

# THE OECD TAX-BENEFIT MODEL FOR AUSTRALIA

Description of policy rules for 2018



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## Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Australia: Policy rules in 2018

### 1. Reference wages

The 2016 average wage [AW] is AUD 84,324.<sup>1</sup>

The minimum wage [MIN] as of 1 January 2018 is AUD 18.29 per hour. The annual earnings of a full-time minimum wage worker are assumed to be AUD 36141.04 (=AUD 18.29\*38\*52).

### 2. Unemployment benefits

#### 2.1. Unemployment insurance

There is no unemployment insurance.

#### 2.2. Unemployment assistance (Newstart Allowance (NSA) and Youth Allowance (YA))

Variable names:<sup>2</sup> [UA\_p;UA\_s]

It is non-contributory, means-tested and taxable. 

Australia's unemployment payments are Newstart Allowance (NSA) and Youth Allowance (YA) (Other). YA (Other) is generally paid to unemployed people aged 16 to 21 years and NSA is paid to unemployed people aged 22 or over and under Age Pension age (currently 65½ for both men and women as at 1 January 2018, rising to 67 by 2023).

Parenting Payment (PP) is available to the principal carer of a dependent child aged under six for partnered recipients, or aged under eight for single recipients. Only one parent or guardian can receive the payment.

Recipients of NSA, YA (Other) and PP receive tax-exempt Energy Supplements paid fortnightly.

Other income support payments for people of workforce age include the following measures, which are not modelled (see Annex):

- Special Benefit;
- payments for full-time students, including YA (Student), Austudy and payments under the ABSTUDY scheme;
- payments for people with disability, and carers, including Disability Support Pension (DSP) and Carer Payment (CP);

<sup>1</sup> AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> The variable names ending with “\_p” refer to the first adult (so-called “principal” adult) whereas those ending with “\_s” are related to the spouse.

- Sickness Allowance for people who are temporarily incapacitated for their usual work and have a job to return to;
- Widow Allowance for women born on or before 1 July 1955 if widowed, divorced or separated and without recent workforce experience;
- Partner Allowance for people born on or before 1 July 1955 whose partner is receiving either a pension, allowance, Austudy or ABSTUDY (no longer open to new entrants); and
- Wife Pension, for partners of Age Pension and DSP recipients, which is also closed to new entrants.

### 2.2.1. Eligibility conditions

**Age:** YA (Other) is generally paid to unemployed people aged 16 to 21 years and NSA is paid to unemployed people aged 22 or over and under Age Pension age (currently 65½ for both men and women as at 1 January 2018, rising to 67 by 2023).

**Behavioural requirements and related eligibility conditions:**  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.<sup>3</sup> To receive payment, an unemployed person (NSA or YA (Other) recipient) must:

1. be actively seeking suitable work or undertaking an activity to improve their employment prospect;
2. be available for and willing to accept suitable work, including part-time and casual employment.

Early School Leavers, that is, young people under 22 receiving YA (Other) without a Year 12 certificate or a Certificate II qualification, will generally meet their activity test requirements by participating in full-time training or education, a combination of part-time education or training and part-time work for 25 hours per week, or other suitable activities for 25 hours per week and appropriate job search, until they obtain a Year 12 certificate or equivalent qualification.

In certain circumstances, recipients may be exempted from meeting any or full activity test requirements (e.g. where they are temporarily incapacitated by injury or illness, personal crisis or caring duties).

### 2.2.2. Benefit amount

**Calculation base:** Flat rate.

**Benefit amount:** Rates of payment are dependent on age, partnered status, presence of dependent children, whether people are renting in the private rental market and, for YA (Other) recipients, whether they live with and/or are dependent on their parents. Rates of payment are subject to personal and partner income testing with dependent YA (Other) recipients also subject to parental means testing arrangements.

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<sup>3</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

TaxBEN does not simulate the case of a non-dependent child living at home, so the youth allowance for people at home is not included in the model.

Recipients of NSA, PP (Partnered) and YA (Other) are also eligible to receive the Energy Supplement as part of their payment. The Energy Supplement is added to the basic payment rate and income tested as part of the payment. Supplementary payments, such as Commonwealth Rent Assistance (CRA) (see Section 5) and Pharmaceutical Allowance (see Section 4.4), may also be payable depending on the person's circumstances. Payments are made on a fortnightly basis.

For more information, please see 'A guide to Australian Government payments', at <http://www.humanservices.gov.au/corporate/publications-and-resources/a-guide-to-australian-government-payments>.

**Basic rates (YA, NSA, PP (Partnered) and Energy Supplement) (in AUD):**

Youth Allowance (YA)	fortnightly	per month	Energy Supplement (fortnightly)	Energy Supplement (per month)	Total (fortnightly)	Total (per month)
Single, under 18, at home*	244.10	528.88	3.90	8.45	248.00	537.33
Single, 18 and over, at home*	293.60	636.13	4.60	9.97	298.20	646.10
Single, away from home	445.80	965.90	7.00	15.17	452.80	981.07
Single, with dependent child(ren)	584.20	1,265.77	9.20	19.93	593.40	1,285.70
Single, principal carer of a dependent child (granted an exemption for foster caring/home schooling/distance education/large family)	752.60	1,630.63	12.00	26.00	764.60	1,656.63
Partnered, no dependent child(ren) (each)	445.80	965.90	7.00	15.17	452.80	981.07
Partnered, with children (each)	489.60	1,060.80	7.70	16.68	497.30	1,077.48

Newstart Allowance (NSA)	fortnightly	per month	Energy Supplement (fortnightly)	Energy Supplement (per month)	Total (fortnightly)	Total (per month)
Single, 22 and over, no children	538.80	1,167.40	8.80	19.07	547.60	1,186.47
Single, 22 and over, with dependent child(ren)	582.80	1,262.73	9.50	20.58	592.30	1,283.32
Single, 60 and over, after 9 months on payment	582.80	1,262.73	9.50	20.58	592.30	1,283.32
Partnered, 22 or over (each)	486.50	1,054.08	7.90	17.12	494.40	1,071.20
Single, principal carer of a dependent child (granted an exemption for foster caring/home schooling/distance education/large family)	752.60	1,630.63	12.00	26.00	764.60	1,656.63

Parenting Payment (PP)	Fortnightly Maximum rate	per month	Energy Supplement (fortnightly)	Energy Supplement (per month)	Total (fortnightly)	Total (per month)
Partnered	486.50	1,054.08	7.90	17.12	494.40	1,071.20

\* Commonwealth Rent Assistance is unavailable where a young person receives an 'at home' rate of payment.

