



Australian Government

**Department of Families, Housing,
Community Services and Indigenous Affairs**

Report on the population impact of the new child support formula

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1. Introduction

This report outlines the population-level impact of changes to the Child Support Scheme that took effect on 1 July 2008, based on the combined outcome of the child support and Family Tax Benefit (FTB) changes. Financial outcomes of the child support changes cannot be viewed in isolation from FTB. This is partly because changes in the amount of child support received may alter the amount of FTB payable, and partly because the reforms to the child support system included important changes to FTB eligibility rules.

The results presented are based on **actual** new child support assessments effective as of 1 July 2008, and **modelling** of the FTB that would be payable on the basis of these assessments.

This means that the results presented here show what the financial outcome **would be** for parents if the new child support liability was paid in full. They do not show what the **actual** financial outcomes might be, because many parents do not pay or receive their child support in full or on time. So, some parents who appear to be receiving less or paying more may only be experiencing a reduction in an entitlement that they have never regularly received, or paying a liability they have never regularly paid. Moreover, the FTB that parents receive in a financial year is reconciled to the child support they actually receive, not the amount they should receive according to their child support assessment.

A key objective of the child support reforms is to improve compliance with child support obligations. This includes not only ensuring that parents pay their full assessment on time, but also that the assessment is an accurate reflection of a parent's capacity to pay. With this in mind, the Child Support Reforms package included \$165 million in additional resources for enforcement activities which, to date, has yielded \$104 million in extra child support since the measures began in July 2006.

2. The new child support formula: what's different?

The new formula for assessing child support is based on recommendations of the Ministerial Taskforce on Child Support which conducted a comprehensive review of Australia's child support system in 2004-05. The Taskforce found that the child support scheme needed to re-balance the share of responsibilities between resident parents, non-resident parents and the taxpayer in light of current economic and social conditions as well as community attitudes. The changes were also closely connected to a broader set of changes in the family law system for separated families. These changes recognised the significance for children's wellbeing of factors such as the frequency and quality of their relationships with both their parents and their parents' ability to successfully co-parent.

New Principles

On this basis, the new Scheme is underpinned by a new set of principles that the Taskforce considered were more consistent with contemporary conditions and attitudes. They argued that a child support system should:

- continue to be based on the 'continuity of expenditure' principle - that wherever possible, children should enjoy the benefit of a similar proportion of the income of each parent to that which they would have enjoyed if their parents had lived together;

- be based, as much as possible, on what it costs to raise children;
- enable parents to share the cost of supporting their children according to their capacity to pay;
- recognise that provision of care is a contribution to the cost of children;
- minimise the extent to which financial concerns influence agreements about parenting arrangements and care;
- treat children in first and subsequent families as equally as possible; and
- take account of the contribution made by Government to the costs of raising children.

This new set of principles has driven the following key differences between the old and new formula:

1. Costs of children:

- The **old formula** was not based on the costs of children. It used a fixed percentage of the payer's income regardless of his or her income level, and didn't differentiate between the costs of older and younger children.
- The **new formula** is based on evidence about the costs of children. It recognises that parents spend more money on their children as their income rises, but less as a proportion of their overall income. It also recognises that older children cost more than younger children, and takes account of the contribution Government makes to the cost of children through FTB.

2. Recognising care:

- The **old formula** recognised the costs of care when a parent had care for more than 30 per cent of nights.
- The **new formula** recognises care above 14 per cent of nights (one night per week).
- Under the **old system**, parents who had more than 10 per cent of care were entitled to a pro-rata amount of FTB.
- Under the **new system**, parents are only entitled to a share of FTB if they have 35 per cent of care or more, because the costs of providing care at lower levels are now recognised in the child support formula.

3. Equal treatment of parents' incomes:

- The **old formula** treated parents' incomes very differently. It disregarded a significant proportion of a resident parent's income (around \$45,500) compared to a lower amount for the non-resident parent (around \$14,500).
- The **new formula** treats both parents' incomes in the same way, allowing the same self-support amount for each parent. It then combines both parents' remaining incomes to establish the level of resources available to raise their children and the corresponding costs of children. Each parent's percentage share of the combined income represents their capacity to pay.

4. Similar treatment of children from second families:

- Under the **old formula**, payers with new biological (or adopted) children were given a fixed increase in the amount of income that was exempted for calculating child support liabilities. For payers with higher incomes, the amount allowed for the support of new children was too low compared to the amount paid for their child support children; for payers with lower incomes, the amount allowed for the support of new child was too high compared to the amount paid for their child support children. In the latter case, many resident parents received little or no child support.
- Under the **new formula** the costs of all children are calculated according to the same 'cost of children' table, regardless of whether they are in a first or new family. The cost of new children

is deducted from the parent's child support income prior to calculating the amount payable for the children of the first family.

5. Flexibility for changing care arrangements:

- Under the **old system**, FTB was shared in direct proportion to the amount of care provided, from 10 per cent of nights. This meant that very small changes in care could result in a change in FTB payable. This could cause significant conflict between parents.
- The **new system** better aligns care percentages between child support and FTB, and creates broader bands within which changes in care do not affect payments.

