

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

**A NEW TAX SYSTEM (COMPENSATION MEASURES
LEGISLATION AMENDMENT) BILL 1998**

EXPLANATORY MEMORANDUM

**(Circulated by authority of the Minister for Family and Community Services,
Senator the Hon Jocelyn Newman)**

A NEW TAX SYSTEM (COMPENSATION MEASURES LEGISLATION AMENDMENT) BILL 1998

OUTLINE AND FINANCIAL IMPACT STATEMENT

This Bill gives effect to a number of changes announced as part of the Government's tax reform package. The Bill contains the following measures:

- the formula for calculating family tax payment is modified so that a person's provisional fortnightly family tax payment rate is doubled;
- the family allowance income test free area is increased from \$23,400 for one child (\$625 is added for each additional child) to \$28,200;
- the family allowance income test taper is reduced from 50% to 30%;
- the rate of income support payments provided to social security and veterans' pensioners, other social security recipients and students on income support is increased by 4%;
- the income and assets test free areas which apply to social security and veterans' income support payments are increased by 2.5%; and
- the current 50% taper rate that applies under the income test for pension payments is reduced to 40%.

The changes in this Bill compliment other changes to the personal income tax system announced as part of the Government's tax reform package.

The legislation involved is the *Social Security Act 1991*, the *Veterans' Entitlements Act 1986* and the *National Health Act 1953*.

The above measures have the following financial implications (net outlays):

2000-2001	\$4.310b (cost)
2001-2002	\$4.165b (cost)
2002-2003	\$4.385b (cost)

PRELIMINARY

Clause 1 of the *A New Tax System (Compensation Measures Legislation Amendment) Bill 1998* sets out how the amending Act is to be cited.

Clause 2 provides for the commencement of the Schedules in the amending Act. The substantive measures, contained in the Schedules to the amending Act, commence after the commencement of specified goods and services tax legislation (ie, 1 July 2000). Otherwise, the amending Act commences on the day on which it receives the Royal Assent.

Clause 3 provides that each Act specified in a Schedule is amended or repealed as set out in the applicable items in that Schedule.

SCHEDULE 1 –SOCIAL SECURITY ACT 1991

Summary of proposed changes

Part 1 of Schedule 1 amends the *Social Security Act 1991* to provide a 4% in the rate of social security income support payments and a 2.5% increase in the income and assets test free areas which apply to social security income support payments.

Part 2 of Schedule 1 contains three measures that improve assistance for families.

Amendments are made to the family tax payment to double a person's provisional fortnightly family tax payment rate, the family allowance income test free area is increased from \$23,400 for one child, with an additional \$625 for each extra child, (these are current figures) to \$28,200 a year. Also, the 50% income test taper which applies to family allowance is reduced to 30%.

Part 3 of Schedule 1 amends the pension rate calculators in the Social Security Act so as to reduce the existing 50% taper rate that applies under the pensions income test to 40%.

Commencement

The amendments made by **Schedule 1** commence after the commencement of specified goods and services tax legislation (ie, 1 July 2000).

Background

On 1 July 2000, a new personal income tax system, incorporating a goods and services tax (GST), is to be introduced. In order to compensate for the effects of the GST for low income earners and the retired and to ensure that all Australians benefit from the Government's tax reform package, the maximum rate of all income support payments provided to social security and veterans' pensioners, other social security recipients and students in receipt of income support will be increased by 4% on 1 July 2000. This increase will initially raise the level of income support payments by more than the expected impact of tax reform on prices, as measured by the CPI. After that, the increase will level out to being 1.5% more than payments would have been had normal indexation arrangements applied.

Another compensation measure, which also has the effect of increasing work incentives, is the 2.5% increase in the income and assets test free areas. This measure allows income support recipients to have extra income before their payment is reduced under normal income testing arrangements and increases the value limit of assets that a person can own before their income support payments are impacted upon.

Changes to the taper rate which applies under the income test for pensions will assist in improving incentives to save for retirement. The reduction in the income test taper rate will benefit 845,00 part-rate pensioners by allowing them to keep an extra 10 cents of pension for every dollar of income above the income test free area. Benefits also flow through to self funded retirees with modest incomes who may, as a result, be eligible for part rate pension.

This Bill also provides extra assistance to families in recognition of the extra costs associated with bringing up children and the sacrifices that families make.

The provisional family tax payment rate is doubled. This increase will benefit families with dependent children by \$140 a year per child with extra benefits of \$350 a year flowing to single income families with at least one child under the age of 5.

The family allowance income test will be eased by increasing the level of income that a family can have before family allowance payments are effected. The family allowance income free area will be increased to \$28,200. When the income free area is exceeded, a new taper rule will apply to reduce a person's rate of family allowance by 30 cents for every dollar over the income free area instead of the current reduction of 50 cents in the dollar.

These changes to the family allowance income test increase substantially assistance for low and middle income working families and have the effect of increasing work incentives for such families.

Part 1 – Increases to rates and free areas

Explanation of the changes

Items 1 to 120 inclusive deal with those rates and income free areas in the Social Security Act that are flat amounts (ie, amounts that are not periodically indexed or adjusted). These amounts will not change before 1 July 2000 and are therefore directly amended as follows.

Approved program of work supplement

Items 1 and 2 provide for a 4% increase in the rate of “approved program of work supplement” payable to certain youth allowance and newstart allowance customers who participate in approved work programs. The existing amount of \$20 in sections 556A and 644AAA are replaced by \$20.80.

Employment entry payment

Items 3 to 12 inclusive provide for a 4% increase in the rate of employment entry payment (EEP). EEP is a one-off payment available to a range of social security recipients who commence employment. There are currently two rates of EEP - \$300 for disabled customers and \$100 for others. These rates are increased to \$312 and \$104 respectively.

Education entry payment

Items 13 to 24 inclusive provide for a 4% increase in the rate of education entry payment (EdEP). EdEP is a one-off payment available to a range of social security recipients who commence education. The existing rate of \$200 is increased to \$208.

Maternity allowance and maternity immunisation allowance

Subsection 900F(2) sets out the rate of maternity allowance. Under existing rules, maternity allowance is either a flat rate of \$750 or an amount determined by reference to the Parenting Payment Rate Calculator, whichever is the greater.

Item 25 changes the amount referred to in paragraph 900F(2)(a) from \$750 to \$780 to reflect the 4% increase.

Item 26 corrects a wording problem in paragraph 900F(2)(b) by inserting some missing words which refer to the new amount of \$780.

Subsection 900GA(1) sets out the rate of maternity immunisation allowance. Under existing rules, maternity immunisation allowance is either a flat rate of \$200 or an amount determined by reference to the Parenting Payment Rate Calculator, whichever is the greater.

Item 27 changes the amount referred to in paragraph 900GA(1)(a) from \$200 to \$208 to reflect the 4% increase.

Item 28 corrects a wording problem in paragraph 900GA(1)(b) by inserting some missing words, which refer to the new amount of \$208.

Advance pharmaceutical allowance

Under subsection 1061F(1) of the Social Security Act, a person qualifies for advance pharmaceutical allowance if the person is receiving a social security pension and the person's ordinary income is not more than \$20 per fortnight. **Item 29** increases the existing income limit by 2.5% to \$20.50.

Pensioner education supplement

Section 1061PZG provides that the pensioner education supplement rate is \$60 per fortnight. **Item 30** increases this rate by 4% to \$62.40.

Pension Rate Calculator A (age pension, disability support pension (under 21), wife pension, carer payment, mature age allowance (pre 1 July 1996), mature age partner allowance)

Subsections 1064(5) and (6) of the Social Security Act limit the rate of pension payable to certain armed services widows and widowers. The rate is currently preserved at \$3,122.60. **Items 31, 32 and 33** increase this rate by 4% to \$3,247.40.

