

# More than Just DNA – Tax, Welfare and the Family. An examination of the concept of family in the Tax Transfer system, with particular reference to family benefits

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## **Abstract:**

One of the core issues taken into account in tax transfer systems is the family circumstances of a particular recipient. Family tax transfer payments may be delivered through either the tax or the welfare system. However, the fundamental requirement is that there is a family, maintaining children. The concept of what is a family is a social rather than a legal construct. While marriage and spouse have legal definitions, family structures evolve and change over time.

In this paper I explore the concept of family as it is used in the Australian income tax and welfare legislation. I consider the impact of the legislative construct of family on the entitlements to tax credits, and whether the definition of family is appropriate to ensure that the benefits improve the equity of the taxation system, and properly reflect the structure of the contemporary family unit.

**Keywords:** Family, Tax-transfer, Welfare

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## Introduction

Defining the family is a contentious issue in Australian public policy. While the tax unit in this country has always been the individual, families have been recognised both for granting tax concessions, and in anti-avoidance rules. Simultaneously, we have a welfare system that is based on joint income. The current system of family tax benefits is a hybrid of the two views: a benefit that is considered to be a part of the tax system, but is based partly on joint income (FTB Part A) and partly on spousal income (FTB Part B).

This raises a number of issues relating to the recognition of families in the tax and welfare systems, and whether the two can be aligned.

The principle of tax equity is based on fairness in the tax system. Equity is generally measured against two criteria: vertical equity requires that a person who is capable of paying more tax should pay more tax; while horizontal equity requires that a person who is in same circumstances as another person should pay the same amount of tax as that other person. While these concepts are relatively easy to apply in the context of two people in similar personal circumstances, so that the criteria are only based on financial considerations, they are more difficult to apply when personal factors, such as family circumstances, are taken into account.

Equity considerations are, therefore, based on notions of fairness, which may vary between individuals and from time to time. For example, there is debate over whether children should be regarded as a private choice or a public good (Brennan and Cass, 2005). Similarly, should family benefits be means tested?

This paper considers the evolution of the family tax transfer system, examining it against the criteria of horizontal and vertical equity, which can provide conflicting outcomes (Brooks, 1996). Further, I shall examine how the concepts that are relevant to the family in the tax system are not always applied the same way in the welfare system, with the result that equity is not achieved. In particular, I shall consider, within the Australian context:

1. the relationships that form a family, and the effect that family structures have on tax and welfare entitlements, with particular reference to *de facto* and same sex relationships, and the impact of the different definitions applied in the tax and welfare systems;
2. universal benefits, which acknowledge that all families with children incur additional costs thus applying horizontal equity;
3. the lack of horizontal equity in relation to families of same sex couples, as they do not yet have the recognition given to *de facto* or married heterosexual couples<sup>1</sup>; and

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1 Although legislation has been introduced into Federal Parliament to address this issue, at the time of writing it has not been passed.

4. the application of vertical equity to benefits through means testing of the Family Tax Benefit, and the effect that targeting of benefits through means testing has on the withdrawal rate of benefits (effective marginal tax rates).

### **What is a Family?**

The evolution of the family benefit system needs to be considered in the context of the social construct of the family. Not surprisingly, it is very difficult to define a family. Even referring to the Macquarie Dictionary gives a broad range of meanings, from the narrow “parents and their children” to the broad “group descended from common ancestor”.

The Australian Bureau of Statistics uses a number of measures to report relationships (ABS, 2007b). Households, which are the basis of data collections, comprise a number of people living together. A household may include one or more families. A family is made up of two or more persons who are related and usually reside together. The relationship may be based on blood, marriage (or de-facto relationship), adoption, step or fostering. A family may be identified on the basis of a couple relationship, a parent-child relationship or other family relationships, and includes one-parent families, or couples with or without children.

Census data show a dramatic change in the composition of families and households over the past century. The trend is towards households having fewer children, with the significance of legal marriage declining as more couples cohabit, and more parents raise children without the assistance of a partner (AIFS, 2007).

Data on same sex relationships is less reliable. Since 1996 the Censuses of Population and Housing have recorded couples that self-describe their relationship as a same sex marriage relationship. In the 2006 census same sex couples are recognised as couples who report that they are in a de-facto relationship and are of the same gender. However the ABS cautions that this data has limitations as couples may be reluctant to record their status as such, or may not be aware that the data would be recorded if disclosed. Between 1996 and 2001 the number of couples self describing as a same sex couple nearly doubled from 10,214 to 19,596 couples, with a further increase to 24,681 in 2006 (ABS, 2007a). It is currently estimated that around 20% of lesbians and 5% of gay men are raising children, whether from a previous relationship, adopted or born into the relationship (HREOC, 2007 at p 90).