6. Recognise the contribution of Government to the costs of raising children:

- Since the formula was established, the contribution of government to the costs of children has increased substantially. For example, the Taskforce noted that in the 10 years between 1993-4 and 2003-4, expenditure on family payments increased in real terms by about 115 per cent. The **old formula** did not take any account of the fact that the family benefits which formed part of the total household income of the intact family are paid mainly to the primary caregiver following separation.
- The **new formula** recognises that while child support payments are private transfers, family benefits need to be taken into account in working out how much needs to be transferred from the non-resident parent's household to the resident parent's household. As a result, the costs of children table on which the new formula is based uses 'net' costs of children – which are the gross costs minus the contribution of Government through FTB Part A.

In addition to these major differences, there are some changes not directly related to the operation of the new formula that will drive losses and gains for parents:

- **'Fixed assessment' (\$21.50 per week, per child)** This measure is directed towards paying parents who report very low incomes but do not receive an income support payment, raising suspicions that these parents may be artificially reducing their income in a way that does not represent their real capacity to pay child support. Under the **old scheme**, many payers were assessed at the minimum rate on the basis of a low taxable income, but did not receive an income support payment. Under the **new scheme**, around 70,000 paying parents have been assessed to pay \$21.50 per week per child.
- **More than one child support family ('multiple cases')** Under the **old scheme**, where payers assessed to pay the minimum assessment had more than one child support family ('multiple cases'), their payment was divided evenly between parents to whom they had child support liabilities. This meant that the minimum payment of around \$6.50 per week would be shared between two or more payees. In the **new scheme**, each 'case' (up to a maximum of three) will receive the full amount of child support, ensuring that children get the full amount of child support payable and do not miss out because of a parent's other child support cases. This may result in a doubling or tripling of payments from \$2 or \$3 to \$6.50 a week.

The relative influence of different new formula components

It is not possible to isolate the effect of any one feature of the new formula independently. The outcome for any particular individual or family will depend on the 'mix' of formula components that are relevant to their circumstances – some may be heavily influenced by one driver, while others may be the result of a number of drivers operating together. Different components may operate to reinforce, or offset the effects on 'losses' or 'gains' depending on the 'mix' in any particular case. Scenarios illustrating the effects of each driver can be found at **Attachment B**.

3. Results

Overall results – Child Support and Family Tax Benefit

Under the previous child support system, \$2.9 billion was assessed to be paid in child support. The new child support system reduces this by around 7 per cent (\$210 million). On the basis of these new assessments, the reduction in child support is offset by an extra \$140 million payable in FTB.

The reduction in child support amounts transferred between parents does not mean that these resources are not available for the children. In cases where care is shared, the reduction in child support payable reflects the costs incurred by the non-resident parent and means that these resources remain within the second household for the care of the child. Moreover, where care is shared for less than 35 per cent of the time, the reduction in child support for the resident parent is additionally offset by the transfer of the non-resident parent's share of FTB to the household where the child primarily resides.

Overall results – receiving parents, paying parents

Thirty-seven per cent of payees and around 51 per cent of payers have **net increases** as a result of the reforms (that is, they receive more overall). Around 49 per cent of payees and 33 per cent of payers have **net reductions** (that is, they receive less overall).

Table 1: Overall results – net change for receiving and paying parents

	Net Gain		Net Loss		No Change	
	No.	%	No.	%	No.	%
Receiving parents (payees)	224,600	37	299,300	49	81,200	13
Paying parents (payers)	294,100	51	192,600	33	94,400	16
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data						

Tables 2 and 3 show the magnitude of change for parents in the child support system. In the majority of cases, for both payees and payers, the changes are for \$20 per week or less, and in a large proportion of cases, the changes are less than \$10 per week.

Table 2.

Receiving parents: net gains and losses by change per week

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	67,700	117,700	-	185,500
\$10.01 - \$20.00	71,900	98,000	-	169,900
\$20.01 - \$30.00	27,200	35,200	-	62,400
\$30.01-\$40.00	29,600	16,300	-	45,900
\$40.01 - \$60.00	19,700	16,100	-	35,800
More than \$60.00	8,300	16,000	-	24,300
Total	224,600	299,300	81,200	605,100
Overall percentage	37%	49%	13%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Table 3.

Paying parents: net gains and losses by change per week

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	54,900	44,800	-	99,700
\$10.01 - \$20.00	98,500	64,800	-	163,300
\$20.01 - \$30.00	52,400	23,300	-	75,700
\$30.01-\$40.00	29,000	31,900	-	60,900
\$40.01 - \$60.00	30,200	20,200	-	50,400
More than \$60.00	29,100	7,600	-	36,700
Total	294,100	192,600	94,400	581,100
Overall percentage	51%	33%	16%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Discussion: 'Receiving parent' results

In 92 per cent of cases where payees have net losses, these losses represent 20 per cent or less of their pre-reform entitlement. Even where dollar losses are large, half or more of these parents will still receive most of their previous entitlement. For example, of the 16,000 who have reductions of more than \$60 per week, around half still receive 80 per cent or more of their previous entitlement.

In general, larger losses for receiving parents are the result of multiple factors operating to reinforce, rather than offset, a negative outcome. A key factor where payees have losses, however, is whether the payer has 'regular care' of children (52-127 nights per year). Details about this impact are set out below (Tables 6 and 7 – on page seven). Outcomes also depend on the parents' eligibility for FTB. Where they already receive the maximum rate of FTB, reductions in child support will not further increase FTB payments. Conversely, where parents are not eligible to receive more than the minimum rate of FTB, changes to child support payments will not affect FTB entitlement.

Circumstances of receiving parents:

Around 78 per cent (471,100) of all receiving parents in the child support system have a taxable income of \$30,000 per year or less. This taxable income does not necessarily represent the actual living standards of payees and their children, as some may have re-partnered and have higher household incomes.