Note: Payments are made fortnightly. Monthly rates are 26 times the fortnightly amount divided by 12.

Source: A guide to Australian Government payments.

### 2.2.3. Benefit duration

While there are generally no restrictions on the duration of unemployment payments, and recipients can re-apply for benefits after periods of ineligibility, recipients may be required to serve a waiting period, or periods, prior to payments commencing if they do not meet various hardship or waiver criteria. Waiting periods may apply in the following circumstances (not modelled):

- A one-week ordinary waiting period for NSA or Sickness Allowance generally applies after lodgement of an application form.
- A 'liquid asset waiting period' may apply if a person has liquid assets beyond a set level on the day they or their partner become unemployed or incapacitated, or on the day the person lodged their claim. The maximum waiting period is 13 weeks. Liquid assets include cash, shares and debentures, and bank (including term) deposits. The thresholds are AUD 5,500 for singles and AUD 11,000 for couples or singles with dependants.
- A 'seasonal work preclusion period' will generally apply if a person or their partner was engaged in high-income seasonal work in the six months prior to claim.
- A person who reduces their likelihood of getting a job without sufficient reason by relocating to an area with lower employment prospects will have to wait up to 26 weeks before receiving payment.
- A participation payment is not payable to a person for eight weeks if that person became unemployed due to a voluntary act or because of misconduct. However, the preclusion period does not apply if the voluntary act was reasonable or if the work was unsuitable for the person.
- Newly Arrived Resident's Waiting Period (NARWP) – New Australian residents granted permanent residence are subject to the NARWP of 104 weeks prior to receiving income support payments. This may not apply in certain circumstances.

If a person receives a termination payment from their previous employment, including annual leave, long service leave, sick leave, maternity leave or a redundancy payment, they may have to serve an 'income maintenance period' during which these entitlements are apportioned and treated as income. The income maintenance period is equal to the leave period to which the termination payment relates. During this period, the claimant may receive either a reduced rate of benefit or no payment at all, depending on the value of their termination payments.

#### 2.2.4. Means test

Benefit receipt and rates of payment are determined by the operation of income and assets tests.

The asset test is not modelled in TaxBEN: it is assumed that families have assets below the relevant asset value limit. The asset value limits vary depending on whether the payment recipient is single or partnered and whether the person is a homeowner or non-homeowner. For partnered recipients, the asset test applies to the combined assets of the claimant and their partner. The value of the 'principal home' is exempt from the asset test. As at 1 January 2018, the value limits are as follows:

- Single (for full allowance or PP (Single)): homeowner AUD 253,750, non-homeowner AUD 456,750.
- Partnered (combined) (for full allowance): homeowner AUD 380,500, non-homeowner AUD 583,500.

Income for the purposes of income support income tests is 'ordinary income'. This concept differs to that used for taxation and family assistance purposes. 'Ordinary income' includes employment, financial investment income and various other sources of income not considered taxable income. Ordinary income excludes child maintenance income and other social security payments. Income is generally assessed in the first fortnight it is earned, derived or received.

The personal income test for unemployment payment recipients NSA and PP (Partnered) has an income disregard or 'free area' of AUD 104.00 per fortnight. Each dollar of income above AUD 104.00 and up to AUD 254.00 reduces the rate of payment by 50 cents. Thereafter the withdrawal rate for payments is 60 cents in the dollar. For NSA recipients who are single and the principal carer of a dependent child, the withdrawal rate is 40 cents in the dollar for all income over the 'free area' of AUD 104.00 per fortnight.

The personal income test for YA (Other) has an income disregard or 'free area' of AUD 143.00 per fortnight. Each dollar of income above AUD 143.00 and up to AUD 250.00 reduces the rate of payment by 50 cents. Thereafter the withdrawal rate for payments is 60 cents in the dollar.

A recipient's partner can also earn an amount before their income affects the recipient's income support payment. Partner income above the partner income 'free area' of AUD 953.00 per fortnight reduces the rate of the recipient's payment by 60 cents in the dollar. This means that the partner of a NSA recipient could earn up to AUD 1,777.00 per fortnight before the recipient's payment is reduced to zero. This may be higher if the recipient is eligible for supplementary benefits. If the partner is receiving a pension payment, the couple's income is combined and 50 per cent assessed under the relevant income test for each member of the couple.

YA (Other) for dependent young people is subject to the personal income test and parental means testing arrangements that include parental income and family asset tests.

#### 2.2.5. Tax treatment

NSA, YA (Other) and PP (Partnered) are taxable payments. However, a tax rebate (or tax offset) operates so that a person in receipt of an income support payment for the entire income tax year does not pay tax on that payment (see Section 8.1.5).

### 2.2.6. *Interactions with other components of the tax-benefit system*

2.2.7. *Families receiving these benefits automatically receive maximum Family Tax Benefits (see Section 4.1) and childcare benefits (see Section 5.3). Combining benefit receipt and employment/starting a new job*

A person in full-time paid work is not eligible to receive unemployment payments.

## 3. Social assistance and housing benefits

### 3.1. *Social Assistance*

The benefits described in Sections 2.2, 3.2, and 4 are flat-rate means-tested benefits that do not depend on prior work history or social security contributions, and provide quite comprehensive coverage for low income working age Australians. Consequently, modelling results for social assistance payments reflect the benefits described in Section 2, and do not include Special Benefit which is not modelled (see Annex).

