

There is much debate on the topic of how to ensure women who wish to go back to work are able to do so without significant hardship or difficulty. Such debate often includes discussion on how to eradicate positive financial incentives for women to stay out of the workforce.

It's here that the tax system may be able to assist in a key area of debate – the cost of childcare.

Australian families are increasingly balancing work and family responsibilities. As a result, there is a direct relationship between the cost of childcare and the decision of many women to remain at home or return to the workforce.

Studies show that, as the price of childcare increases, there is a corresponding decrease in the number of hours that women are in paid employment. For parents who need to use childcare to work, childcare is a cost of employment.

It is with this in mind that the Government currently offers two main childcare payments: the Childcare Benefit and Childcare Rebate.

Under the current tax law, childcare costs are deemed private expenditure which is not deductible, although they are, in most cases, essential because of a taxpayer's employment. The Henry Tax Review of 2009 acknowledged that our current system is confusing, with high effective marginal tax rates adversely influencing taxpayer behaviour.

Means-testing access to childcare payments contributes to high effective marginal tax rates. It encourages lower income earners back into the work-force with the presumption that higher income earners will return to work irrespective of the concession.

The Tax Institute believes that by allowing tax deductions for childcare costs, a major disincentive preventing women from returning to work would be removed.

Tax deductions for the costs of childcare, if appropriately targeted, would encourage highly educated women who bear primary care responsibility to return to work. Of course, tax deductions should only be available to reduce the tax on income from employment or self-conducted business income so that they are unequivocally tied to enhancing productivity.

In other words, taxpayers should not subsidise the childcare expenses of a parent who is still at home earning bank interest or share dividends.

The advantage of making childcare costs tax deductible is that market forces rather than Government intervention would determine work force participation, which would allow legitimate costs of work force participation to be appropriately deducted from income.

For example, if a highly educated woman who bears the primary childcare responsibility (as many women still do) wants to go back to work and does so, her salary will be taxed, increasing the nation's productivity and the Government's tax take. Her decision to go back to work has grown the pie and therefore everyone's share of it.

Economically, this woman does not "make" a single dollar until she has made at least as much post-tax income as the cost of her childcare.

Tax deductibility would assist in eliminating existing positive incentives for primary carers to stay out of the workforce, yielding a variety of benefits for individual families as well as the nation.

Tax deductibility of childcare costs therefore deserves careful consideration.

Of course, any scheme would need to be supplemented with means-tested access to the childcare rebate, to ensure that women in lower marginal tax brackets who cannot benefit as greatly from deductibility of childcare are also appropriately supported.

However, this assistance should be in addition to a wider consideration of deductibility of childcare costs.

Of course, subsidising costs is only half the battle. Availability of childcare places and workplace flexibility allowing part-time employment are also key factors.

But if we can get the tax system to better recognise the true income-dependent nature of childcare costs, we'll take a significant step in the right direction.