Therefore it can be seen that while family structures are diverse, the trend is towards households having fewer children, with the significance of legal marriage declining as more couples cohabit, and more parents raise children without the assistance of a partner.

## Horizontal Equity

### Treatment of Family Type:

Within tax and welfare legislation “families” are not generally recognised as such, but are defined in terms of two key relationships, being the spousal relationship and the parent/child relationship. While there are also limited provisions that apply to extended family members who are dependant<sup>2</sup>, discussion of those forms of support are not within the scope of this paper.

Social attitudes towards marriage and families have always been a major component in developing family policy that is politically acceptable. In welfare law this can be seen in the separate development of benefit and pension systems. Pensions were originally seen as being for the deserving, for example age pensions or disability pensions; while benefits such as unemployment benefits were seen as a safety net measure for those who needed temporary assistance. This distinction has broken down over the past two decades as means and assets tests have been progressively applied to both types of income support, work tests have been applied to benefits beyond unemployment benefits, and the criteria to qualify for pensions have become more restrictive.

To consider access to the Widow’s Pension as a case study, it was initially implemented by the Federal Government to assist widows with children under sixteen so that they were not forced to seek work to support their family. However an interesting feature of the Widow’s Pension was that it was initially available to the “widow” of a de facto marriage that had lasted for at least three years. In the face of claims that this definition undermined the institution of marriage, within a year such women were removed from the definition of “widow”, instead qualifying for support as a “dependant female”. It was not until 1973 that federal income support became available to single mothers<sup>3</sup>, through the Supporting Mothers Benefit.

Applying the criteria of horizontal equity to women in this situation, it was clearly not equitable to exclude certain women supporting families from benefits that were available to other women in substantially the same economic position. The sole reason for the exclusion was the marital status of the woman, which cannot be justified on either vertical or horizontal equity grounds.

### The Family in Tax Legislation:

Support available under the income tax law has been made available in respect of a spouse or, during certain periods, a child of the taxpayer. These terms are defined in the *Income Tax Assessment Act 1997* (ITAA97) as follows:

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- 2 Note in particular the tax rebates that are available in respect of invalid relatives and aged parents. However eligibility for these rebates is limited by an income test based on the income of the dependant. The inclusion of welfare benefits in the income test renders the rebate largely irrelevant.
  - 3 They may have qualified for State Government benefits, however such payments were minimal and discretionary in nature: see Brennan, D. and B. Cass (2005). *Welfare to Work Policies for Sole Parent Families in Australia and the USA: Implications for Parents and Children*. Australian Social Policy Conference 2005, Sydney.

“Spouse of a person includes a person who, although not legally married to the person, lives with the person on a genuine domestic basis as the person’s husband or wife<sup>4</sup>. ...  
“Child of a person includes the person’s adopted child, step-child or ex-nuptial child.”(ITAA 97 s.995-1).

Note that both of these definitions are inclusive definitions: i.e. they were inserted into the legislation to expand on the usual legal meaning of spouse and child. While the inclusion of the extended definition of “child” is longstanding, the extended definition of “spouse” is remarkably recent, as prior to amendment in 1990, “spouse” was presumed to refer only to a party to a legal marriage (see 82 ATC P24, paras 2 – 3)<sup>5</sup>.

It is worth noting that the Asprey Committee did consider this issue in 1975, in the context of determining the tax unit. However it considered that determining whether a de facto marriage existed could be difficult, and intrusive, to determine (Asprey, 1975 at para 10.29).

In contrast the sole parent rebate explicitly prohibited access to the rebate if the person was in a de facto relationship. From 1975 it was recognised that the growing number of de facto marriages impacted on family structures and the assistance that the State should offer, but prior to 1990 they were only recognised to the detriment of the taxpayer.

However the definition only recognises a current relationship, whether it is a marriage or a de-facto relationship. This does still raise some problems in dealing with family structures that in fact exist, as the definition of spouse becomes a reference point in defining the family. Where family relationships are relevant they are determined by reference to the relationship between the taxpayer and the person, particularly a spouse or child, and there is no generic definition of “family”<sup>6</sup>.