Point 1064-E4 sets out the mechanism for working out a person's ordinary income free area. The Table in point 1064-E4 specifies a basic free area and an additional free area for each dependent child that applies to a person, depending on the person's circumstances. These free areas are expressed both in yearly and fortnightly terms. A person's ordinary income free area is the sum of the relevant basic and additional free areas.

Items 34 to 37 inclusive provide for a 2.5% increase in the additional free areas for dependent children (the amounts specified in columns 5 and 6 of the Table). The amount of \$624 is increased to \$639.60, \$312 is increased to \$319.80, \$24 is increased to \$24.60 and \$12 is increased to \$12.30.

Direct increases to the basic free areas specified in the Table are not possible because these amounts are indexed annually in line with the CPI. The 2.5% increase should apply to basic free area amounts as they exist on 1 July 2000 (and not current amounts). The basic free areas in the Table in point 1064-E4 are therefore increased by 2.5% in accordance with **new section 1206GC**, inserted by **item 122**.

Point 1064-H2 provides the mechanism for working out a person's rate of remote area allowance. Table H specifies the basic allowance and additional allowance for each FA child of the person, depending on the person's family situation. The rates of remote area allowance are expressed in yearly and fortnightly terms.

Items 38 to 43 inclusive provide for a 4% increase in all rates specified in Table H. The amount of \$455.00 is increased to \$473.20, \$390.00 is increased to \$405.60, \$17.50 is increased to \$18.20, \$15 is increased to \$15.60, \$182.00 is increased to \$189.80 and \$7.00 is increased to \$7.30.

Pension Rate Calculator B (age pension and disability support pension (over 21) for the permanently blind)

Subsections 1065(4) and (5) of the Social Security Act limit the rate of pension payable to certain armed services widows and widowers. The rate is currently preserved at \$3,122.60. **Items 44, 45 and 46** increase this rate by 4% to \$3,247.40.

Point 1065-E2 provides the mechanism for working out a person's rate of remote area allowance. Table E specifies the basic allowance and additional allowance for each FA child of the person, depending on the person's family situation. The rates of remote area allowance are expressed in yearly and fortnightly terms.

Items 47 to 52 inclusive provide for a 4% increase in all rates specified in Table E. The amount of \$455.00 is increased to \$473.20, \$390.00 is increased to \$405.60, \$17.50 is increased to \$18.20, \$15 is increased to \$15.60, \$182.00 is increased to \$189.80 and \$7.00 is increased to \$7.30.

Pension Rate Calculator C (bereavement allowance and widow B pension)

Point 1066-E4 sets out the mechanism for working out a person's ordinary income free area. The Table in point 1066-E4 specifies a basic free area and an additional free area for each dependent child, expressed both in yearly and fortnightly terms. A person's ordinary income free area is the sum of the relevant basic and additional free areas.

Items 53 and 54 provide for a 2.5% increase in the additional free areas for dependent children (the amounts specified in columns 3 and 4 of the Table). The reference to \$624 becomes \$639.60 and the reference to \$24 becomes \$24.60.

Direct increases to the basic free areas specified in the Table are not possible because these amounts are indexed annually in line with the CPI. The 2.5% increase should apply to basic free area amounts as they exist on 1 July 2000 (and not current amounts). The basic free areas in the Table in point 1066-E4 are therefore increased by 2.5% in accordance with **new section 1206GC**, inserted by **item 122**.

Point 1066-H2 provides the mechanism for working out a person's rate of remote area allowance. Table H specifies the basic allowance and additional allowance for each family allowance child of the person, depending on the person's family situation. The rates of remote area allowance are expressed in yearly and fortnightly terms.

Items 55 to 60 inclusive provide for a 4% increase in all rates specified in Table H. The amount of \$455.00 is increased to \$473.20, \$390.00 is increased to \$405.60, \$17.50 is increased to \$18.20, \$15 is increased to \$15.60, \$182.00 is increased to \$189.80 and \$7.00 is increased to \$7.30.

Pension Rate Calculator D (disability support pension (under 21) not permanently blind)

Point 1066A-F3 sets out the mechanism for working out a person's ordinary income free area. The Table in point 1066A4-F3 specifies a basic free area and an additional free area for each dependent child that applies to a person, depending on the person's circumstances.

These free areas are expressed both in yearly and fortnightly terms. A person's ordinary income free area is the sum of the relevant basic and additional free areas.

Items 61 to 64 inclusive provide for a 2.5% increase in the additional free areas for dependent children (the amounts specified in columns 5 and 6 of the Table). The amount of \$624 is increased to \$639.60, \$312 is increased to \$319.80, \$24 is increased to \$24.60 and \$12 is increased to \$12.30.

Direct increases to the basic free areas specified in the Table are not possible because these amounts are indexed annually in line with the CPI. The 2.5% increase should apply to basic free area amounts as they exist on 1 July 2000 (and not current amounts). The basic free areas in the Table in point 1066A-F3 are therefore increased by 2.5% in accordance with **new section 1206GC**, inserted by **item 122**.

Point 1066A-I2 provides the mechanism for working out a person's rate of remote area allowance. Table I specifies the basic allowance and additional allowance for each family allowance child of the person, depending on the person's family situation. The rates of remote area allowance are expressed in yearly and fortnightly terms.

Items 65 to 70 inclusive provide for a 4% increase in all rates specified in Table I. The amount of \$455.00 is increased to \$473.20, \$390.00 is increased to \$405.60, \$17.50 is increased to \$18.20, \$15 is increased to \$15.60, \$182.00 is increased to \$189.80 and \$7.00 is increased to \$7.30.

Pension Rate Calculator E (disability support pension (under 21) – permanently blind)

Point 1066B-F2 provides the mechanism for working out a person's rate of remote area allowance. Table F specifies the basic allowance and additional allowance for each family allowance child of the person, depending on the person's family situation. The rates of remote area allowance are expressed in yearly and fortnightly terms.

Items 71 to 76 inclusive provide for a 4% increase in all rates specified in Table F. The amount of \$455.00 is increased to \$473.20, \$390.00 is increased to \$405.60, \$17.50 is increased to \$18.20, \$15 is increased to \$15.60, \$182.00 is increased to \$189.80 and \$7.00 is increased to \$7.30.

Youth Allowance Rate Calculator

The parental income free area for the purposes of youth allowance includes additional free area amounts for dependent children and certain tertiary students.

The additional free area amounts for dependent children are set out in point 1067G-F23 of the Social Security Act. Each of the amounts in this provision is increased by 2.5% by **items 77, 78 and 79**. The amount of \$3,700 is increased to \$3,792, \$1,200 is increased to \$1,230 and \$2,500 is increased to \$2,562.

Item 80 amends the amount specified in point 1067G-F24 (additional free area amount for certain tertiary students) so that the existing reference to \$7,400 is increased by 2.5% to \$7,585.

Point 1067G-H29 specifies the ordinary income free area that applies to youth allowance customers. The free area is currently \$230 for persons undertaking full-time study and \$60 otherwise. **Items 81 and 82** increase these amounts by 2.5% to \$236 and \$62 respectively.

Item 83 repeals the example at the end of point 1067G-H33. In light of changes to the free area amounts, the example is no longer relevant.

Point 1067G-J3 contains a method statement for working out a person's income bank credit. Under points 1067G-J4 and J5, an income free area of \$230 currently applies in determining whether a person has an income credit for a particular income bank fortnight. **Items 84 and 85** amend points 1067G-J4 and J5 by increasing the current free area of \$230 by 2.5% to \$236.

Point 1067G-K2 provides the mechanism for working out a person's rate of remote area allowance. Table K specifies, in fortnightly terms, the basic allowance and additional allowance for each FA child of the person, depending on the person's family situation.

