AU: Fixing childcare rip off of working mums could boost economy by $700m [1]

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Source: Australian Financial Review
Format: Article
Publication Date: 6 Nov 2019

AVAILABILITY
Access online [2]

EXCERPTS

Mothers are penalised for working more days under the flawed childcare subsidy and reforming it would generate 30,000 extra work days a week and boost the economy by $700 million, a new KPMG report has found.

KPMG chairman Alison Kitchen and Chief Executive Women president Sue Morphett will team up on Wednesday to launch a report that finds more than 125,000 working mothers are being penalised for choosing to work more days.

Female workforce participation lags that of men by about 10 percentage points (72.9 per cent versus 82.8 per cent) and KPMG has calculated Australian households would be up to $140 billion better off if that gap could be halved.

The present childcare system, updated by the Coalition government last July, is largely based on family and not individual income, and creates high work disincentives for secondary earners, most commonly working mothers but also fathers who choose to stay home.

The KPMG report warns about the two financial cliffs under the childcare subsidy. The first hits when a family income exceeds $188,163 a year when a $10,373 cap is applied, while the second hits for a family with an income of $352,453 or more.

"The financial cliffs just cannot make sense, so this is an urgent and critical issue for the government to address," Ms Kitchen said.

“By alleviating the cost of childcare, targeted spending can remove a major barrier facing primary carers seeking to return to work.

"The current system creates some really perverse outcomes where women are paying to work. Earning just one extra dollar can cause a family to lose up to $5000 of subsidy," she said.

For example, a mother earning the full-time equivalent of $100,000 per year whose spouse earns $100,000 per annum would take home just an extra $5000 a year by increasing her work days from three to four.

Worse, the family goes backwards by $4200 a year if she increased her working days from four to five.

Big productivity boost

KPMG proposes capping the work disincentive rate for the secondary earner – usually a woman – at the marginal income tax rate, plus 20 percentage points, creating a progressive system.

"This would benefit households across the income scale, but especially those at modest incomes who can least afford to be prevented from working more hours," Ms Kitchen said.

KPMG's lead tax partner Grant Wardell‑Johnson said its alternative proposal was for the government to provide additional assistance for families with more than one child in long-day care.

The subsidy reimburses a maximum of 85 per cent of the childcare costs for each child. KPMG suggests that for the second (and any additional) child in simultaneous long-day care, the subsidy should be increased to 100 per cent for all households, regardless of their income.

"Given Australia’s weak productivity performance, it is crucial that we make better use of the skills and experience of many parents who have taken time out of the workforce to bring up children," Mr Wardell‑Johnson said.

“Our economic modelling in this report shows the proposals would generate an additional $678 million – using conservative assumptions – at a cost of $368 million in extra CCS spending."

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