Budget 2021/22 – A new focus on families?

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The good news: there are at least three major policy announcements in this year's federal budget, that should help Australian families with caring responsibilities and especially women: they remove work disincentives for secondary earners, create jobs in female-dominated industries, improve the financial bottom line of families with very young children, alleviate work-family-conflict, and provide care for older Australians.

The not-so-good news: each policy has ifs, buts and caveats attached to them. And one much needed change is still glaringly absent, despite all public debate on the topic, and support from a large majority of economists: an adequate, permanent increase in income support payments, that is sorely needed to lift 1 in 6 Australian children out of poverty.

Family-relevant policies in relation to all new measures

Overall, the government has announced new payment measures worth nearly $65 billion over the financial years 2021/22-2024/25. About a third of this additional funding is allocated to aged care ($17.7 billion), childcare ($1.7billion) and other policies that are especially relevant for families such as federal funding for improved preschool access ($3 billion). Similarly, over a quarter of the cost of new receipt measures is attached to the continuation of the *Low and Middle Income Earner Tax Offset (LMITO)*, that will provide financial support to families and improve incentives for workforce participation especially for secondary earners at a price tag of $7.8billion.

Table 1 New Payment and Receipt Measures, Overall and with Special Relevance for Families

2021/22 to 2024/25	$billion
Total Payment Measures	**64.9**
Aged Care	17.7
Child Care Subsidy	1.7
Special relevance for families*	3.0
Total Receipt Measures	**-27.6**
LMITO	-7.8
Temporary full expensing extension	-17.9

Source and Notes: Based on Commonwealth of Australia (2021) data, own calculations. Payment measures with special relevance to families include all measures included in Women's Safety, Women's Economic Security (minus total expenses for CCS), Guaranteeing Universal Access to Pre-School, A National Early Childhood Program for Children with Disability or Developmental Concerns, Early release for victims of family and domestic violence, Improving Access to the Family Law System, Respect@Work Response Implementation, Expanding Support for Veterans and their Families.

This is a marked shift in the allocation of funding and funding sources, especially compared to last year's budget. The new focus on creating jobs in the service sector, especially in caring professions, and on supporting the workforce participation of secondary earners in families is a very positive move. So where is the caveat?

New expenditure on aged care

The first important policy package, from the perspective of family economics, relates to the Aged Care sector. The government committed $17.7 billion over the next four years. This will fund 80,000 additional Home Care Packages (at least 12,000 on the highest care level 4), new mandatory staffing levels in residential care, and an increase in funding per resident of $10 per day – besides a range of smaller measures for greater access in regional and remote Australia, to strengthen consumer choice, and improve governance. Not only should this improve the care situation of older Australians, it should also create job opportunities in the sector. These jobs are expected to be filled predominantly by women. Data from the Household, Income and Labour Dynamics in Australia (HILDA) survey (wave 19) shows that women make up 80% of the care workforce, and workers in the sector are secondary earners in their families 38% of the time.[1] Additional funding ($0.8 billion) will also be available for respite care, which has been shown to be of crucial importance for the well-being of informal carers (Jeon, Brodaty and Chesterson, 2005), who are frequently under pressure, juggling caregiving with paid employment.

