purpose, Child Support and other maintenance income could be treated the same as other income.[7]

Appendix 2 provides a numerical example of a potential reformed family payment.

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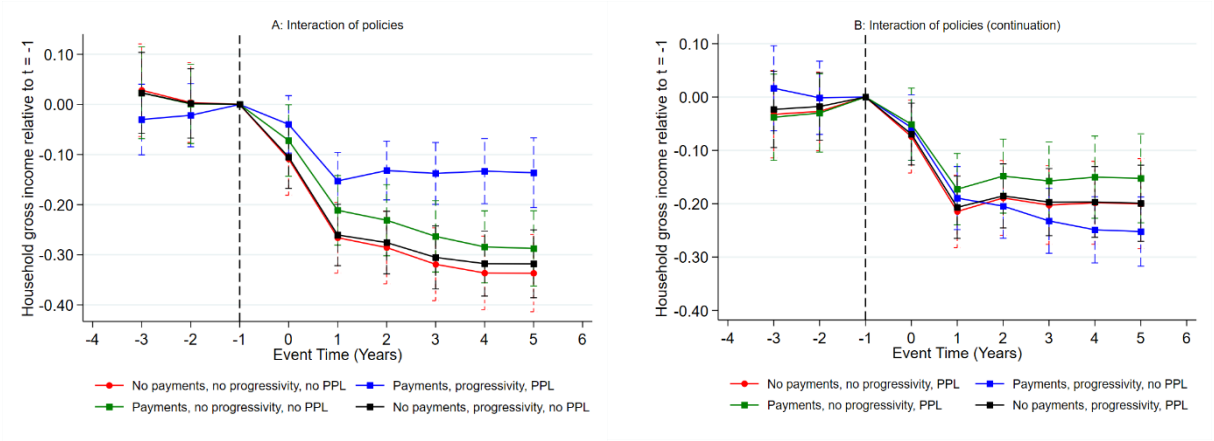
[5] The payment for a first child could be higher than for subsequent children, if the first child is associated with the highest cost. One approach to costs of children in Australia is in Saunders, P and Bedford, M (2018) *New Estimates of the Cost of Children* (2018, Australian Institute of Family Studies). A different approach using equivalence scales is in Hou, P et al. 'The cost of raising a child: Equivalence scales in the United States' (2025) *Economics Letters* 252 112359.

[6] Adjusted Taxable Income (ATI) is the base for income testing of family payments. It is broader than taxable income, as it also includes net rental losses, fringe benefits and some other types of income.

[7] We recognise the concern about linking child support to the automatic withdrawal of family payments. At the least, there must be evidence that child support has been paid before payments are withdrawn.

Appendix 1: Empirical Evidence[8]