More problematic is the situation in respect of same sex couples. For the purposes of both tax and social security legislation, spouse is not extended to include a same-sex partner. The Commissioner of Taxation relies on the case of *Gregory Brown v Commissioner for Superannuation* (1995), in which it was held that two men in a long term homosexual relationship could not be described as living together as man and wife:

“We are compelled to find that section 8A extends only to husbands and wives, and not to other persons in similar or analogous situations. And as a “husband” and a “wife” are, according to our earlier findings, a man and a woman who are

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4 Note that the 1997 definition is effectively the same as the definition in s.6(1) ITAA36, which referred to a bona fide domestic basis.

5 It may be overly cynical to note at this point that where a de facto couple had a child residing with them, the amended definition in fact restricted their entitlements, as a de facto wife could be claimed as a housekeeper which disregarded her separate earnings.

6 This matter has recently been contentious in the context of the Family Trust provisions, where it is relevant in limiting the extent of anti-avoidance measures. However the definition of family is limited to that context, although the issues within tax legislation are broader.

married to each other, with or without a marriage ceremony, this cannot encompass partners in a homosexual relationship. (at para 59)”

Accordingly, although a couple in a same sex relationship may be in the same factual circumstances as a de facto couple, the relationship is not regarded as a spousal relationship under the income tax law.

In 2007 The Human Rights and Equal Opportunities Commission (HREOC) undertook a National Inquiry into Discrimination against People in Same-Sex Relationships: Financial and Work-Related Entitlements and Benefits. The final report (HREOC, 2007) detailed changes required to some 57 federal laws to remove discrimination between same sex and hetero sexual couples.

The Federal Government, elected in November 2007 has introduced legislation into the Federal Parliament to provide equality for same sex families in relation to tax, superannuation, social security and other areas of Commonwealth law, as recommended in the HREOC report.

#### **The Family in Welfare Legislation**

For the purposes of the *Social Security Act 1991* (SSA), the term that is used is to define a spousal relationship is “member of a couple”. This is defined extensively in s.4 SSA and includes legally married couples that are not separated, and couples of the opposite sex who are over the age of consent and living in a “marriage-like relationship”. In determining what is a “marriage-like relationship” there is a series of criteria that the Secretary must consider, including:

- The financial aspects of the relationship;
- The nature of the household;
- The social aspects of the household;
- Any sexual relationship; and
- The nature of the people’s commitment to each other.

These factors are set out in far more detail in the Social Security legislation than in tax legislation, although the same criteria would clearly be relevant in determining whether a couple was living “as husband and wife” for tax purposes, or as a “member of a couple” for Social Security purposes.

For the purposes of the *A New Tax System (Family Assistance) Act 1999* (FAA), the core relationship is the parenting relationship. The benefit is payable to a person who has a FTB child<sup>7</sup>.

However, once it has been established that the parent has a FTB child, the benefits are calculated on the income of the couple.

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<sup>7</sup> Refer s.22 FAA: the child must be under 18 or a student under 25, the adult must have care or be legally responsible for the child and the child must be resident or living in Australia with the adult.

While there is no effective difference in entitlements between de facto couples and married couples in the entitlement to FTB, anomalies remain in relation to same sex couples. As the definition of “member of a couple” specifically requires the adults to be of the opposite sex, the income of the adults is not aggregated in applying the income test; and further, by being treated as single, the parent will be entitled to benefits on the same basis as a single parent. However, the child will only be recognised as the FTB child of the person who is legally the parent – whether adopted or by birth, which may result in anomalies in the case of shared care arrangements.

#### **Universal Benefits:**

The family tax benefit is made up of two components, with different origins and functions, as reflected in the design of the benefit. While the FTB Part A (FTBA) is based on family income, and is designed to supplement that income, FTB Part B (FTBB) is based on the income of the secondary income earner.

#### **The Origins of FTB Part B – Personal Tax Deductions**

The history of the FTBB can be traced through the tax concessions that applied where a taxpayer was supporting a dependant spouse. Unlike payments for children, the payments for dependant spouses, being based on the income of that spouse, have reflected horizontal equity rather than vertical equity. Regardless of the income of the family, or the “breadwinner”, the element measured to determine equity has been the income of the spouse. This aspect was carried into the original design of FTBB. However in the first Rudd budget, for the 2008-09 year, a family income test for FTBB was introduced at a level of \$150,000. This cap is based on principles of vertical equity, on the basis that families earning more than \$150,000 per year do not need financial assistance through FTBB.