Items 86, 87 and 88 provide for a 4% increase in all rates specified in Table K. The amount of \$17.50 is increased to \$18.20, \$15 is increased to \$15.60 and \$7.00 is increased to \$7.30.

Austudy payment

Point 1067L-D28 specifies the ordinary income free area that applies to austudy payment customers. The free area is currently \$230. **Item 89** increases this amount by 2.5% to \$236.

Item 90 repeals the example at the end of point 1067L-D32. In light of changes to the free area amount, the example is no longer relevant.

Point 1067L-E2 contains a method statement for working out a person's income bank credit. Under points 1067L-E3 and E4, an income free area of \$230 currently applies in determining whether a person has an income credit for a particular income bank fortnight. **Items 91 and 92** amend points 1067L-E3 and E4 by increasing the current free area of \$230 by 2.5% to \$236.

Point 1067L-F2 provides the mechanism for working out a person's rate of remote area allowance. Table F specifies, in fortnightly terms, the basic allowance and additional allowance for each child of the person (being a child to whom point 1067L-F8 applies), depending on the person's family situation.

Items 93, 94 and 95 provide for a 4% increase in all rates specified in Table F. The amount of \$17.50 is increased to \$18.20, \$15 is increased to \$15.60 and \$7.00 is increased to \$7.30.

Benefit Rate Calculator B (newstart allowance, sickness allowance, partner allowance, mature age allowance (post 1 July 1996) and widow allowance)

Subsection 1068(3) of the Social Security Act limits the rate of benefit payable to certain armed services widows. The rate is currently preserved at \$120.10 per fortnight. **Items 96 and 97** increase this rate by 4% to \$124.90.

Under point 1068-G12, a person's ordinary income free area is specified as \$60 per fortnight. **Item 98** increases this amount by 2.5% to \$62.

Item 99 repeals the example at the end of point 1068-G16. In light of changes to the free area amount, the example is no longer relevant.

Point 1068-J3 provides the mechanism for working out a person's rate of remote area allowance. Table J specifies, in fortnightly terms, the basic allowance and additional allowance for each FA child of the person, depending on the person's family situation.

Items 100, 101 and 102 provide for a 4% increase in all rates specified in Table J. The amount of \$17.50 is increased to \$18.20, \$15 is increased to \$15.60, and \$7.00 is increased to \$7.30.

Parenting Payment Rate Calculator

Point 1068A-E14 sets out the mechanism for working out a person's ordinary income free area. Table E specifies a basic free area and an additional free area for each dependent child that applies to a person. These free areas are expressed both in yearly and fortnightly terms. A person's ordinary income free area is the sum of the relevant basic and additional free areas.

Items 103 and 104 provide for a 2.5% increase in the additional free areas for dependent children (the amounts specified in columns 4 and 5 of Table E). All references to \$624 become \$639.60 and references to \$24 become \$24.60.

Direct increases to the basic free areas specified in the Table are not possible because these amounts are indexed annually in line with the CPI. The 2.5% increase should apply to basic free area amounts as they exist on 1 July 2000 (and not current amounts). The basic free areas in Table E in point 1068A-E14 are therefore increased by 2.5% in accordance with **new section 1206GC**, inserted by **item 122**.

Item 105 repeals the example in point 1068A-E18. In light of changes to the free area amount, the example is no longer relevant.

Point 1068A-F2 provides the mechanism for working out a person's rate of remote area allowance. Table F specifies, in yearly and fortnightly terms, the basic allowance and additional allowance for each FA child of the person.

Items 106 to 109 inclusive provide for a 4% increase in all rates specified in Table F. The amount of \$455.00 is increased to \$473.20, \$17.50 is increased to \$18.20, \$182.00 is increased to \$189.80 and \$7.00 is increased to \$7.30.

Under point 1068B-D27, a person's ordinary income free area is specified as \$60 per fortnight. **Item 110** increases this amount by 2.5% to \$62.

Items 111 and 112 repeal the examples at the end of points 1068B-D31 and 1068B-D32 respectively. In light of changes to the free area amount, these examples are no longer relevant.

Point 1068B-G2 provides the mechanism for working out a person's rate of remote area allowance. Table G specifies, in fortnightly terms, the basic allowance and additional allowance for each FA child of the person, depending on the person's family situation.

Items 113, 114 and 115 provide for a 4% increase in all rates specified in Table G. The amount of \$15 is increased to \$15.60, \$17.50 is increased to \$18.20 and \$7.00 is increased to \$7.30.

Seniors Health Card taxable income limits

Point 1071-12 sets out the mechanism for working out a person's ordinary income-free area. The Seniors Health Card Taxable Income Limit Table specifies an income limit amount per year and an additional amount per year for each dependent child, depending on the person's family situation.

Items 116 to 119 increase all of the specified limits in the Table by 2.5% as follows. The amount of \$40,000 is increased to \$41,000, \$33,500 is increased to \$34,338, \$36,698 is increased to \$37,615 and \$624 is increased to \$639.60.

Indexation of amounts

Section 1192 provides the mechanism for indexing amounts under the Social Security Act. Subsection 1192(2) contains a method statement for working out the "indexed amount".

Items 120 and 121 insert a new note at the end of the method statement which indicates that **new section 1206GB** (inserted by **item 122**) may effect the indexation of amounts after 1 July 2000.

Insertion of new Division 6 – One off adjustments on 1 July 2000 relating to the introduction of the goods and services tax

Item 122 inserts **new Division 6 into Part 3.16** of the Social Security Act. In broad terms, **new Division 6** provides the rules for increasing the relevant social security rates which are indexed or adjusted by 4% and for increasing the relevant income and assets free areas which are indexed by 2.5%.

4% increase in payment rates

New section 1206GA applies a 4 % increase to the rates specified in Table A with effect from 1 July 2000.

New subsection 1206GA(1) identifies those rates to which the 4% increase applies. These "base amounts" are listed in Column 2 of Table A (a brief description of the rate is provided in column 3 of that Table).

A note at the end of **new subsection 1206GA(1)** indicates to the reader that the base amounts listed in the Table are indexed or adjusted from time to time under Divisions 2 and 4 of Part 3.16 of the Social Security Act.

New subsection 1206GA(2) provides for a 4% increase to the base amount. The new increased amount (the provisional replacement amount) is then rounded in accordance with **new section 1206GD** and the relevant rounding base specified in column 4 of Table A. These rounding rules are similar to those used for CPI indexation purposes.

Table A at the end of **new section 1206GA** lists those indexed or adjusted rates that are subject to the 4% increase.

The 4% increase will apply to the following payments listed in Table A:

- the maximum basic rate of all pensions (ie, age pension, disability support pension, wife pension, carer payment, mature age and mature age partner allowances, bereavement allowance and widow B pension);
- the maximum basic rate of benefits (ie, youth allowance, austudy payment, newstart allowance, sickness allowance, widow allowance and partner allowance);
- the maximum basic component and maximum basic rates of parenting payment;
- child disability allowance;
- double orphan pension;
- mobility allowance;
- telephone allowance;
- rent assistance;
- pharmaceutical allowance; and
- youth disability supplement.

The rounding rules that apply to the 4% increased amounts (ie, the provisional replacement amounts) are provided for in **new section 1206GD** and column 4 of Table A.

The general rule is that the provisional replacement amounts that are expressed in annual terms are to be rounded to the nearest \$2.60 while those expressed in fortnightly terms are to be rounded to the nearest 10 cents. The only exception is rent assistance. The rounding rules for rent assistance amounts are to the nearest \$5.20 for annual amounts and 20 cents for fortnightly amounts. The amounts so rounded are the “replacement amounts” or the new rates.

If the provisional replacement amount is a multiple of the relevant rounding base, then the provisional replacement amount is the replacement amount, ie, the new rate (rounding is not necessary). If the provisional replacement amount is a multiple of half the rounding base, then the provisional replacement amount is rounded to the nearest multiple of the rounding base to become the replacement amount.