### 3.2. *Housing benefit (Commonwealth Rent Assistance (CRA))*

Variable name: [\[HB\]](#)

This is a non-contributory benefit, means-tested and not taxable.

Housing assistance exists in two main forms: Commonwealth Rent Assistance (CRA), and public housing provided by state and territory governments with financial assistance from the Australian Government (not modelled).

#### 3.2.1. *Eligibility conditions*

CRA is a non-taxable income supplement payable with income support payments, Family Tax Benefit Part A, or a Veteran's service pension or income support supplement to eligible Australian individuals and families liable to pay private rent for their principal home.

#### 3.2.2. *Benefit amount*

CRA is paid at the rate of 75 cents for every dollar of rent paid above the specified minimum rent threshold until the maximum rate is reached. The maximum rates and minimum rent thresholds vary according to a person's family situation, i.e. single or couple and the number of children they have and, for singles without children, whether accommodation is shared with other adults.

### Commonwealth Rent Assistance

Rates at 1 January 2018 (in AUD)

Family situation	Maximum payment per fortnight	No payment if fortnightly rent is less than	Maximum payment if fortnightly rent is more than
Single, no children	133.00	118.60	295.93
Single, no children, sharer	88.67	118.60	236.82
Couple, no children*	125.40	192.20	359.40
Single, 1 or 2 children	156.24	155.82	364.14
Couple, 1 or 2 children	156.24	230.58	438.90
Single, 3 or more children	176.54	155.82	391.21
Couple, 3 or more children	176.54	230.58	465.97

Source: A guide to Australian Government payments.

\*Other rates of payment are available for couples separated due to illness or temporarily separated.

#### 3.2.3. Benefit duration

No limit.

#### 3.2.4. Means test

CRA does not have a separate income or assets test, however, the rate of CRA payable may be affected by the income or assets test applicable to the primary payment with which it is paid. For those without children, withdrawal of CRA occurs after entitlement to the primary payment has been exhausted. For those with children, withdrawal of CRA occurs alongside withdrawal of Family Tax Benefit Part A (see Section 4.1) with a fixed overall withdrawal rate.

#### 3.2.5. Tax treatment

CRA is not taxable.

#### 3.2.6. Interaction with other components of the tax-benefit system

#### 3.2.7. CRA is withdrawn as part of the means tests for other benefits as described above. Combining benefit receipt and employment/starting a new job

A person in full-time work is eligible to CRA, subject to the operation of the relevant payment's income tests.

## 4. Family benefits

Variable name: **[FB]**

**Family Tax Benefit Part A** (FTB Part A) is provided to families with children, subject to a family income test, and includes additional supplements for newborn children and families with multiple births (triplets or more). **Family Tax Benefit Part B** (FTB Part B) is paid to families with one main income, including lone parents. Families may be eligible for one or both of these benefits depending on their circumstances.

**Family Tax Benefit (FTB)** is paid either fortnightly based on an estimate of ‘adjusted taxable income’ or as a lump sum after the end of the financial year, when final taxable income is known. An end-of-year supplement is available for FTB Part A and FTB Part B when payments are reconciled following the lodgement of tax returns. Payments may also be reconciled using an income assessment if a family does not need to lodge a tax return. FTB recipients are also eligible for the Energy Supplement.

The **Single Income Family Supplement (SIFS)** provides assistance of up to AUD 300 a year for families with a primary earner earning between AUD 68,000 and AUD 150,000.

**Parenting Payment (PP)** is available to the principal carer of a dependent child aged under six for partnered recipients, or aged under eight for single recipients. Only one parent or guardian can receive the payment.

#### *4.1. Family Tax Benefit*

Variable names: [FTB\_A;FTB\_B]

This is a non-contributory benefit, means-tested and not taxable.

##### *4.1.1. Eligibility conditions*

To receive FTB Part A, a family must have a qualifying child aged up to 19 years (up to the end of the calendar year in which they turn 19). A child is not a qualifying child for FTB purposes if they receive an income support payment in their own right or they are aged 16-19 and not in full-time secondary study.

To receive FTB Part B, a family must have a qualifying ‘FTB child’ aged under 13 years. For single parents or grandparents to receive FTB Part B, they must have a qualifying ‘FTB child’ aged under 16 or a dependent full-time student up to the age of 18 (up to the end of the calendar year in which they turn 18). The primary income earner’s adjusted taxable income must also be AUD 100,000 or less.

As of 20 March 2017, Energy Supplement ceased for new recipients, however those who were already receiving it on 19 September 2016 can continue to do so as long as there is no break in their eligibility. As TaxBEN simulates the case of a new claimant, Energy Supplements are not included in the model.

##### *4.1.2. Benefit amount*

The maximum rate of FTB Part A comprises a rate paid for each dependent child and the Energy Supplement Part A. For private renters, FTB Part A also includes Commonwealth Rent Assistance (CRA), calculated as outlined in Section 3.2. Newborn Supplement provides an increase in FTB Part A for up to 13 weeks for families that claim it for a birth, adoption or child aged under one year who is entrusted to care. Multiple Birth Allowance may also be paid as part of FTB Part A for families with at least three children born during the same multiple birth, until the children are 16 years of age, or if at least three of the children are in full-time study, until the end of the calendar year in which they turn 18. Family Tax Benefit Part A is also available at a lower per child ‘base rate’ of payment that

is subject to an income test with a higher income free area. The base rate of payment for a family is calculated as the sum of the base rates for all FTB children and may also include the Energy Supplement Part A.

Family Tax Benefit Part B is a family-based payment with a maximum rate of payment based on the age of the youngest child. FTB Part B also includes the Energy Supplement Part B.