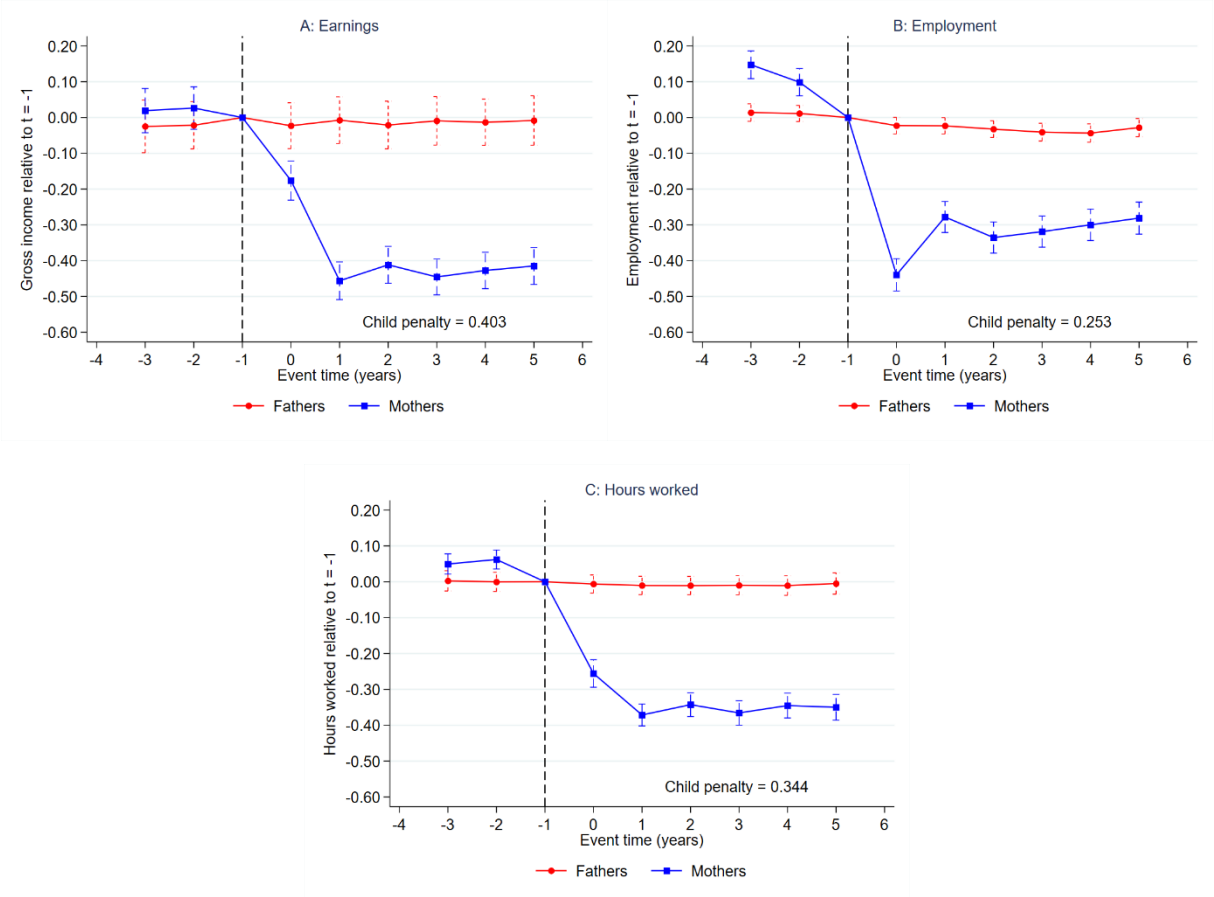
Figure 1: Interaction of tax and transfer policies following childbirth



Notes: Family payments include Parenting Payment, FTB A and B, and Maternity Payments.

Households supported by family payments, tax progressivity, and PLP face smaller income losses after childbirth, while those without support experience the largest declines. This highlights the role of an integrated tax-transfer system in protecting family income.

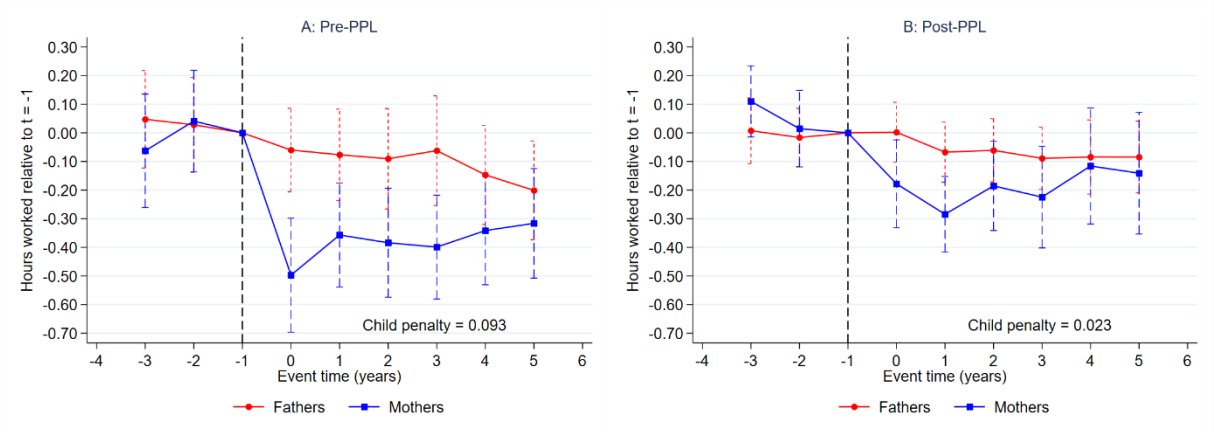
Figure 2: Gender gaps in labour market outcomes after childbirth



[8] Gamarra Rondinel, A & Price, AMH 'Do Taxation and Transfer Policies Mitigate the Child Penalty? Evidence from Australia' *Journal of Family and Economic Issues* (2025, forthcoming).

