

1985

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

SOCIAL SECURITY (POVERTY TRAPS REDUCTION) BILL 1985

EXPLANATORY MEMORANDUM

(Circulated by authority of the Minister for Social
Security, the Hon B Howe MP)

OUTLINE

This Bill will give effect to the Statement by the Treasurer, the Hon Paul Keating, on 19 September 1985 concerning the "Reform of the Australian Taxation System" insofar as it concerns the reduction of poverty traps which affect persons in receipt of social security income support payments. The text of the relevant part of the Statement follows:

POVERTY TRAPS

As part of the reform package, the Government has recognised that certain social security arrangements presently provide little incentive for pensioners and beneficiaries to earn extra income.

Accordingly, the Government will take a number of steps to alleviate the problems caused by these poverty traps.

First, from 1 November 1986, the amount of private income that a pensioner may earn before his or her pension is reduced under the income test will be increased by \$10 per week for single pensioners and by \$20 per week for pensioner couples.

This increases the amount single pensioners can earn each week without affecting the pension from \$30 to \$40, and for couples, from \$50 to \$70.

As a result the pension payment received by all of the 450,000 recipients who currently receive a part-rate pension will increase by up to \$5 per week.

Those pensioners earning in the range \$30 to \$40 per week may continue to face a small tax liability, but will no longer be subject to the 50 cents in the dollar income test as well.

Secondly, the Government will abolish the separate income test on rent assistance.

This test at the moment leads to the withdrawal of 50 cents in rent assistance for the first and each subsequent \$1 of income earned.

The inclusion of rent assistance in the general income test will reduce the marginal rate of income withdrawal faced by some 700,000 pensioners and beneficiaries receiving rent assistance, in most cases from 50 per cent to zero.

A benefit of up to \$15 per week will flow to some 300,000 pensioners with non-pension income in private rental accommodation.

Thirdly, the Government proposes to further assist pensioners with children.

At present, the weekly income a pensioner may earn without reduction of pension is increased by \$6 for each child.

This allowance is to rise to \$12 per child.

The measure will increase the pension of all part-rate pensioners with children by up to \$3 per week for each child.

All three measures will be introduced from the first pension and benefit payday in November 1986 as the tax reform measures begin to take effect.

The effects of the three measures I have announced may be illustrated by the case of a supporting parent or pensioner with 2 children living in rental accommodation.

At present, if such a pensioner earned \$100 a week of private income, the social security pension plus rent assistance is reduced by \$44.

From November next year, this pensioner would lose only \$18 in reduced benefits for a total gain of \$26 a week.

The full year effect on outlays of the measures is estimated at about \$215 million.

Net full year costs will be around \$185 million as some part of the outlays will be clawed back in personal income tax in later years.

The text of details of the poverty traps measures follows:

19. POVERTY TRAPS

SUMMARY

The Government has decided to make certain changes to social security arrangements from November 1986, in the overall tax reform context, to alleviate some of the problems caused by poverty traps. The measures include:

- . increasing the pension free area by \$10 per week, to \$40 per week for single pensioners and \$70 per week for a couple;
- . removing the separate income test on rent assistance; and
- . increasing the income disregard for each child of a pensioner from \$6 to \$12 per week.

Pensioners and beneficiaries with non-pension income will also benefit from the increase in the income tax threshold and the reduction in marginal tax rates.

COMMENTARY

Increase in the Pension Free Areas

Just as the zero rate scale threshold protects low income taxpayers from actually paying tax, the pension free areas (currently \$30 per week for single pensioners and \$50 per week (combined) for couples) protect pensioners from a loss of pension when they have only modest amounts of private income. The free areas have been increased only once since 1972. The increases in the pension free areas to \$40 per week for single pensioners and \$70 per week (combined) for pensioner couples will protect about 140,000 social security and repatriation pensioners from any loss of pension. In addition, those pensioners with private incomes in the range over which the free areas will be increased will experience a significant reduction in their effective rates of income withdrawal - from 68.75 per cent to 36.5 per cent. Further, all 450,000 current part-rate pensioners will receive an increase in their pension of up to \$5 per week each.