New section 1206GB provides for the adjustment of CPI indexation of the amounts that were subject to the 4% increase under **new section 1206GA**.

As indicated above, the 4% increase will initially raise the level of income support payments by more than the expected impact of the GST on prices, as measured by the CPI. The 4% increase incorporates a 2.5% component that represents an advance on future CPI increases that result from the impact of the GST and other tax reforms on the CPI. **New section 1206GB** operates to ensure that double compensation does not occur – a once only, “up front” payment through that component of the 4% increase that represents the CPI impact of tax reform and then again through increases in income support that would flow through automatically under normal CPI indexation provisions for indexed income support payments. The overall effect is that income support payments increase by 1.5% more than payments would have been, had normal indexation arrangements applied.

New subsection 1206GB(1) provides a method statement that operates to adjust amounts that have been increased by 4% under new section 1206GA (ie, affected amounts).

The adjustment works as follows.

Step 1 is used to arrive at the “4% increase amount”. This is done by subtracting the relevant base amount (the original rate) from its replacement amount (the rate incorporating the 4% increase).

Under step 2, the 4% increase amount is multiplied by 0.625. The result is the provisional overall adjustment amount (ie, an amount which is equal to a 2.5% increase to the base amount).

The provisional overall adjustment amount is then rounded in accordance **with new subsections 1206GB(3) to (5)** (described below) to become the overall adjustment amount (step 3 refers).

Step 4 is used to work out the first indexation increase amount (ie, the amount of the CPI increase) for the first indexation day for an affected amount that occurs after 1 July 2000. This amount is arrived at by subtracting the current amount from the indexed amount worked out using the method statement in subsection 1192(2) of the Social Security Act.

Step 5 requires a comparison between the overall adjustment amount and the first indexation increase amount.

If the overall adjustment amount is less than or equal to the first indexation amount, then step 6 is invoked. Under step 6, the overall adjustment amount is subtracted from the indexed amount. The result is the indexed amount for the purposes of step 4 of the method statement in subsection 1192(2) of the Social Security Act. This indexed amount may be increased under section 1195 to keep the amount at 25% of Total Male Average Weekly Earnings (the note at the end of step 6 refers). Where step 6 applies, no further adjustment in respect of subsequent CPI indexation under **new section 1206GB** is required.

If the overall adjustment amount is more than the first indexation increase amount, then step 7 applies. Under step 7, the current amount is taken to be the indexed amount (there is no CPI adjustment to the person's rate of payment for that first indexation day after 1 July 2000). The indexed amount may, however, be increased under section 1195 to keep the amount at 25% of Total Male Average Weekly Earnings (the note at the end of step 7 refers). Step 8 then applies.

Step 8 is used to work out the "remaining adjustment amount" which is relevant for the second indexation day for an affected amount that occurs after 1 July 2000. The remaining adjustment amount is arrived at by subtracting the first indexation amount from the overall adjustment amount.

The second indexation increase amount (ie, the amount of the CPI increase) for the second indexation day after 1 July 2000 is worked out using step 9. This amount is arrived at by subtracting the current amount from the indexed amount worked out using the method statement in subsection 1192(2) of the Social Security Act.

Step 10 requires a comparison between the remaining adjustment amount and the second indexation increase amount.

If the overall adjustment amount is less than or equal to the second indexation amount, then step 11 is invoked. Under step 11, the remaining adjustment amount is subtracted from the indexed amount. The result is the indexed amount for the purposes of step 4 of the method statement in subsection 1192(2) of the Social Security Act. This indexed amount may be increased under section 1195 to keep the amount at 25% of Total Male Average Weekly Earnings (the note at the end of step 11 refers). Where step 11 applies, no further adjustment in respect of subsequent CPI indexation under **new section 1206GB** is required.

If the remaining adjustment amount is more than the second indexation increase amount, then step 12 applies. Under step 12, the current amount is taken to be the indexed amount (there is no CPI adjustment to the person's rate of payment for that second indexation day after 1 July 2000). The indexed amount may, however, be increased under section 1195 to keep the amount at 25% of Total Male Average Weekly Earnings (the note at the end of step 12 refers). Step 13 then applies.

Step 13 requires the process in steps 8 to 12 to be repeated for the third and subsequent indexation days until the remaining adjustment amount is zero.

Application of section 1195 to affected amounts

New subsection 1206GB(2) provides that section 1195 of the Social Security Act does not apply at step 4 or step 9 of the method statement. As steps 4 and 9 operate to identify the amount of the CPI increase and not the amount of income support payment a person will receive, it is inappropriate to add in an amount worked out under section 1195 at these stages. As indicated above, an increase by reference to section 1195 may, however, occur in the context of steps 6, 7, 11 and 12 of the method statement which do refer to the amount of payment a person is to receive.

Rounding of provisional overall adjustment amounts

New subsections 1206GB(3) to (5) provide the rounding rules for the overall adjustment amount (see step 3 of the method statement). These rules operate in conjunction with the relevant rounding base specified in Table A at the end of **new 1206GA(2)**. They are consistent with other rounding rules that operate under the Social Security Act.

New subsection 1206GB(3) provides that if a provisional overall adjustment amount is a multiple of the relevant rounding base then the provisional overall adjustment amount is the overall adjustment amount.

New subsection 1206GB(4) provides that if the provisional overall adjustment amount is not a multiple of the relevant rounding base, then it is rounded up or down to the nearest multiple of the rounding base. The resultant amount is the overall adjustment amount.

Under **new subsection 1206GB(5)**, where the provisional overall adjustment amount is a multiple of half the relevant rounding base, then it is rounded up to the nearest multiple. The resultant amount is the overall adjustment amount.

2.5% increase in income and assets free areas

New section 1206GC applies a 2.5 % increase to the free area amounts specified in Table A (income test free areas) and Table B (assets test free areas) with effect from 1 July 2000.

The amounts listed in the Tables are indexed in line with movements in the CPI in accordance with Division 2 of Part 3.16 of the Social Security Act. As the existing amounts will not be current on 1 July 2000, they cannot be increased as the other free areas already discussed. Rather, the amounts in the Tables will be increased by 2.5% using the process outlined in **new section 1206GC**. This ensures that the amounts, as they exist on 1 July 2000, are increased by 2.5%.

New subsection 1206GC(1) identifies those free area amounts to which the 2.5% increase applies.

The provisions relevant to the income test free area "base amounts" are listed in Column 2 of Table A at the end of **new subsection 1206GC(4)** (a brief description of each amount is provided in column 3 of the Table) while the provisions relevant to the assets test free area "base amounts" are listed in Column 2 of Table B at the end of **new subsection 1206GC(5)** (a brief description of each amount is provided in column 3 of the Table).

A note at the end of **new subsection 1206GC(1)** indicates to the reader that the base amounts listed in the Tables A and B are indexed from time to time under Division 2 of Part 3.16 of the Social Security Act.

New subsection 1206GC(2) provides for a 2.5% increase to the base amount in the Tables. The new increased amount (the provisional replacement amount) is then rounded in accordance with **new section 1206GD** and the relevant rounding base specified in column 4 of the relevant Table. These rounding rules are similar to those used for CPI indexation purposes.

New subsection 1206GC(3) ensures that if an amount, which is subject to the 2.5% increase, is indexed on 1 July 2000, that the 2.5% increase applies after the 1 July indexation has occurred.

New subsection 1206GC(4) provides that the income test free area table is Table A.

Table A lists the income test free area amounts that are subject to the 2.5% increase. These amounts are the income ceiling for care receivers, the basic free area for pensioners, the parental income free area that applies to youth allowance, the basic income free area for parenting payment (ie, pension PP (single)) and the basic free area and additional free area applicable under the maintenance income test.