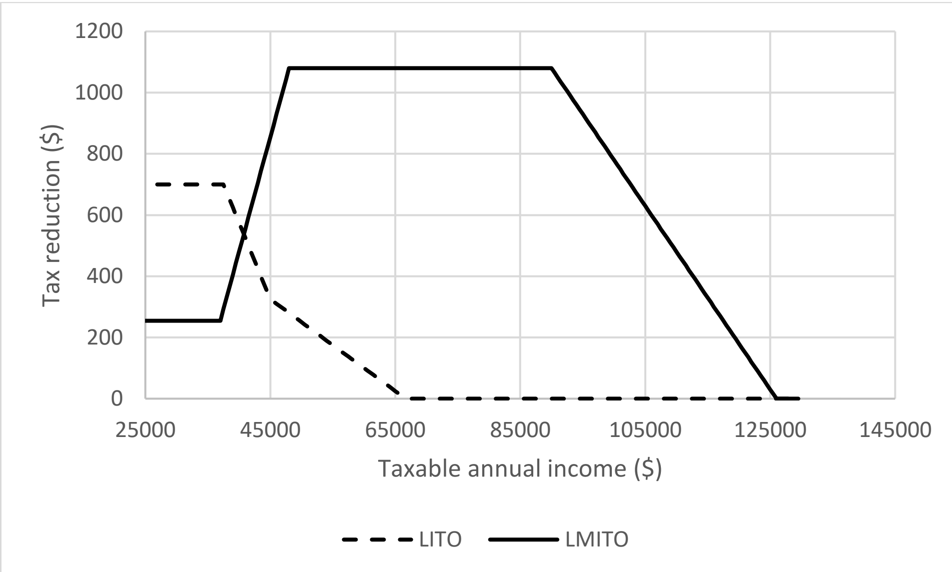
The caveat? Mostly, it is still not enough. In December 2020, almost 100k Australians already approved for a home care package, were waiting to receive one (Australian Government Department of Health, 2021a). By providing 80,000 additional packages by 2023, the government essentially commits to continuing a situation where Australians who need care are not receiving it. While the new measures provide additional funding of $17.7billion over four years, a recent report from the Grattan Institute found a funding shortfall of at least $7 billion per year (Duckett et al. 2020). Annual funding for the whole sector is expected to reach $31 billion by 2024/25 (Australian Government Department of Health, 2021b); a report by Deloitte Access Economics found a minimum funding need of $42 billion by 2030. The fallout will continue to be borne by those in need of care, and by their family members who are often forced to perform arduous, unpaid care work while also holding down a paid job.

Continuation of the LMITO - foregone receipts

[1] Including industry-codes [85] - Medical and Other Health Care Services, [86] - Residential Care Services and [87] - Social Assistance Services from the ANZSIC2006 industry classification.

The second important policy is the continuation of the LMITO. The LMITO is paid at a rate of $255 for the lowest income earners, increases to $1,080 at a fast pace for those earning just above full-time minimum wage, and begins to be phased out after an income of $90,000 is reached.

Figure 1 LITO and LMITO by annual taxable income



Source and Notes: Australian Taxation Office, 2021. https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Low-and-middle-income-earner-tax-offsets/ Accessed 04 June 2021. Own illustration. LITO and LMITO cannot reduce the tax bill to negative values; they are hence not effectively applicable to incomes below the tax-free threshold of $18,200 and only partially applicable for taxable incomes with a total tax burden of less than $255 or $700 excluding the Medicare levy (taxable income of $19,529 or $21,845, respectively - if no other offsets apply).

The offset was meant to be discontinued after the financial year 2020/21, but now the government is planning to keep it in place. This is not directly aimed at families with caring responsibilities, but it will be important for them. The offset improves the financial bottom line of families, but it also provides an incentive for workforce participation. In the quite narrow income range between $37k and $48k, it is phased in at a rate of 7.5ct for every dollar earned, which drastically reduces the effective tax rate by 7.5 percentage points. If individuals cannot choose their exact working hours, but only their working days, it is plausible that those in the income range of $48k to $60k would also be affected by the phasing in of the LMITO (as a 20% reduction in working time from 5 down to 4 days, and proportionate loss in income, would come with a partial loss of LMITO).

Australians in families with caring responsibilities are no more likely than others to benefit from the LMITO and its workforce participation incentives. But nonetheless: the number of individuals in caring families – and especially the number of female secondary earners in caring families – for whom the LMITO provides a payment that makes their own work more worthwhile, is substantial.