The 2017-18 maximum rates of FTB are outlined in the following tables. The fortnightly rates of FTB Part A and FTB Part B exclude the 'per child' FTB Part A supplement and the 'per family' FTB Part B supplement, as the supplements can only be paid after the end of the income year when family income can be fully assessed.

Families who do not meet the health check requirements or immunisation requirements for a child will have their FTBA end of year supplement withheld. To meet immunisation requirements children must be up to date with their early childhood vaccinations, on a catch-up schedule according to the current Australian Immunisation Handbook or have a valid exemption. It is assumed these behavioural requirements are met in the TaxBEN model.

#### Family Tax Benefit Part A

	<b>Fortnightly rate</b>	<b>Yearly rate**</b>
Child under 13	182.84	5,504.20
Child 13-15	237.86	6,938.65
Child 16-19 secondary student, or exempt from requirement	237.86	6,938.65
Base rate for each child	58.66	2,266.65
<b>Energy Supplement Part A rates:</b>		
<i>Maximum rates for each child:</i>		
- Aged under 13 years		91.25
- Aged 13-15 years		116.80
- Aged 16-19 years		116.80
<i>Base rates for each child:</i>		
- All ages		36.50

#### Family Tax Benefit Part B

<b>Age of youngest child</b>	<b>Fortnightly rate</b>	<b>Yearly rate***</b>
Under 5 years	155.54	4,412.85
5 - 15 years, (or 16 - 18 years if a full-time student)	108.64	3,190.10
<b>Energy Supplement Part B rates each family:</b>		
<i>Age of youngest child:</i>		

- Under 5 years	73.00
- Aged 5-18 years	51.10

\*\*The FTB Part A per year figures include the FTB Part A Supplement (AUD 737.30 per child) but the fortnightly figures do not. The supplement is only paid if the family's adjusted taxable income for the year is less than AUD 80,000.

\*\*\*The FTB Part B yearly figures include the FTB Part B Supplement of AUD 357.70 per year but the fortnightly figures do not.

Source: A guide to Australian Government payments.

#### 4.1.3. *Benefit duration*

No limit.

#### 4.1.4. *Means test*

**FTB Part A and its components** (CRA, Newborn Supplement, Multiple Birth Allowance and Energy Supplement Part A) are income tested. Income for the purposes of FTB income tests is 'adjusted taxable income' (ATI) and includes taxable income, target foreign income, certain employer provided fringe benefits, certain tax-free pensions or benefits, reportable superannuation contributions and total net rental property losses, minus any child support paid. FTB Part A is subject to a family income test and a maintenance income test. 'Family income' is the ATI of the parent claiming payment and their partner.

FTB Part A is paid 'per child' with eligibility assessed on a family's estimated income during an entitlement year, with reconciliation determining actual eligibility based on annual adjusted taxable income (ATI) after an entitlement year. FTB Part A is not assets tested.

A family's rate of FTB Part A is calculated using two income tests. The one that gives the higher rate will apply. The family income test does not apply to those who receive, or whose partners receive, an income support payment such as a social security pension or benefit, or to families with income below AUD 52,706.

The Method 1 Income Test applies when the family income is below AUD 94,316, the Higher Income Free Area (HIFA). The Maximum Standard Rate is reduced by 20 cents for each dollar of income earned over AUD 52,706, the Lower Income Free Area (LIFA).

A family's entitlement is the higher of the:

- Income and Maintenance Test Rate (20% taper applies for income over the LIFA until it reaches a nil rate); or
- Base Rate.

The Method 2 Income Test applies when the family income is above AUD 94,316, the Higher Income Free Area (HIFA). The Maximum Base Rate is reduced by 30 cents for each dollar earned above the HIFA.

A family's entitlement is the higher of the:

- Income and Maintenance Test Rate (20% taper applies for income over the LIFA until it reaches a nil rate); or
- Tapered Base Rate (base rate is reduced by 30 cents for each dollar earned over the HIFA until it reaches nil rate).

The Maintenance Income Test reduces the Maximum Rate for each child attracting maintenance by 50 cents for every dollar received over the Maintenance Income Free Area (MIFA):

- \$1,587.75 per year for a single parent, or one of a couple receiving maintenance;
- \$3,175.50 per year for couple parents, each receiving maintenance; and
- \$529.25 per year for each additional child.

Income limit beyond which only base rate of Family Tax Benefit Part A is paid (in AUD per year).

Number of children 0-12 years	Number of children 13-15 years or secondary students 16-19 years			
	None	One	Two	Three
None		76,066	n/a	n/a
One	68,894	92,254	n/a	n/a
Two	85,082	n/a	n/a	n/a
Three	n/a	n/a	n/a	n/a

Note: The income limit is higher if the claimant is eligible for Energy Supplement or CRA.

Income limit at which Family Tax Benefit Part A stops\* (in AUD per year)

Number of children 0-12 years	Number of children 13-15 years or secondary students 16-19 years			
	None	One	Two	Three
None		99,414	114,720	145,727
One	99,414	107,548	138,554	169,561
Two	104,512	131,382	162,389	193,396
Three	124,210	155,217	186,223	217,230

\*Note: These amounts may be higher if certain supplements are also payable, such as Energy Supplement, Multiple Birth Allowance and Rent Assistance.

**Family Tax Benefit Part B** for couple families has two income tests. Eligibility is restricted to families where the primary income earner earns AUD 100,000 or less. An income test on the 'second' or lower income earner determines the FTB Part B amount. For second earners, every dollar of income (including income support payments) above AUD 5,548 a year reduces payment by 20 cents in the dollar. A second earner can still get some FTB Part B if their income is below AUD 27,613 a year if their youngest FTB child is under 5 years of age; or AUD 21,499 a year if their youngest FTB child is aged 5 years or over. These income limits take into account the FTB Part B Supplement of AUD 357.70 per year that can only be paid after the end of the income year and the Energy Supplement Part B.

Lone parents automatically receive the maximum amount of FTB Part B if they earn AUD 100,000 or less.