As previously indicated, the additional income free areas for dependent children and, in the case of youth allowance, for dependent or certain tertiary students, are fixed amounts that are directly increased (see for example, **items 61 to 64 of Schedule 1** inclusive).

New subsection 1206GC(5) provides that the assets test free area table is Table B.

Table B lists the assets test free area amounts that are subject to the 2.5% increase. These amounts are the assets value limits for care receivers and partner allowance and certain assets value limits for pensions, widow allowance, parenting payment, youth allowance, austudy payment, newstart allowance, mature age allowance (post 30 June 1996), sickness allowance and special benefit.

Table B does not include assets value limits that will be adjusted on 1 July 2000. Accordingly, the note at the end of Table B indicates to the reader that if an amount is provided for in a subsection or point mentioned in the Table but the provision providing for the amount is not listed in the Table, then the 2.5% increase will automatically flow through to that amount by virtue of adjustment under Division 4 of Part 3.16. The amounts referred to in the note, which are subject to automatic adjustment, are as follows:

- item 2, column 3 in the table in subsection 408CE(2);
- item 2, column 3 in the table in subsection 500Q(2);
- paragraphs 547C(1)(c), (d) and (e);
- paragraphs 573B(1)(b), (c) and (d);
- item 1 in column 3B and item 2 in columns 3A and 3B in each of the tables in subsections 611(2), 660YCJ(2), 680(3) and 733(3);
- item 1 in column 3B in each of the tables in points 1064-G3, 1066-G3, 1066A-H3 and 1068B-B3.

The reason these amounts do not appear in Table B is that they are automatically adjusted under sections 1203 and 1204 of the Social Security Act by reference to assets value limits that incorporate the 2.5% increase. The amounts are therefore indirectly increased by 2.5% when adjusted on 1 July 2000.

Similarly, the assets value limits that apply to illness separated special residents (people who live in a granny flat or retirement village) are not included in Table B. The amounts appear in subsections 1152(5), 1153(3) and 1154(2) of the Social Security Act and are automatically adjusted under section 1205 by reference to assets value limits that incorporate the 2.5% increase.

New section 1206GD provides the rounding rules for the “provisional replacement amounts” provided for in **new subsections 1206GA(2) and 1206GC(2)**. **New section 1206GD** needs to be read in conjunction with the rounding bases specified in the relevant Tables in **Schedule 1**.

New subsection 1206GD(1) provides that if the provisional replacement amount (ie, the amount that has been increased by 4% or 2.5%) is a multiple of the relevant rounding base, then the provisional replacement amount is the replacement amount (the new rate/amount).

Under **new subsection 1206GD(2)**, if the provisional replacement amount is not a multiple of the relevant rounding base, then it is rounded up or down to the nearest multiple of the rounding base. The resultant amount is the replacement amount.

Under **new subsection 1206GD(3)**, if the provisional replacement amount is half the rounding base, then the provisional replacement amount is rounded up to the nearest multiple of the rounding base. The resultant amount is the replacement amount.

New subsection 1206GD(4) is the rounding rule for the income ceiling for care receivers (see item 1 in Table A at the end of **new subsection 1206GC(4)**). In relation to the income ceiling, if the provisional replacement amount is not a multiple of \$1, then it is to be rounded up to the nearest dollar. The resultant amount is the “replacement amount”. This rule is consistent with the rounding rule that applies to the income ceiling when that amount is indexed.

Part 2 – Family Assistance

Explanation of the changes

Change the income free area for Family Allowance

The income test free area is the amount of income a person can have before payment is reduced.

Point 1069-H28 of the Social Security Act provides a mechanism for working out a person's income test free area for the purposes of family allowance (FA). Column 1 of Table H2 sets out the FA basic free amount and the additional amount for each FA child after the first. Point 1069-H29 allows the Secretary, by disallowable instrument, to increase the additional free area (this amount is not indexed). Point 1069-H30 defines "FA child" for the purposes of the table in point 1069-H28.

Item 123 repeals point 1069-H28 and replaces it with a new provision. **New point 1069-H28** provides that a person's income free area is \$28,200. This amount is higher than the income level at which eligibility to income support is lost for an allowance couple. As income support recipients automatically receive the maximum rate of family allowance, this free area of \$28,200 will ensure that losing entitlement to benefit does not correspond with a sudden loss of family allowance.

Items 124 and 125 repeal points 1069-H29 and H30 respectively. In light of the repeal of the additional free area for an FA child, these provisions are no longer relevant.

Change the taper rate for the Family Allowance Income Test

Point 1069-H23 of the Social Security Act sets out the FA income test. The FA income test incorporates a free area that effectively allows a person to have a prescribed amount of income before payment is reduced. Income in excess of the free area currently results in a reduction in the rate of FA of 50 cents for every dollar over the free area. This 50% taper rule is in point 1069-H32.

Item 126 replaces the existing 50% taper with a 30% taper. The effect is that FA is reduced by 30 cents for each dollar over the free area.

Increase Family Tax Payment (Part A)

Family Tax Payment Part A is available to all families with dependent children (subject to an income test on combined family taxable income where the family's income must be below a prescribed level).

Point 1070-B1 of the Social Security Act provides for the calculation of a person's "Provisional Part A rate" of Family Tax Payment. Step 1 of Method Statement B1 requires, as part of the calculation process, the lowest marginal tax rate to be multiplied by \$1,000.

Item 127 omits the existing reference to \$1,000 and substitutes \$2,000. This effectively doubles a person's "Provisional Part A rate" of Family Tax Payment.

Increase Family Tax Payment (Part B)

Family Tax Payment Part B directs additional assistance to single income families (including lone parents) with at least one child under the age of 5 years. Part B is also subject to income testing arrangements.

Point 1070-B2 provides for the calculation of a person's "Provisional Part B rate" of Family Tax Payment. Step 1 of Method Statement B2 requires, as part of the calculation process, the lowest marginal tax rate to be multiplied by \$2,500.

Item 128 omits the existing reference to \$2,500 and substitutes \$5,000. This effectively doubles a person's "Provisional Part B rate" of Family Tax Payment.

Part 3 – Taper rates

Explanation of the changes

Under the pensions income test, a person is able to have a specified amount of income (the ordinary income free area) before it impacts on the person's rate of payment. For every dollar over the ordinary income free area, the person's payment is currently reduced by 50 cents. The "taper rate" is therefore currently 50%.

Part 3 eases the income test for pensioners by reducing the taper rate from 50% to 40%.

The income testing provisions for pensions, including the taper rules, are located in the relevant pension rate calculators in the Social Security Act.

Pension Rate Calculator A (section 1064 of the Social Security Act) is used to calculate the rate of age pension, disability support pension (over 21 year olds), wife pension, carer payment, mature age allowance (pre 1 July 1996) and mature age partner allowance.

Point 1064-E10 provides for a 50% taper rate. Under this provision, a person's reduction for ordinary income is worked out by dividing the person's ordinary income excess (the amount by which the person's income exceeds the free area) by 2. The person's income reduction then reduces the rate of pension the person receives.

Item 129 repeals the existing taper rule in point 1064-E10. Under **new point 1064-E10**, a person's reduction for ordinary income is the person's ordinary income excess multiplied by 0.4. This means that for every dollar over the ordinary income free area, the person's payment is reduced by 40 instead of 50 cents.

Pension Rate Calculator C (section 1066 of the Social Security Act) is used to calculate the rate of bereavement allowance and widow B pension. Point 1066-E8 provides for a 50% taper rate.

Item 130 repeals the formula in point 1066-E8 and replaces it with a new formula which ensures that a person's reduction for ordinary income is the person's ordinary income excess multiplied by 0.4 – the new 40% taper rule.