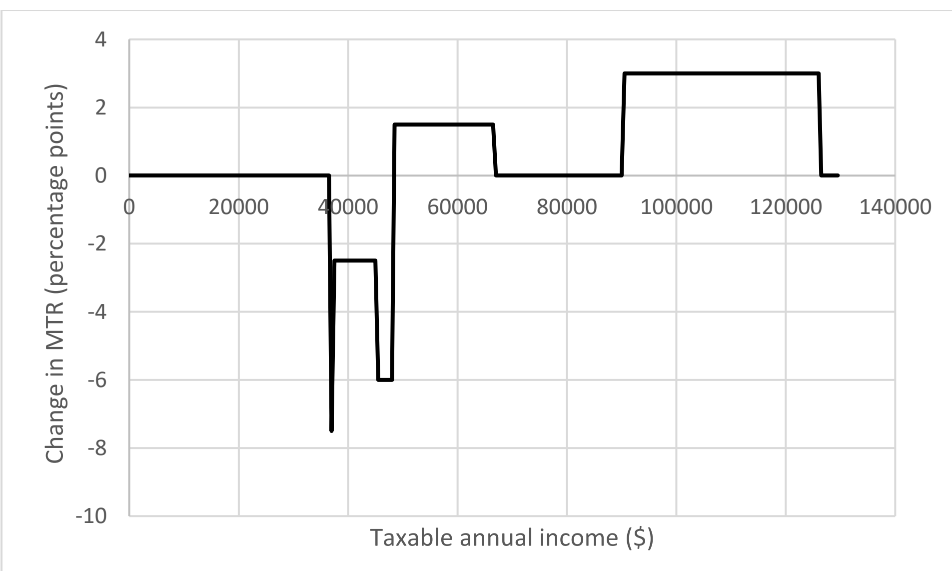
Table 2 Individuals in households with caring responsibilities

	Male		Female	
Income range ($)	Total individuals (in 1,000)	Of those: secondary earners (in %)	Total individuals (in 1,000)	Of those: secondary earners (in %)
0-18,200	340	36%	836	57%
18,201-37,000	320	50%	710	85%
37,001-48,000	184	41%	402	57%
48,001-60,000	166	35%	272	58%
60,001-90,000	808	21%	790	48%
90,001-126,000	578	9%	339	36%
≥126,001	678	6%	237	25%
All	3,075	22%	3,585	56%

Source and Notes: HILDA Survey, wave 19, own calculations. Results are weighted using cross-sectional weights. Households with caring responsibilities are those with children under the age of 15, and those with a household member with a disability or long-term health condition. The sample excludes individuals who are dependent children in their family. Income is individual gross total income for the financial year 2018-19; missing values are imputed. Secondary earners are partnered individuals whose income is lower than that of their partner.

The caveat(s)? First, not removing the LMITO is not so much a tax cut as it is the delay of a tax increase. And second, the LMITO is very badly aligned with its sister policy, the *Low Income Tax Offset* (LITO). While the LMITO is being phased *in* at a rate of 7.5 ct in the dollar, the LITO is phased *out* at 5ct in the dollar (then dropping to 1.5ct). The total impact of both offsets on the tax schedule is hard to justify economically:

Figure 2 Combined effect of LITO and LMITO on marginal tax rates



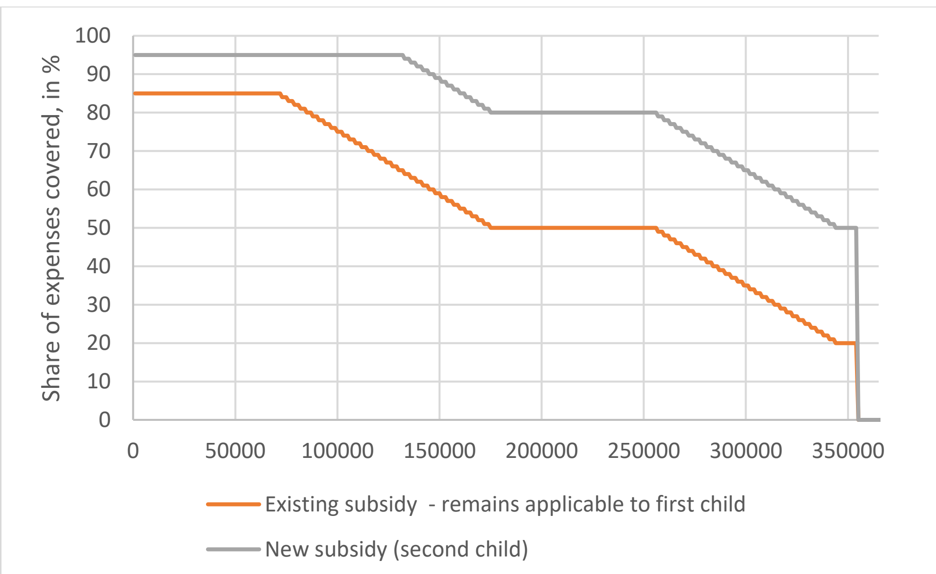
Source: Australian Taxation Office, 2021. https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Low-and-middle-income-earner-tax-offsets/ *Accessed 04 June 2021. Own illustration.*

