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ABSTRACT

The Australian Family Income Transfer Project (AFIT) is designed to examine the impact of government policies on the economic well being of Australian families. The AFIT Project uses published national statistics as well as data and information collected by the Australian Institute of Family Studies (the project's sponsor) in its own studies and surveys to assess the impact of tax and pension proposals on different family types. This bulletin, the seventh in a series, examines the impact upon families of the changes in taxation proposed in the Coalition Parties' Family Tax Package for the 1990 election. To provide a perspective, it compares the impact of the Coalition Package with the impact of an illustrative Alternative Package, which, at the same total cost, would provide additional benefits to families in the form of family allowance, child care rebate, and a new family rebate. The document contains 7 tables and concludes with a 17-item bibliography. (DB)

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Australian Institute
of Family Studies

The Coalition Parties' Family Tax Package

**compiled by the
Australian Institute of Family Studies**

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The Australian Family Income Transfer Project (AFIT)

AFIT, a continuing project of the Australian Institute of Family Studies, is designed to examine the impact of government policies on the economic wellbeing of Australian families. The AFIT Project uses published national statistics as well as data and information collected by the Institute in its own studies and surveys to assess the impact of tax and pension proposals on different family types. The AFIT Project has compiled a numerical databank and developed computer programs which assist in the analysis of a variety of policy options.

Publications based on the AFIT Project include:

- *Poverty in Australia: New Data on the Incomes of Australian Families and Individuals*, Australian Institute of Family Studies, Melbourne, July 1984, 12pp.
- 'Throwing out the baby . . . the need to assess unintended outcomes of tax transfer options', by Andrew Burbidge and Frank Maas, in *Key Papers Part 2: XXth International CFR Seminar on Social Change and Family Policies*, held in Melbourne, August 1984, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No. 1*, May 1984, compiled by Andrew Burbidge, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No. 2*, March 1985, 'Income redistribution through tax and social security: a review of recent trends', compiled by Andrew Burbidge and Helen Brownlee, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No. 3*, July 1987, 'Assessment of the impact of tax reforms proposed by the Liberal Party of Australia in June, 1987', compiled by Frank Maas, Helen Brownlee and Anthony King, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No. 4*, July 1987, 'Assessment of the impact of changes to the tax transfer system proposed by the Australian Labor Party in June, 1987', compiled by Frank Maas, Helen Brownlee and Anthony King, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No. 5*, February 1989, 'Families and Tax in 1989', Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No. 6*, May 1989, 'Families and the Tax Package', Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No. 7*, February 1990, 'The Coalition Parties' Family Tax Package', Australian Institute of Family Studies, Melbourne.

Contributors

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Summary

The Institute's Australian Family Income Transfer Project (AFIT) for several years has assessed the impacts on families of tax and social security proposals made by government, political parties and other bodies. In doing this it has used national statistical databases and specially developed computer programs. During the 1987 election campaign, AFIT Bulletins 3 and 4 were published which assessed the impacts on families of the proposals then being made by the two major political parties.

In March 1989, the fifth bulletin in the AFIT series provided a comprehensive analysis of the effects on families of accumulated changes in the Australian tax transfer system since 1976. This major study indicated that the tax concessions for families had been eroded over the twelve-year period. In the case of low-income families, this erosion had been reversed by the introduction of the Family Allowance Supplement, while for high-income families, the erosion had been more than offset by gains from the drop in the top marginal tax rate. Consequently, middle-income families were identified as having had the greatest losses since 1976.

The Government's April 1989 Economic Statement contained measures which restored the tax situation of middle-income families to 1976 levels. This was shown in AFIT Bulletin No.6 which also continued the discussion begun in the fifth bulletin about the most effective ways that the tax and social security systems could take account of the responsibilities of families to support their members.

This seventh bulletin examines the impact upon families of the changes in taxation provisions proposed in the Coalition Parties' Family Tax Package. To provide a perspective, it compares the impact of the Coalition Package with the impact of an illustrative Alternative Package which, at the same total cost, would provide additional benefits to families in the form of Family Allowances and a new Family Rebate.

Gains from the Coalition Family Tax Package

The Coalition Package would provide the following weekly gains to families who would be paying sufficient tax to benefit fully from the measures contained in the Package:

	One-income couples	Two-income couples and sole parents
Two-child families with children aged:		
One under 5 years, one 5–12 years	\$8.63	\$36.25
Both aged 5–12 years	\$8.63	\$27.04
One aged 5–12 years, one aged 13–15 years	\$10.55	\$19.75

(see Tables 4–7 for further details)

The Coalition Package and its Cost

The Coalition Package has three components:

- the introduction of Child Tax Rebates;
- the extension of eligibility for the Dependent Spouse Rebate through a modification of the test on the separate income of a spouse; and
- the introduction of tax rebates for child care expenses.

Institute costings of the Coalition Package assume the continuation of all existing government programs for families, including the indexation of all payments relating to children.

The Coalition has costed the Child Tax Rebates at \$1 000 million and the Dependent Spouse Rebate changes at \$200 million. These costings are reasonably close to the Institute's own estimates.

The Coalition cost estimate of the Child Care Rebate, \$820 million, would be accurate if it were to apply to *all* working sole parents and *all* secondary earners in couple families (with children of the appropriate ages) irrespective of whether they paid for child care. Currently only about 30 per cent of child care is paid for and, on that basis, the Coalition Child Care Rebates would cost only \$250 million. An immediate expansion of paid child care from 30 per cent to 100 per cent is unlikely. However, some unpaid care may be converted to paid care without any change in arrangements simply for the purpose of collecting the Child Care Rebate.

Combining the cost estimates of \$1000 million for the Child Tax Rebates, \$200 million for the change to the DSR and an estimate of \$250 million for the Child Care Rebate, the total cost of the Coalition package is likely to be below \$1.5 billion rather than the \$2 billion estimated by the Coalition. However, attempts to qualify for the Child Care Rebate may add substantially to this cost.

Assessment of the Components of the Coalition Package

The Child Tax Rebate

The Coalition's proposal to set up a system parallel to Family Allowances via Child Tax Rebates would have the following consequences:

- Child Tax Rebates would *not* benefit many low income families, unlike Family Allowances;
- Child Tax Rebates would benefit high income families who do not currently receive Family Allowances;
- a dual system would involve greater administrative costs and introduce a level of complexity which does not exist at present; and

- as a tax rebate is an unlabelled increase in the pay packet of the principal earner, it is less likely to be used for the benefit of the child than a payment to the parent most directly responsible for the every-day needs of the child.

The simplest, fairest and most efficient approach to recognition of the costs of children is a universal Family Allowance paid to the principal carer of the child.

The Modified Dependent Spouse Rebate

Previous research has shown that the Dependent Spouse Rebate (DSR) is a work disincentive for second earners, particularly those who wish to work part-time. The modification of the DSR by the Coalition reduces the extent to which it is a work disincentive.

Nevertheless, fairer and more efficient outcomes could be achieved if the DSR and the Sole Parent Rebate (SPR) were to be replaced by a new, income-tested Family Rebate set at much higher levels. This is confirmed by the analysis in this bulletin through comparison of the Coalition Package with an illustrative Alternative Package including a Family Rebate.

The modified DSR is intended to assist one-income families, as stated by the Coalition, yet it can do this only if it encourages a spouse into the work force, whereas many mothers have chosen to devote their time to raising children themselves. Alternative ways to assist one-income families would be to raise the level of the DSR or, preferably, to move to a system such as an income-tested Family Rebate.

The Child Care Rebate

The Coalition's proposal for a tax rebate for child care would represent a large increase in outlays directed towards child care. The Coalition proposal, while providing financial relief for those families earning enough to reap the full benefit of the rebate, and avoiding the unfair outcomes associated with tax deductibility, would have the following consequences:

- it would not be sufficiently comprehensive to offer assistance to the most needy groups, especially sole parents;
 - it would be complex to administer and substantiation of claims could invite artificial arrangements of families' financial and care arrangements.
- In addition, the proposal:
- seems not to have been developed as part of a comprehensive review of the many issues emerging as essential to the future of child care provision in this country;
 - has paid no attention to the crucial issue of quality of care; and
 - seems unlikely to ameliorate the shortage of supply of child care places and may put pressure on costs as a result.

An alternative approach, especially if an adequate supply of quality child care was to be a primary objective, would be to place the funding emphasis upon direct funding and expansion of the system rather than upon income tax relief. Further, there is a need for an extensive review of child care policies for the future, as has occurred in other countries.

Impact on Families at Different Income Levels

This analysis shows that the Coalition Package provides little benefit to families on low incomes and provides higher benefits to those on high incomes:

- the 18 per cent of families with children and incomes below \$14 000 per annum would receive only 1.7 per cent of the benefits of the package;
- in contrast, 41 per cent of the benefits of the package would go to the 30 per cent of families with incomes in excess of \$42 000 per annum;
- families with incomes in excess of \$112 000 per annum (four times AWE) would receive an average increase in disposable income from the package of \$1102 per annum. This compares with an average increase of \$960 per annum for the vast bulk of families with incomes between \$14 000 and \$42 000 and \$69 per annum for families with incomes less than \$14 000 (refer to Table 3 for details).

