Financial Incentives to Work for Married Mothers under A New Tax System

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Abstract
The introduction of A New Tax System in July 2000 included substantial changes to social security payments, including family assistance and child care subsidies. Most of these payments are income tested, so that as a family’s income increases the amount of government assistance it receives is reduced.

This article analyses the impact of increasing income and child care costs on the financial incentives for women with children to increase their participation in paid work. The results show that for some families increasing the mother’s hours of work has a very small impact on the family’s disposable income.

1. Introduction
Australia’s system of social security and family assistance payments aims to provide assistance to those in need whilst limiting the costs of the system. One result of this balancing act is that most major government cash payments are income tested, with most also being subject to an assets test. Income tests on government cash payments, especially when combined with the income tax system, can create high effective tax rates. These high effective tax rates may reduce the incentive to work. Such concerns are not new (see Beer, 1998a, 1998b, 2003; Harding and Polette, 1995; Ingles, 1997, 2000; Polette, 1995; and Whitlock, 1994).

One of the aims of A New Tax System (ANTS), introduced on 1 July 2000, was to reduce effective tax rates and boost work incentives. In the white paper on ANTS, the Treasurer said: ‘Work incentives for low and middle income families will be greatly improved’ (Costello, 1998, p. 15). The measures to improve work incentives included reducing the taper rate on family assistance from 50 per cent to 30 per cent and reducing the overlap between income tests on family payments (Costello, 1998, p. 52), as well as reducing the taper rate on pensions (including for lone parents) from 50 per cent to 40 per cent (Costello, 1998, p. 20).

Despite the major changes associated with ANTS, the issue of high effective tax rates and their impact on work incentives remains a concern for policy makers.

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makers (Abbott, 2002; Reference Group on Welfare Reform, 2000; Abbott and Vanston, 2002). Several commentators have highlighted the work disincentives for the spouses of low income earners as a particularly serious problem with ANTS (Apps, 2002; Ingles, 2000; McDonald, 2001, 2003). McDonald (2001, p. 15) contends that ANTS, especially Family Tax Benefit Part B, ‘promotes a family model where the father absents himself more and more from the family home while the wife is there constantly’. McDonald (2003, p. 6) argues that the disincentives inherent in ANTS ‘prevent people making the choices that are best for themselves and their children’.

A recent study on the distribution of effective marginal tax rates (EMTRs) by Beer (2003) found that families with dependent children were the most likely to face high EMTRs. Although distributional studies tell us who and how many in the population face high EMTRs (for examples see Beer, 1998a and 2003), they do not tell us whether these high EMTRs exist over a long or short range of private income. In contrast, hypothetical studies such as Beer (1998b) and Ingles (2000) reveal whether individuals face high effective tax rates over a long or short range of private income and can highlight problematic interactions of the tax and social security systems. Beer (1998b) looked at the financial incentives for married mothers with young children to undertake extra hours of work. She found that the financial incentive for women to work was likely to be stronger for women in higher income families.

Following the methodology used by Beer (1998b), this study examines the effective tax rates faced by married women with young children. Each family has one child under school age requiring paid child care and up to two older children. Different hourly wage rates are used for the woman and different weekly income levels are used for the woman’s husband (whose income remains constant). Section 2 describes the methodology and gives details of the hypothetical families modelled. The results for each hypothetical family are presented in Section 3. Some concluding comments are presented in Section 4.

2. Methodology

The methodology used in this article follows closely that used by Beer (1998b).

*Effective Tax Rates*

Analyses of the financial incentives to work often look at effective marginal tax rates (EMTRs). An EMTR is the proportion of a one dollar increase in private income which is lost to income tax and income tests on government cash payments. Put another way, it is the proportion of an extra dollar of income that an individual or family does not keep.

EMTRs are useful when examining the detail of how the tax and social security systems interact to create financial disincentives to work. However, EMTRs are not so practical for examining the decision to engage in (or increase the amount of) paid work, since very few people increase their income enough to be affected by a high EMTR.
private income by a dollar at a time. A more realistic unit of analysis is the hourly wage, since an hour of work and the resulting wage is the smallest unit over which a person could reasonably expect to have some influence.\(^2\) Using a change in private income of more than one dollar means that the analysis is conducted in terms of effective average tax rates (EATRs), which are mathematically the same as the weighted average of the EMTRs over the range of private income (Ingles, 1997). Being a weighted average, EATRs tend to exhibit less volatility than EMTRs.\(^3\) The formula for calculating an EATR is:

\[
\text{EATR} = 1 - \frac{\text{Change in family disposable income}}{\text{Change in earnings}}
\]

In this study, the change in earnings is the mother’s hourly wage rate. The family’s disposable income and EATR are recalculated in STINMOD (see below) for each additional hour of work by the mother.

