

TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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Child support payments – what to look out for?

Child Support Payments

You probably have clients who pay or receive child support and hence ask you for advice, for example whether salary-sacrificing super affects child support payments.

Simon Bacon of [Manby & Scott](#) is a family law lawyer specialising in child support arrangements, so perfect to ask how child support works, how it is calculated and paid and how you can or can't influence the amount.

Here is what we learned but please listen in as Simon explains all this much better than we ever could.

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A – Types of Child Support Arrangements

There are four types of child support arrangements. The two most common ones are the first two – Child Support Agreements and Child Support Assessments.

A1 – Child Support Agreements

If there is significant wealth and income and enough money to involve lawyers, then you might enter a child support agreement.

You can agree on things an assessment wouldn't cover. The most common one are payments of private school fees and health insurance.

An agreement usually results in higher payments for the caring parent. Otherwise, why would they give up their right to an assessment?

And an agreement usually gives both parents more certainty, since it often involves fixed regular payments.

There are two types of agreements you can enter, limited or binding. Limited means that the agreement only covers certain areas and is not binding.

But even a binding agreement can be changed if your circumstances change. This usually involves a court order, since the other parent might not agree to the change.

A2 – Child Support Assessment

If you don't do a child support agreement, you can apply for a child support assessment.

For an assessment Services Australia will review your respective taxable incomes and care arrangements – who has the children for how many nights – and then assess the amount of child support payments based on a formula.

The formula is quite complicated but there is a calculator on the Services Australia website. The formula uses taxable income, so assessable income less deductions.

A3 – Self Management

Self management means you work it out between the two of you without lawyers drawing up official agreements and without Services Australia probing into your personal circumstances.

So you don't get a child support assessment and you don't have to register with Services Australia.

The draw back is – among others – that you only get the base rate of Family Tax Benefit Part A.

A4 – Court Ordered Child Support

You can apply for a court order when the other options don't. For example for an adult child over 18 at Uni or TAFE or a child with disabilities. Or when you want to change a binging agreement.

After the court order is issued, Services Australia will collect the court ordered amount upon application.

B – Types of Collections

Once the amount of child support has been set, there are three ways to collect it.

B1 – Yourself

This is the only option, if you self manage child support. If you self manage, you are on your own.

B2 – Child Support Collect

This is by far the most common form of collecting child support payments.

Services Australia or their contractors will collect the child support, usually by directly withholding from salaries and wages.

B3 – Private Collect

You can engage a private firm to collect the payments, but this is rare.

C – Self Support Income

The paying parent gets a self-support amount of around \$25k per annum. Think of it as an exemption. No child support is applied to the first \$25,000 you earn. The amount slightly increases every year.

The amount is 1/3 of annualised Male Total Average Weekly Earnings (MTAWE).

D – Fixed v Variable

An agreement usually involves fixed regular payments. So once you have entered an agreement, your child support payments are fixed. There is little the paying parent can do to decrease the liability, unless you seek a court order.

An assessment however results in varying child support payments. Payment obligations vary depending on taxable income and care of the children.

E – Ways NOT To Decrease Payments

If you are subject to an assessment, here are three ways how you can NOT decrease your payment obligation.

E1 – Salary-Sacrificed Super Contributions

Salary-sacrificed super contributions (ie. anything in excess of 9.5% Superannuation Guarantee) have no effect on your child support assessments.

Any salary-sacrificed super contributions are added back to your child support income, used to calculate child support.

Salary-sacrificed super falls under 'reportable employer super contributions' and hence shows up on tax returns under IT2. The ATO has this data and shares it with Services Australia.

E2 – Investment Losses

Investment losses as reported in your tax return are also added back to your child support income, so won't affect your payments.

E3 – Moving to a Reciprocating Country

Australia has reciprocating arrangements with a long list of countries. If you move to one of these, Services Australia will still be able to enforce your payment obligations.

F – Ways To Decrease Payments

Here are ways to decrease your child support payments if subject to a assessment.

But beforehand, let's just confirm one thing. When you try to reduce your child support payments, it is not to harm your children. You just want to spend the money directly on your children and not place it into the hands of the other parent.

With that in mind, here are five ways you can reduce your payment obligation if you have a child support assessment.

F1 – Increase Care

The more time you spend with your children, the less you pay. Later on your children won't remember the extra \$10k you paid. But they will remember the time you spent with them.

F2 – Live More

Live more and work less. So you earn less and hence have a lower income going into the assessment formula, reducing your payment obligation.

You only live once. Look up and find activities that make you happy. Do more self-care. Be kind to yourself.

F3 – Run Your Own Business

Running your own business gives you more flexibility around income. Talk to your accountant or reach out to us at [numba](#).

F4 – Move to an Island

Move to a country Australia doesn't have a social security agreement with. Currently there is no agreement with the Cook Islands, Samoa, PNG, Yukon and Israel.

If you move to one of those, Services Australia can't reach you. The question is just what happens when you come back to Australia later on.

F5 – Work for Cash

Illegal and can get you into all sorts of trouble with the ATO as well as Services Australia and so on, but we would be lying if we said that nobody does it.

So this is a short summary of what we learned. But don't rely on hear-say. Please listen to Simon Bacon in this episode since Simon explains all this much better. He is the expert. We just wrote down what we learned.

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