The Coalition has also promised to lower the top marginal rate of income tax to the corporate rate (now 39 cents in the dollar) and the impact of this measure on the incomes of families deserves attention. Such a change, if implemented now, would have the following features:

- it would cost \$1.7 billion, almost the same cost as the Coalition Family Tax Package,
- all of the benefits of such a change would go to the 14 per cent of Australian income units who had a member with an income in excess of \$35 000. Only half of these units consist of families with dependent children,
- the one-income family on AWE would gain nothing, while the gains to those on higher incomes, including single people, would be \$1692 per annum at an income of \$56 000 (2AWE) and \$6183 at an income of \$112 000 (4AWE),
- the dollar gain to individuals on an income of \$112 000 would be six times the gain to any family at any income level from the Coalition Tax Package and 100 times the gain of low income families.

Gains According to Family Type

Among families paying sufficient tax to be eligible for the full benefits of the Package, the amounts received by two-income couples and sole parents would be the same, but a one-income couple at the same level of income would receive much less. For example, with two children, one aged less than 5 years and the other between 5 and 12 years, sole parents and two-income couples would receive an additional \$36.25 per week compared to only \$8.63 for a one-income couple.

Eight per cent of couples with children and 60 per cent of sole parents would get nothing from the package because they do not have sufficient income to pay tax. These are the poorest families in the community.

On average, an estimated \$1100 per annum would go to two-earner couples. By comparison, other couples with children would receive less than half this amount (an average of \$482 per annum), while sole parents would receive an average of \$252 a year from the package (refer to Figure 2).

The Coalition Package and the Employment of Mothers

Because of the way the Child Care Rebate is structured, many sole parents and second earners would not receive the full benefit unless they worked full-time or near to full-time. However, in June 1989, only 14 per cent of married mothers and 11 per cent of single mothers of children aged less than 5 years were working full-time.

While there may be a long-term trend to higher rates of full-time work among mothers of young children, the Coalition's emphasis on full-time work among mothers with young children is not in keeping with the present behaviour of Australian women. Most women want to be able to move in and out of employment and to have the options of full-time or part-time work depending on their circumstances. The Package now proposed by the Coalition provides little benefit to families in those periods of their lives when they are dependent on only one income or on one income and a low second income.

The Coalition Package Compared with an Alternative Package

This Bulletin shows that, at the same cost, an illustrative Alternative Package in the form of increases in Family Allowances and a new Family Rebate could overcome most of the problems relating to the Coalition Package. The Alternative Package is illustrative only; the Institute is not proposing that it be adopted. However, if it were implemented, the Alternative would:

- provide benefits to all families including low income families,
- the benefits would be heavily directed towards families with incomes between \$14 000 and \$42 000,
- one-income families on low and middle incomes would receive much more substantial benefits,
- there would be greater administrative simplicity and no dual system of recognition of the costs of children in the tax system, and
- the tax structure would be more appropriate to the varying work intentions of Australian parents.

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Introduction: Components of the Australian Income Transfer System

The Institute's Australian Family Income Transfer Project (AFIT) for several years has used national statistical databases and specially developed computer programs to assess the impacts on families of tax and social security proposals made by government, political parties or other bodies. During the 1987 election campaign, for example, AFIT Bulletins 3 and 4 assessed the impacts on families of the proposals then being made by the two major political parties.

The Arguments Made in AFIT Bulletin No.5

In March 1989 the Institute published the fifth bulletin in the AFIT series, *Families and Tax in 1989*. This major study provided a comprehensive analysis of the effects on the disposable incomes of families and individuals of accumulated changes in the Australian tax transfer system since 1976. The central finding of the study was that the incomes of middle-income families had been eroded substantially through the failure of successive governments to maintain the real values of the family-related components of the tax transfer system. In comparison, high income families and single people were much better off than they had been in 1976 because of cuts in the top marginal rate of tax. The situation of families on low incomes was also better because of the introduction in 1982 of Family Income Supplement (FIS) by the previous Coalition government and its improvement in the form of Family Allowance Supplement (FAS) by the present government in 1987.

This situation having been established, *Families and Tax in 1989* then addressed the questions as to how the tax transfer system could be restructured to make good the observed loss to middle-income families while setting in place a system which would prevent subsequent erosion of the recognition given to family responsibilities in the tax transfer system.

At that time and to the present time, the family-related components of the tax system consisted of Family Allowances, Family Allowance Supplement, the Dependent Spouse Rebate, the Sole Parent Rebate and the Pensioner and Beneficiary Rebates. These measures were assessed on the criteria of equity

(fairness), efficiency (whether the measure enables people to engage in economic activity in the way they would prefer, especially that the measure does not provide disincentives to work) and simplicity (whether the measure is easily understood and its administrative cost is low).

Equity has two dimensions, both of which need to be addressed by the tax transfer system. The first dimension (*horizontal equity*) refers to consideration being given in the transfer system to the reduced capacity that taxpayers have to pay tax when they have dependants to support. The argument was made in AFIT Bulletin No.5 that the responsibility for a taxpayer to support dependent children should be recognised for all families irrespective of their income level. It was argued that this aim would be achieved best through universal Family Allowances relating to dependent children. The existing system of Family Allowances could be recommended also on the grounds of efficiency and simplicity. Consequently, the bulletin argued that the level of Family Allowances should be increased and that the income-test on Family Allowances, introduced by the current government in November 1987, should be abolished.

The other dimension of equity (*vertical equity*) refers to consideration being given to providing additional concessions to those on low incomes in order that they can meet their needs. The principal mechanism in the transfer system designed to deal with vertical equity for families was then and still remains the Family Allowance Supplement. The analysis in AFIT Bulletin No.5 found that FAS served well its purpose of improving the income circumstances of families who had very low incomes (those on pensions and benefits and the 'working poor'). However, it was argued that vertical equity remained an issue for families with incomes above the level at which FAS cuts out.

Specifically, it was argued that the costs of children or a dependent spouse were so great that fairness could only be achieved if a vertical equity measure were to apply to families with incomes up to about \$44 000 (for two-child families). At about this level, the standard of living of a two-child family would have been roughly equivalent to that of a single person on average weekly earnings.

The only measures in the tax transfer system which, then and now, might be said to deal with fairness to families with incomes above the FAS cut off point are the Dependent Spouse Rebate (DSR) and the Sole Parent Rebate (SPR). However, it was argued in AFIT Bulletin No.5 that these were very poor mechanisms to achieve the aim of adjusting the living standards of middle income families.

First, their real value had been greatly eroded since their original introduction and, in absolute terms, the assistance they provided was very low. Second, they took no account of the number of children in the family. Third, they were available to families on very high incomes whose standards of living were high without compensating tax measures. Fourth, the DSR was so structured that low-income families in which both husband and wife worked received no benefit unless the second income was very low. In terms of efficiency, the DSR was also shown to provide major work disincentives for second earners. It was argued that while parents have no choice in the dependency of their children, the dependency of a spouse is not of the same order nowadays when a majority of couples are two-income couples. Never-

theless, it was recognised that spouses may well be dependent when one is unable to get a job or when there are very young children present and, if these families have low or middle incomes as a consequence, they should receive additional assistance through the tax transfer system.

The argument was then made in Bulletin No.5 that fairness, efficiency and simplicity would be improved greatly if the DSR, the SPR and the pensioner and beneficiary rebates were replaced by a single rebate which would be known simply as the Family Rebate. This new rebate would be set at a much higher level than the existing rebates but would be income-tested with a very low rate of withdrawal so as to keep effective marginal tax rates low. The low withdrawal rate also meant that the rebate would still be received at least in part by two-child families with incomes up to \$44 000 (1989) but it would not be available to families on very high incomes. The amount to be received would be based on family income level and number of children rather than upon family type, that is, the amount received would be the same for one-income couples, two-income couples and sole parents if they had the same family income and the same number of children.

The April 1989 Economic Statement

The fifth AFIT bulletin, *Families and Tax in 1989*, was released in advance of the Government's Economic Statement of April 1989, which, along with changes in the tax scales, announced increases in the levels of Family Allowances, the future indexation of Family Allowances, and changes in the levels of the Dependent Spouse Rebate and the Sole Parent Rebate. The sixth AFIT bulletin, *Families and the Tax Package*, showed that these changes virtually restored the taxation position of middle-income families to 1976 levels, reversing the decline that had been pointed out in the fifth AFIT bulletin. However, the increased levels of Family Allowances were between 7 to 33 per cent (depending on the number of children) below their real values in 1976 when Family Allowances were introduced. The DSR and the SPR, although increased, remained about 20 per cent below their real values in 1983 and between 5 and 30 per cent below their real values in 1976.

The fifth bulletin also showed that high-income families, although their tax position had improved considerably prior to the Economic Statement, benefitted more in dollar terms from the new measures than middle-income families.

The sixth bulletin reiterated the reservations made in the fifth bulletin regarding the Dependent Spouse Rebate and the Sole Parent Rebate. In particular, because the eligibility test on the DSR was left unchanged, the DSR remained a significant work disincentive.