Pension Rate Calculator D (section 1066A of the Social Security Act) is used to calculate the rate of disability support pension for under 21 year olds. Point 1066A-F9 contains a table which sets out a person's reduction for ordinary income depending on the person's family situation. In each situation the reduction is 50% of the person's ordinary income excess.

Item 131 repeals the relevant cells in the Table and substitutes a new formula, ensuring that a person's reduction for ordinary income is the person's ordinary income excess multiplied by 0.4 – the new 40% taper rule.

The Parenting Payment Rate Calculator (section 1068A of the Social Security Act) is used to calculate the rate of Pension PP (Single). Point 1068A-E20 provides for a 50% taper rate.

Item 132 repeals the formula in point 1068A-E20 and replaces it with a new formula which ensures that a person's reduction for ordinary income is the person's ordinary income excess multiplied by 0.4 – the new 40% taper rule.

SCHEDULE 2 – VETERANS' ENTITLEMENTS ACT 1986

Summary of proposed changes

Schedule 2 amends the *Veterans' Entitlements Act 1986*.

This schedule provides for a:

- 4% increase to pensions and allowances paid to veterans and eligible dependants; 2.5% increase to the income and assets test free areas;
- 2.5% increase to the seniors health card income limits and the limits that apply to certain service pensioners' eligibility for a Gold Card;
- reduction, from 50% to 40%, in the taper rate that applies under the income test for pension payments; and
- limited period of adjustment to the indexation of pensions and allowances.

Commencement

The amendments made by **Schedule 2** commence after the commencement of specified goods and services tax legislation (ie, 1 July 2000).

Background

A fundamental objective of the Government's tax reform package is to provide a tax system that is fairer for all Australians. Many lower income individuals and families will benefit from the new income tax scale and the family assistance package. However, some low income groups, such as service pensioners with no private income, do not pay income tax currently and, hence, cannot benefit from the Government's tax cuts.

To ensure that such groups receive their fair share of the benefits of tax reform, the Government will increase all veterans' pensions and other support payments and allowances with effect from 1 July 2000.

It is estimated that by 2001-02 the overall impact of the tax package will have added 1.9 per cent to the CPI. But because not all of the indirect cuts commence in 2000-01, the CPI impact in that year is likely to be a little higher – perhaps as much as half a percentage point. In order to ensure that no pensioner or beneficiary is disadvantaged by this, the Government will provide from 1 July 2000:

- a 4% increase in the maximum rate of all income support payments provided to veterans' and income support pensions and allowances; and

- a 2.5% increase in the income test free areas applied to veterans' income support payments.

These increased rates of assistance raise the maximum level of all income support payments by more than the estimated impact of tax reform on prices (as measured by the CPI).

The following Veterans' Affairs pensions and allowances are increased by 4%:

- service pensions;
- income support supplement;
- rent assistance;
- disability pension;
- war widow/er pension;
- orphan pension;
- funeral benefit;
- remote area allowance;
- telephone allowance;
- attendant allowance;
- clothing allowance;
- recreation transport allowance;
- Victoria Cross allowance;
- education entry payment;
- pharmaceutical allowance;
- AMS pensions; and
- dependants pensions.

In addition, the rent assistance and income and assets test free areas are increased by 2.5% and the taper rate for pension reduction is reduced from 50 cents in the dollar to 40 cents in the dollar.

Part 1 - Increases to rates and free areas

Explanation of the changes

Item 1 increases by 4% the non-indexed component of war widow/er pension.

Items 2 and 3 insert a note to inform the reader that, on the indexation days following 1 July 2000, indexed payments that were increased by 4% may be affected by the provisions of **new section 198H**.

Item 4 provides for the substitution of the rate of pharmaceutical allowance to occur on 1 July 2000. This means that the 4% increase awarded to the amount under the *Social Security Act 1991* will flow through to the rate paid to veterans and eligible dependants.

Item 5 inserts a Note before the example in subsection 59Q(8) to inform the reader that the figures used in the example were based on amounts current as at 1 January 1998.

Items 6 to 8 increase the maximum amount of funeral benefit by 4%.

Item 9 increases the fortnightly rate of Decoration allowance by 4%.

Item 10 increases the annual rate of Victoria Cross allowance by 4%.

Item 11 increases the amount of entry education payment by 4%.

Item 12 increases the seniors health card annual income limit by 2.5% for a single person and a member of a respite care couple.

Item 13 increases the seniors health card annual income limit by 2.5% for a member of a couple.

Item 14 increases the seniors health card annual income limit by 2.5% for a member of an illness separated couple.

Item 15 increases the seniors health card annual additional dependent child income limit by 2.5%.

Item 16 increases the annual ceiling rate of service pension or income support supplement by 4%.

Items 17 and 18 increase the ceiling rate of service pension or income support supplement by 4% for those war widow/ers whose ceiling rate is the pre-November 1986 rate.

Items 19 to 22 provide for the 2.5% increase to the additional income free areas. These areas are provided for in items 1 – 3 of Columns 5 and 6 in Table E-1 in point SCH6-E6. (Column 3 is increased by **new section 198J** in **item 32**.)

Item 23 provides for the insertion of a Note before the examples in point SCH6-E10. The note is provided to alert the reader to the fact that the amounts and rates used in the examples are amounts and rates that were current at the commencement of Schedule 6, being 1 January 1998.

Items 24 to 31 increase the amounts of remote area allowance by 4%.

Item 32 inserts **new sections 198G to 198M**.

New section 198G provides for a 4% increase to the following payments:

- all disability pensions;
- war widow/er pensions;
- orphan pensions;
- clothing allowance;
- attendant allowance;
- recreation transport allowance;
- telephone allowance; and
- service pension maximum basic rate.

All of these payments are indexed once or twice a year, depending on the payment. The indexation provisions are in Division 18 of Part IIIB (sections 59 to 59L) and sections 198, 198A, 198D and 198F.

New subsection 198G(1) provides that **new section 198G** applies to the amounts of the payments listed in Column 2 of the table. These amounts cannot be specified because they will be subject to indexation and can potentially increase several times before this bill comes into effect on and from 1 July 2000. Thus they are referred to as “base amounts”, that is the amount that is in effect on 1 July 2000 taking into consideration any indexation increases that occur between now and then, including the result of the indexation adjustment scheduled for 1 July 2000.

New subsection 198G(2) provides that the base amounts are to be increased by 4% on 1 July 2000 and this amount is the provisional replacement amount. The provisional replacement amount is then to be rounded in accordance with **new section 198K** to determine the final new amount for each payment in the table.

New subsection 198G(3) provides that any base amounts that are normally indexed on 1 July are to include this indexation increase before the 4% is added.

New Table A: Rates lists the base amounts, the provisions that provide for that amount and the rounding base for each amount.

Adjustment of amounts following 4% increase

New section 198H provides for the adjustment of CPI indexation of the amounts that were subject to the 4% increase under **new section 198G**.

The 4% increase will initially raise the level of veterans' pensions and other support payments and allowances by more than the expected impact of the GST on prices, as measured by the CPI. The 4% increase incorporates a 2.5% component that represents an advance on future CPI increases that result from the impact of the GST and other tax reforms on the CPI. **New section 198H** operates to ensure that double compensation does not occur – a once “up front” payment through that component of the 4% increase that represents the CPI impact of tax reform and then again through increases in payments that would flow through automatically under normal CPI indexation provisions. The overall effect is that veterans' pensions and other support payments and allowances increase by 1.5% more than those payments would have been had normal indexation arrangements applied.

New subsection 198H(1) provides a method statement that operates to adjust amounts that have been increased by 4% under **new section 198G** (ie, affected amounts).

The adjustment works as follows:

Step 1 is used to arrive at the “4% increase amount”. This is done by subtracting the relevant base amount (the original rate) from its replacement amount (the rate incorporating the 4% increase).