Around 343,400 (57 per cent) of all receiving parents in the child support system receive income support payments (not including family assistance). Almost all of these (91 per cent) are unpartnered. Most of these unpartnered parents (85 per cent) receive Parenting Payment Single (PPS). The next largest categories are those who receive Newstart Allowance (6 per cent) and Disability Support Pension (5 per cent). Around 34 per cent of single parents on income support have taxable incomes above \$15,000 indicating that they have earnings as well as income support payments; the average income of these parents is \$25,500 a year.

Table 4 shows that around 33 per cent of single parents who receive income support payments and child support have a net gain, and around 51 per cent have a net loss. Of these single parents with a net loss, around 77 per cent lose \$20 per week or less.

**Table 4. Single parents on income support who receive child support:
net gains and losses by change per week**

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	33,800	68,500	-	102,300
\$10.01 - \$20.00	32,000	54,400	-	86,400
\$20.01 - \$30.00	11,100	17,300	-	28,500
\$30.01-\$40.00	14,100	7,300	-	21,400
\$40.01 - \$60.00	9,600	6,600	-	16,200
More than \$60.00	3,900	6,100	-	10,000
Total	104,500	160,200	49,400	314,100
Overall percentage	33%	51%	16%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Discussion: 'Paying parent' results

The changes experienced by payers are usually due **either** to increased child support liabilities, or to loss of eligibility to a share of FTB, rather than a combination effect of child support and FTB. Generally, the change is due to an alteration in child support liabilities, because most paying parents usually receive little or no FTB.

Paying parents with larger losses that are due to an increased child support liability are generally those who have low-middle taxable incomes and a new family. These payers are now assessed to pay more to the child support children who previously received very little. Details about this group are set out below (Table 9). As with payee parents with large losses, these 'losses' do not necessarily represent the actual living standards of the affected payers or their children, as their household income may be higher.

Where payers' larger losses are driven mainly by changes in FTB, this is almost always because of the changes in the way FTB is split between parents. For payers who have relatively low incomes, the reduction in their child support liability is not enough to offset the loss of FTB. This mechanism, and its impact, is explained below (Table 7).

Some larger dollar losses may also be caused by the new 'fixed payment' of \$21.50 per week per child for payers who report very low incomes, but do not receive income support.

Circumstances of paying parents:

Around 60 per cent (350,000) of all paying parents in the child support system have a taxable income of \$30,000 per year or less. This taxable income does not necessarily represent the actual living standards of these parents and their children, as some may have re-partnered and have higher household incomes.

Around 127,400 (22 per cent) of all paying parents in the child support system receive income support payments (not including family assistance). Most of these receive either Newstart Allowance (45 per cent) or Disability Support Pension (29 per cent). Around 18 per cent of paying parents on income support have taxable incomes above \$15,000, indicating that they have earnings as well as income support payments; the average income of these parents is \$28,000 a year.

Table 5.
Paying parents on income support: net gains and losses by change per week

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	10,300	14,000	-	24,300
\$10.01 - \$20.00	9,100	13,100	-	22,100
\$20.01 - \$30.00	3,300	4,000	-	7,300
\$30.01-\$40.00	1,300	5,900	-	7,200
\$40.01 - \$60.00	1,300	4,600	-	5,900
More than \$60.00	900	2,600	-	3,600
Total	26,200	44,200	57,100	127,400
Overall percentage	21%	35%	45%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Key change component: Regular care

Rationale

Child support and family assistance work together to make sure that the costs of children are being met by both parents. The new child support formula takes into account the costs of care. Payers with 'regular care' of their children, that is from 14 to less than 35 per cent (between 52-127 nights per year), are considered to be directly meeting 24 per cent of the costs of raising their children through providing this care, with the remainder of their share of the costs being paid as child support. For payers who have 35 per cent or more of care ('shared care'), this credit for care increases incrementally up to 50 per cent of care.

However, it is recognised that the costs of the resident parent do not correspondingly decrease when the child is with the non-resident parent. Both parents are likely to incur similar infrastructure costs, such as furniture, through providing care, and these costs are essentially duplicated in each household.

Therefore, changes have been made to the way FTB is paid when parents share the care of their children. Prior to 1 July 2008, if parents shared the care of their children for at least 10 per cent of the time, FTB was split proportionately (so, a payer with 10 per cent care was entitled to 10 per cent share of FTB). From 1 July 2008, FTB is not paid to parents who have less than 35 per cent of care. This means that non-resident parents who have care from 10 to less than 35 per cent of the time no longer receive FTB, and the resident parent is entitled to 100 per cent of FTB.

The results below show the outcomes for receiving and paying parents who share 'regular care' of their children. It is important to remember, however, that it is not possible to isolate the effect of any one feature independently of others. Outcomes for this group may be the result of a number of measures operating together.