Also provided was a comparative assessment of outcomes likely to occur if proposals regarding income-splitting, at that time reportedly being considered by the Liberal-National Parties Opposition, were to be implemented. The bulletin pointed out that benefits of income-splitting would go mainly to those on high incomes who had already done well out of previous changes. Income-splitting was shown, in addition, to be an even greater work disincentive than the DSR. Income-splitting provided almost no benefit to two-income families (even those on low incomes) and was a back-

ward step at a time when taxation arrangements needed to be tailored to the changing labour force status of parents, particularly mothers.

The Coalition Parties' Family Tax Package

In October 1989, the Leader of the Opposition released the publication, *Economic Action Plan: The Liberal-Conservative Parties' Economic and Tax Policy*. This publication proposes new family taxation measures, the Family Tax Package, which represent a major change in direction by the Coalition parties from their earlier consideration (and recommendation at the 1987 election) of income-splitting. This seventh AFIT bulletin examines the impact on families of these newly-proposed measures. In doing so, comparison is made with an illustrative alternative package based on measures similar to those developed in *Families and Tax in 1989* and costing the same as those proposed by the Coalition parties.

PART ONE: The Coalition Parties' Family Tax Package and Its Cost

In this part, the changes to taxation arrangements for families proposed by the Opposition parties are described and an assessment of their cost is made. The changes are considered from the perspectives of equity, efficiency and simplicity in Part Two and the overall impact of the proposals on Australian families is discussed in Part Three.

The Economic Action Plan

The Coalition's *Economic Action Plan* contains many initiatives other than those contained in the Family Tax Package. While not directed specifically at families, these measures would have direct impacts on selected families and indirect impacts on all families. The measures include liberalisation of the assets test for aged pensioners, restriction of unemployment benefits to a nine-month period, replacement of unemployment benefits by the Job Search Allowance for a wider range of young people, introduction of up-front tertiary fees, changes to arrangements for invalid pensioners, increasing the lump sum tax-free threshold for superannuation, abolition of the capital gains tax, sale of public housing, changes to the present health delivery system, and reductions in payments to the States.

As these measures have direct effects only upon families in specific categories, unlike the Family Tax Package, available databases do not permit precise assessments of the financial impacts of these measures across all Australian families. Estimation of the indirect or 'second-round' effects would also necessarily lack precision. Consequently, these measures are not discussed in this Bulletin. This is not to say that these measures will not have substantial impacts on particular types of families.

Child Tax Rebates

Under the Coalition package, Child Tax Rebates will be available to offset the tax liability of a sole parent or the combined tax liability of both parents for two parent families. The amount of the Child Tax Rebate that can be

claimed varies according to the number of children in each family and the ages of the children as follows:

Child Tax Rebates

	Child aged less than 13 years	Child aged 13–15 years
First child	\$250 per annum	\$350 per annum
Second and each subsequent child	\$200 per annum	\$300 per annum

The cost of these rebates is estimated by the Coalition parties to be \$1000 million in a full financial year and by the Institute to be \$894 million if implemented in the present financial year, 1989–90. The Institute's costing is based on an updating of the circumstances of Australian families as indicated by the 1986 ABS Income Survey and assumes the continuation of all existing government programs for families, including the indexation of all payments related to children. Gross income, less child-related payments, was increased to 1989–90 levels by use of the Consumer Price Index for social security incomes and by use of an index of Average Weekly Earnings for all other incomes. The original survey results were also updated to take account of changes in the size of the population and its composition by sex, age, labour force status and family status (one or two parent family) between the survey date and 1989–90 using data from the monthly ABS Labour Force Surveys. As the Labour Force Surveys are based on relatively small sample sizes, an un-estimated degree of error is associated with the Institute's cost estimates. Overall, however, the Coalition cost estimate for the Child Tax Rebates appears to be a little on the high side.

Dependent Spouse Rebate

The Coalition parties do not propose any change to the levels of the Dependent Spouse Rebate (currently \$1000 per annum without children and \$1200 per annum with children) but eligibility would be changed in two ways. Currently, where the dependent spouse derives separate income, the maximum rebate is reduced by \$1 for every \$4 by which the spouse's income exceeds \$282 per annum. The Coalition proposes to increase the threshold of \$282 to \$1000 and to reduce the withdrawal rate from \$1 for every \$4 above the threshold to \$1 in every \$6. Thus, there would be no additional benefit to single income couples from these changes, but, in two-income families, a primary earner would obtain the full rebate while the income of the secondary earner remained below \$1000 (now \$282) and be eligible for partial rebate while the spouse's income remained below \$8200 (now \$5082).

The Coalition parties' estimate of the cost of these changes is \$200 million in a full year. This compares to an Institute estimate of cost of \$240 million if these changes applied in the year 1989–90.

Child Care Rebate

The Coalition parties propose to provide tax rebates for child care to offset the tax liability of a sole parent or against tax calculated on a *secondary*

earner's income for two parent families. For couples, this income must be obtained from wages, salaries or self-employment. A rebate of \$20 per week is proposed for the first child under five years of age. For each other child under five years and for each child aged between five and twelve years, a rebate of \$10 per week would be paid. Eligibility by type of child care is not clearly specified. The Economic Action Plan states:

To receive the full rebate entitlement, child care expenditure will have to be fully substantiated. However, payment of the rebate will not be restricted to formal care. As far as possible, a range of child care facilities will be eligible.

Potential difficulties arising from the lack of clarity in the specification of types of eligible child care are discussed in Part Two.

The Institute has not had access to the assumptions made by the Coalition in the costing of their proposal. Accordingly, we began by testing the costing under the broadest assumption of coverage, that is, that the rebate would be available to *all* working sole parents and to *all* secondary earners in couple families with children of the appropriate ages on the basis of the number of weeks in the year that the person worked. An upper limit of 48 working weeks per year was assumed. Data were again taken from the updated 1986 ABS Income Survey. No account was taken of the number of hours worked in particular weeks; a person was considered eligible if they worked at all in a particular week. Of course, those working very low hours throughout the year and those on low incomes would not receive any benefit from the Child Care Rebate if their incomes were below the level at which they would pay tax.

Under these assumptions, the Institute has estimated the cost of the Child Care Rebate, if applied in 1989--90, to be \$825 million, which is very close to the Coalition costing of \$820 million. However, the assumptions we have used to obtain this costing are far from the present reality. In July 1987, only 30 per cent of formal and informal child care of children aged less than 12 years was paid (excluding children attending pre-schools only). This is very different from the 100 per cent assumed above. Informal care constituted 67 per cent of all care (81 per cent if pre-schools are excluded) and 85 per cent of informal care was at no cost (ABS 1989:54). Thus, under any realistic assumption, the proposed child care rebate will cost considerably less than \$820 million. Indeed, if the 1987 figure of 30 per cent paid care were to apply, the rebate would cost approximately \$250 million. The conclusion therefore must be that either the child care rebate will in fact cost much less than has been estimated by the Coalition or there is going to be a sudden and massive shift to paid child care.

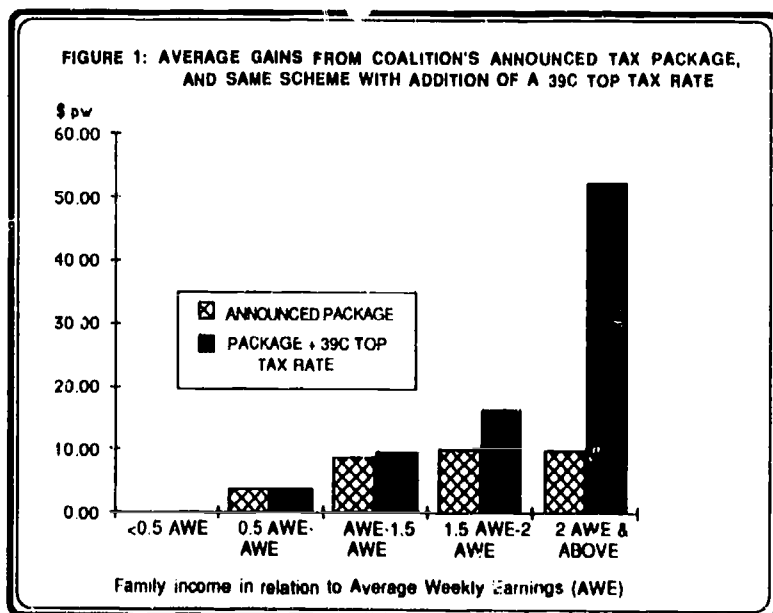
Total Costs of the Package

The Institute estimates the total cost of the Coalition's Family Tax Package to be \$1.9 billion compared to the Coalition's own estimate of \$2.0 billion. This costing is based, however, on the implausible assumption that the Child Care Rebate would be much more broadly available than is likely to be the case. If current arrangements regarding the payment of child care are maintained, the total cost of the Coalition package would drop below \$1.5 billion.