**Disposable Income**

For individuals, disposable income is their private income less any income tax they have to pay (including the Medicare levy and net of any tax offset for which they are eligible) plus any government cash benefits they receive. We define family disposable income as the sum of the individuals’ disposable incomes less the family’s net child care costs.\(^4\) This follows the methodology used in Beer (1998b).

This definition of disposable income does not include other costs associated with working, such as travel or additional food and clothing costs. The only cost of working modelled in this article is the cost of formal child care, specifically, long day care.

**The STINMOD Model**

The results in this article are generated from STINMOD, NATSEM’s general purpose static microsimulation model. STINMOD contains two models: a distributional model and a hypothetical effective tax rates (ETR) model. For this study, the hypothetical ETR model from STINMOD/02B has been used.

The tax rates and thresholds used in this article are those for the 2002/03 financial year. Rates for social security and family assistance payments are those applying in the period 1 January to 19 March 2003.

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\(^2\) This too may be a fairly strong assumption. The practical consequence of relaxing this assumption would be smoother EATRs – see note 3.

\(^3\) As the range of private income over which the EMTRs are averaged increases, we would expect to see lower volatility in the EATRs, that is, the unit of analysis can affect the amount of variation in EATRs. At one extreme would be EMTRs, which have the smallest unit of analysis and the largest amount of variability, and at the other would be a comparison of not working to working 35 hours per week, which would have the largest possible unit of analysis and the smallest amount of variability (indeed it would be a straight line). Using a single hour of work as the unit of analysis reduces the variability in the EATRs compared to using a single dollar of income (the EMTR case) but results in higher variability relative to a larger unit of analysis (for example, a half or whole day).

\(^4\) Net child care costs = number of hours of child care * hourly cost of care – Child Care Benefit entitlement.
STINMOD models most of the factors that are likely to influence EATRs. These include income tax, Medicare levy, the low income tax offset, pension and allowance tax offsets, the major Department of Family and Community Services (FaCS) and Department of Veterans’ Affairs (DVA) pensions and allowances and Family Tax Benefit Parts A and B. The hypothetical ETR model also calculates Child Care Benefit entitlements and repayments on Higher Education Contribution Scheme (HECS) debts.

Some factors that may influence EATRs have been excluded from this article. STINMOD assumes that where a payment is assets tested, the assets of the family are lower than the asset limit so that their payment is unaffected. All families are assumed to have no rent costs, so they are not eligible for Rent Assistance or state public housing subsidies. We have also assumed that none of the people in the hypothetical families have a HECS debt. The exclusion of these factors will tend to understate the EATRs in this article.

Families Modelled
Given the large number of factors that influence a family’s disposable income, there are a huge number of hypothetical family types that could be modelled in this study. We have focussed our analysis on families where the father works fixed, full-time hours and only the mother’s working hours vary. As discussed in Beer (1998b, pp. 98–99), the factors that influence the disposable income for this type of family include: the father’s weekly income; the mother’s hourly wage; the number of children in the family; the number of children attending formal child care; and the amount the family pays for child care. The families modelled in this study are shown in Table 1.

Table 1 Characteristics of Hypothetical Families Modelled

<table>
<thead>
<tr>
<th>Description</th>
<th>Income Quartile</th>
<th>Father’s Hourly Income</th>
<th>Mother’s Hourly Wage</th>
<th>Number of Children</th>
<th>Cost of Child Care</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ pw</td>
<td>$ ph</td>
<td></td>
<td></td>
<td>$ ph</td>
</tr>
<tr>
<td>Low income couples</td>
<td>1</td>
<td>515</td>
<td>11.70</td>
<td>1,2,3</td>
<td>4.30</td>
</tr>
<tr>
<td>Lower middle income</td>
<td>2</td>
<td>759</td>
<td>16.00</td>
<td>1,2,3</td>
<td>4.30</td>
</tr>
<tr>
<td>couples</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper middle income</td>
<td>3</td>
<td>1005</td>
<td>20.00</td>
<td>1,2,3</td>
<td>4.30</td>
</tr>
<tr>
<td>couples</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High income couples</td>
<td>4</td>
<td>1708</td>
<td>32.90</td>
<td>1,2,3</td>
<td>4.30</td>
</tr>
</tbody>
</table>