Findings

Table 6.
Receiving parents whose payer has 'regular' care

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	3,200	7,000	-	10,300
\$10.01 - \$20.00	3,900	7,300	-	11,200
\$20.01 - \$30.00	2,300	5,900	-	8,300
\$30.01-\$40.00	2,200	4,100	-	6,300
\$40.01 - \$60.00	2,000	4,700	-	6,600
More than \$60.00	1,300	6,600	-	7,900
Total	14,900	35,700	300	50,900
Overall percentage	29%	70%	<1%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Table 7.
Paying parents who have 'regular' care

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	5,600	2,100	-	7,700
\$10.01 - \$20.00	4,300	3,000	-	7,300
\$20.01 - \$30.00	4,400	1,300	-	5,700
\$30.01-\$40.00	4,300	1,600	-	5,900
\$40.01 - \$60.00	6,800	1,200	-	8,000
More than \$60.00	12,800	700	-	13,500
Total	38,200	10,000	1,200	49,400
Overall percentage	77%	20%	2%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Discussion

Whether or not a receiving parent has a 'regular care' arrangement with the paying parent appears to have a strong influence on their overall outcome, with around 70 per cent of these parents receiving less, and 29 per cent receiving more. Consistent with the findings for payee outcomes overall, for the majority (around 77 per cent) of these parents, the losses represent 20 per cent or less of their previous entitlement.

In some cases, payers' incomes, (and therefore their child support assessments), are sufficiently high for the 24 per cent credit for care to be worth more than the reduction in FTB. Where payers with low incomes would otherwise be assessed to pay the minimum rate (around \$6.50 per week), where they have 'regular care', they are not required to make this payment. However, this does not offset the loss of FTB for the non-resident parent.

Most low-income paying parents with 'regular care' also have low-income resident parents who bear the majority of costs for the children. In families like this, the fact is that there is not much money to go around and difficult trade-offs are necessary. The underlying policy rationale in such cases is that it is not reasonable for the resident parent who has the majority of care and the majority of the costs, to receive no child support at all and still be expected to share FTB.

In recognition that paying parents will experience difficulties because of their loss of FTB, these payers retain ancillary benefits associated with receipt of FTB, including Rent Assistance, Health Care Card and the lower threshold of the Medicare Safety Net. The Rent Assistance component is particularly important, as the major costs associated with caring for their children are related to infrastructure. In addition, in July 2006 as part of Stage 1 of the reforms, payers on Newstart or related payments who had 'regular care' children became eligible for the 'with child' rate of payment. This currently provides an additional \$17.80 per week for these payers.

Key change component: Treatment of children from first and subsequent families

Rationale

The new formula is designed to treat children from current and previous relationships in a more equal way.

Under the old scheme, a parent with a new dependent biological or adopted child had their 'exempt income amount' increased by a substantial flat sum, plus additional amounts for each child. However, the increase often bore little relationship to the amount being paid to child support children. The increase overstated the costs of children in low-income families, but was not adequate to cover children's costs in higher income families.

To address this, the new formula is based on the principle that, regardless of whether children are from a first or subsequent family, their costs are calculated on a similar basis – that is, according to the estimated costs of children for families at particular income levels.

In general, this will mean that payees with payers who have new children and lower incomes will receive more and payees with payers who have new children and higher incomes will receive less.

It is worth explaining in some detail exactly how the formula works to treat the children of first and subsequent families in a similar way. The formula does not, and should not, use exactly the same method of calculating the costs of children in both families. This is because, when calculating the costs of children in the child support family, both parents' incomes must be used to reach the 'combined child support income'. However, when calculating the costs of the children in the payer's new family, only the payer's income is used – not the income of the children's other parent. This is because in calculating child support liabilities, only the resources of the biological or legally responsible parents should be included. The formula deducts this parent's share of costs for the

new children from their income before calculating the child support payable for the first family. The amount deducted is known as the ‘relevant dependant child amount’.

This amount is then subtracted from the parent’s adjusted taxable income to calculate the costs of the child support children. The remaining income of the non-resident parent is then combined with the income of the resident parent. The costs of the child support children are then calculated according to this combined income, as this represents the income these parents have available to raise these children.

Findings

Table 8.

Receiving parents whose payer has a new family

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	12,600	6,400	-	19,000
\$10.01 - \$20.00	12,700	2,900	-	15,600
\$20.01 - \$30.00	7,000	1,500	-	8,500
\$30.01-\$40.00	5,600	850	-	6,400
\$40.01 - \$60.00	4,100	950	-	5,100
More than \$60.00	1,800	850	-	2,700
Total	43,800	13,500	8,700	65,900
Overall percentage	66%	20%	13%	100%

Numbers and percentages may not add due to rounding
Results are actual child support and modelled FTB
The full list of caveats should be considered when interpreting
this data

Table 9.

Paying parents who have a new family

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	4,100	8,400	-	12,500
\$10.01 - \$20.00	2,200	10,800	-	13,000
\$20.01 - \$30.00	1,600	6,700	-	8,300
\$30.01-\$40.00	1,000	8,400	-	9,500
\$40.01 - \$60.00	1,400	5,400	-	6,800
More than \$60.00	1,400	1,500	-	2,900
Total	11,700	41,400	9,800	62,900
Overall percentage	19%	66%	16%	100%

Numbers and percentages may not add due to rounding
Results are actual child support and modelled FTB
The full list of caveats should be considered when
interpreting this data

Discussion

This result has clearly re-balanced payments towards the first families of a payer who has new children. The result largely reflects the skew in the child support population towards the lower-middle income brackets, especially for payers who have new families. Around 71 per cent of payers with second families in the child support system have taxable incomes of \$45,000 or less, and around 53 per cent have incomes of \$30,000 or less.

What this means is that many children of paying parents who have new families will now start receiving a more equal share of the parent’s available resources compared to the children in the new family.