While the Australian system has always been based on the individual as the tax unit, since the introduction of the Federal Income Tax family support mechanisms have been built into the income tax system. These systems have been based on the traditional model of a single income breadwinner, usually male, as they have specifically relied on dependency of the spouse or child. From 1936 dependant spouse deductions were available, with the amount reduced for income earned separately by the spouse. When the Asprey Committee handed down its interim report in June 1974 one of the recommendations was that income tax support for families be changed from a system of deductions to a system of rebates<sup>8</sup>. By the time that the final report of the committee was tabled in the following year (Asprey 1975), the government had announced that the system of concessional deductions would become a system of concessional rebates, calculated without reference to the marginal tax rate of the claimant, as a more equitable system of providing tax relief.

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<sup>8</sup> The Australian Committee of Enquiry into Poverty, chaired by Ronald F Henderson, enquiring into poverty concurrently, also recommended that the Child Endowment payment be increased and tax concessions be removed. It estimated that 25.9% of families with 4 or more children, and 7.2% of families with fewer than 4 children lived in poverty. Overall child poverty was estimated at 15.6%. Henderson RE, (1974) Interim Report



The committee went on to discuss the inefficiency in having a universal payment, child endowment, available parallel to the tax deduction, and recommended combining the two.

#### **The Origins of FTB Part A – The Child Endowment Scheme**

The universal Child Endowment payment was introduced by the Federal government in 1941, replacing the child tax deductions that were available at the time. The introduction followed a decision of the Commonwealth Court (of Conciliation and Arbitration) in which Beeby J noted that the arbitrated minimum wage at the time would barely support a family of three (Holt, Hansard, 27/3/1941). Child endowment was a universal, fixed amount payable to a person maintaining children and dependant students, varying with the number of children. The amount was usually paid to the mother, although it could be paid to another person at the Commissioner of Pensions' discretion (*Child Endowment Act 1941*, s.18 (1)). By the time the Asprey Commission was appointed in 1972 the value of the Child Endowment had eroded, with tax deductions, which had been reintroduced, becoming more significant as a benefit delivery method.

In respect of Child Endowment, at least, the Government implemented the recommendations of the Henderson and Asprey Committees, with the dependant child deduction being abolished<sup>9</sup>, but substantially increasing Child Endowment rates, to be later renamed as Family Allowance. Spouse deductions were converted to rebates with the amount payable being dependant on the income earned by the spouse, and sole parent rebates became available to persons with the sole care of their children. The assistance available to a family was substantially increased through these changes.

This remained the framework of family assistance for the next 10 years. Payments in respect of children were made outside the tax system, through direct transfers. Such payments were made to the primary carer of the children, usually the mother. However, the means testing of Family Allowance, introduced in 1986 (for students) and 1987 (for all children) represented a significant change in the underlying policy of family assistance.

A universal benefit focuses on horizontal equity: all families are entitled to recognition of the additional costs that are borne by families with children. Introduction of a means test recognises that some families need assistance with the cost of raising children, but that some families do not require assistance – an application of vertical equity. The means test as applied in Australia is not used to gain access to the benefit, thus restricting it to those in need; but it is an affluence test, applied to limit access by high income earners who are not perceived to need assistance. This is a much more politically acceptable message in Australia<sup>10</sup>.

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9 Although retained for the calculation of certain other rebates

10 As seen by the introduction of the means testing of FTBB to high income families in 2008



The justification of the dependant spouse rebate was as a recognition that sole income families are in a different position to families where both are working. However this is based only on the dependant status of the spouse, as measured by her income. In that sense, the dependant spouse rebate was not a means tested benefit, as a single income family earning \$100,000 would qualify, while a family where both parties were earning \$50,000 would not qualify. However, the overall tax paid by the family is lower in the case of the dual income family, as the impact of the progressive tax rate scale and the tax free threshold ensure that the second income is taxed at lower rates than increases to the income of the primary earner.

## **Needs Based Transfers – Vertical Equity**

### **Basic Income Support**

Historically, families reliant on income support welfare payments, that may not have been able to access tax concessions, were supported through supplements to these payments. This form of assistance for families in receipt of income support set the pattern with the additional family component tied to eligibility for basic income support, as the minimum wage regulated a base level of income for those in work which was considered sufficient for a family to live on (Castles, 2001; Cass, 1988).