Source: Beer (1998b) and STINMOD calculations

Income
The choice of income for the hypothetical families can make a significant difference to the outcomes. Even though this study is hypothetical, it makes sense to choose incomes so that they resemble the incomes prevailing in the Australian labour force. There are several ways that one could do this. We follow the methodology of Beer (1998b) and use the ABS Survey of
Income and Housing Costs (SIHC), in this case, the 1997/98 SIHC. All married men with wage and salary income working full-time were sorted in order of income and divided into quartiles. For each quartile, the average weekly wage and salary income was computed and uprated to August 2002 using changes in male full-time adult total earnings over that period (ABS, 2002). Similarly, an hourly wage rate was calculated for all married women with wage and salary income in the SIHC, then the average hourly wage rate for each quartile was calculated and uprated to August 2002 using changes in female full-time adult total earnings (ABS, 2002). The results are shown in Table 2.

Table 2  Average Wages and Salary Income for Married Men Working Full-time and Married Women by Quartile of Wage and Salary Income

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Average Weekly Full-time Male Income</th>
<th>Average Hourly Female Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>515 $ pw</td>
<td>11.70 $ ph</td>
</tr>
<tr>
<td>Lower middle income</td>
<td>759 $ pw</td>
<td>16.00 $ ph</td>
</tr>
<tr>
<td>Upper middle income</td>
<td>1005 $ pw</td>
<td>20.00 $ ph</td>
</tr>
<tr>
<td>High income</td>
<td>1708 $ pw</td>
<td>32.90 $ ph</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics 2000 and 2002

The women in this study are assumed to be married to a man from the same income quartile, so that a high income woman earning $32.90 per hour (quartile 4) is married to a high income man who earns $1708 per week (quartile 4). Similarly, a lower middle income woman earning $16.00 per hour (quartile 2) is married to a lower middle income man earning $759 per week (quartile 2) and so on.

Child Care Costs and Usage
The hourly rate paid for child care can have a dramatic effect on the disposable income of families using paid child care, because Child Care Benefit generally covers only part of the cost of care. Aggregate data on hourly rates of child care are scarce. For example, the ABS Child Care Survey conducted in 2002 only asked about the amount paid for care after Child Care Benefit (ABS, 2003). Imputing the cost of care before Child Care Benefit from this survey would be time consuming and not especially accurate. Instead, we obtained fee information from a small number of long day care centres in each state and territory and arrived at an average hourly rate of $4.30.

The centralised wage fixing system provides an alternative source of benchmark incomes, for example, the federal minimum wage and the C10 tradesperson’s rate in the Metal Industries Award (both used as benchmarks in the Safety Net Review case before the Australian Industrial Relations Commission (see AIRC 2003)). The calculation of the hourly wage rate included all women with wage and salary income, not just those working full-time. As such it implicitly assumes that the hourly wage is independent of hours worked.

For simplicity, we assume that the hourly cost of child care is independent of the hours used, though we recognise that in practice full-time child care is likely to have a lower hourly cost than part-time child care.
We assume that when the mother increases the number of hours she works the number of hours of paid child care she uses also increases. There are many ways that the mother could spread her hours of work, and how she does this will affect the number of hours of paid child care her children need (see the note in Beer 1998b, pp. 110–111). For convenience, we follow the same pattern of child care usage as Beer (1998b). Briefly, the pattern of child care usage assumes that the mother works for up to seven hours a day, and always works a full day before she starts working on another day. The mother needs to allow one hour each day for travel time and, if she works more than four hours on a given day, an hour for a lunch break, so that when she works a seven hour day, she needs nine hours of child care.

This pattern of child care usage means that when the mother increases her work from four to five hours per week, she uses an extra two hours of child care. We would therefore expect to see a relatively small increase (or perhaps even a decrease) in family disposable income and a spike in the EATR when the mother works five hours per week. For the same reason, we would expect a spike in the EATR when the mother works 8, 12, 15, 19, 22, 26, 29 or 33 hours per week.

The assumption that the mother works a full day before she starts working on another day tends to reduce marginally the number of hours of child care she needs relative to other distributions of working hours, provided we retain our other assumptions. For example, under our assumptions a woman working 14 hours per week (two full days) requires 18 hours of child care. If we relaxed the assumption about working full days and she spread her hours across three days (two of five hours and one of four hours) she would require 19 hours of child care.