Removal of Separate Income Test on Rent Assistance

Pensioners and beneficiaries renting in the private market receive a special payment (rent assistance) of up to \$15 per week. Eligibility for this payment is subject to an income test which commences to reduce rent assistance from the first dollar of non-pension/benefit income. The proposed measure will remove this income test and rent assistance, like other special needs supplements to basic pensions and benefits, will be withdrawn under the normal pension/benefit income tests. This will have the effect of reducing the effective marginal rates of withdrawal faced by nearly 700,000 social security pensioners and beneficiaries and repatriation service and widow pensioners, in most cases from 50 per cent to zero. Close to 300,000 will receive an increased payment of up to \$15 per week.

Increase in Income Disregard for Children

At present, an amount of \$6 per week per child is "disregarded" in applying the pensions income test. The proposed measure will increase the amount to \$12 per week. This measure will mean an increase in pension of up to \$3 per week for each child for all of the 50,000 part-rate pensioners with children. The "income disregard" has not been increased since 1972 and its real value has, as a consequence of movements in the general level of prices and incomes since then, been greatly reduced. This measure will also reduce the marginal withdrawal rates faced by some 10,000 pensioners with small non-pension income.

REVENUE

As the measures are intended to apply from the first pension and benefit paydays in November 1986, the gross outlays cost is estimated at about \$140 million in 1986-87 and about \$215 million in 1987-88; net ongoing full year costs will be around \$185 million as some part of the outlays will be returned in personal income tax in financial years following the year in which the measures are implemented.

The effect of these measures is illustrated in the following table:

ILLUSTRATIVE TABLE OF BENEFITS UNDER POVERTY TRAP MEASURES

Private Income \$100pw	Current Pension Reduction	Pension Reduction From Nov 1986	Gain	Current Rent Assistance	Rent Assistance from Nov 1986	Total Gain
	\$pw	\$pw	\$pw	\$pw	\$pw	\$pw
Single pensioner:						
- No children						
. not renting	35	30	5	-	-	5
. renting	35	30	5	-	15	20
- Two children						
. not renting	29	18	11	-	-	11
. renting	29	18	11	-	15	26
Pensioner couple (combined):						
- No children						
. not renting	25	15	10	-	-	10
. renting	25	15	10	-	15	25
- Two children						
. not renting	19	3	16	-	-	16
. renting	19	3	16	-	15	31

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Clause 1: Short title, &c.

This clause would provide that the amendment Act could be cited as the Social Security (Poverty Traps Reduction) Act 1985, and that the Social Security Act 1947 would be referred to as the Principal Act in the amendment Act.

Clause 2: Commencement

This clause would provide that the amendment Act would come into operation on 1 November 1986.

Clause 3: Rate of age or invalid pension

Section 28 of the Principal Act provides for the rate of age or invalid pension.

The "free area" of income in respect of an age or invalid pensioner is prescribed in paragraph 28(2)(a). There are two free areas, depending upon whether a pensioner is a single or a married pensioner.

A single pensioner currently has a free area of \$1,560 per annum (ie \$30 per week). A married pensioner currently has a free area of \$1,300 per annum (ie \$25 per week), which is \$2,600 per annum (ie \$50 per week) in respect of a pensioner couple.

Paragraphs 3(g) and (h) would amend sub-paragraphs 28(2)(a)(i) and (ii) to increase these rates by \$10 per week. A single pensioner would then have a free area of \$2,080 per annum (ie \$40 per week). A married pensioner would then have a free area of \$1,820 per annum (ie \$35 per week), which is \$3,640 per annum (ie \$70 per week) in respect of a pensioner couple.

Paragraphs 3(a) to (f), inclusive, and (j), would make amendments to section 28 consequential upon the removal of the separate income test on rent assistance.

Paragraph 3(k) would insert a new sub-section 28(3) to provide rules for the reduction of the rate of pension applicable to a pensioner under the normal pension income or assets test.