#### 4.1.5. Tax treatment

The benefit is not taxable.

#### 4.1.6. Interaction with other components of the tax-benefit system

#### 4.1.7. Recipients of minimum-income benefits automatically receive the maximum rate of FTB as described above. Combining benefit receipt and employment/starting a new job

A person in full-time work is eligible to Family Tax Benefit, subject to the operation of the relevant payment's income tests.

### 4.2. Single Income Family Supplement (SIFS)

Variable name: [\[FB\\_SIFS\]](#)

This is a non-contributory benefit, means-tested and not taxable.

#### 4.2.1. Eligibility conditions

SIFS provides assistance to families with a qualifying child, where the primary earner has a taxable income between AUD 68,000 and AUD 150,000. The taxable income of a second earner (if any) may affect the payment. As of 1 July 2017, SIFS ceased for new recipients, however those who were already receiving it can continue to do so as long as there is no break in their eligibility. As the TaxBEN model simulates the case of a new claimant, this benefit is no longer included in the model.

#### 4.2.2. Benefit amount

The rate of SIFS is determined based on the taxable incomes of both the primary and second earner. If the primary earner's taxable income is greater than AUD 68,000, the rate increases from nil by 2.5 cents in the dollar until it reaches a maximum of AUD 300 at a taxable income of AUD 80,000. Taxable income in excess of AUD 120,000 reduces the payment by one cent in the dollar until the Supplement rate is nil at AUD 150,000. If the claimant is a member of a couple, the rate payable based on the primary earner's taxable income is also reduced by the second earner's taxable income. If the second earner's taxable income exceeds AUD 16,000, the rate reduces by 15 cents in the dollar, until the rate reaches nil.

#### 4.2.3. Benefit duration

No limit, but existing claimants cannot start a new claim again if they lose their eligibility (see Section 4.2.1 above).

#### 4.2.4. Means test

The rate of SIFS is determined based on the taxable incomes of both the primary and second earner as described in Section 4.2.2 above.

#### 4.2.5. Tax treatment

The benefit is not taxable.

#### 4.2.6. *Interaction with other components of the tax-benefit system*

None.

#### 4.2.7. *Combining benefit receipt and employment/starting a new job*

A person in full-time work is eligible to SIFS, subject to the operation of the relevant payment's income tests.

### 4.3. *Lone parent benefit (Parenting payment (PP))*

Variable name: **[PP]**

This is a non-contributory benefit, means-tested and not taxable.

#### 4.3.1. *Eligibility conditions*

Parenting Payment (PP) is available to the principal carer of a dependent child aged under six for partnered recipients, or aged under eight for single recipients. Only one parent or guardian can receive the payment.

#### 4.3.2. *Benefit amount*

The maximum rate of PP (Single) is AUD 752.60 per fortnight. The maximum rate includes an additional pension supplement which is currently AUD 23.10 per fortnight.

Other allowances available to PP (Single) recipients include an energy supplement of AUD 12 per fortnight, the Telephone Allowance **[TEL]** of AUD 28.80 per quarter and the Pharmaceutical Allowance **[PHA]** of AUD 6.20 per fortnight. Both of these allowances are also available to recipients of NSA and YA who are the single principal carer for a dependent child.

#### 4.3.3. *Benefit duration*

There are no restrictions on the duration of payment.

#### 4.3.4. *Means test*

PP (Single) has an income free area of AUD 188.60 per fortnight plus AUD 24.60 for each additional dependent child after the first. Income above the free area reduces payment at the rate of 40 cents for each dollar. A lone parent with one child is entitled to a part payment if their income is below AUD 2,100.10 a fortnight plus AUD 24.60 for each additional child.

Recipients of NSA and YA who are the single principal carer for a dependent child have an income free area of AUD 104 per fortnight. Income above this amount reduces payment at the rate of 40 cents for each dollar.

#### 4.3.5. *Tax treatment*

Parenting Payment is assessable income for tax purposes. PP (Single) recipients are eligible for Seniors and Pensioners Tax Offset (SAPTO).

#### 4.3.6. *Interaction with other components of the tax-benefit system*

4.3.7. *PP (Single) recipients automatically receive maximum Family Tax Benefits (see Section 4.1) and maximum childcare benefits (see Section 5.3). Combining benefit receipt and employment/starting a new job*

A person in full-time work is eligible to Parenting payment, subject to the operation of the relevant payment's income tests.

## 5. Childcare for pre-school children

The **reference date** for the policy rules described in this section is **January 1, 2018**.

Compulsory and minimum school starting ages are determined in each Australian state and territory and may vary. In New South Wales, children must be aged five on 31 July to start school that year, and the compulsory starting age is six.

### 5.1. *Gross childcare fees*

Variable name: `[ALcc_cost]`

The Australian Government does not set or regulate the fees that parents are charged by individual child care services. Variation in costs occurs as a result of factors including state and territory licensing requirements, award wages, and whether fees include charges for additional services such as nappies and meals. The median full-time long day care fee for centre-based care in the March quarter 2017 was AUD 443 per week (Source: Report on Government Services 2018). In the TaxBEN model, this fee is uprated in line with CPI inflation to give a fee of AUD 451.42 per week in January 2018. Child care fees are not tax deductible, and are not taken into account when assessing entitlements for other benefits.

#### 5.1.1. *Discounts for part-time usage (not modelled)*

### 5.2. *Fee discounts and free provision*

None.

#### 5.2.1. *Eligibility*

#### 5.2.2. *Amount of discount or free provision*

#### 5.2.3. *Variation by income*

### 5.3. *Child-care benefits for formal centre-based care*

Variable name: `[cc_benefit]`

A means tested fee subsidy, **Child Care Benefit (CCB)**, is payable to eligible parents using CCB approved care. The rate of CCB depends on a number of factors.