However, following the recession of the early 1980's it became clear that there was an increasing problem in relation to the "working poor". The Family Income Supplement<sup>11</sup> was the first supplement intended to be claimed by low income families in work, and matched the additional payments available to income support recipients. This expansion of the benefit for low income earners was partly funded by reducing access for high income earners, through the introduction of assets tests as well as income testing, further strengthening the vertical equity of the scheme while reducing the universality of the payment.

These benefits were paid into the hands of the breadwinner, traditionally the father. This assumes that there is an appropriate allocation of resources within the household, and that the additional resources will be pooled to support the family. It has, however, been shown that it is more effective to deliver funds into the hands of the primary carer (mother) to ensure that the funds are actually used on the welfare of children (Joseph Rowntree Foundation, 1998).

In contrast, maternity payments<sup>12</sup> and Child Endowment / Family Allowance were generally paid to the mother. Further reforms of the 1980s redirected these benefits away from the pay packet of the breadwinner into the hands of the primary carer. This move was strengthened with the Home Child Care Allowance (HCCA), which allowed families to choose to "cash out" the

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11 Subsequently the Family Allowance Supplement

12 Maternity benefits were a (generally) universal benefit payable to new mothers between 1912 and 1978; and reintroduced in 1995. With one notable exception these were one off payments, and not paid through the taxation system. As these are one off payments, I have excluded the impact from the discussion in this paper.

dependant spouse tax rebate so that it was paid directly to the primary carer. The value of this benefit was still dependant on the income of the secondary earner.

Therefore by 1996 when the Howard government was elected, family support was available as follows:

- Basic Family Payment available to all except high income earners (affluence tested);
- Additional Family Payment available to low income earners (means tested);
- Basic Income Support Payments were increased based on the number of dependants of the claimant;
- Dependant spouses could claim HCCA which was an alternative to a spouse tax rebate payable to the principal earner; and
- Most payments were made to the principal carer, with the exception of basic income support payments and the dependant spouse tax rebate if not converted to the HCCA.

While this system was undeniably complex, particularly when determining the entitlements of a particular claimant, it reflected principles of vertical equity in that families in need were entitled to more assistance; and it also facilitated payment to the principal carer, who generally makes the decisions about the use of those funds.

Notably, this was an aspect of the system that was reversed under the Howard Government. Early reforms to the system (Family Tax Initiative) returned payments to the tax system or incorporated them into welfare payments, and the Family Tax Benefit was delivered either as a transfer payment or through the tax system. The view of the traditional family was strengthened under the Howard scheme, which was clearly designed to assist, if not encourage, families where one parent works and the other is the principal carer.

### **The Current System: Welfare, Tax and Equity**

This unwieldy system was replaced in 2000 by the Family Tax Benefit (FTB) (ANTS FTAA 1999)<sup>13</sup>. The first, the Part A benefit (FTBA) is based on family income, while the 2<sup>nd</sup>, Part B, (FTBB) is based on the income of the principal carer, and whether there is a child under the age of 5. It is also available either as a tax offset or a direct payment, but unless the recipient is on income support payments, the client has the choice of the method of payment. Taper rates apply separately to the two components of the FTB at levels that have been criticised as discouraging the secondary earner from rejoining the workforce (Harding, Vu et al. 2006).

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13 For a more detailed analysis see Hodgson, H. (2004). "Mum, It's Not Fair: Family Transfer Payments in the context of Equity and Simplicity." *Australian Tax Forum* 19(3): 283.

The problem in discussing the FTB in this context is that it is not clear whether it is in fact a transfer payment or tax benefit. While it is called a tax benefit, and discussed by the Government as such, more than 90% of recipients choose to take the benefit as a direct transfer payment. The benefit is administered through the Family Assistance Office, which is a joint venture between the Australian Taxation Office, Centrelink and Medicare. This hybrid administration is the primary reason for a number of the problems in the design of the FTB (Hodgson and Boden, 2008).

The justification for family payments is that the funds assist families in need in raising their children. This was explicitly stated in the early Child Endowment legislation, which required the funds to be spent on the maintenance and welfare of the child; and restated in the FTB proposals which reiterate that FTBA is to assist with the cost of raising children. However given the inherent inconsistency in means testing such payments as all parents incur additional costs as a result of their choice to have children, the modern purpose could more appropriately be described as assisting low and middle income families with the cost of raising children.