The rules provide that the basic rate of pension is reduced first. The basic rate of pension (other than invalid pension where the pensioner is below age pension age) is not exempt income for the purpose of income tax and the effect of this rule is that the component of pension which is subject to income tax is affected by the pension income or assets test first.

The current increases in the basic rate of pension are additional pension in respect of each dependent child of a pensioner, and "mother's/guardian's allowance" which is an additional pension in respect of one or more dependent children of a pensioner who is a sole parent.

This Bill proposes another increase in the the basic rate of pension, by removal of the special income test applicable to rent assistance and the addition of rent assistance to the base rate of pension subject to the income or assets test.

The new sub-section 28(3) provides for the reduction of this proposed increase next.

Additional pension and "mother's/guardian's allowance" would be reduced last.

The current increases, and the proposed increase, in the basic rate of pension are exempt income for the purposes of income tax.

The reason for this order of reduction is that additional pension attracts other income security payments, such as remote area allowance. By reducing this increase last, any entitlement to other payments will be retained provided some pension entitlement is retained.

Clause 4: Calculation of income in respect of children

Section 29 of the Principal Act provides for the "income disregard" in respect of each dependent child of a pensioner under Part III of the Principal Act. The income of the pensioner is reduced by -

- . in the case of a single pensioner - \$312 per annum (ie \$6 per week) for each dependent child; and
- . in the case of a married pensioner - \$156 per annum (ie \$3 per week), which is \$312 per annum (ie \$6 per week) for the pensioner couple, for each dependent child.

This clause would amend section 29 to double these rates.

Clause 5: Omission of heading

This clause would omit the heading to Division 4A of Part III of the Principal Act, which deals with rent assistance, in consequence of the removal of the separate income test on rent assistance.

Clause 6: Repeal of section 30A and substitution of new section

Section 30A of the Principal Act provides for rent assistance payable to a pensioner under Part III of the Principal Act. This clause would repeal section 30A and substitute a new section 30, which will provide for rent assistance as an increase in the basic rate of pension under Part III. The rate of pension so calculated would then be subject to the normal pension income or assets test under sub-section 28(2) of the Principal Act.

Clause 7: Notification by pensioner

Section 30B of the Principal Act requires a pensioner under Part III of the Principal Act receiving rent assistance under current arrangements to notify the occurrence of events which affect the payment, or the rate of payment, of rent assistance.

In consequence of the removal of the separate income test on rent assistance, this clause would amend section 30B to reflect the proposed change in arrangements.

Clause 8: Rate of wife's pension

Section 32 of the Principal Act provides for the rate of wife's pension.

The "free area" of income in respect of a wife's pensioner is prescribed in paragraph 32(2)(a), and is currently \$1,300 per annum (ie \$25 per week).

Paragraph 8(a) would amend paragraph 32(2)(a) to increase this rate by \$10 per week. A wife's pensioner would then have a free area of \$1,820 per annum (ie \$35 per week).

Paragraph 8(b) would insert a new sub-section 32(4) to provide rules for the reduction of the rate of pension applicable to a wife's pensioner under the normal pension income or assets test.

The rules provide that the basic rate of pension is reduced first. The basic rate of wife's pension is not exempt income for the purposes of income tax (except where the pensioner's husband is an invalid pensioner and both are under age pension age), and the effect of this rule is that the component of wife's pension which is subject to income tax is affected by the pension income or assets test first.

The current increases in some circumstances in the basic rate of wife's pension are additional pension in respect of each dependent child of a pensioner, and "mother's/guardian's allowance" which is an additional pension in respect of one or more dependent children of a pensioner who is separated from her husband due to illness.

This Bill proposes another increase in the basic rate of wife's pension, by removal of the special income test applicable to rent assistance and the addition of rent assistance to the base rate of pension subject to the income or assets test.

The new sub-section 32(4) provides for the reduction of this proposed increase next.

Additional pension and "mother's/guardian's allowance" would be reduced last.

The current increases, and the proposed increase, in the basic rate of pension are exempt income for the purposes of income tax.

The reason for this order of reduction is that additional pension attracts other income security payments, such as remote area allowance. By reducing this increase last, any entitlement to other payments will be retained provided some pension entitlement is retained.