Key change component: Equal treatment of parents’ incomes

Rationale

The old formula was largely based on the payer’s income and it allowed a significant disregard of the payee’s income – up to around \$45,500 a year. The changes to the scheme are, in large part, driven by the significant social and demographic changes in Australian society since the scheme was established in 1988. In particular, the educational attainment of women and changing patterns of employment of mothers and fathers over the past twenty years means that it may no longer be justifiable to base the formula on the income of only one parent. On this basis, the new formula uses an ‘income shares’ approach which treats the incomes of both parents in the same way,

deducting the same self-support amount from each parent’s taxable income and allocating the combined costs of the children according to each parent’s share of the remaining combined child support income.

It is not possible to clearly demonstrate the effect of the equal treatment of parents’ incomes, because this component is heavily interactive with other components. However, there is one particular group for whom this may be a key driver of their change – that is, payees whose incomes are between the previous disregarded amount (around \$45,500) and the new self-support amount (\$18,252). Below, we present the results for this group of payees.

Findings

Table 10. Payees with income between the self support amount (\$18,252) and the previous disregarded amount (\$45,505)

\$ Per Week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	20,400	40,300	-	60,700
\$10.01 - \$20.00	22,800	30,300	-	53,100
\$20.01 - \$30.00	7,800	11,900	-	19,600
\$30.01-\$40.00	8,400	6,100	-	14,400
\$40.01 - \$60.00	5,000	6,400	-	11,400
More than \$60.00	2,100	6,200	-	8,400
Total	66,500	101,300	18,600	186,300
Overall percentage	36%	54%	10%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Discussion

Including a receiving parent’s income (in the same way as the paying parent’s income) does not appear to be strongly influential in determining the overall result for payees. The results are not significantly different from the overall result for payees, with around 36 per cent experiencing a gain, around 54 per cent experiencing a loss, and 10 per cent with no change. Again, in keeping with the general findings, the losses were concentrated in the \$20 per week or less range.

Conclusion

The new formula for assessing child support is based on recommendations made by the Ministerial Taskforce on Child Support which identified a new set of principles for a modern Australian child support formula. This change re-balanced the share of responsibilities between resident parents, non-resident parents and the taxpayer in light of current economic and social conditions as well as community attitudes, with the result that almost all parents in the child support system have had their payments change in some way.

Because of the magnitude of change, the new system will take some time to settle. While many parents responded positively to the CSA’s call to update their income and care details in readiness for the calculation and issuing of the new assessments, it is highly likely that parents will continue to advise CSA of their correct details over the next few months. Change on this scale is also likely to produce behavioural changes as parents adjust to their new circumstances. The changes will continue to be monitored over time.

More details about these changes can be found in other fact sheets and on the Child Support Agency website www.csa.gov.au

More information on the Taskforce and how the reforms started is available on the FaHCSIA website under [Ministerial Taskforce on Child Support](#).

More information on Compliance is available on the Child Support Agency website www.csa.gov.au

Attachment A: Caveats

The analysis presented in this report is based on actual child support liability changes for 691,000 cases. This represents all cases registered with the CSA whose child support liabilities are assessed using the administrative formula.

The analysis does not reflect the amount of child support that will be transferred or the FTB that will be paid. It is limited to child support liabilities under the new formula and the FTB payable based on these liabilities. In practice, many paying parents are not compliant with their child support obligations.

Limitations of the information presented are as follows:

- Around 11,000 cases were excluded due to data inconsistencies.
- Approximately 32,000 receiving parents and 30,000 paying parents were excluded as they were reciprocal cases with a nil liability – these records are registered for administrative purposes and were not affected by the change to the formula.
- Payers and payees may be involved in more than one child support case. For example, they may be paying more than one person, receiving child support from more than one person or paying one person and receiving from another. This means that there are fewer payees than cases and fewer payers than cases.
- There may be discrepancies between modelled and actual FTB outcomes in around 13,000 cases due to administrative data inconsistencies.

Data rules used in model:

- The CSA data includes people whose child support is collected privately or collected by the CSA.
- The analysis was based on data extracts from 30 May 2008 (this was after the completion date for the issuing of new child support assessments). Therefore, the modelling reflects payers' and payees' circumstances on this date. The actual child support liabilities are the projected liabilities based on this information. Accordingly, any changes to payees' or payers' circumstances in June 2008 are not reflected in the modelling.
- The FTB outcomes are modelled using 2008-09 rates, thresholds and income estimates and are based on those parents who claimed FTB, not those who were entitled to claim but did not.
- Where adjusted taxable income information is not available, child support income is substituted.
- Gross fringe benefits were used in the modelling of FTB; this means that the recent change to continue basing FTB on net fringe benefits rather than the gross fringe benefits is not reflected in this model.
- The new threshold of \$150,000 for FTB Part B announced in the recent budget statement is not applied in either the pre- or post-reform calculations. This means that the budget change has not been applied to the modelling of the child support reforms.
- Information held in the CSA system is used to populate the child support liabilities and information held in the Centrelink system is used to calculate the FTB outcomes. The information held in these systems may differ for items such as shared care details.
- Income support recipients are identified using the CSA flag. The flag is generated from the CSA daily interface batch with Centrelink.