Under step 2, the 4% increase amount is multiplied by 0.625. The result is the provisional overall adjustment amount (ie, 2.5% of the 4% increase).

The provisional overall adjustment amount is then rounded in accordance with **new subsections 198H(3) to (5)** (described below) to become the overall adjustment amount (step 3 refers).

Step 4 is used to work out the first indexation increase amount (ie, the amount of the CPI increase) for the first indexation day for an affected amount that occurs after 1 July 2000. This amount is arrived at by subtracting the current amount from the indexed amount worked out using the method statement in subsection 59C(2) of the *Veterans' Entitlements Act 1986* (VEA).

Step 5 requires a comparison between the overall adjustment amount and the first indexation increase amount.

If the overall adjustment amount is less than or equal to the first indexation amount, then step 6 is invoked. Under step 6, the overall adjustment amount is subtracted from the indexed amount. The result is the indexed amount for the purposes of step 5 of the method statement in subsection 59C(2) of the VEA. This indexed amount may be increased under section 59EA or subsections 198(6) or (7) to keep the amount at 25% of Total Male Average Weekly Earnings. Where step 6 applies, no further adjustment in respect of subsequent CPI indexation under **new section 198H** is required.

If the overall adjustment amount is more than the first indexation increase amount, then step 7 applies. Under step 7, the current amount is taken to be the indexed amount (there is no CPI adjustment to the person's rate of payment for that first indexation day after 1 July 2000). The indexed amount may, however, be increased under section 59EA or subsections 198(6) or (7) to keep the amount at 25% of Total Male Average Weekly Earnings. Step 8 then applies.

Step 8 is used to work out the "remaining adjustment amount" which is relevant for the second indexation day for an affected amount that occurs after 1 July 2000. The remaining adjustment amount is arrived at by subtracting the first indexation amount from the overall adjustment amount.

The second indexation increase amount (ie, the amount of the CPI increase) for the second indexation day after 1 July 2000 is worked out using step 9. This amount is arrived at by subtracting the current amount from the indexed amount worked out using the method statement in subsection 59C(2) of the VEA.

Step 10 requires a comparison between the remaining adjustment amount and the second indexation increase amount.

If the overall adjustment amount is less than or equal to the second indexation amount, then step 11 is invoked. Under step 11, the remaining adjustment amount is subtracted from the indexed amount. The result is the indexed amount for the purposes of step 5 of the method statement in subsection 59C(2) of the VEA. This indexed amount may be increased under section 59EA or subsections 198(6) or (7) to keep the amount at 25% of Total Male Average Weekly Earnings. Where step 11 applies, no further adjustment in respect of subsequent CPI indexation under **new section 198H** is required.

If the remaining adjustment amount is more than the second indexation increase amount, then step 12 applies. Under step 12, the current amount is taken to be the indexed amount (there is no CPI adjustment to the person's rate of payment for that second indexation day after 1 July 2000). The indexed amount may, however, be increased under section 59EA or subsections 198(6) or (7) to keep the amount at 25% of Total Male Average Weekly Earnings. Step 13 then applies.

Step 13 requires the process in steps 8 to 12 to be repeated for the third and subsequent indexation days until the remaining adjustment amount is zero.

Meaning of terms in method statement if amount is indexed under section 198, 198A, 198D or 198F

New subsection 198H(2) provides definitions for the terms “current figure” and “indexed amount” where used in the method statement in **new subsection 198H(1)**, when the affected amount is indexed under section 198, 198A, 198D or 198F.

These terms are used in Division 18 of Part IIIB for the indexation of income support payments; however, the terms are not used in the indexation provisions in sections 198, 198A, 198D or 198F. Thus, when applying the method statement in **new subsection 198H(1)**, the terms are provided with a meaning relative to the terms used in sections 198, 198A, 198D or 198F.

Modifications to method statement if amount is indexed under section 198, 198A, 198D or 198F

New subsection 198H(3) provides for modifications to the method statement where the affected amount is indexed under section 198, 198A, 198D or 198F. These modifications are required because of the differences between the indexation provisions in Divisions 18 of Part IIIB, whose terminology the method statement is based on, and sections 198, 198A, 198D or 198F.

The method statement in subsection 59C(2) is not applicable to section 198, 198A, 198D or 198F, so the reference to that method statement should not be used in conjunction with affected amounts indexed under section 198, 198A, 198D or 198F.

Paragraphs (a) to (f) of **new subsection 198H(1A)** omit references to subsection 59C(2) from the method statement in **new subsection 198H(1)**, where the affected amount being calculated is indexed under section 198, 198A, 198D or 198F. Where required, alternate wording is substituted to adapt the terminology.

Application of section 59EA

New subsection 198H(4) provides that section 59EA does not apply at step 4 or 9 of the method statement. As steps 4 and 9 operate to identify the amount of CPI increase and not the amount of the payment a person will receive, it is inappropriate to add in an amount worked out under section 59EA at this stage. An increase by reference to section 59EA, however, may occur in the context of steps 6, 7, 11 and 12 of the method statement which do refer to the amount of payment a person is to receive.

Application of subsections 198(6) and (7)

New subsection 198H(5) provides the same provision as **new subsection 198H(1C)** to steps 4 and 9 of the method statements but in relation to an affected amount indexed under section 198. It prevents subsection 198(6) and (7) from applying in steps 4 and 9 of the method statement in **new subsection 198H(1)**.

Rounding of provisional overall adjustment amounts

New subsection 198H(6) provides that where the provisional overall adjustment amount is a whole number multiple of the rounding base, then the provisional overall adjustment amount becomes the overall adjustment amount.

New subsection 198H(7) provides that where the provisional overall adjustment amount is not a whole number multiple of the rounding base, then the amount is rounded up or down to the nearest whole number multiple of the rounding base. This figure then becomes the overall adjustment amount.

New subsection 198H(8) provides that where the provisional overall adjustment amount is not a whole number multiple of the rounding base, but is a multiple of half the rounding base, then the amount is rounded up to the nearest whole number multiple of the rounding base. This figure then becomes the overall adjustment amount.

1 July 2000 increase in income test free area

New section 198J provides for a 2.5% increase to the income test free areas or basic free areas. The basic free areas are provided for in Column 3 of Table E-1 in point SCH6-E6. The income test free areas are indexed on 1 July each year.

New subsection 198J(1) provides that **new section 198J** applies to the amounts in Column 3 of table E-1 in point SCH6-E6. These amounts cannot be specified because they will be subject to indexation and can potentially increase several times before this bill comes into effect on and from 1 July 2000. Thus they are referred to as "base amounts", that is the amount that is in effect on 1 July 2000 taking into consideration any indexation increases that occur between now and then, including the result of the indexation adjustment scheduled for 1 July 2000.

New subsection 198J(2) provides that the base amounts are to be increased by 2.5% on 1 July 2000 and this amount is the provisional replacement amount. The provisional replacement amount is then to be rounded, using a rounding base of \$52.00, in accordance with new section 198K to determine the final new amount for each payment in the table.

New subsection 198J(3) provides that any base amounts that are normally indexed on 1 July, as is the case with these amounts, are to include the indexation increase before the 2.5% is added.

Rent free area

These increase in these amounts will also effectively increase the rent free area which is provided for in Table C-3 in point SCH6-C15. The rent free area is adjusted annually in accordance with section 59GA. This section provides that on 1 July each year, the rent free area amount is replaced with the amount of pension free area that is applicable to the person on that day.

The pension free area will receive the 2.5% increase on 1 July 2000. This new amount for pension free area, including the 2.5% increase, will replace the previous amount of rent free area, in accordance with section 59GA, with effect on and from 1 July 2000. Thus the 2.5% increase flows through to the amount of rent free area.