#### 5.3.1. *Eligibility*

Children must meet immunisation requirements by being up to date with their early childhood vaccinations, on a catch-up schedule according to the current Australian

Immunisation Handbook or have a valid exemption. It is assumed that these behavioural conditions are met in the TaxBEN model.

### 5.3.2. Benefit amount

Child Care Benefit calculation (2017–2018 tax year)<sup>4</sup>:

The maximum rate is payable for actual annual family income of less than \$45,114 or for families receiving income support.

Entitlement to any Child Care Benefit for approved care is lost if family income is more than the following thresholds:

Number of children attending approved child care	Income limits before payment reduces to \$0
1	\$156,914
2	\$162,633
3 or more	\$183,655 plus \$34,724 for each child after the third

The maximum weekly benefit payable depends on the number of kids. The standard hourly rate for 2017/18 tax year is \$4.30.

Number of children	Maximum Weekly benefit
1	Standard hourly rate × 50
2	(Standard hourly rate × 100) + \$19.32
3	(Standard hourly rate × 150) + \$56.14
4	3 child maximum benefit plus (standard hourly rate × 50) + (\$56.14 ÷ 3)

Where parents meet the activity test (that is, where all parents work more than 48 hours per fortnight), they are entitled to up to 50 hours of CCB subsidised care per week. Otherwise they are limited to 24 hours of subsidised care per week.

The standard hourly rate of CCB has various loadings applied (not modelled) :

- For Out of School Hours Care the loading is 85%.
- For Long Day Care (LDC), In Home Care (IHC) and Family Day Care (FDC) there is a part time loading.
  - For FDC and IHC the loading is 133% and is applied where care hours are less than or equal to 37.5 hours per week.
  - For LDC the loading is 110%, and is applied where care hours are less than or equal to 34 hours per week.

FDC and IHC also attracts a non standard hours loading – for all care delivered outside of standard hours, the hourly rate of CCB is multiplied by 133%.

<sup>4</sup> <http://guides.dss.gov.au/family-assistance-guide/3/6/5>

Additionally, parents who are eligible for an income support payment, receive the maximum rate of CCB and have an approved Job or Participation Plan are eligible for Jobs, Education and Training Child Care Fee Assistance (JETCCFA). This provides additional help with the cost of approved child care to eligible parents undertaking activities such as work, job search activities, training or study as part of a Job Plan or Participation Plan, to help them re-enter the workforce. To be eligible, JETCCFA hours cannot be more than CCB eligible hours. The maximum amount of JETCCFA an individual can receive is \$8.40 per hour per child. Parents undertaking an approved study or training activity may receive up to a maximum of 36 hours JETCCFA per week per child. This benefit is not simulated in the TaxBEN model.

### *5.3.3. Benefit duration*

No limit.

### *5.3.4. Means test*

The benefit is means-tested

### *5.3.5. Tax treatment*

The benefit is not taxable

### *5.3.6. Interaction with other benefits*

*5.3.7. Families receiving an income support payment automatically receive the maximum benefit amount. Combining benefit receipt and employment/starting a new job*

## ***5.4. Parents meeting the activity test are entitled to more subsidised hours, see Section 5.3.2 above. Child care allowance for children not using child care centers***

None

## ***5.5. Tax concessions for childcare expenditures***

In addition to CCB, the Australian Government provides the **Child Care Rebate (CCR)**, which is not means tested.

### *5.5.1. Eligibility*

The CCR is paid for CCB approved children whose parents meet the work, training, or study test at some time during a week or have an exemption, up to an annual cap per child per year. Children must meet immunisation requirements by being up to date with their early childhood vaccinations, on a catch-up schedule according to the current Australian Immunisation Handbook or have a valid exemption. It is assumed that this behavioural condition is met in the TaxBEN model.

### 5.5.2. *Maximum amount*

The CCR covers 50 per cent of the family's out-of-pocket child care costs (after the CCB entitlement is deducted). The annual limit for CCR payable for child care costs incurred in 2017–18 is AUD 7,613 per child per year.

### 5.5.3. *Variation by income*

None.

### 5.5.4. *Impact on overall income tax calculation*

## 6. Tax liability is reduced by the amount of the rebate. The rebate is refundable if it exceeds total income tax liability. In-work benefits

None.

### 6.1.1. *Eligibility conditions*

### 6.1.2. *Benefit amount*

### 6.1.3. *Benefit duration*

### 6.1.4. *Means test*

### 6.1.5. *Tax treatment*

### 6.1.6. *Interaction with other components of the tax-benefit system*

## 7. Social security contributions and payroll taxes

### 7.1. *Social security contributions*

No contributions are collected from employers or employees specifically for pensions, sickness, unemployment or work injury benefits, family allowances or other benefits.

Part of Australia's retirement income system is the provision of compulsory employer contributions (the Superannuation Guarantee system). The Superannuation Guarantee requires employers to pay 9.5 per cent on top of employees' gross ordinary time earnings to an approved superannuation fund, provided they earn more than AUD 450 per month. In each quarter, any earnings beyond a threshold are not covered by the Superannuation Guarantee. In the 2017–18 tax year, this threshold was AUD 52,760 per quarter. These contributions are included in the TaxBEN model as a non-tax compulsory payment.

There is a Medicare levy which is based upon taxable income (see Section 8.1.4).

### 7.2. *Payroll taxes*

Variable names: [[SSCR\\_p](#); [SSCR\\_s](#)]

Australian State Governments levy payroll taxes on wages, cash or in kind, paid by larger employers to their employees. The rates of payroll tax, thresholds and deductions differ across states. In the TaxBEN model the rules for New South Wales (NSW) are simulated.

In New South Wales, the State with the largest population, the payroll tax rate in 2017-18 was 5.45% for employers with total Australian wages in excess of AUD 750,000. Employers are entitled to an exemption from tax, or a pro-rated payroll tax threshold, on wages paid in New South Wales up to a maximum of AUD 750,000. The exempt amount is reduced based on the proportion of the employer's New South Wales payroll to its total Australian payroll.