Clause 9: Receipt of income or occurrence
of event to be notified

Section 45 of the Principal Act requires a pensioner under Part III of the Principal Act to notify the receipt of income above the "free area", and the occurrence of specified events, which affect the payment, or the rate of payment, of pension.

In consequence of the removal of the separate income test on rent assistance, paragraphs 9(a) and (c) would amend section 45 to reflect the proposed change in arrangements.

In consequence of the increase in the "free area" of income from \$30 to \$40 per week in the case of a single pensioner, and from \$50 to \$70 per week (combined) in the case of a pensioner couple, paragraphs 9(b) and (d) would amend section 45 to reflect the proposed change in arrangements.

Clause 10: Inmates of benevolent homes

Section 50 of the Principal Act provides special arrangements for the payment of a pension to which a pensioner who is an inmate of a benevolent home is entitled under Part III of the Principal Act. For the purpose of those arrangements, both the pension and any rent assistance payable to the pensioner are taken into account.

In consequence of the removal of the separate income test on rent assistance, this clause would amend section 50 to reflect the proposed change in arrangements.

Clause 11: Rate of widow's pension

Section 63 of the Principal Act provides for the rate of widow's pension.

The "free area" of income in respect of a widow's pensioner is prescribed in paragraph 63(2)(a), and is currently \$1,560 per annum (ie \$30 per week).

Paragraph 10(a) would amend paragraph 63(2)(a) to increase this rate by \$10 per week. A widow's pensioner would then have a free area of \$2,080 per annum (ie \$40 per week).

Paragraph 10(b) would insert a new sub-section 63(4) to provide rules for the reduction of the rate of pension applicable to a widow's pensioner under the normal pension income or assets test.

The rules provide that the basic rate of pension is reduced first. The basic rate of widow's pension is not exempt income for the purposes of income tax, and the effect of this rule is that the component of widow's pension which is subject to income tax is affected by the pension income or assets test first.

The current increases in the basic rate of widow's pension are additional pension in respect of each dependent child of a pensioner, and "mother's/guardian's allowance" which is an additional pension in respect of one or more dependent children of a pensioner who is a sole parent.

This Bill proposes another increase in the basic rate of widow's pension, by removal of the special income test applicable to rent assistance and the addition of rent assistance to the base rate of pension subject to the income or assets test.

The new sub-section 63(4) provides for the reduction of this proposed increase next.

Additional pension and "mother's/guardian's allowance" would be reduced last.

The current increases, and the proposed increase, in the basic rate of pension are exempt income for the purposes of income tax.

The reason for this order of reduction is that additional pension attracts other income security payments, such as remote area allowance. By reducing this increase last, any entitlement to other payments will be retained provided some pension entitlement is retained.

Clause 12: Calculation of income in respect of children

Section 64 of the Principal Act provides for the "income disregard" in respect of each dependent child of a widow's pensioner. The income of the pensioner is reduced by \$312 per annum (ie \$6 per week) for each dependent child.

This clause would amend section 64 to double this rate.

Clause 13: Omission of heading

This clause would omit the heading to Division 3A of Part IV of the Principal Act, which deals with rent assistance, in consequence of the removal of the separate income test on rent assistance.

Clause 14: Repeal of section 65A and substitution of new section

Section 65A of the Principal Act provides for rent assistance payable to a widow's pensioner. This clause would repeal section 65A and substitute a new section 65, which will provide for rent assistance as an increase in the basic rate of widow's pension. The rate of pension so calculated would then be subject to the normal pension income or assets test under sub-section 63(2) of the Principal Act.

Clause 15: Notification by widow

Section 65B of the Principal Act requires a widow's pensioner receiving rent assistance under current arrangements to notify the occurrence of events which affect the payment, or the rate of payment, of rent assistance.

In consequence of the removal of the separate income test on rent assistance, this clause would amend section 65B to reflect the proposed change in arrangements.