The Tax Scales

The Economic Action Plan promises a two-tier tax rate system, with the top marginal rate equal to the corporate rate by the end of the Coalition's first term. As this promise is not specific as to the new rates of tax and the income ranges over which new rates would apply, it is not possible in this bulletin to provide precise calculations relating to the costs of these changes or to their impact upon families. It is clear, however, that changes to the tax scales will almost certainly provide higher dollar cuts in taxation to those on higher levels of income. This is particularly the case with any drop in the top marginal tax rate. A reduction of at least eight percentage points in this rate is implied by the Coalition promise. Thus, in evaluating the dollar gains from the Family Tax Package according to income level (see Part Three), the potential future effects of changes to the tax scales need to be kept in mind.

To provide some perspective on the likely impact of the promised changes to the tax scales, we have examined the effects of combining the Coalition Family Tax Package with a drop in the top marginal tax rate to 39 cents in the dollar, that is, all individuals with incomes above \$35 000 would have their marginal rate of tax lowered to 39 cents. The cost of the Coalition package with this addition would rise from \$1.9 billion to \$3.6 billion if applied in 1989-90. All of the additional \$1.7 billion would go, of course, to persons with individual incomes in excess of \$35 000 per annum. Only 14 per cent of Australian income units in 1989-90 had a member with an income in excess of \$35 000 per annum and only about half of these units consisted of couples with dependent children. Thus the cut in the tax rate would almost double the cost of the package but only a small minority of high income units would benefit from the additional cost. This is evident in Figure 1 which shows the average gains in dollars per week for different ranges of family income. The cut in the top tax rate vastly increases the average gain for those with family incomes above twice average weekly earnings (AWE) but has no effect on those with incomes below 1.5 AWE.



PART TWO: Assessment of the Components to the Coalition Family Tax Package

Child Tax Rebate

The stated objective of the Child Tax Rebate is to recognise 'the costs of raising a family'. In citing this objective the Coalition acknowledges the need to improve the standard of living of families with children. The underlying principle, that of improving 'horizontal equity', involves building measures into the tax system which compensate families for the extra costs incurred in raising children. This principle is based on the reality that the standard of living of each member of a family with dependent children, at any particular level of dollar income, is lower than that of the members of a family receiving the same level of income but without children. Countries which build this principle into their tax systems recognise the value to the whole community of the work of parents in raising children and the expense involved.

The current system of Family Allowances was developed to achieve this objective in Australia and is, in the Institute's view, still the most effective means of compensating families for the costs of raising children. The Coalition proposals include the retention of the Family Allowance system and do not offer any criticisms of it. It is therefore unclear as to why the Coalition parties have chosen to construct another, parallel, system to achieve their stated aim of 'recognising the costs of raising a family'.

Prior to the introduction of Family Allowances in 1976, the costs of raising children were recognised through tax deductions and, later, through tax rebates. Tax deductions were seen to be ineffective and unfair because they did not assist families not in the tax system, gave greater assistance to higher income families and delivered the benefits usually to fathers who often are not responsible for the day-to-day care of children. Tax rebates only addressed the second of these shortcomings, in that a flat rate of rebate treated all taxpaying families similarly. The other problems remained and the then Coalition government abolished rebates in favour of Family Allowances.

The Family Allowance approach has a number of advantages over all other systems of recognising the costs of bringing up a family. Firstly, being

a cash payment to all families with children, it does not disadvantage those families who are not in receipt of enough income to be in the tax system. Secondly, as a payment made regardless of income, the system is simple to understand and relatively easy to administer. Before the allowance was income-tested, virtually all eligible families received it and there was little paper work. Thirdly, the money is paid to the parent usually directly responsible for the wellbeing of the children, which increases the likelihood of it being spent for child-related purposes. Lastly, being a flat rate payment, the allowance proves to be of greater proportional benefit to lower income families than to those receiving high incomes.

By proposing the reincarnation of the Child Tax Rebate system, the Coalition might have been expected to have provided some argument as to why the existing system of Family Allowances should not be expanded and restored to its former, universal state and to show in what ways the proposed 'new' rebate scheme would be an improvement on the old, inadequate model of pre-1976.

However, the Coalition has not suggested that the existing Family Allowance scheme is inadequate in structure or purpose and instead pledges to maintain it. As to aspects of the 'new' rebate which address the longstanding criticisms of tax rebates, the Coalition makes an imprecise commitment to allow it as 'a deduction against the . . . combined tax liability of both parents' (Liberal-National Parties 1990:3). Nevertheless for families where the mother is not in the paid work-force the rebate will still be paid to the taxpayer male. Consequently, there appear to be three major shortcomings with the proposed Child Tax Rebate.

Firstly, there is a fundamental problem in achieving the stated objective of the Rebate, that of assisting families with the cost of raising children. As noted earlier, the existing Family Allowance system, although designed to deliver some degree of 'horizontal equity' to families with children, has been 'diluted' already by the introduction of an income test in 1987, thus excluding some families from receiving assistance. This means that families with children and receiving incomes greater than \$57 620 p.a. receive little or no recognition that their members experience a lower standard of living than childless families with the same income. By promising to maintain the existing system, the Coalition parties are committed to maintaining this unfair situation for about 10 per cent of families.

By introducing a system that denies assistance to families who do not earn enough income to qualify for tax rebates, the proposal would add yet another group to those families with children who will not receive fair treatment. This group will have low levels of income.

The second problem is that the proposed Rebate will not assist families on very low incomes. The Coalition proposal thus does not pay attention to those aspects of the tax system that promote 'vertical equity', whereby inequality between families with high incomes and those with low income relative to their needs is reduced.

The Coalition Rebate would discriminate against low income families because it would only be available to those who earn enough income to take advantage of it. Middle-income families, able to receive the full tax rebate and full Family Allowances, would receive higher payments than low income families. Consequently, families on a base rate unemployment

benefit or single parent pension would receive no benefit from the rebate. A single parent pensioner with two children who was working part-time would not benefit fully from the rebate until she earned between \$120–140 a week, depending on the ages of her children. Consequently, families on low incomes, due to unemployment, illness or disability, poor business or farm returns, part-time or casual earnings, would be denied the assistance a cash payment such as the Family Allowance would give them.

It could be argued that the Package was not intended to assist families at low income levels, as it is aimed at assisting middle income families. Nevertheless, while the Coalition does intend to maintain the existing scheme to assist low income families, the Family Allowance Supplement (FAS), they have been critical of the current Government's efforts to reduce child poverty. Groups concerned about the wellbeing of all children could reasonably expect some attention to be paid to the issue of low family income in the Coalition Package. As is shown in Part Three, high income groups would gain more from the Coalition package than either low or middle income families.

Thirdly, the simplicity of the old, single system of Family Allowances would be lost as a new, more complex, parallel scheme is introduced with the extra costs associated with additional administration. Simultaneously, there would be a cash payment not payable to families on high incomes (Family Allowances) and a tax benefit which is not available to families on low incomes who do not pay sufficient tax to benefit from the Child Tax Rebate.

Instead of having one child benefit which fails to recognize the greater financial responsibility carried by all families with dependent children, there will be two. Such a double-barrelled system of child tax allowances would be complicated further by the fact that Family Allowances are now indexed to changes in the Consumer Price Index, whereas no promise to index the Coalition Child Tax Rebate has been made.

The Institute is of the view that the simplest, most efficient and equitable approach to child-related benefits in the tax system is a universal Family Allowance paid to the principal carer of the child. This view reflects that of Phillip Lynch who, as Treasurer, said in announcing the introduction of Family Allowances in 1976:

The Government has therefore decided on a new system which is fairer and simpler. In essence, it involves abolishing the taxation allowances for dependent children, and disbursing the resultant additional revenue in the form of large increases in child endowment . . . The Government believes that the new scheme is a most important step towards the alleviation of poverty in Australia and that it will be readily accepted as more efficient and more equitable than present arrangements. (Hansard 1976: 2342–2343)

By returning to a system of Child Tax Rebates, the Coalition Parties, thirteen years later, have turned full circle. In Part Three an illustrative alternative is presented whereby, at a similar cost to the Coalition Child Tax Rebate, Family Allowances could be increased to a level of \$14.46 per week per child (a \$5 increase on late 1989 levels for the first three children, indexed at 3.3 per cent). At this level, Family Allowances would be restored to their real values when first introduced in 1976 for families with three or four children and be more than restored for families with one and two children.

Modified Dependent Spouse Rebate

There are currently two tax rebates based on family type, the Dependent Spouse Rebate (DSR) and the Sole Parent Rebate (SPR). The Coalition Package proposes the easing of the income test on the spouse's earnings for the DSR as a 'means of assistance to single income families' (1990:4). In fact, as the amount of the DSR is not to be increased, single income families will receive no assistance at all. The only families to gain from this proposal would be those with a second income.

This is the most modest of all the proposed changes and stands in contrast to the previous policies of the Coalition articulated at the 1987 election when, by advocating income-splitting, the Opposition parties would have delivered large benefits to one income families. As discussed in Part Three, the Institute is concerned that this swing in emphasis would have adverse consequences for many families at the time of the family life cycle when they most need substantial assistance, that of early child rearing.