Data terms and reporting:

- Numbers and percentages may not add to totals due to rounding.
- For the payer and the payee the figures represent the changes in child support liabilities and modelled FTB outcomes. This means that 'net loss' and 'net gain' for the payer reflect changes in both child support liability and modelled FTB outcomes. The terms 'receive less' and 'receive more' for the payee refer to the combination of changes in child support entitlement and modelled FTB outcomes.
- As a result of Stage 3 of the Child Support Reforms, approximately 1,000 payees became payers under the new rules and 1,500 payers became payees under the new rules. This reversal of roles between these payers and payees has resulted in these people appearing to receive substantially more or paying substantially less.
- This modelling reflects Stage 3 of the Child Support Reforms. Therefore reforms implemented in Stage 1, such as the income cap reduction or the minimum payment measures are not reflected in this model.
- All outputs from this model incorporate large-scale rounding. Generally, numbers are rounded to the nearest 100 and percentages are rounded to the nearest whole per cent.
- Payers and payees may be involved in more than one child support case. For example they may be paying more than one person, receiving child support from more than one person or paying one person and receiving from another.
- The model does not take account of the effects of other changes in taxation arrangements, government benefits, or growth in earnings.
- It is not possible to present separately the impact of one aspect of the changes to the formula (such as level of care or age of children) independently of the others.

The new child support scheme - scenarios

The following scenarios illustrate the way the new child support formula recognises:

1. the higher cost of older children;
2. regular care with the non-resident parent;
3. the income of both parents equally;
4. how children of second families are treated more equally, where the payer is on a high income; and
5. how children of second families are treated more equally, where the payer is on a low income.

In all scenarios presented, it is assumed that the parents do not pay rent. For scenarios one to four, it is assumed that both the payer and payee do not have other dependent children.

The scenarios assume that the child support assessment started in 2008. The FTB supplements are paid at the end of the financial year.

Rounding effects may slightly alter amounts presented in the tables.

Scenario 1: higher costs of older children

George and Jan have a 14-year old son, Billy. They separate. Jan earns an annual taxable income of \$55,000. George receives Parenting Payment Single, earning \$13,980 a year. Billy lives with George 100 per cent of the time.

Old formula

George	Annually	Fortnightly	Weekly
Child support received	\$7,132	\$274	\$137
FTB (excluding supplement)	\$4,552	\$175	\$87
FTB Supplement	\$1,022	\$39	\$20
Outcome	\$12,706	\$488	\$244

Jan	Annually	Fortnightly	Weekly
Child support paid	\$7,132	\$274	\$137
FTB (excluding supplement)	\$0	\$0	\$0
FTB Supplement	\$0	\$0	\$0
Outcome	\$-7,132	\$-274	\$-137

New formula

George	Annually	Fortnightly	Weekly
Child support received	\$8,358	\$321	\$160
FTB (excluding supplement)	\$3,938	\$151	\$76
FTB Supplement	\$1,022	\$39	\$20
Outcome	\$13,318	\$511	\$256

Jan	Annually	Fortnightly	Weekly
Child support paid	\$8,358	\$321	\$160
FTB (excluding supplement)	\$0	\$0	\$0
FTB Supplement	\$0	\$0	\$0
Outcome	\$-8,358	\$-321	\$-160

The weekly difference

George	Before	After	Difference
Child support received	\$137	\$160	+\$23
FTB (excluding supplement)	\$87	\$76	-\$11
Supplement	\$20	\$20	\$0
Outcome	\$244	\$256	+\$12

Jan	Before	After	Difference
Child support paid	\$137	\$160	-\$23
FTB (excluding supplement)	\$0	\$0	\$0
FTB Supplement	\$0	\$0	\$0
Outcome	\$-137	\$-160	-\$23

Because the new formula recognises the additional costs of older children, Jan pays an additional \$23 per week. The old child support formula did not recognise the increased cost of children as they get older. George will receive \$23 more child support, which will result in him receiving less FTB, leaving a net increase for George of \$12 per week.

Scenario 2: regular care with the non-resident parent

Ron and Susan have one 2-year old son, Mick. Ron earns \$40,000. Susan receives Parenting Payment Single (PPS) and earns \$13,980 a year. Ron cares for Mick 14 per cent of the time (52 nights per year). Susan cares for Mick 313 nights per year.

Old formula

Susan	Annually	Fortnightly	Weekly
Child support received	\$4,432	\$170	\$85
FTB (excluding supplement)	\$4,712	\$181	\$90
FTB Supplement	\$880	\$34	\$17
Outcome	\$10,024	\$385	\$192

Ron	Annually	Fortnightly	Weekly
Child support paid	\$4,432	\$170	\$85
FTB (excluding supplement)	\$1,022	\$39	\$20
FTB Supplement	\$142	\$5	\$3
Outcome	-\$3,268	-\$126	-\$62

New formula

Susan	Annually	Fortnightly	Weekly
Child support received	\$2,810	\$108	\$54
FTB (excluding supplement)	\$6,544	\$251	\$126
FTB Supplement	\$1,022	\$39	\$20
Outcome	\$10,376	\$398	\$200

Ron	Annually	Fortnightly	Weekly
Child support paid	\$2,810	\$108	\$54
FTB (excluding supplement)	\$0	\$0	\$0
FTB Supplement	\$0	\$0	\$0
Outcome	-\$2,810	-\$108	-\$54

The weekly difference

Susan	Before	After	Difference
Child support received	\$85	\$54	-\$31
FTB (excluding supplement)	\$90	\$126	+\$36
FTB Supplement	\$17	\$20	+\$3
Outcome	\$192	\$200	+\$8

Ron	Before	After	Difference
Child support paid	\$85	\$54	+\$31
FTB (excluding supplement)	\$20	\$0	-\$20
FTB Supplement	\$3	\$0	-\$3
Outcome	-\$62	-\$54	+\$8

As Ron provides regular care (14 – 34 per cent of total care) of Mick, under the new formula Ron's care is counted as meeting 24 per cent of the costs of raising Mick and this will reduce Ron's child support liability. This differs from the old scheme, where regular care provided by the payer was not taken into account in calculating child support where care is below 30 per cent.

