

'Enriched by Kids, Tax-Wise'

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How those without dependent children have lost out?

Those without dependent children probably realise, at least in general terms, that the tax-transfer system in Australia is highly skewed towards those with children.

Were they actually aware of the precise and increasing extent to which they are discriminated against they might actually be quite shocked.

An obvious retort is that people without children do not incur the expenses associated with children, so it is only fair that the tax system and family benefits provide some offset for these costs.

But accepting this (reasonable) proposition does not explain why the tax-transfer system has become so much *more* favourable to those with dependent children and so much more hostile to those without them.

A single person without dependent children earning \$50,000 a year had a weekly net income that was just 7% higher in 2008-09 than it would have been in 2003-04.

This is because tax cuts for this group tended to be of the 'milkshake and sandwich' variety; they could not benefit from the increased generosity of family payments.

By contrast, the net weekly household income of a sole parent with one child under 5 and earning the same \$50,000 rose by 12.8 per cent, while for a sole parent with one child under 5 and another aged between 5 and 14, the figure was 20.7 per cent.

Similar calculations are possible for working couples. Assuming the combined gross annual earnings of both partners is \$50,000 and splitting the earnings between the couple on the basis of \$40,000/\$10,000, the increase in net weekly household income was 17.9 per cent for those with one young child. For a couple with two children, the figure was close to 28.8 per cent.

What the figures clearly demonstrate is that middle-income taxpayers with dependent children did very well out of the changes to the tax-transfer system, while those with no dependent children did very badly.

In effect, the system was being manipulated to provide a *de facto* tax cut to some, via the family payments mechanism, while denying this benefit to the majority.

The question is whether the extent of implicit sacrifice made by those without dependent children is now being stretched beyond a reasonable limit.

In this context, it is interesting to look at the number of households in the tax-transfer system that have dependent children and those that do not.

In 2008-2009, just over one quarter of households had dependent children and, of those, nearly three-quarters, or about 2 million families, received family payments.

Those without dependent children – the sum of single men, single women and couples with no children – made up the other three-quarters of all households.

In other words, the vast majority of those in the tax-transfer system do not have dependent children and do not receive family payments.

The preferential treatment of children was also a central feature of the federal government's economic stimulus measures directed towards households – the cash hand-outs.

In December 2008, under the Economic Security Strategy Payment, \$1000 per child was paid to parents. Then, in the first half of 2009, there was a further Single Income Family Bonus of \$900 and a Back-to-School Bonus of \$950 per child.

These payments were in addition to the \$900 Tax Bonus for Working Australians.

Such numbers quickly add up. Our sole parent earning \$50,000 would have received \$5,700 all up, compared with only \$900 for someone with no dependent children earning the same amount.

By any measure, the gap in the size of the hand-outs given to those with children relative with those without them was substantial, especially considering the bonuses were all tax free.

Arguably, these measures have added to a growing sense of grievance on the part of those without dependent children, as the preferential treatment given to those with dependent children was further extended.

If anything, the grumblings may get even louder with the introduction of the paid parental scheme and the call 'to do something' for stay-at-home mothers, in addition to the Baby Bonus.

Of course, just because people do not have dependent people now does not mean that they do not have grown-up children. These people are likely to go along with a system that favours their grandchildren, even though they may not gain personally.

Moreover, a reasonable proportion, just under one half, of those without dependent children do receive some form of government pension or allowance.

Even so, there are nearly four million taxpayers who do not have dependent children and do not receive any form of government pension or allowance. It is possible that a number of them are now saying that enough is enough.

Is it possible that there could be a political backlash against the bias towards children in the tax-transfer system at some stage in the future?

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