The Institute has argued against the current structure of family-related rebates on the grounds that they produce inequitable outcomes and that they generate barriers to women moving into the paid work-force in the manner that most suits their own and their families' needs (AIFS 1989a; AIFS 1989b; Maas and McDonald 1989; Brownlee and McDonald 1989). The argument regarding the DSR and equity (or fairness) is that high income families are eligible for tax benefits for no other reason than a spouse is not in the work-force. Rather, the Institute would prefer to see assistance delivered to families according to their level of need as measured by relative income, not family type.

The Institute has proposed that the Dependent Spouse Rebate and the Sole Parent Rebate should be replaced by a new 'Family Rebate', the level of which would be dependent upon family income and number of children. The Family Rebate would be set at a much higher level than the current Dependent Spouse Rebate or Sole Parent Rebate. This would greatly improve the disposable income of families on moderate or low incomes. The Family Rebate would be income-tested on the level of family income, but the income level at which the test would commence together with the additional allowance for children means that families with two children, whether they be sole-parent families, one-income couples or two-income couples would receive the full rebate at around average weekly earnings. Since the threshold from which the rebate is withdrawn would be indexed, this standard would be maintained in future years.

As noted earlier, the Coalition Parties propose to retain the current structure of family-related rebates, but to ease the income test on the Dependent Spouse Rebate (see Part One). While not addressing the issue of equity, this proposal does reduce the work disincentive effects of the current arrangements. Incentives for a wife to take up part-time work would be improved, since under this proposal she could earn up to \$8200 a year, rather than \$5082 a year, before the DSR was fully withdrawn. However, while low-income, two-income couples may receive some tax relief from this proposal, it would also benefit some high income taxpayers with a dependent spouse.

Under the alternative proposal for a Family Rebate, similar, but more extensive, outcomes could be achieved. Effective marginal tax rates are kept low under the Family Rebate because a very low taper rate is proposed. For

two-income couples, the rebate could be divided between them so that the increase to effective marginal tax rates would be even lower than the taper rate. This would enhance the work incentives for second earners and help to eliminate the present 'dependency trap'. A low taper rate also ensures that receipt of the rebate extends over a wide range of incomes and would thus provide tax relief to families, particularly those with children, over the full range of middle incomes. Furthermore, tapering away of the Family Rebate would not overlap with the taper range of the Family Allowance Supplement, Medicare, or the current income test on Family Allowances.

Consequently, the Institute is concerned that not enough assistance would be delivered to families with only one income under the Coalition proposal to modify the Dependent Spouse Rebate, especially families at low and middle levels of income. Additionally, the commendable objective to reduce work-force barriers could be more effectively achieved through the notion of a Family Rebate.

Child Care Rebate

Another initiative of the Coalition Family Tax Package is the provision of tax rebates for child care expenses. No similar provision exists at present. The issue of child care is one of the most important facing families and government at this time because of its importance in meeting the needs of parents desiring work opportunities, of employers in gaining and retaining skilled labour, and, not least, of children in ensuring that their early childhood experiences are enriching, productive and safe. The issue of child care has been addressed mainly by the provision of government-funded services, fee relief for low income families, and the allocation of places for the children of disadvantaged groups. Tax benefits have been resisted so far.

As indicated above, there are many issues to be considered in the development of a comprehensive, fair, affordable and effective child care policy. The main issues are cost (both to government and families), the supply of places and access by disadvantaged groups, and the quality of care provided. The Coalition parties have directed their policy proposal mainly to the issue of cost to the user. They have also argued that reduced costs would encourage more sole parents into employment (1990:4).

Reducing the cost of care to families is an important objective, yet there are many ways to achieve this. The Coalition approach is wise to resist the many calls for tax deductibility for child care costs. Tax deductibility of child care expenses would unfairly favour persons able to afford more expensive, better quality child care and would deliver greatest savings to taxpayers on the highest marginal tax rates. A more equitable approach, if tax measures are to be used at all, is to offer a flat rate rebate as the Coalition proposes.

An important aspect of fairness, however, relates to the extent to which disadvantaged groups are assisted by any measure, and, in at least three ways, the Child Care Rebate could be deficient in this regard.

Firstly, only families in employment and with care arrangements will receive assistance, further reducing the chances of other low income families using care for purposes such as child development and respite for pressured parents.

Secondly, those on part-time or otherwise low earnings may not earn enough to fully benefit from the tax rebate. This probability will tend to counter the stated objective to assist sole parents into employment. For example, a sole parent will have to earn much more than a secondary earner in a couple family (\$18 320 compared to \$11 957 for a parent with two children aged four years and six years) to gain the full advantage of the Child Care Rebate.

Thirdly, many parents would move into employment if affordable, quality care were available, yet the Coalition policy proposal is unlikely to improve the supply of places, as will be discussed in greater detail later. More effective assistance to disadvantaged groups may involve the continuation and extension of the fee relief system and, more importantly, the expansion of available places.

A problem facing administrators of such a scheme relates to the substantiation procedures to be developed to avoid abuse. The proposal involves allowing any form of care 'as long as the arrangements are legal. For instance, any private arrangements which comply with state law would qualify' (1990:4). As most child care is informal or semi-formal, requiring the documentation of expenditure leaves the system open to artificial formalisation of informal arrangements in order to 'get around the system'. Two teenagers living next door to each other could 'arrange' to be paid by their respective parents for minding each other's siblings after school. Grandparents could present an account for child care services while the same amount is passed back to their children as a gift, not incurring a gift tax. Grandmothers, in the meantime, may claim the expenses of their child care 'businesses' against their own tax. Wives working shift work may even pay their husbands for child care services. If extensive policing of the system were used to prevent such arrangements, an unfair situation could be produced between those who were able to arrange acceptable child care and those who could not.

In fact, it would be necessary for the thousands of families who do use informal arrangements to go to such questionable lengths for the estimated cost of the proposal to be met. As shown in Part One, unless some unpaid care is converted to paid care through 'private arrangements', the Coalition has probably over-costed the scheme by up to \$570 million. If the Coalition parties do intend to spend the figure of \$820 million, it would involve far less administration to provide the rebate to all working sole parents and secondary earners simply on evidence of the number of weeks worked.

Alternatively, it may be more effective to invest such substantial sums in the supply of further child care places. It was recently estimated that the extra cost to the Commonwealth necessary to meet all outstanding demand would be \$400 million in recurrent costs and between \$300 million and \$700 million in one-off capital costs, depending on contributions from state and local governments (Lyons 1989:29).

The Supply of Child Care Places

The issue of increasing supply must rank with quality as the main issues relating to child care and it is in this regard that the Coalition proposals are most deficient. As mentioned earlier, child care and early childhood educa-

tion will be crucial policy issues during the 1990s, given the increasing employment levels of mothers with young children and the recognition of the importance of development and learning in the first five years of life. By international standards, Australia has been very slow to recognise this reality and we tend to trail behind countries which, following extensive enquiry, have embarked upon long-term plans for the provision of early childhood services. For example, in 1988, the Government of New Zealand published a comprehensive plan of its intentions for early childhood care and education (Lange 1988). Sweden also has a fifteen-year plan to provide quality child care for its citizens (Broberg 1988).

There is an urgent need for a comprehensive review of early childhood services in Australia which works towards the goal of a long-term strategy for the provision of better services. The New Zealand policy now in place provides for abolition of tax deductibility for early childhood care and education expenses. Instead, the New Zealand plan provides for expenditure on the provision of child care places, capital grants and loans and fee subsidies for low-income families. The New Zealand report makes it clear that tax measures related to child care cannot be considered in isolation from the supply of child care. In the United States, 62 per cent of federal spending on child care is related to the child care tax credit under federal income tax. However, in a recent study, two US researchers concluded:

The fact that a large proportion of current child care subsidies benefit primarily middle- and upper-income families via the income tax credit suggests that the labor supply effects of such subsidies may be in practice stronger for less needy families than for low-income families (Blau and Robins 1988).

In this context, while the large financial commitment of the Coalition Parties to child care is to be commended, it is evident from the above discussion that subsidies through the income tax system are being questioned or abolished in other countries. It is vital, if large amounts of additional expenditure are to be directed towards child care, that we use it in the most effective way.

There are very strong arguments in favour of the expansion of places as opposed to the provision of tax rebates for child care expenses. First, it is clear that there are severe shortages of supply already. Two recent analyses estimated an unmet demand of 125 000 places for Australia (Lyons 1989) and 6050 places, catering for 8780 children, for Victoria (Hone and Baker 1989). It has also been estimated that there will be a need for places for the under school age children of a further 24 000 families in the mid 1990s and for out of school care for the children of over 840 000 families (Maas 1989). Current plans cater for only 8000 further full day care places and 20 000 out of school care places. In such a situation of limited supply, tax rebates may simply lead to an increase in prices rather than places.

The Coalition has expressed its expectation that the commercial child care industry would expand to fill this enormous gap. Yet it has not provided explanations or solutions for a number of problems related to a market approach to child care. First, the commercial sector has not yet expanded to meet the situation of chronic under-supply as instanced above. Moreover, while many commercial centres are cheaper than government centres, there are still vacancies in privately run establishments (Lyons 1989) suggesting

that parents are very concerned about standards of care and not merely cost. Further, as there is often a substantial difference between commercial charges and the low amounts parents pay for informal arrangements, the rebate of \$20 per week is not likely to be a sufficient reduction of cost to cause many families to change to commercial child care.