Payroll tax revenue is not used to fund social security payments. It forms part of the consolidated revenue of state governments, which do not deliver social security.

## 8. Taxes

As the Australian income tax year commences on 1 July, the following relates to the 2017–18 income tax year.

Members of the family are taxed separately.

### 8.1. Personal income tax

Variable names: [\[TAXES\\_p; TAXES\\_s\]](#)

In Australia, income tax is levied by the federal government: no states or territories levy a tax based on a resident's income.

#### 8.1.1. Tax allowances

**Basic reliefs:** There is no tax allowance as such, but taxable income earned up to AUD 18,200 per year by resident taxpayers is subject to tax at a zero rate.

#### 8.1.2. Tax base

#### 8.1.3. Central government income tax schedule

Variable names: [\[INCTAX\\_p; INCTAX\\_s\]](#)

General rates of tax - resident individuals – 2017–18

Taxable income per year (AUD)		Tax at general rates on yearly total taxable income
Not less than	Not more than	
0	18,200	NIL
18,201	37,000	19c for each AUD 1 in excess of AUD 18,200
37,001	87,000	AUD 3,572 per year + 32.5c for each AUD 1 in excess of AUD 37,000
87,001	180,000	AUD 19,822 per year + 37c for each AUD 1 in excess of AUD 87,000
180,001		AUD 54,232 per year + 45c for each AUD 1 in excess of AUD 180,000

#### 8.1.4. Medicare levy

Variable names: [\[MED\\_p; MED\\_s\]](#)

The Medicare levy is imposed on the taxable incomes of resident taxpayers. In 2017-18, the levy generally applies at the rate of 2 per cent of taxable income of an individual, if taxable income exceeds the relevant phase-in limit. Where taxable income exceeds the low income threshold but does not exceed the phase-in limit, the levy payable is 10 per cent of the excess of taxable income over the low income threshold. No levy is payable if taxable income is below the low income threshold.

Medicare levy thresholds (AUD per year) – 2017–18\*

	Low income threshold	Phase-in limit
Individuals		
Eligible for SAPTO	34,758	43,447
All other taxpayers	21,980	27,475
Families		
Individuals with a spouse and/or dependants eligible for SAPTO	48,385	60,481
Individuals with dependants not eligible for SAPTO	37,089	46,361
Add for each dependent child	3,406	4,257

\* At the time of writing, there is legislation before parliament to increase the low income thresholds and phase-in limits to the values that appear in this table. The values from the 2016-17 income year currently apply.

#### 8.1.5. Tax credits

**Relief for low income earners** [[CRED\\_p](#); [CRED\\_s](#)]: A tax offset of AUD 445 is available for taxpayers whose taxable income does not exceed AUD 37,000. This offset is reduced by 1.5 per cent of the excess of taxable income over AUD 37,000, and no tax offset is available once the taxpayer's taxable income equals AUD 66,667.

The **Beneficiary Tax Offset** [[TaxOffset\\_p](#); [TaxOffset\\_s](#)] is generally available to recipients of taxable income support payments that are classified as 'social security benefits'. Benefits included are Newstart Allowance, Parenting Payment (Partnered), Youth Allowance, Widow Allowance, Partner Allowance, Sickness Allowance, Special Benefit and Austudy. The tax offset is calculated using the following formula:

- If the person's benefit amount in the income year is at least AUD 6,000 but not more than AUD 37,000 per year:

*Beneficiary Tax Offset = 15 % of the difference between the benefit amount and AUD 6,000.*

- If the person's benefit amount in the income year is more than AUD 37,000:

*Beneficiary Tax Offset = (the same formula as above) + 15 % of the difference between the benefit amount and AUD 37,000.*

The Beneficiary Tax Offset is not available to those who have a benefit amount of less than AUD 6,000.

The **Seniors and Pensioners Tax Offset** (SAPTO) [[Pens\\_TaxOffset\\_p](#); [Pens\\_TaxOffset\\_s](#)] is available to people who received an Australian Government pension or allowance in the income year, or had reached Age Pension age and were not in gaol on at least one day of the income year. To be eligible, a single person must have rebate income less than the applicable cut-out threshold, and a member of a couple must have the average of their and their partner's rebate income less than the applicable cut-out threshold. Parenting Payment (Single) recipients are eligible for SAPTO (and since the TaxBEN model only simulates working age families, PP (Single) recipients are the only group who receive this credit in the model).

Seniors and Pensioners Tax Offset (AUD per year)

	<b>Maximum tax offset amount</b>	<b>Shade-out threshold</b>	<b>Cut-out threshold</b>
Single	2,230	32,279	50,119
Couple			
General (each)	1,602	28,974	41,790
Separated due to illness (each)	2,040	31,279	47,599

The shade-out threshold is the maximum income at which taxpayers eligible for SAPTO will receive the maximum tax offset amount. The tax offset is reduced by 12.5 per cent of the excess of rebate income over the shade-out threshold.

The cut-out threshold is the level of income where SAPTO is reduced to nil.

Members of a couple who are both eligible to receive SAPTO may transfer an 'unused amount' of SAPTO to their partner.

- If the person's taxable income is not more than AUD 6,000, the entire amount of SAPTO may be transferred to their partner.
- If the person's taxable income is more than AUD 6,000:

*SAPTO transferred to partner = The person's maximum tax offset amount - 15 % of the difference between the person's taxable income and AUD 6,000.*

Where the above calculation results in a negative value, no amount of SAPTO will be transferred to the partner.

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Australia that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### *Working credit*

Working Credit allows recipients whose income is less than AUD 48 per fortnight to build up 1 credit for every AUD 1 under AUD 48, up to a maximum of 1,000 credits (a maximum of 3,500 credits for YA (Other)). A recipient's Working Credit balance can be used to increase the amount they can earn before their income support payment is reduced. For example, an NSA recipient with a Working Credit balance of 200 credits can earn AUD 304 for a given fortnight (i.e. the amount of the recipient's Working Credit balance plus the relevant fortnightly ordinary income free area) before their payment starts to reduce for that fortnight.