Our modelling also assumes that additional work and child care are both available in increments of one hour. This is likely to be a ‘best case’ scenario, as both work and child care are more likely to be available in blocks of more than an hour. The likely effect of this assumption is to increase the variation in EATRs.8

Further Assumptions

We have made a number of assumptions in our modelling, in addition to the assumptions described elsewhere in this section. Where relevant, we note the likely direction of the bias introduced by these assumptions.

In all families, we assume the man works full-time regardless of the hours worked by the woman, that is, his hours are non-substitutable. This accords with the conventional wisdom that male labour supply is relatively inelastic and with the traditional gender division of labour.

8 This is the reverse of the situation described in note 3. In a mixed scenario, where work was available in single hours but child care was only available in blocks of more than an hour, we would expect more variation in the EATRs than in the case studies presented in section 3.
In families with more than one child, only the youngest child is assumed to require care (which is always long day care). Older children are assumed to be aged between 6 and 12 but do not require before school, after school or vacation care. This will tend to understate the family’s child care costs and EATRs.

All families in this study are assumed not to have private hospital cover, thus becoming liable for the Medicare levy surcharge when their income reaches the threshold. This is likely to overstate the EATRs of families with incomes above the Medicare levy surcharge threshold if they have private hospital cover.

Most elements of the tax and family assistance systems are calculated on an annual basis, so to replicate this on a weekly basis we assume that income is spread evenly throughout the year. We also assume that families correctly estimate their income for Family Tax Benefit and Child Care Benefit purposes.

3. Results

The results below show how the disposable income and EATRs for the hypothetical families described in Table 1 change according to the number of hours the mother works. Each family type has one, two or three children, with one child in long day care at $4.30 per hour.

**Low Income Couples**

Figure 1 shows the disposable income for families where the mother earns an hourly wage of $11.70, the father is earning $515 per week and there are one, two or three children in the family (with one of the children in child care for $4.30 per hour). The figure shows that when the mother works a small number of hours each week – between one and nine hours – the family’s disposable income increases gradually. Once the mother reaches around 10 hours of work, however, the family’s disposable income increases very slowly – and in some cases it actually falls. Between 10 and 19 hours of work per week, the mother’s extra hours of work cause almost no increase in the family’s disposable income. However, once the mother goes from working 19 hours to 20 hours or more the family’s disposable income starts to increase at a much faster rate (the reasons for this are discussed below).

Where the couple have three children, they are financially worse off when the mother works 12, 13, 15, 26 or 29 hours per week than if she had worked one hour less. At all but one of these points, the additional net costs of child care are the largest component of the EATR. If she increases her work from 10 to 20 hours per week, the family’s disposable income increases by less than $2.50.

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*This is largely a result of our assumptions on child care usage – at 8, 12, 15, 19, 22, 26, 29 and 33 hours of work the mother uses an additional two hours of child care for one additional hour of work.*
You can also see in Figure 1 that the family with one child experiences greater increases in disposable income (in both percentage and dollar terms) than the other families. For example, the family with one child gains an extra $136 per week when the mother goes from not working to working 35 hours per week, while the family with three children only gains an extra $80 per week.

**Figure 1  Family Disposable Income for a Family with the Father Earning $515 per week and the Mother Earning $11.70 per hour with One, Two or Three Children – One Child in Child Care at $4.30 per hour**

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The greater increases in disposable income for the one child family are due to the fact that families with more children receive more Family Tax Benefit Part A (FTB-A). As a result, the range of private income over which maximum rate FTB-A is withdrawn is larger for families with more children. Because the income testing away of maximum rate FTB-A generally results in higher EATRs, larger families have slower increases in disposable income. So, while the family with one child starts receiving base rate FTB-A when the mother works 19 hours a week (or 32 hours a week in the family with two children), the family with three children is still receiving more than the base rate of FTB-A even when the mother works 35 hours a week.

Figure 2 shows that the families with one, two and three children all experience a broadly similar pattern of EATRs. Initially, their EATRs are quite low as the mother’s extra earnings do not affect the family’s social security or family assistance entitlements and she does not pay income tax. The family’s net child care costs are the only factor in their EATR. But very
quickly, the mother’s extra income starts to affect the family’s government payments. When she works four hours a week, she begins to lose the small amount of Parenting Payment Partnered to which she is entitled. Combined with the 30 per cent taper on Family Tax Benefit Part B (FTB-B), the Medicare levy at the shade-in rate of 20 per cent and the additional costs of child care, this causes the family’s EATR to jump up to 83.4 per cent (in the case of the couple with one child).