Second, if we are at all interested in the quality of care, that is, in regarding child care as early childhood education, then we need to concern ourselves with standards. Such concern for and regulation of standards in the primary and secondary levels of education has led to the present situation where no tax relief is given for the education expenses of children and, instead, all available resources are used to fund the education system.

Third, if our concern is the provision of quality early childhood education, then we need to be concerned about the education of children who have one or both parents who are not in the workforce.

The question to be asked therefore is: given a particular government financial commitment to child care, is it better to provide benefits in the form of personal tax concessions or as an increase in the supply of places? Ultimately, this question comes down to whether we see child care as child-minding or as early childhood development. If we are to consider child care in the context of early childhood development, then, like all other levels of education, the funding emphasis should be on the direct expansion of the system rather than upon income tax relief.

The Coalition Child Care Rebate then, while providing a tax reduction for those families earning enough to reap the full benefit of the rebate, and avoiding the unfair and inappropriate outcomes associated with tax deductibility, appears to be deficient in a number of respects:

- it is not sufficiently comprehensive to offer assistance to the most needy groups, and especially seems likely to benefit few sole parents;
- it is needlessly complex, inviting artificial construction of families' financial and care arrangements;
- it could be difficult to control costs to government and unnecessarily expensive to administer;
- it appears to be incorrectly costed;
- it has not been developed as part of a comprehensive review of the many issues emerging as essential to the future of child care provision in this country;
- it has paid no attention to the crucial issue of quality of care; and
- there is little evidence that it would contribute to the critical problem of supply and could put pressure on costs as a result.

In the light of these shortcomings, the Institute would prefer to see efforts being made to bring about a process of thoroughly examining the child care related needs of all the interests involved — parents, children, employers, unions, service providers, training establishments, and governments. In this way, answers to the many dilemmas involved may be developed without the community becoming locked into an inadequate system such as tax rebates which would be difficult to dismantle.

PART THREE: The Impact of the Coalition Tax Package on Families

In AFIT Bulletin No.5, released in March 1989, the Institute described the changes in the tax situation of families from 1976 to 1988. This analysis showed that the tax situation of average Australian families could be restored to its 1976 level through increases to Family Allowances and through the replacement of the Dependent Spouse Rebate and the Sole Parent Rebate by a higher, income-tested Family Rebate. In this Part, the same programs are used to indicate the benefits to families of the Coalition's Family Tax Package as described in Part One. To provide a comparative perspective, throughout this Part, the benefits from the Coalition's package will be compared to the benefits that would ensue to families if a similarly costed package had been delivered in the form suggested by the Institute in March 1989, that is, through increases to Family Allowances and the introduction of a Family Rebate.

An Illustrative Family Allowance/Family Rebate Alternative

The Alternative package has the following characteristics:

Family Allowance:

Raised to \$14.46 per child

Family Rebate:

For couples without children

Amount of rebate: \$1450

Income tested from a family income of \$18 000

Rebate tapered away from this threshold at the rate of 10 cents in the dollar

For couples with children

Amount of rebate: \$1800

Income tested from a family income of \$25 500 for a family with one child plus \$2 200 for each additional child

Rebate tapered away from the relevant threshold at the rate of 10 cents in the dollar

The Family Rebate would replace the Dependent Spouse Rebate, the Sole Parent Rebate and beneficiary couple rebates.

The Family Rebate described here is structured somewhat differently from that suggested by the Institute in March 1989 (AIFS 1989a). Following release of the March 1989 report, several commentators suggested that the Family Rebate proposed in that report did not make sufficient distinction between couples with children and couples without children. The present alternative takes account of these suggestions by providing a larger rebate to families with children and by providing a much larger step in the income threshold between couples with no child and couples with one child. This greater recognition of the costs of children, particularly the costs of the first child, accords with Institute research on the direct and indirect costs of children (Beggs and Chapman 1988; McDonald 1989).

Table 1 shows three characteristics of this Family Rebate: the income levels from which it would begin to be withdrawn, the levels at which the Family Rebate would provide the same benefit as the Dependent Spouse Rebate or Sole Parent Rebate and the income levels at which the Family Rebate would be fully withdrawn.

Table 1: Levels of family income relevant to the Family Rebate alternative.

	<i>Number of children</i>			
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>
Couples				
Withdrawn from:	18 000	25 500	27 000	29 000
Rebate = DSR at:	22 500	31 500	33 700	35 900
Fully withdrawn:	32 500	43 500	45 700	47 900
Sole parents				
Withdrawn from:		25 500	27 000	29 000
Rebate = SPR at:		34 100	36 300	38 500
Fully Withdrawn:		43 500	45 700	47 900

If applied in 1989–90, the cost of increasing Family Allowances would be about \$1.07 billion. This presumes, as does the Coalition package, that the current income test on Family Allowances is retained (abolition of the income test would cost a further \$256 million). The cost of replacing the DSR and the SPR with the Family Rebate would be about \$1.06 billion. The cost of both alternatives is thus about \$2.1 billion, which is roughly equivalent to the cost of the Coalition package.

In the remainder of this Part, we shall examine the relative benefits to families of the Coalition proposal and the Family Allowance/Family Rebate Alternative Package.

It must be stressed here that the Institute is not proposing or recommending that the Alternative package should be adopted. The Alternative package is illustrative only; it illustrates the impact upon families that would result if the \$2 billion cost of the Coalition Family Tax Package was spent in the forms of Family Allowances and the Family Rebate. A fully-worked Alternative package would not necessarily cost the same as the Coalition package and would need to include consideration of changes to the tax rates and tax brackets. As well, the argument would have to be addressed that

families may be better served through increased expenditure on services for families, such as a major increase in the supply of child care places (see Part Two), than through changes to the tax system. At the same time, the Alternative package we have specified is one that we consider has a sound basis in principle.

The Distribution of Gains from the Coalition Family Tax Package

The percentage distribution of the benefits from both packages according to the income levels of families with children is shown in Table 2.

Table 2: Percentage of total benefits of the Coalition and Alternative packages received by families with differing incomes levels, families with dependent children.

<i>Range of family income</i>	<i>Percentage of total benefits</i>		<i>Percentage of all families with incomes in this range</i>
	<i>Coalition %</i>	<i>Alternative %</i>	<i>%</i>
Less than 0.5 AWE	1.7	12.5	18.3
0.5 AWE to AWE	21.2	40.2	21.8
AWE to 1.5 AWE	36.4	38.2	29.6
1.5 AWE to 2 AWE	23.4	7.1	17.3
2 AWE to 4 AWE	15.2	2.2	11.6
4 AWE and over	2.1	-0.2	1.4
	100.0	100.0	100.0

The table shows that the Coalition package provides little benefit to those at lower incomes and can therefore be said to be regressive. The 18.3 per cent of families with children with incomes under half AWE (about \$14 000 p.a.) would receive a mere 1.7 per cent of the benefits. At the other end of the spectrum, the 30.3 per cent of families with incomes in excess of 1.5 times AWE (about \$42 000 p.a.) would receive 40.7 per cent of the benefits. The Alternative package, while itself being a little regressive for the poorest families, at least provides a sizable proportion of its benefits to these families and provides a very sizable proportion to families with incomes between half AWE and 1.5 times AWE. To reiterate, the Alternative is not a fully-worked package; a fully-worked package would need to give greater consideration to the needs of families on very low incomes. Clearly, the tax system is a poor mechanism for dealing with the needs of families on pensions and benefits.

The regressive nature of the Coalition package is even more evident when the actual number in each income range is considered (Table 3). While Table 2 shows that the greatest proportion of the cost of the package (36.3 per cent) is delivered to families receiving incomes between 100 per cent and 150 per cent of AWE, on average each of these families will only receive

\$927 per annum increase, whereas families on 4AWE will receive an average increase of \$1102 per annum. As shown, those families with the lowest incomes receive the lowest increases, on average \$69 per annum for families with incomes below half AWE and \$731 per annum for those with incomes between half AWE and AWE. The Alternative package would provide these same families with an additional \$528 per annum and \$1433 per annum respectively. Greatest benefits in the Alternative package are provided to the 51.4 per cent of families with incomes between \$14 000 and \$42 000 per annum (0.5 AWE to 1.5 AWE). The Alternative package would provide great incentive to persons on pensions and benefits to take some work, that is, it would reduce the poverty traps presently faced by these families.

The redistributive impact of the Coalition Family Tax package must also be considered in the context of other tax changes which have been foreshadowed by the Coalition. The changes to the Capital Gains Tax and the top tax rate proposed by the Coalition Parties add to the extent to which their rebate proposals would disproportionately advantage high income groups. For example, if the top marginal tax rate were to drop to 39 cents in the dollar, as appears likely from the Coalition promise to lower the top marginal rate to the corporate rate, the one-income family on AWE would gain nothing, while the gains to those on higher incomes would be \$569 per annum at 1.5 AWE, \$1692 at 2AWE and \$6183 at 4AWE. The gain from the cut in the top marginal tax rate for those on 4 AWE is six times the gain to any income range from the Coalition Family Tax Package and almost 100 times the gain of low income families from the package. Low income families and, indeed, all but a small proportion of families with an income earner making more than \$35 000 per annum, would gain nothing from the cut in the top rate of tax.