### *Pensioner Education Supplement*

Pensioner Education Supplement (PES) is designed to help certain disadvantaged groups, such as lone parents and people with disability with the costs of approved study. Pensioner Education Supplement is paid fortnightly at a full rate of AUD 62.40 or part rate of AUD 31.20 per fortnight depending upon the recipient's study load.

### *Education Entry Payment*

Education Entry Payment is payable once every 12 months as a lump-sum of AUD 208 for eligible recipients (including NSA and PP recipients) who are undertaking approved study.

### *Language, Literacy & Numeracy Supplement*

Language, Literacy & Numeracy Supplement (LLNS) is paid to eligible job seekers participating in the Skills for Education and Employment program. LLNS of \$AUD 20.80 is paid fortnightly.

### *Approved Program of Work Supplement*

Job seekers undertaking Work for the Dole and certain other approved activities may be eligible for an additional supplement of \$20.80 per fortnight.

### *Payments for full-time students*

Students may receive YA (Student) if they are aged 16-24 and meet the personal and/or parental (if dependent) income, asset and actual means tests. For students aged 25 or over, Austudy is available. ABSTUDY is also available to Aboriginal or Torres Strait Islander students. Partner means testing may apply if the applicant is independent.

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### ***Disability Support Pension***

Disability Support Pension (DSP) is a payment for people with a permanent physical, intellectual or psychiatric impairment that prevents them from working 15 hours or more a week, or from being re-skilled for work for the next two years; or who are permanently blind. A claimant must be aged 16 years or older but under Age Pension age when claiming DSP.

### ***Carer Payment***

Carer Payment is a pension payment that provides income support to carers who, due to the demands of their caring role, are unable to support themselves through substantial paid employment.

### ***Carer Allowance***

Carer Allowance is an income supplement which is not taxable or income and assets tested. It is available to carers who provide daily care and attention in a private home to a person with disability or medical condition. Carer Allowance can be paid in addition to a social security income support payment.

There is also a Carer Supplement which is paid to recipients of Carer Allowance for each person they care for and to recipients of Carer Payment. To qualify, the carer must be in receipt of Carer Allowance and/or Carer Payment for a payment period that includes 1 July.

Carers may also qualify for the Child Disability Assistance Payment, which is a \$1000 annual payment made for a child with disability under 16 years who attracts Carer Allowance for their carer.

### ***Partner Allowance***

Partner Allowance may be payable to partners of income support recipients, if they have no recent workforce experience and were born on or before 1 July 1955. From 20 September 2003, Partner Allowance is closed to new entrants.

### ***Widow Allowance***

Widow Allowance is payable to women with no recent workforce experience who were widowed, divorced or separated since turning 40 years of age and born on or before 1 July 1955.

### ***Special Benefit***

Special Benefit serves as a benefit of last resort. It is paid to people in severe financial hardship, who have no other means of support and for whom no other benefit is available.

Special Benefit is not payable if assets exceed specified levels (see social security benefit asset test limits in Section 2.2.4). People receiving Special Benefit who are considered capable of working are expected to look for work and accept offers of suitable employment.

The rate of Special Benefit is discretionary; however, the maximum rate cannot exceed the rate of NSA or YA that the person would receive if they were eligible. A direct deduction

income test applies to Special Benefit. This means that all regular in-kind support and personal income, whether earned or unearned, reduces the Special Benefit rate by that amount. There is no allowable income free area and no taper rate.

Special Benefit is taxable; however a tax rebate may be available.

Special Benefit is generally granted for periods of 13 weeks. An entitlement review is conducted every 13 weeks to determine whether payment should continue.

People holding certain temporary protection visas who were granted Special Benefit after 1 January 2003, or who became of working age after this date, are subject to activity tests similar to the NSA activity tests. These people are also subject to certain preclusion or waiting periods.

### ***Paid Parental Leave***

The Paid Parental Leave scheme provides financial support to working parents to take time off work to care for a new-born or recently adopted child.

Parental Leave Pay provides support to working mothers. Dad and Partner Pay provides support to working fathers or partners.

A person may be eligible for Parental Leave Pay if they are the primary carer of a newborn or recently adopted child, usually the mother, and had an individual adjusted taxable income of AUD 150,000 or less in the financial year prior to the date of birth or adoption, or the claim date. The recipient must also be on leave or not working during their Parental Leave Pay period, and met other prior work test criteria. Families who do not claim Parental Leave Pay may be eligible to have their FTB Part A increased for 13 weeks with the Newborn Supplement following a birth or adoption.

A person may be eligible to receive Dad and Partner Pay if they are the biological father of the child, or the partner of the birth mother, or an adoptive parent and caring for the child. The recipient must also be on unpaid leave or not working during their Dad and Partner Pay period.

Eligible working parents receive Parental Leave Pay at the rate of the National Minimum Wage, AUD 695.00 a week before tax, for a period of up to 18 weeks.

Eligible working dads or partners receive Dad and Partner Pay, at the same rate as Parental Leave Pay, for a period of up to two weeks.

Parental Leave Pay and Dad and Partner Pay are taxable. Parental Leave Pay counts as income for other family payments.

If parents choose to receive Parental Leave Pay, they will not be eligible for FTB Part B during the 18-week Paid Parental Leave period.

### ***Double Orphan Pension (DOP)***

Double Orphan Pension (DOP) is a fortnightly payment of AUD 63.80 available for carers of children under 16 years of age or a full-time student 16 to 19 years of age (up until the end of the calendar year in which they turn 19) who are orphaned; or for carers of children who have one parent deceased and the whereabouts of the other parent is unknown, or the other parent is in prison for at least ten years, or a patient of a psychiatric hospital or nursing home indefinitely.