**Figure 2** EATRs for a Family with the Father Earning $515 per week and the Mother Earning $11.70 per hour with One, Two or Three Children – One Child in Child Care at $4.30 per hour

Once the mother is working eight hours a week, the family’s EATRs generally remain above 60 per cent. The main factors contributing to the EATR are the 30 per cent taper on FTB-B and maximum rate FTB-A, income tax, the Medicare levy and the increasing net costs of child care. The highest EATR of 119.1 per cent occurs when the mother in the family with three children goes from 11 to 12 hours of work per week.

Note that the family with one dependent child experiences considerably lower EATRs once the mother is working 20 hours per week. At this point, the family only receives the base rate of FTB-A, which reduces their EATR by 30 percentage points. As Figure 2 shows, the families with more children experience high EATRs over a larger range of private income, thanks to their higher thresholds and initial entitlements to FTB-A.
**Lower Middle Income Couples**

Families where the mother and father earn slightly more experience larger increases in their disposable income as the mother’s hours of work increase. This is due, in part, to the higher hourly wage of the mother – $16.00 per hour rather than $11.70 per hour. The higher income of the father also means the family spends less time in the range of private income where social security and family assistance payments are being withdrawn. The main influences on their EATRs are income tax, Medicare levy and net child care costs.

As Figure 3 shows, when the mother in the lower middle income family with one child goes from not working to working 15 hours per week, her family’s disposable income increases by $122 per week, while increasing work from 15 to 35 hours a week sees disposable income rise by a further $138 per week. For the family with three children, weekly disposable income increases by only $50 when the mother goes from not working to working 15 hours a week. The smaller increase in disposable income for this family is due to the 30 per cent taper on maximum rate FTB-A, which adds an extra 30 percentage points to the family’s EATR for the first 17 hours the mother works. Once the family with three children reaches the base rate of FTB-A, their EATRs are the same as the family with one child and the increase in disposable income is larger – $130 when the mother’s hours of work jump from 15 to 35.

**Figure 3**  Family Disposable Income for a Family with the Father Earning $759 per week and the Mother Earning $16.00 per hour with One, Two or Three Children – One Child in Child Care at $4.30 per hour

Data source: STINMOD calculations
Lower middle income families do not experience EATRs quite as high as low income families – the highest EATR for the lower middle income families is 107.1 per cent (when the mother in the family with three children goes from 11 to 12 hours of work per week), as shown in Figure 4. The lower EATRs are most notable for the family with one child, because this family only receives base rate FTB-A even before the mother starts working and her higher wage rate means that her FTB-B entitlement reduces faster than for a low income mother. The spike in EATR at 26, 29 and 33 hours results from having to pay for two extra hours of child care for one extra hour of work at these points. At 35 hours of work per week by the mother, the family’s EATR is 59.6 per cent. The only factors affecting the EATR at this point are income tax, Medicare levy and net child care costs.

**Figure 4 EATRs for a Family with the Father Earning $759 per week and the Mother Earning $16.00 per hour with One, Two or Three Children – One Child in Child Care at $4.30 per hour**

![Graph showing EATRs for different hours worked by the mother per week](image)

Data source: STINMOD calculations

**Upper Middle Income Couples**

At even higher levels of income, with the father earning $1005 per week and the mother’s wage rate at $20.00 per hour, the family receives larger gains from the mother’s work than lower income families, as Figure 5 shows. Going from not working to working 20 hours per week leads to an increase in family disposable income of almost $210 per week (around 25 per cent) and increasing from 20 to 35 hours increases disposable income by between $78 and $96 per week, depending on the number of children. The slight falls in disposable income when the mother goes from working 28 to 29 hours per week for families with one child or 32 to 33 hours per week for
families with two children result from the addition of the 30 per cent taper on base rate FTB-A to their tax, Medicare levy and net child care costs.\footnote{At both these points the family needs an extra two hours of child care.}

\textbf{Figure 5} Family Disposable Income for a Family with the Father Earning $1005 per week and the Mother Earning $20.00 per hour with One, Two or Three Children – One Child in Child Care at $4.30 per hour

Figure 6 shows that even at quite high levels of income the family can face EATRs that would make them seriously consider whether an extra hour of work was worthwhile. For example, if the mother increases her work from seven to eight hours per week, the family faces an EATR of 75.3 per cent, due to a combination of income tax, withdrawal of FTB-B and net child care costs. Similarly, when the mother goes from working 28 to 29 hours per week, the family’s EATR is 80.1 per cent (or 110.1 per cent in the case of the family with one child). This EATR is the result of income tax, Medicare levy and net child care costs (plus the 30 per cent taper on base rate FTB-A for the family with one child). The most significant contributor to the EATR at this point is the net cost of child care, which adds 48.6 percentage points to the family’s EATR.