However, as Ron has less than 35 per cent care of Mick, under the new scheme, Ron is no longer eligible for a share of the FTB for Mick. Susan will receive all the FTB for Mick, and the FTB she receives will also increase because of the reduced child support.

Scenario 3: equal treatment of income from both parents

Molly and Bruce have one 4-year old child. Molly has sole care of the child. Molly's income is \$30,000 (a mix of PPS and earned income) and Bruce earns \$50,000.

Old formula

Molly	Annually	Fortnightly	Weekly
Child support received	\$6,232	\$239	\$120
FTB (excluding supplement)	\$4,833	\$185	\$93
FTB Supplement	\$1,022	\$39	\$20
Outcome	\$12,087	\$463	\$233

Bruce	Annually	Fortnightly	Weekly
Child support paid	\$6,232	\$239	\$120
FTB (excluding supplement)	\$0	\$0	\$0
FTB Supplement	\$0	\$0	\$0
Outcome	-\$6,232	-\$239	-\$120

New formula

Molly	Annually	Fortnightly	Weekly
Child support received	\$5,162	\$198	\$99
FTB (excluding supplement)	\$5,369	\$206	\$103
FTB Supplement	\$1,022	\$39	\$20
Outcome	\$11,553	\$443	\$222

Bruce	Annually	Fortnightly	Weekly
Child support paid	\$5,162	\$198	\$99
FTB (excluding supplement)	\$0	\$0	\$0
FTB Supplement	\$0	\$0	\$0
Outcome	-\$5,162	-\$198	-\$99

The weekly difference

Molly	Before	After	Difference
Child support received	\$120	\$99	-\$21
FTB (excluding supplement)	\$93	\$103	+10
FTB Supplement	\$20	\$20	\$0
Outcome	\$233	\$222	-\$11

Bruce	Before	After	Difference
Child support paid	\$120	\$99	+\$21
FTB (excluding supplement)	\$0	\$0	\$0
FTB Supplement	\$0	\$0	\$0
Outcome	-\$120	-\$99	+\$21

Under the new child support scheme, Molly's income is considered in the calculation of the child support liability. The amount of child support that she will receive under the new scheme reduces accordingly. This differs from the old scheme, where Molly's income was only taken into account for the purposes of calculating child support if it exceeded a set amount (currently \$45,505). Because Molly is receiving less child support, she receives more FTB.

Scenario 4: Payers with a second family – net gain

Mark and Miranda have two children, both under five years of age. Mark and Miranda separate. Both children live with the mother, Miranda. Mark has re-partnered with Sally and has a new child in his new relationship. Mark has a salary of \$70,000 while Miranda is on Parenting Payment Single (\$13,980). Sally does not earn any income. All FTB received by Mark is in relation to his new family with Sally.

Old formula

Miranda	Annually	Fortnightly	Weekly
Child support received	\$11,270	\$432	\$216
FTB (excluding supplement)	\$6,475	\$248	\$124
FTB Supplement	\$1,708	\$66	\$33
Outcome	\$19,453	\$746	\$373

Mark	Annually	Fortnightly	Weekly
Child support payable	\$11,270	\$432	\$216
FTB (excluding supplement)	\$4,617	\$177	\$89
FTB Supplement	\$1,022	\$39	\$20
Outcome	-\$5,631	-\$216	-\$107

New formula

Miranda	Annually	Fortnightly	Weekly
Child support received	\$10,266	\$393	\$197
FTB (excluding supplement)	\$6,979	\$268	\$134
FTB Supplement	\$1,708	\$66	\$33
Outcome	\$18,953	\$727	\$364

Mark	Annually	Fortnightly	Weekly
Child support paid	\$10,266	\$393	\$197
FTB (excluding supplement)	\$4,617	\$177	\$89
FTB Supplement	\$1,022	\$39	\$20
Outcome	-\$4,627	-\$177	-\$88

The weekly difference

Miranda	Before	After	Difference
Child support received	\$216	\$197	-\$19
FTB (excluding supplement)	\$124	\$134	+\$10
FTB Supplement	\$33	\$33	\$0
Outcome	\$373	\$364	-\$9

Mark	Before	After	Difference
Child support payable	\$216	\$197	+\$19
FTB (excluding supplement)	\$89	\$89	\$0
Supplement	\$20	\$20	\$0
Outcome	-\$107	-\$88	+\$19

Under the new formula Mark pays \$19 per week less child support to Miranda. Miranda receives \$19 per week less child support but receives \$9 more FTB per week.

Under the old formula, payers with new biological (or adopted) children were given a fixed increase in the amount of income that is excluded from the child support assessment. This resulted in unequal treatment of children from first and second families. For payers with high incomes, such as Mark, the amount allowed for the support of his new child was too low compared with the amount he continues to pay for his child support children.

Under the new formula, the cost of all his children is calculated using the costs of children table and the amount his new child costs is deducted from his child support income. The result is that Mark will pay less child support to Miranda, and retains more of his income to support his new child.