In terms of workforce participation incentives, the existence of the LITO works against the LMITO's effectiveness as they move in opposite directions in the $37k-$48k income range. In addition, there's good reason to believe that their complexity alone works against the financial incentives, as humans may struggle to incorporate intransparent, hard-to-understand rules into their decision-making. Given that the measure's effectiveness is likely impeded by the very complicated and contradictory payment rules, it is not clear that the large expense will yield great results.

Changes to Child Care Subsidy

The next big policy announcement concerned the Child Care Subsidy (CCS). Under current rules, low-income families can receive up to 85% of their childcare expenses, up to $12.20 per hour. The subsidy is gradually reduced as combined family income increases and reaches 20% at $343,630 (families who earn another $10,000 extra no longer receive the CCS). The maximum amount payable per year per child is capped at $10,560. The government plans to increase the subsidy by 30 percentage points for second and subsequent children, with an upper limit of a 95% subsidy, and to remove the annual cap. Coverage would thus range from 95% to 50% of the cost.

Figure 3 Childcare subsidy by combined family income

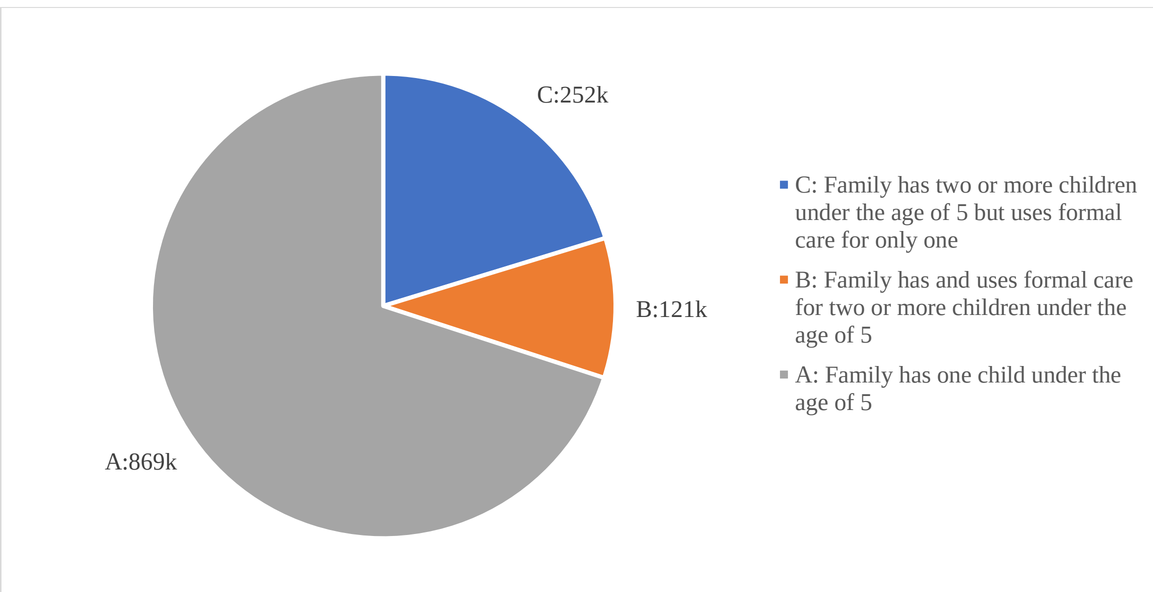


Source and notes: https://www.servicesaustralia.gov.au/individuals/services/centrelink/child-care-subsidy/how-much-you-can-get (accessed 7 June 2021) and Payne, Ruston and Hume (2021). Own illustration. Expenses beyond $12.20 per hour (in centre-based care) are not covered. Lower hourly caps apply for family day care, outside school hours care and in home care. The CCS received per child per year cannot exceed $10,560 under the existing policy, but can under the proposed new policy. Activity tests apply to both parents.