Gaps in earnings, employment, and hours worked are driven almost entirely by mothers, reflecting persistent gendered divisions in paid and unpaid work. Data from the 2024 HILDA Statistical Report and the 2020 ABS Time Use Survey show that women continue to shoulder a disproportionate share of unpaid care and domestic work, averaging 18.4 hours per week compared to 12.8 hours for men over the past two decades.[9]

Figure 3: Gender gaps in hours worked before and after PLP introduction



The 2011 introduction of PLP narrowed the post-birth gap in hours worked between fathers and mothers, but only for first-time parents. For subsequent births, the motherhood penalty in labour supply remains.

Appendix 2: Numerical Illustration

Amount of per-child payment

The per-child family payment is kept close to current FTB A. The FTB A component is allocated half to each parent in the family. In this example, the maximum amount of FTB B is applied as a first child supplement and also allocated half to each parent. Single parents receive the entire payment including the first child supplement

Table 1: Maximum amount of per-child payment

	Per fortnight per partner	Per year per partner	Per year total
Each child 0-12	$113.68	$3,432.82	$6,865.64
Each child 13-19	$147.91	$4,325.25	$8,650.50
Supplement for the first child	$95.90	$2,500.25	$5,000.00

Income test based on individual ATI

Table 2: Options for thresholds and withdrawal rates

	Option 1: Current threshold	Option 2: Minimum wage
Income Threshold	$66,722.00	$49,431.43
Withdrawal rate above threshold	15%, 20% or 25%	15%, 20% or 25%

[9] Wilkins, R et al. *The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 22* (2024) Melbourne Institute of Applied Economic and Social Research, The University of Melbourne.

Example 1: Household income of $100,000 for one- and two-earner couple families

Table 3: Example

	Parent 1 FP withdrawal (in $/year)	Parent 2 FP withdrawal (in $/year)	Total FP withdrawal (in $/year)	FP remaining (in $/year)
Threshold $66,722 (current threshold)				
Income (two-earner)	*$50,000.00*	*$50,000.00*		
withdrawal 15%	-	-	-	13,650.50
withdrawal 20%	-	-	-	13,650.50
withdrawal 25%	-	-	-	13,650.50
Income (one-earner)	*$100,000.00*	-		
withdrawal 15%	4,991.70	-	4,991.70	8,658.80
withdrawal 20%	6,655.60	-	6,655.60	6,994.90
withdrawal 25%	8,319.50	-	8,319.50	5,331.00
Threshold $49,431.43 (minimum wage)				
Income (two-earner)	*$ 50,000.00*	*$50,000.00*		
withdrawal 15%	85.35	85.35	170.70	13,479.80
withdrawal 20%	113.80	113.80	227.60	13,422.90
withdrawal 25%	142.25	142.25	284.50	13,366.00
Income (one-earner)	*$100,000.00*	-		
withdrawal 15%	7,585.35	-	7,585.35	6,065.15
withdrawal 20%	10,113.80	-	10,113.80	3,536.70
withdrawal 25%	12,642.25	-	12,642.25	1,008.25

Example 2: Household income of $50,000 or $100,000 for single parent families

Table 4: Example

	FP withdrawal at $50,000 income (in $/year)	FP remaining (in $/year)	FP withdrawal at $100,000 income (in $/year)	FP remaining (in $/year)
Threshold $66,722				
withdrawal 15%	-	13,650.50	4,991.70	8,658.80
withdrawal 20%	-	13,650.50	6,655.60	6,994.90
withdrawal 25%	-	13,650.50	8,319.50	5,331.00
Threshold $49,431.43 (minimum wage)				
withdrawal 15%	85.35	13,565.15	7,585.35	6,065.15
withdrawal 20%	113.80	13,536.70	10,113.80	3,536.70
withdrawal 25%	142.25	13,508.25	12,642.25	1,008.25

Note: Consideration could be given to increasing the withdrawal free threshold for single parent households to acknowledge their dual role.