Clause 16: Receipt of income or occurrence
of event to be notified

Section 74 of the Principal Act requires a widow's pensioner to notify the receipt of income above the "free area", and the occurrence of specified events, which affect the payment, or the rate of payment, of pension.

In consequence of the removal of the separate income test on rent assistance, paragraph 16(a) would amend section 74 to reflect the proposed change in arrangements.

In consequence of the increase in the "free area" of income from \$30 per week to \$40 per week in the case of a single pensioner, paragraph 16(b) would amend section 74 to reflect the proposed change in arrangements.

Clause 17: Inmates of benevolent homes

Section 70 of the Principal Act provides special arrangements for the payment of a widow's pension to which a pensioner who is an inmate of a benevolent home is entitled. For the purposes of these arrangements, both the pension and any rent assistance payable to the pensioner are taken into account.

In consequence of the removal of the separate income test on rent assistance, this clause would amend section 50 to reflect the proposed change in arrangements.

Clause 18: Application of certain provisions

Section 83AAG of the Principal Act operates to apply several provisions of Part IV of the Principal Act (concerning widow's pension) to Part IVAAA of the Principal Act (concerning supporting parent's benefit). Section 83AAG refers to Division 3A of Part IV, concerning rent assistance.

In consequence of the omission of the heading to Division 3A of Part IV, sub-clause 18(1) would amend section 83AAG to omit the reference to Division 3A.

The rate of supporting parent's benefit is calculated by reference to either widow's pension or age pension, which would mean that, when rent assistance becomes a component of such pensions, it would automatically become part of a supporting parent's benefit.

Sub-clause 18(2) would insert a new sub-section 83AAG(2) to preserve the application of the relevant notification provision concerning rent assistance (section 35B or 65B of the Principal Act, applicable to an age pensioner or a widow's pensioner) to a supporting parent's beneficiary to whom rent assistance is applicable.

Clause 19: Interpretation

Sub-section 106(1) of the Principal Act provides for definitions of terms used in Part VII of the Principal Act.

In consequence of the removal of the separate income test on rent assistance and its becoming an increase in the basic rate of benefit, this clause would amend the definition of "benefit" to omit the reference to rent assistance and would omit the definition of "rent assistance".

Clause 20: Rent assistance

Section 112A of the Principal Act provides for rent assistance payable to an unemployment beneficiary, a sickness beneficiary or a special beneficiary. This clause would amend section 112A to provide for rent assistance as an increase in the base rate of unemployment benefit or sickness benefit. Special benefit is currently determined by reference to either unemployment or sickness benefit.

The rate of unemployment benefit or sickness benefit would then be subject to the normal benefit income test under section 114 of the Principal Act.

The rate of special benefit would then be determined by reference either to unemployment or sickness benefit, whichever was appropriate in a particular case.

Clause 21: Income test

Section 114 of the Principal Act provides for the income test applicable to an unemployment beneficiary or a sickness beneficiary.

This clause would insert a new sub-section 114(4) to provide rules for the reduction of the rate of benefit applicable to a beneficiary under the income test.

The rules provide that the basic rate of benefit is reduced first. The basic rate of benefit is not exempt income for the purposes of income tax, and the effect of this rule is that the component of benefit which is subject to income tax is affected by the benefit income test first.

The current increases in the basic rates of unemployment or sickness benefit are additional benefit in respect of each child who is a dependant of the beneficiary and "mother's/guardian's allowance" which is an additional benefit in respect of one or more children who are dependants of a beneficiary who is a sole parent.

The Bill proposes another increase in the basic rates of benefit, by removal of the special income test applicable to rent assistance and the addition of rent assistance to the base rate of benefit subject to the income test.

The new section 114(4) provides for the reduction of this proposed increase next.

Additional benefit and "mother's/guardian's allowance" would be reduced last.

The current increases, and the proposed increase, in the basic rates of benefit are exempt income for the purposes of income tax.

The reason for this order of reduction is that additional benefit attracts other income security payments, such as remote area allowance. By reducing this increase last, any entitlement to other payments will be retained provided some benefit entitlement is retained.