Table 3: Average annual dollar gains received by families with differing incomes levels from the Coalition and Alternative Packages, families with dependent children.

<i>Range of family income</i>	<i>Annual dollar Gains</i>				<i>Number of all families with incomes in this range '000</i>
	<i>Coalition</i>		<i>Alternative</i>		
	<i>Total \$m pa</i>	<i>Average \$pa</i>	<i>Total \$m pa</i>	<i>Average \$pa</i>	
Less than 0.5 AWE	40.2	69	232.4	528	440.3
0.5 AWE to AWE	383.1	731	750.6	1433	524.0
AWE to 1.5 AWE	659.1	927	713.6	1004	711.0
1.5 AWE to 2 AWE	422.5	1015	133.3	320	416.2
2 AWE to 4 AWE	275.0	985	40.4	145	279.3
4 AWE and over	37.9	1102	-4.0	-115	34.4

Ninety-five per cent of the benefits or gains from the Coalition's package go to families with dependent children. This compares with 88 per cent going to families with dependent children in the Alternative package. In both the Coalition and Alternative packages, the gains to couples without children are directed largely to those on lower incomes. For example, 71 per

cent of the gains to couples without children in the Coalition package go to the 52 per cent of couples with joint incomes below average weekly earnings. In the Alternative package, 100 per cent of the gains to couples without dependent children go to those with incomes below AWE. However, the monetary value of gains to couples without children with incomes below AWE are very small at an average of \$96 per annum per couple from the Coalition package. This compares with \$353 per annum per couple without children and with an income below AWE from the Alternative package.

The Coalition has deliberately targetted its package to families with children so the lack of benefit to couples without children is to be expected. Nevertheless, given that the *Family Law Act* requires the parties to a marriage to support each other, there is a need to be concerned about the economic wellbeing of low-income couples without children.

Benefits to Families According to Income Level

Table 4 sets out the benefits that would be received by various types of families from the Coalition package and shows these benefits according to the income level of the family relative to Average Weekly Earnings (estimated as \$538.40 in 1989–90). The table also compares the benefits from the Coalition package with those that would ensue under the Alternative package.

Families without dependent children are not shown because the Coalition package is not directed to the needs of families of this type.

The amounts in Table 4 relating to the Coalition package are based on the assumption that an eligible person earning sufficient money to benefit from the Child Care Rebate would also satisfy the administrative requirements and hence receive the rebate. For two-income families, income has been divided in the ratio of 60 per cent to the primary earner and 40 per cent to the secondary earner.

The radical shift in Coalition policy since the 1987 election is indicated by the fact that the benefits that would be received by two-income couples and sole parents are considerably greater than those that would be received by one-income couples on the same level of family income. Under the policy of income-splitting proposed by the Coalition at the 1987 election, almost all benefits would have gone to one-income families (Maas and McDonald 1989). In contrast, the Coalition package would now provide two-income couples and sole parents (case with two children, one aged under 5, one aged 5–12) with roughly four times the amount that one-income couples on the same income level would receive. This is an inevitable result of the fact that two of the three proposed tax measures provide no benefit at all to one-income couples. Furthermore, the addition to the disposable incomes of one-income families is not only low in relative terms but also in absolute terms at \$8.63 or \$10.55 per week for two children (depending upon the ages of the children). Under income-splitting, a one-income family with income around AWE would have received an additional \$50 per week. The Alternative package would provide substantially greater benefits to low and middle income families dependent on a single income.

Table 4 also shows that for two-income couples and sole parents the amounts that would be received from the Coalition package are lower at

Table 4: Changes in disposable income from the Coalition package and the Alternative package, by income level and family type (additional dollars per week).

<i>Coalition package</i>			
<i>Family with two children: one under 5, one aged 5–12 years</i>			
<i>Family income*</i>	<i>One-income couple</i>	<i>Two-income couple</i>	<i>Sole parent</i>
0.5 AWE	8.63	n.c.	17.96(a)
AWE	8.63	30.35	36.25
1.5 AWE	8.63	36.25	36.25
2 AWE	8.63	36.25	36.25
4 AWE	8.63	36.25	36.25
<i>Family with two children: both aged 5–12 years</i>			
<i>Family income*</i>	<i>One-income couple</i>	<i>Two-income couple</i>	<i>Sole parent</i>
0.5 AWE	8.63	n.c.	17.96(a)
AWE	8.63	27.04	27.04
1.5 AWE	8.63	27.04	27.04
2 AWE	8.63	27.04	27.04
4 AWE	8.63	27.04	27.04
<i>Family with two children: one 5–12, other 13–15 years</i>			
<i>Family income*</i>	<i>One-income couple</i>	<i>Two-income couple</i>	<i>Sole parent</i>
0.5 AWE	10.55	n.c.	17.96(a)
AWE	10.55	19.75	19.75
1.5 AWE	10.55	19.75	19.75
2 AWE	10.55	19.75	19.75
4 AWE	10.55	19.75	19.75
<i>Alternative package: families with two children</i>			
<i>Family income*</i>	<i>One-income couple</i>	<i>Two-income couple</i>	<i>Sole parent</i>
0.5 AWE	21.67	n.c.	26.65(a)
AWE	20.95	43.96	25.93
1.5 AWE	-5.97	17.04	-0.98
2 AWE	-12.85	10.16	-7.87
4 AWE	-23.02	0	-18.02

* Income levels are in multiples of Average Weekly Earnings which is set at \$538.40 per week or \$28 072 per annum for 1989–90.

(a) calculated as a part-pensioner.

n.c. not calculated.

lower levels of family income. This is because those on low incomes would not be paying sufficient tax to benefit fully from the rebates. This matter is addressed in greater detail in the next sub-section.

Once a family has sufficient income to be able to receive the full tax rebates available under the package, the benefits from the Coalition package

are the same irrespective of income level. Thus a family on four times AWE (\$112 300) receives the same dollar amount as a family of the same type on AWE (\$28 072). In the Alternative package, a family on AWE, irrespective of family type, would receive about \$44 per week more than the family on four times AWE and about \$34 per week more than the family on twice AWE. Table 5 shows the income levels below which each type of family would receive more from the Alternative package than from the Coalition package as well as the proportion of families of that type with incomes below that level.

The table shows that more one-income families and sole parents would receive higher amounts from the Alternative package than from the Coalition package. Furthermore, those who would receive higher amounts under the Alternative package than under the Coalition package are those on low and middle incomes. Those on higher incomes, particularly two-income couples, would receive greater benefits from the Coalition package.

Table 5: Income levels below which the Alternative package provides higher amounts than the Coalition package (the break-even point) showing also the proportion of families with incomes below this break-even point, family types with two children of various ages.

<i>Age combination of children and family type</i>	<i>Income level below which benefits are higher from the Alternative than the Coalition (\$ per annum)</i>	<i>Percentage of families with incomes less than the break-even point %</i>
One aged < 5, one aged 5–12 years		
One income couple		
Two-income couple	33 800	57
Sole parent	31 000	26
	16 200	88
Both aged 5–12 years		
One-income couple		
Two-income couple	33 800	64
Sole parent	35 800	30
	27 000	89
One aged 5–12, one aged 13–15 years		
One-income couple	32 800	55
Two-income couple	39 600	32
Sole parent	30 600	93

Although some one-income families on high incomes would lose money under the Alternative package, this loss would be much more than offset by the gains that would flow from the changes to the tax scales promised by the Coalition.

Impacts on Families with Low Incomes

As argued in Part Two, there are questions about the vertical equity of the Coalition proposals because low-income families may not be paying sufficient tax to benefit from the proposals. This is clearly indicated in Table 6 which shows the increases in disposable income that would accrue to low-income families (with two children, one aged less than 5, and one aged 5–12) from the Coalition package and from the Alternative package.

Table 6: Increases in annual disposable incomes for low-income families from the Coalition package and the Alternative package (two-child families, one aged less than 5, one aged 5–12 years).

<i>Income level*</i>	<i>One-income couples</i>		<i>Sole parents</i>	
	<i>Coalition</i>	<i>Alternative</i>	<i>Coalition</i>	<i>Alternative</i>
	<i>\$pa</i>	<i>\$pa</i>	<i>\$pa</i>	<i>\$pa</i>
Basic pension/beneficiary	n.a.	n.a.	0	530
\$8000	n.a.	n.a.	0	530
\$9000	n.a.	n.a.	0	583
\$10 000	n.a.	n.a.	119	649
\$11 000	n.a.	n.a.	299	830
Basic UB	0	530	n.a.	n.a.
\$12 000	0	530	509	1040
\$13 000	450	989	719	1240
\$14 000	450	1130	929	1390
\$15 000	450	1130	1139	1390
\$16 000	450	1130	1349	1390
\$17 000	450	1130	1559	1390
\$18 000	450	1130	1797	1390
\$19 000	450	1130	1890	1390

* For one-income couples, the results at \$12 000 are for a beneficiary couple. For sole parents, the results at \$8000 to \$17 000 are for a sole parent pensioner. n.a. not applicable.