The evolution of the universal Child Endowment payment into the current FTBA reflects the retreat from universality. From the time that the universal Child Endowment became means tested, the test was based on family income. The steps and plateaus of the FTBA rates are intended to target the benefit so that only wealthy families are excluded from assistance with the cost of raising children, while a higher level of assistance is granted to low income families.

However, the impact of the withdrawal rates of the FTB is not on the wealthiest families, due to the effect of the concurrent withdrawal of FTBA and FTBB, as increasing spouse income also increases family income. While the current system has improved vertical equity, reducing effective marginal tax rates for most families, it is families in the 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> decile that currently face the highest effective marginal tax rates (Harding, Vu et al., 2006, Figure 6).

FTBB served a different function to FTBA. FTBB was a horizontal equity measure that endeavoured to compensate for the different tax structure of the single income family. There has been recurring debate over whether families should be permitted to split income between working and non-working spouses to obtain the benefit of two tax free thresholds (Head and Krever, 1996), although the proposal had been considered and rejected by the Asprey Committee (Asprey, 1975). However the changes proposed in the 2008-09 Budget have undercut this aspect of the payment. Despite the merits of means testing, by introducing family means tests on FTBB the principle of need has been given priority over compensating for structural differences in the tax system faced by single income families.

As FTBA means testing is applied to the income of the family, this requires joint assessment of income, similar to the tests used in welfare legislation. As the welfare system is designed to provide benefits to families in need, it is appropriate to measure the income and assets available to a household on

a joint basis, whereas the income tax system is designed to tax the income of individuals, as individual economic units. Dependency relationships are relevant in the tax system to enhance the equity of the tax system either by acknowledging the effect of progressive tax rates on a single income, or to compensate for the cost of maintaining a spouse. In the welfare system they are designed to deny benefits to those not in financial need, by taking household income into account. Therefore, generally it would be to a person's advantage to acknowledge that they are in a spousal relationship for tax purposes, while it would be to their detriment to acknowledge the relationship for social security purposes, as it would reduce entitlements.

### **Conclusions:**

There are many anomalies in the operation of the family support system, which have largely arisen as a result of the evolution of the system. One of the fundamental problems with the FTB is that it tries to combine elements of the taxation system with the welfare system, in the interests of integration. If considered as part of the taxation system entitlement is based on joint income, contrary to the design principle that the tax unit is the individual; although within the welfare framework joint income is the more appropriate measure.

It has been argued that the spousal relationship should be disregarded for the purposes of determining family relationships, which should be determined by the relationship to the child (Stewart, 1999). Under the current legislation the primary relationship to determine eligibility for family tax benefits is the child rather than the spouse, as eligibility for benefits depends on the existence of a dependant child. However when determining the amount of the entitlement, this is based on the income that the household has available to support the child, including spousal income.

In considering horizontal equity, the same sex family has clearly not been treated equally under either tax or welfare law. While it is usually to the benefit of this family type to be treated as a sole parent family, for many families in this situation the desire to have their relationship recognised outweighs any financial loss they may suffer<sup>14</sup>. The proposed changes to recognise same sex relationships will go some way to rectifying this imbalance.

Members of the Howard government were adamant that the FTB is part of the tax system. This is not consistent with the way in which it is delivered, and regarded by most recipients, who take it as a regular payment to assist in meeting ongoing household expenditure. It would seem that the former Government's reasons in calling it part of the tax system were more to do with the ability to take FTB into consideration when discussing the tax cuts that the government has provided to low income families.

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<sup>14</sup> There are other areas of law where recognition of a same sex spouse would confer benefits, but these may not be financial benefits; eg the right to make medical decisions in respect of their partner.

In terms of the equity of the system, Australians have become accustomed to valuing vertical equity over horizontal equity. For the last 20 years we have accepted that family benefits are to assist families in need, and as aspirational voters we support programs that improve vertical equity – as most recently demonstrated by the proposed changes to FTBB. However the trade off is that we then impose high effective marginal tax rates as recipients cease to qualify for the assistance. In contrast, a universal benefit would apply the principle of horizontal equity, and may resolve some of the issues of the high effective marginal tax rates – however to be revenue neutral, benefits overall would need to be reduced, and low income families would lose out.

Even the most conservative of governments would balk at that.

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