Clause 22: Interpretation

Sub-section 115(1) of the Principal Act provides a rule of interpretation which includes rent assistance in sickness benefit for the purposes of Division 3A of Part VII of the Principal Act.

In consequence of the removal of the special income test or rent assistance and its becoming an increase in the basic rate of benefit, this clause would recast sub-section 115(1) to omit the reference to rent assistance.

Clause 23: Notification

Sub-sections 130(1A) and (1AA) of the Principal Act require a beneficiary under Part VII of the Principal Act to notify the occurrence of events which affect the payment, or the rate of payment, of rent assistance to the beneficiary.

In consequence of rent assistance becoming an increase in the basic rate of benefit, this clause would amend sub-sections 130(1A) and (1AA) to reflect the proposed change in arrangements.

Clause 24: Persons eligible to be paid
rehabilitation allowance

Sub-section 135B(3) of the Principal Act provides that where a rehabilitation allowance is payable to a person, no other substantial income support payment, including rent assistance, is payable to the person.

In consequence of rent assistance becoming an increase in pension or benefit, this clause would amend sub-section 135B(3) to omit the reference to rent assistance as a discrete allowance.

Clause 25: Rate of rehabilitation allowance

Section 135BA of the Principal Act provides for the calculation of the rate of rehabilitation allowance. The calculation refers to rent assistance.

In consequence of the removal of the special income test on rent assistance such that it ceases to be a discrete allowance and becomes an increase in pension or benefit, this clause would amend section 135BA to reflect the proposed changes in arrangements.

Clause 26: Payment and calculation of instalments
of certain pensions, &c.

Section 135TBA provides the rules for the payment and calculation of instalments under the pensions system.

In consequence of the removal of the special income test on rent assistance such that it ceases to be a discrete allowance and becomes an increase in pension, paragraphs 26(a), (b), (c) and (h) would amend section 135TBA to reflect the proposed change in arrangements.

In consequence of the increase in the "free area" of income from \$1,300 per annum (ie \$25 per week) to \$1,820 per annum (ie \$35 per week) in the case of a married pensioner, paragraphs 26(d), (e), (f) and (g) would amend section 135TBA to reflect the proposed change in arrangements.

Clause 27: Payments received under the New Enterprise Incentive Scheme - effect where recipient of a particular pension, benefit or allowance and spouse of recipient is not in receipt of wife's pension or carer's allowance

Section 139A of the Principal Act provides for the situation of a married person in receipt of both a substantial social security income support payment and a payment under the New Enterprise Incentive Scheme whose spouse is not a wife's pensioner or carer's pensioner.

In consequence of amendments proposed to section 135TBA of the Principal Act by this Bill, this clause would amend section 139A to reflect the change in arrangements.

Clause 28: Payments received under the New Enterprise Incentive Scheme - effect where spouse of recipient is in receipt of a wife's pension or carer's pension

Section 139B of the Principal Act provides for the situation of a married person in receipt of both a substantial social security income support payment and a payment under the New Enterprise Incentive Scheme whose spouse is a wife's pensioner or a carer's pensioner.

In consequence of amendments proposed to section 135TBA of the Principal Act by this Bill, this clause would amend section 139B to reflect the change in arrangements.

Clause 29: Application of amendments

This clause would provide that the amendments made by the amending Act would apply to particular payments under the Principal Act falling due on or after 1 November 1986.

Clause 30: Transitional

Under section 22 of the Social Services Amendment Act 1981, persons receiving supplementary assistance or supplementary allowance (now called rent assistance) immediately before 1 February 1982 had their entitlements continued under the pre-existing arrangements if the change in arrangements made by that Act would result in their receiving a lesser, or no, amount of supplementary assistance or supplementary allowance. (The main group of persons so saved are those in Government housing, which does not enable a person to be eligible for rent assistance under current arrangements, but there are other groups of saved persons.)

Sub-clause 30(1) would provide that a person so saved by section 22 would cease to be saved if the person would receive a greater amount of rent assistance than the saved amount.

Sub-clause 30(2) would provide that a person so saved by section 22 could not receive an amount under both section 22 and the new rent assistance provisions.