Table 6 shows that couples on the base rate of unemployment benefit and part beneficiaries on an income of \$12 000 would not receive anything from the Coalition package. In contrast, they would receive \$530 per annum from the Alternative package. Similarly, sole parents on the base rate of pension and part pensioners at \$8000 and \$9000 would receive nothing from the Coalition package but \$530–\$583 from the Alternative package. The point made earlier that the Coalition package would provide much more to sole parents than to one-income couples is also evident in Table 6 for those on low incomes. The differences by family type are very much smaller in the Alternative package. Low-income, one-income couples would receive considerably more from the Alternative package than from the Coalition package at all levels of income shown in the table. Sole parents receive more from the Alternative package only up to \$16 000.

In population terms, 8 per cent of married couples with children and 60

per cent of sole parents would not receive any benefit from the Child Tax Rebate and a total of 10 per cent and 64 per cent respectively would get less than the full rebate. All of these families would benefit fully if the child rebate was delivered in the form of Family Allowances as in the Alternative package. The families we are talking about here are the poorest families in the community.

The Coalition package would lead in some instances to total benefits for children being similar for high-income families as for poor families. Taking the example of couple families with one child under the age of five years, an unemployed couple would receive Family Allowance (\$9.30) and the Family Allowance Supplement (\$24.15), a total of \$33.45 per week. A two-income couple on an income of \$50 000 would receive Family Allowance, the Child Tax Rebate (\$4.79), and the Child Care Rebate (\$20), a total of \$32.09 per week. Thus the benefits for the child in the \$50 000, two-income family would be similar to those for the child whose parents are both unemployed. This sharply reverses the trend in recent years for governments, including the former Coalition Government, to provide much higher government support for children in poor families than for those in other families. Indeed, at present, government support for children in poor families is about three times that given in respect of children in other families.

Part-time Second Earners

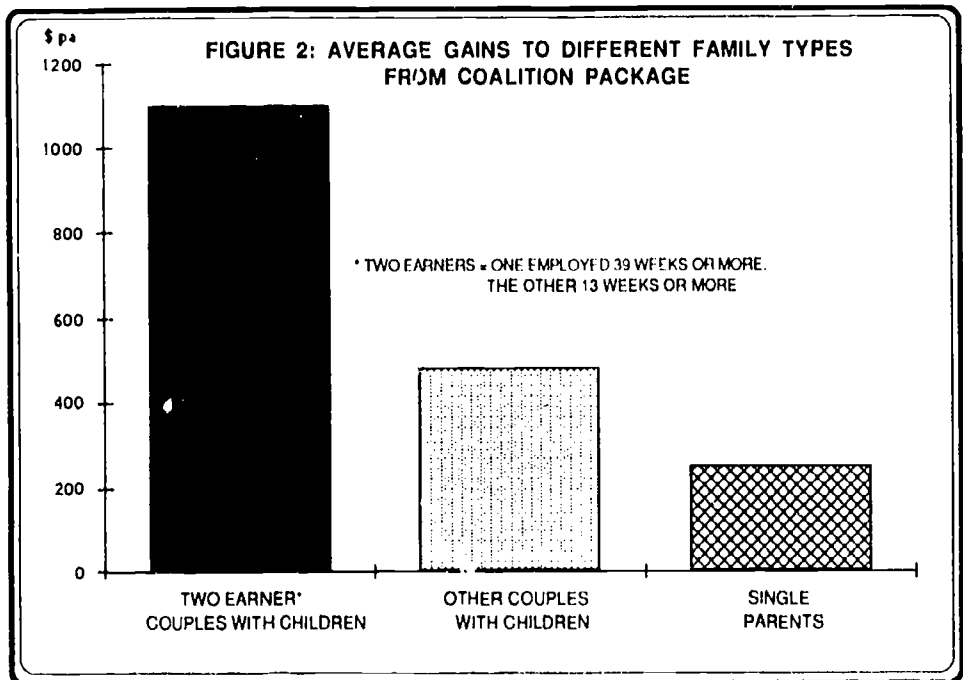
The Coalition package also has a difficulty in that many second earners would not receive sufficient income to benefit fully from the Child Care Rebate. This is illustrated in Table 7 which shows the increases in disposable income from the Coalition and Alternative packages in the case of a two-income family with two children (aged less than five and 5–12) where the primary earner has an income of \$22 000 and the second earner's income ranges from zero to \$13 000.

Table 7: Increases in annual disposable income from the Coalition and Alternative packages for a two-income family with two children, according to the income level of the second earner (primary earner's income is \$22 000 per annum, children are aged less than 5 and 5–12).

<i>Second earner's income</i>	<i>Coalition (\$p.a.)</i>	<i>Alternative (\$p.a.)</i>
Zero	450	1130
\$1000	630	1309
\$3000	796	1809
\$5000	963	2309
\$7000	1007	2200
\$9000	1193	2000
\$11 000	1583	1800
\$13 000	1890	1600

In this example, the full benefit of the Coalition package is not achieved until the second earner reaches about \$13 000 of income. Research evidence shows that in two-income families with dependent children, the second earner's income averages about 30 per cent of that of the primary earner (Brownlee 1989). In the example in Table 7 therefore, we could expect the second earner's income to be about \$9000 on average. At this point, only about half of the benefit of the Coalition package would actually be received. In contrast, the benefits from the Alternative package would be near their peak and would be almost double those of the Coalition package. The Coalition package thus tends to favour secondary earners who work full-time or near to full-time.

This analysis again indicates the remarkable shift that has occurred in Coalition policy from income-splitting, which positively discouraged the employment of secondary earners and did nothing to encourage work force participation of sole parents, to the present policy which encourages both secondary earners and sole parents to work full-time or near to full-time, depending on their wage rates. The Institute has proposed the Family Rebate because it allows a high degree of flexibility to parents of young children in making their choices about employment. Most second earners are women and, while we may be moving in the longer-term towards a society in which a high proportion of mothers of young children will be working full-time, we are far from that situation at present. In June 1989, only 14 per cent of married mothers and 11 per cent of single mothers of children aged less than 5 years were working full-time (ABS 1989).



At present, most women want to be able to move in and out of employment and to have the options of full-time or part-time work depending on their own circumstances. The Family Rebate is designed to enable parents to make these choices more easily by providing substantial assistance in periods when family income is low and through a regime of low marginal tax rates if the second earner gradually increases work force participation. While the Coalition Parties are to be congratulated for moving away from the rigidities and barriers that income-splitting would have presented to second earners, the radical shift now proposed provides little benefit to families in those periods of their lives when they are dependent on only one income or on one income and a low second income.

Gains to two-earner couples

A comparison of average annual gains to different family types shows that two-earner couples would receive the highest benefits from the Coalition package (Figure 2). Two-earner couples are defined here as couples where one partner is employed for 39 weeks or more, the other for 13 weeks or more. An estimated \$1100 per annum would go to two-earner couples. By comparison, other couples with children would receive less than half this amount (\$482 per annum), while sole parents would receive \$252 a year from the package. One reason for these differences is that many sole parents and second earners who work less than 13 weeks per annum do not have sufficient earnings to benefit from the child care rebate.

PART FOUR: Concluding Remarks

The Coalition Package would provide the following weekly gains to families who would be paying sufficient tax to benefit fully from the measures contained in the Package:

	One-income couples	Two-income couples and sole parents
Two-child families with children aged:		
One under 5 years, one 5–12 years	\$3.63	\$36.25
Both aged 5–12 years	\$8.63	\$27.04
One aged 5–12 years, one aged 13–15 years	\$10.55	\$19.75

However, the Coalition Family Tax Package proposals would produce the following results:

- neither the Child Tax Rebate nor the Child Care Rebate would be available to families who do not pay enough tax to fully benefit;
- distribution of the benefits would go disproportionately to high income groups, with only 1.7 per cent of the package going to the 18 per cent of families receiving less than \$14 000 pa;
- the long term objective to drop the top rate of tax even further would only benefit high income earners, half of whom have no children, giving gains to the most wealthy 100 times those of low income families;
- sole parents would be required to earn much more than the second earner in a two-parent family before they became eligible for the full benefit of the Child Care Rebate; and
- one-income families would receive far less assistance than two-income families.

The proposals would also produce a more complex set of tax arrangements in that:

- alongside the existing systems of Family Allowance and Family Allowance Supplement, a revived form of rebate for children would be introduced, with different administrative conditions and not available to all families; and
- associated with the Child Care Rebate, there would be an administratively vague system of cost substantiation, inviting artificial construction of care arrangements.

In the area of child care, there are many more issues than just that of cost to users, the only one directly addressed by the Coalition package. In particular there are issues of access for disadvantaged groups, overall management of cost to government, quality of care and the shortage of supply.

Overall, and particularly as shown by the comparison with the Alternative Package, the analysis points to there being more equitable and effective ways to:

- provide benefits to all families, especially low income families;
- direct more assistance to low and middle income families;
- provide substantial gains to one-income families on low and middle incomes;
- recognise the costs of children; and
- provide assistance appropriate to the work arrangements of families at different stages of family life.

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