Data source: STINMOD calculations
It is also worth noting from Figure 6 that upper middle income couples with one child face higher EATRs than couples with more children when the mother’s hours increase from 25 to 35 per week. Over part of this range, the family with one child have their base rate FTB-A withdrawn. In contrast, the couple with three children are protected from this by the higher threshold applying to their base rate FTB-A payment.

**High Income Couples**

Mothers in high income families experience faster increases in disposable income than lower earning mothers, as you can see by comparing the scale in Figure 7 with the scale in earlier figures. A mother earning $32.90 per hour in a family where the father earns $1708 per week increases the family’s weekly disposable income by between $298 and $343 per week (depending on the number of children) when she goes from not working to working 20 hours per week. Increasing her work from 20 to 35 hours adds a further $236 to the family’s weekly disposable income. The total increase of $579 (with one child) is more than four times the $136 that a mother in a low income family adds to her family’s disposable income when she goes from not working to working 35 hours per week. Put another way, a high income family gets to keep just over half of the mother’s full-time earnings, while the low income family keeps less than a third.
Mothers in high income families face lower financial disincentives to increase their workforce participation than other mothers. Nevertheless, they still experience high EATRs some of the time, though these tend to occur when the mother is working only a few hours per week. The most notable feature of Figure 8 is the large spike in the EATR at seven, eight and nine hours for the families with one, two and three children respectively. This spike is caused when the family’s taxable income crosses the Medicare levy surcharge threshold. At this point the family pays an extra one percent of their total taxable income, increasing the father’s Medicare levy from $25.60 to $42.70 per week. This adds an extra 52 percentage points to the family’s EATR, which demonstrates the extremely high effective tax rates that sudden-death income tests create.\footnote{Of course, if the family has private hospital cover, they are not subject to the Medicare levy surcharge and such high EATRs at these points would not occur.}
4. Conclusion

This article examines the financial incentives for married mothers to increase their workforce participation. It follows the methodology in Beer (1998b) and looks at the EATRs for couples with different income levels and numbers of children.

Low income couples with children often gain very little disposable income when the mother increases her hours of work. Indeed, for some increases in hours the family can actually be financially worse off. Low income families with more children tend to gain less disposable income from increased hours of work because they receive more FTB-A, which is then withdrawn over a wider range of private income. This also contributes to the generally higher EATRs for families with more children – for every hour that a low income mother with three children works above eight hours per week, she loses at least 60 per cent of her hourly wage to the combination of tax, income tests on government cash payments and net child care costs.

For lower middle income couples with children the picture is a little brighter. The higher initial income and the mother’s higher hourly wage allow them to ‘escape’ from the extremely high EATRs that the low income families experience. For most increases in hours worked the mother faces an EATR of at least 40 per cent – and often above 60 per cent. Families with one child experience lower EATRs because they are only entitled to the base rate of FTB-A, which reduces their EATR by 30 percentage points for the first 16 hours the mother works, compared with a family with three children.
Upper middle income couples with one child face higher EATRs than couples with more children when the mother’s hours increase from 25 to 35 per week. Over part of this range, the family’s base rate FTB-A is withdrawn. The couple with three children are protected from this by the higher threshold applying to them.

High income couples with children generally face lower EATRs than other couples, although they too can experience high EATRs if they have more children or do not have private hospital insurance. For high income families, the additional costs of child care make up a smaller proportion of the mother’s hourly wage rate than for lower income families so their disposable incomes increase faster.

The results of this article suggest that some mothers face a difficult decision to return to work or increase their hours of work. The interaction of the tax and social security systems and the additional burden of increasing child care costs mean that for some types of families, particularly those on low incomes, the financial returns to increased hours of paid work can be quite small. While a high income couple with one child keeps half of the mother’s earnings when she goes from not working to working 35 hours per week, a low income couple with one child keeps less than a third.

If you subscribe to the stepping stone argument – that a low paid casual or part-time job now may lead on to a higher paid job with more hours in the future – then this result may be of concern. The people who stand to benefit from greater participation in the workforce are also the ones who face the highest financial disincentives to do so. This may contribute to long-term reliance on welfare: if low income mothers are discouraged from taking the first step, then they are much less likely to make the second and subsequent steps on the path to a more self-reliant future.

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