AU: KPMG proposes childcare subsidy overhaul to remove penalties for working parents [1]

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EXCERPTS

A 'radical' plan to revamp the Child Care Subsidy (CCS), proposed by KPMG, could see working parents thousands of dollars better off and boost Australia's economic growth by $700 million.

KPMG's newest proposal, Unleashing Our Potential — The Case For Further Investment In The Child Care Subsidy, prepared in collaboration with Chief Executive Women, pushes for workforce disincentives for secondary earners to be reduced.

The ultimate aim is to see a decrease of Australia's workforce participation gap between men and women, especially when juggling the demands of parenthood.

The Federal Government's CCS came into play in July last year and it subsidises a proportion of families' childcare fees based on how often parents work and how much they earn. It's based on family, rather than individual income, so it has the effect of creating very high work disincentives for secondary earners – most commonly mothers.

KPMG wants to see measures introduced that will reduce the Workforce Disincentive Rate (WDR), the percentage of income from taking on an extra day's work that a person loses to income tax and Medicare levy, withdrawn family tax benefit, reduced childcare subsidy and increased out-of-pocket childcare costs.

For example, a healthcare worker who works 4 days a week and earns $50,000, has a marginal day's income of $12,500. By working that fourth day, she might currently lose 88% of the day's income – $6,200 in income tax and withdrawn family tax benefit and $4,800 in additional childcare costs for two children.

In the government's current system, she would keep just $1,500 of the $12,500 earned by that fourth day's work each week over the year.

But under KPMG's proposal, she would keep almost 50% of the money earned by that fourth day's work. Her WDR cap (marginal income tax rate plus 20%) would be 54.5% instead of the current 88% and she would receive a top-up payment of $4,188.

"Our main proposal is to cap the WDR at the secondary earner's – usually a woman – marginal income tax rate, plus 20 percentage points. There would then be a top-up payment through the CCS system," says KPMG Australia Chair Alison Kitchen.

"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."

Kitchen also says that KPMG is calling for the withdrawal of the current CCS 'cliffs' that a family can fall off, when just one extra dollar earned could cause that family to lose up to $5,000 of subsidy.

"This is an inherent quirk in the system and could be addressed by replacing the cliffs with tapering of the rate of CCS as a family's income increases," she says.

Sue Morphet, President of Chief Executive Women, says increased affordability of childcare can be a key enabler of greater parental equality in our society.

"Enduring norms regarding gender and work have proven harmful to the economic welfare of women, and our society as a whole," Morphet says.

"Reducing financial disincentives for parents seeking to work full-time is paramount. If we aspire to have equal workforce participation and leadership progression we must ensure men and women are equally empowered, socially and financially, to share the income-generating and care-giving roles."

KPMG has also provided a secondary (although less targeted) proposal, that for families with more than one child in long-day care, the CCS should be increase to 100% for all households, regardless of income.

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Links
[1] https://childcarecanada.org/documents/child-care-news/19/11/au-kpmg-proposes-childcare-subsidy-overhaul-remove-penalties-working [2] https://womensagenda.com.au/latest/kpmg-proposes-childcare-subsidy-overhaul-to-remove-penalties-for-working-parents/ [3] https://childcarecanada.org/category/region/australia-and-new-zealand [4] https://childcarecanada.org/category/tags/subsidy [5] https://childcarecanada.org/category/tags/investment