

FACT SHEET

The Child Care Subsidy: Options for increasing support for caregivers who want to work

Optimising the current Child Care Subsidy (CCS) to give families greater access to early childhood education and care (ECEC) would enable more parents to take up job opportunities and grow our economy while supporting children's learning and development.

Analysis by KPMG finds that costs associated with ECEC cause many families to lose two thirds or more of the income they would gain from an additional day's work.

The analysis is based on approximately 1.6 million Australian families across all income levels.

The Front Project recommends modifying the current CCS to make all families better off financially and reduce the burden that parents – especially women – have of choosing between work or their children's learning and development.

Removing disincentives to work is good for families, good for business and good for the economy.

Key insights: Access to early learning is essential to increase opportunities for parents to work.

Access to affordable and high-quality early childhood education services are vital for parents – particularly women – to be able to return to work and secure their financial situation, improve their family's wellbeing and contribute to the economy.

However, the combined impacts of additional expenses for children's care and education, lower subsidies, less family benefits, and higher tax mean many parents could end up with 30% or less of what they earn that day in their pocket.

All families are impacted

The analysis looks at how many families would lose 70% or more of their earnings from additional work. This is 20% higher than the top tax rate.

There are **families in all income levels** who would **lose 70% or more of their pay** if they chose to work more.

1 in 5 households earning \$67,000-\$92,000

1 in 5 households earning \$92,000-\$137,000

1 in 10 households earning \$137,000-\$198,000

1 in 4 households earning over \$198,000.

Case study: A family earning \$79,000 with two children in long day care for three days per week.

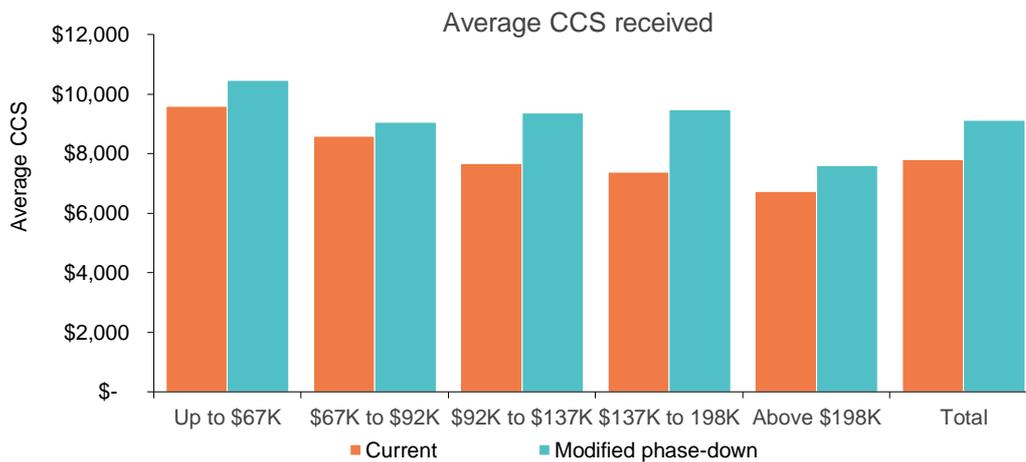
One parent working full-time earns \$55,000 per year. The other parent works three days a week and earns \$24,000 per year. The parent working part-time is offered an extra day.

The family would have just \$32 extra each week from the additional day of work and their long day care fees will increase by around \$3,000 per year.

Recommendation: Optimise the current Child Care Subsidy (CCS) to support future recovery.

The analysis recommends modifying the current CCS to reduce the burden that parents and carers – especially women – have of choosing between work or their children’s learning and development.

- **All families will receive more money from working additional days.**
Families in the lowest income level will receive the most subsidy.
- **A higher subsidy for low-income households.**
95% for families with a combined household income up to \$80,000.
- **More affordable for all families and easy to understand.**
Subsidy reduces gradually as income increases, to a minimum of 30%.



Source: KPMG, 2020

Features of this proposal

Maximum subsidy increases to 95% of the hourly rate cap, up from 85%.

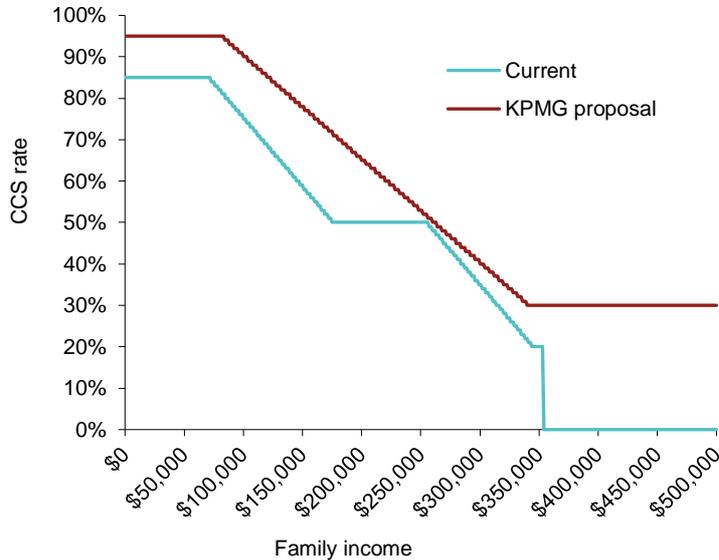
Families with a combined income of \$80,000 will be receive the maximum subsidy.
This represents two parents earning minimum wage and is increased from \$68,000.

The subsidy phases gradually, without sharp changes when income increases.
The taper rate decreases by 1% for every additional \$4,000 families earn.

All families receive some subsidy, regardless of what they earn.
A minimum 30% subsidy for all families.



Current vs proposed Child Care Subsidy



To rebuild Australia's economy we need to support families to return to jobs and minimise barriers to workforce participation.

Source: KPMG, 2020

KPMG estimates that the additional CCS net expenditure of around \$2.5 billion per year would deliver immediate economic stimulus and long-term growth. It would enable between 160,000 and 210,000 additional working days per week, which is equal to 30,000-40,000 full-time jobs.

By enabling more parents to work, we can increase GDP by \$5.4 billion and support a strong economic recovery from the impacts of COVID-19.

Optimising the CCS is good for families, good for business and good for the economy.

Good for families: All households can access more affordable early learning services and will have more in their pockets from additional work they do. Increased financial security means improved wellbeing for the whole family.

Good for business: More people will be supported to return to work, sooner and for more hours. Businesses will benefit from a better utilised workforce and will ensure their employees can more effectively retain and use the skills they have built up over time.

Good for the economy: This change can deliver immediate economic stimulus and long-term economic reform. By enabling more families to work, we can boost GDP by \$5.4 billion.

The Front Project is an independent national enterprise working to create positive change in Australia's early childhood education system. thefrontproject.org.au