Scenario 5: Payers with a second family – net loss

Richard and Rebecca have two children, both under 5. Richard and Rebecca separate. Both children live with the mother, Rebecca. Richard has re-partnered with Emma and has a new child in this new relationship. Richard has a salary of \$25,000 while Rebecca is on Parenting Payment Single (\$13,980). Emma receives an income of \$25,000 per year. All FTB received by Richard is in relation to his new family.

Current formula

Rebecca	Annually	Fortnightly	Weekly
Child support received	\$339	\$13	\$7
FTB (excluding supplement)	\$11,249	\$431	\$216
FTB Supplement	\$1,708	\$66	\$33
Outcome	\$13,296	\$510	\$256

Richard	Annually	Fortnightly	Weekly
Child support payable	\$339	\$13	\$7
FTB (excluding supplement)	\$2,526	\$97	\$48
FTB Supplement	\$686	\$26	\$13
Outcome	\$2,873	\$110	\$54

New formula

Rebecca	Annually	Fortnightly	Weekly
Child support received	\$1,344	\$52	\$26
FTB (excluding supplement)	\$11,249	\$431	\$216
FTB Supplement	\$1,708	\$66	\$33
Outcome	\$14,301	\$549	\$275

Richard	Annually	Fortnightly	Weekly
Child support paid	\$1,344	\$52	\$26
FTB (excluding supplement)	\$2,727	\$105	\$52
FTB Supplement	\$686	\$26	\$13
Outcome	\$2,069	\$79	\$39

The weekly difference

Rebecca	Before	After	Difference
Child support received	\$7	\$26	+\$19
FTB (excluding supplement)	\$216	\$216	\$0
FTB Supplement	\$33	\$33	\$0
Outcome	\$256	\$275	+\$19

Richard	Before	After	Difference
Child support payable	\$7	\$26	-\$19
FTB (excluding supplement)	\$48	\$52	+\$4
Supplement	\$13	\$13	\$0
Outcome	\$54	\$39	-\$15

Under the new formula Richard pays \$19 per week more child support to Rebecca and receives \$4 per week more FTB for his new family. Rebecca receives \$19 per week more child support per week.

Under the old formula, for payers with low incomes, such as Richard, the amount allowed for the support of his new child was too high compared with the amount he paid for his child support children.

Under the new formula, the costs of all his children is calculated according to the cost of children table and his new child costs is deducted from his child support income. The result is that Richard will keep only an amount to cover the cost of his new child and will pay more child support to Rebecca.

Appendix A – Payees with a financial Welfare to Work impact (Added 22 October 2008)

Analysis of the payees affected financially by the Welfare to Work changes focused on those who may have qualified for Parenting Payment Single (PPS) if Welfare to Work rules for single parents had not been introduced. As at 1 July 2008, the difference between receiving Parenting Payment Single (PPS) and receiving the Newstart Allowance ‘with child’ was \$37 per week.

Just over half of the parents in this analysis (54 per cent) at one stage received PPS before transferring to a reduced rate of income support (Newstart Allowance or a related benefit). The other 46 per cent did not qualify for PPS under the new rules. This group went directly onto Newstart Allowance or a related benefit.

Around 10,700¹ single payee parents were financially affected by both the Welfare to Work changes outlined above and child support changes. The net changes in child support liabilities and modelled FTB were similar to the results for payees overall, as shown in Table 1 below. There were slight differences in the proportions of payees having no change (18 per cent of the welfare to work cohort compared to 13 per cent overall) and in those experiencing a net increase (33 per cent of the welfare to work cohort compared to 37 per cent overall).

Approximately 38 per cent of the 10,700 parents have an income over than \$15,000. This indicates that they had earnings in addition to income support payments.

Approximately 33 per cent of the 10,700 parents had a net increase in combined child support and FTB, around 49 per cent had a net loss and the remaining 18 per cent experienced no change.

Table 2 shows the magnitude of this impact. Most parents experienced a change of \$20 per week or less, with many having a change of \$10 per week or less. For most (92 per cent) of the parents who experienced a change, the change represented less than 21 per cent of their child support and FTB entitlement.

Table 1: All payees compared to payees who are financially affected by the welfare to work changes: by combined child support and FTB net gains and losses by group

Group	Net gain		Net loss		No change		Total	
	No.	%	No.	%	No.	%	No.	%
All receiving parents	224,600	37	299,300	49	81,100	13	605,100	100
Parents with a financial impact as a result of Welfare to Work	3,500	33	5,300	49	1,900	18	10,700	100
<p>Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data</p>								

¹ This represents 9 per cent of single parent on income support with participation requirements. The remaining 91 per cent remained eligible for PPS under welfare to work.

Table 2: Combined child support and FTB changes by net gains and losses of combined child support and FTB change per week for the parents financially affected by the Welfare to Work changes

\$ Per Week Net Change	Net increase	Net decrease	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	1,000	2,100	-	3,100
\$10.01 - \$20.00	1,000	1,600	-	2,600
\$20.01 - \$30.00	450	600	-	1,100
\$30.01-\$40.00	500	300	-	800
\$40.01 - \$50.00	200	200	-	400
\$50.01 - \$60.00	150	150	-	300
More than \$60.00	150	400	-	500
TOTAL	3,500	5,300	1,900	10,700
Overall percentage	33%	49%	18%	
Numbers and percentages may not add due to rounding Results are actual changes in child support liabilities and modelled FTB The full list of caveats should be considered when interpreting this data				