Childcare cost eat up a large portion of secondary earners' incomes, locking especially mothers of young children out of the workforce. Any reduction in childcare cost combats this problem and is a step in the right direction. The caveat? First, the policy does not come into effect before July 2022. And second, the increased rate of CCS is restricted to families with at least two children *currently* under the age of 5 and *currently* in formal care. This restriction substantially reduces the policy's scope. For example, a family with two kids born three years apart, where the mother opts to stay home for the first year of each child's life (a relatively typical choice), would seek childcare to facilitate parents work for six years. They would receive the increased subsidy for only one year, and for only one of their two children.

Had the policy applied in 2019, somewhere between 121k and 373k families could have benefitted – out of well over 1.2 million families with children under the age of 5. 869k families had only one child under the age of 5 and thus would not have been affected; of those who did have two or more children under the age of 5, only 121k also received formal care for two or more children. Those 121k families (about 10% of all families with pre-school aged children) would have received the increased subsidy even without any behavioural change, and an unknown number of the 252k families who had two or more children under the age of 5 but used formal care for only one of them, could potentially have benefitted if the new policy prompted them to change their care use.

Figure 4 Families with children below age 5, 2019



Source and notes: HILDA Survey, Wave 19. Own calculations. Results are weighted using cross-sectional weights. Formal care includes long-day care centres (private, community or at the workplace), family day care and kindergarten/pre-school.

How large a labour supply response could we reasonably expect from this policy? In the absence of fertility effects, there should be no labour supply response for families with less than two children under the age of 5 (Group A). Labour supply effects within group B – who will already be eligible for the increased subsidy without a change in behaviour – are expected to be relatively small: focusing attention on mothers (and implicitly assuming that fathers' labour supply is not affected by child care prices), there is not much room for change: using data from the HILDA survey (wave 19), I find that the maternal employment rate in this group is 80%, and employed mothers work 28 hours per week on average, in a usual week. It is the last group C where perhaps the biggest response could take place – about 40% of all mothers in this group are employed, working on average 22 hours per week in a usual week. I apply labour supply elasticities previously estimated for Australia, to employment probabilities and working hours of mothers in group C, to reach a back-of-the-envelope estimate of a potential labour supply response. Breunig, Gong and King (2012) reports, to my knowledge, the largest estimated labour supply elasticity with respect to net childcare prices in Australia to date, with an elasticity of -0.65 for working hours. Assuming that all families in group B see a reduction in out-of-pocket childcare cost of 15% (0% for the first and 30% for the second child[2]), maternal working hours should increase by 10%, or 230k hours worked per week. For comparison, the Women's Budget Statement puts estimated additional hours worked at 300,000 per week (Payne, Ruston and Hume, 2021).[3] While substantial, this response is not huge when put in relation to a total of 1.2 million families with pre-school aged children – largely because many of them will not be affected by the policy at all. It is a well-targeted policy, that supports families when it is needed the *most*. But it is not a game changer.

Overall assessment

Considering three policies that are important from a family economist's perspective – their overall size compared to all new spending, their intended goals, but also their respective caveats – and keeping in mind the absence of sufficient increase in income support payments, this budget shows some new focus on families, and takes steps in the right direction. But it does not indicate a paradigm shift, and it does not go all the way. Overall: this budget tries harder but could do better.

[2] For families who exceed the hourly cap, or whose CCS before the policy change was more than 65%, the true drop in prices is lower. For the families that are also affected by the removal of the annual cap, as well as for a small number of families with three or more children under the age of 5 in formal care, the price drop would be higher.

[3] The difference could be due to some expected labour supply response in group B, some labour supply response to the removal of the annual cap, and/or to heterogeneity in labour supply elasticities across population groups and income ranges that my calculation doe not take into account.

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