1 July 2000 increase in assets test free area

New section 198K provides for a 2.5% increase to the assets value limits. The assets value limits are provided for in Column 3 of Table F-1 in point SCH6-F3. Items 1 and 2 of column 3A and item 2 and column 3B are indexed on 1 July each year. Item 1 of column 3B is adjusted annually in accordance with section 59H.

New subsection 198K(1) provides that **new section 198K** applies to the amounts in items 1 and 2 of Column 3A and item 2 of column 3B of table F-1 in point SCH6-F3. These amounts cannot be specified because they will be subject to indexation and can potentially increase several times before this bill comes into effect on and from 1 July 2000. Thus they are referred to as "base amounts", that is the amount that is in effect on 1 July 2000 taking into consideration any indexation increases that occur between now and then, including the result of the indexation adjustment scheduled for 1 July 2000.

New subsection 198K(2) provides that the base amounts are to be increased by 2.5% on 1 July 2000 and this amount is the provisional replacement amount. The provisional replacement amount is then to be rounded, using a rounding base of \$250.00, in accordance with **new section 198M**, to determine the final new amount for each payment in the table.

New subsection 198K(3) provides that any base amounts that are normally indexed on 1 July, as is the case with these amounts, are to include any indexation increase before the 2.5% is added.

No new provision is required to adjust item 1 of column 3B because it is adjusted each 1 July by a formula which uses the indexed amounts in column 3. As these amounts will receive the 2.5% increase on 1 July 2000, the new amount for item 1 of column 3B will be derived from these amounts on 1 July 2000 under the current adjustment provision in section 59H.

1 July 2000 increase in income/assets reduction limit

New subsection 198L provides for a 2.5% increase in the income/assets reduction limit which is used to determine treatment eligibility for certain service pensioners. The income/assets reduction limit is provided for in the table in subsection 53E(2). The limit is indexed twice a year in March and September.

New subsection 198L(1) that **new subsection 198L** applies to an amount provided for in column 3 or 5 of the table in subsection 53E(2). These amounts cannot be specified because they will be subject to indexation and can potentially increase several times before this bill comes into effect on and from 1 July 2000. Thus they are referred to as "base amounts", that is the amount that is in effect on 1 July 2000 taking into consideration any indexation increases that occur between now and then.

New subsection 198L(2) provides that the base amounts are to be increased by 2.5% on 1 July 2000 and this amount is the provisional replacement amount. The provisional replacement amount is then to be rounded, using a rounding base of \$2.60, in accordance with **new section 198M**, to determine the replacement amount for each payment in the table.

Rounding off provisional replacement amounts

New section 198M provides the rounding rules to be applied to the calculations of the 4% and 2.5% increases, where the base amount has a rounding base.

New subsection 198M(1) provides that where the new increased amount is a whole number multiple of the rounding base, then that is the new or replacement amount.

New subsection 198M(2) provides that where the new increased amount is not a whole number multiple of the rounding base, then the amount is rounded up or down to the nearest whole number multiple of the rounding base. This figure then becomes the new or replacement amount.

New subsection 198M(3) provides that where the new increased amount is not a whole number multiple of the rounding base, but is a multiple of half the rounding base, then the amount is rounded up to the nearest whole number multiple of the rounding base. This figure then becomes the new or replacement amount.

Part 2 – Taper Rates

Explanation of the changes

Rent Assistance Reduction Rate

Module C of Schedule 6 provides for the payment of rent assistance. The rate of rent assistance can be affected by the amount of a veteran's disability pension as provided for in point SCH6-C13. The disability pension income test in point SCH6-C13 incorporates a free area that allows a person to have a prescribed amount of income before the rate of rent assistance is reduced. Income in excess of the free area currently results in a reduction at the rate of 50 cents for every dollar of disability pension income over the rent free area.

Item 33 replaces the existing 50% rent assistance reduction rate with a 40% rent assistance reduction rate.

Change the taper rate for the income test

Under the pensions income test, a person is able to have a specified amount of income (the ordinary/adjusted income free area) before it impacts on the person's rate of pension. For every dollar over the ordinary/adjusted income free area, the person's payment is currently reduced by 50 cents.

Module E of Schedule 6 is used to work out the effect of a person's ordinary/adjusted income on the person's payment rate.

Item 34 replaces the existing 50% pension reduction rate with a 40% pension reduction rate. Under new subpoint SCH6-E11(1), a person's reduction for ordinary income is the person's ordinary income excess multiplied by 0.4. This effectively provides that service pension is reduced by 40 cents, instead of 50 cents, for each dollar over the income free area.

Part 3 - Increase in certain pensions

Explanation of the changes

Item 35 increases the rate of certain pensions that were preserved at frozen rates in the early 1970s or mid 1980s and are still being paid. By way of compensation for the introduction of the GST the following frozen payments will be increased by 4% on 1 July 2000:

- Prior to March 1973 certain war widows received dual pensions under the Social Services Act and the Repatriation Act. In March 1973 measures were introduced to prevent the receipt of dual pensions. In order for this group of war widows to continue to be eligible for the civilian widow's pension under the Social Services Act, the service pensions payable under the Repatriation Act were frozen. This item will increase the frozen service pension component. Those war widows who continue to receive an income support pension under the Social Security Act will have that pension increased by 4% under another provision of this Act.
- Prior to June 1985 the partner or child of an incapacitated veteran were entitled to a dependants' pension. In June 1985 the Government restricted the payment of dependants' pension to the partner (war widows pension) or child (orphans' pensions) of a deceased veteran. Payments to the partner or child of an incapacitated veteran that had already been granted were preserved at the rate they were paid at prior to June 1985.
- Prior to June 1985 pensions were also paid to a range of dependants other than the partner or child of a deceased or incapacitated veteran. These pensions were described as without adequate means of support (AMS) pensions. In June 1985 the Government ceased granting AMS pensions. All AMS pensions that had already been granted were preserved at the rate they were paid at prior to June 1985. Some AMS pensioners who were parents of veterans were also entitled to an additional pension under former Repatriation Regulation 32, 34 & 34AA. This additional pension was not frozen and continues to be paid based on the rate of the social security age pension (prior to 1985 all service pensions were calculated based on the rate of age or invalidity pension in the Social Services Act). This additional pension will not be increased by this item as it will be increased by 4% under another provision of this Act.

The pensions listed above were preserved at their frozen rates in the transition to the *Veterans' Entitlements Act 1986* by subsections 4(6) and 10(1) of the *Veterans' Entitlements (Transitional Provisions and Consequential Amendments) Act 1986*. Subsection (1) of this item provides that where these frozen pensions are still being paid on 1 July 2000, the pensions shall be increased by 4%.

Subsection (2) of this item provides that the increased AMS pension and dependants' pension shall be rounded to the nearest cent. While the increased rate of pension payable to certain war widows shall be rounded to the nearest ten cents.

SCHEDULE 3 – AMENDMENT OF THE NATIONAL HEALTH ACT 1973

Summary of proposed changes

The *National Health Act 1953* is amended to directly align the rate of domiciliary nursing care benefit (DNCB) with the rate of child disability allowance (CDA) thereby ensuring that the 4% increase flows through to DNCB.

Commencement

The amendments made by **Schedule 3** commence after the commencement of specified goods and services tax legislation (ie, 1 July 2000).

Background

Subsection 58G(2) of the National Health Act provides for the payment of DNCB at the rate of \$52 per fortnight or such higher rate that the Minister determines. From 1 July 1998, the rate of DNCB was aligned with the rate of CDA payable under the Social Security Act by Ministerial determination. The intention is to maintain this parity between the two rates.

Explanation of the changes

On 1 July 2000, the rate of CDA is to be increased, along with other social security income support payments, by 4% (see item 1 of the Table in new section 1206GA, inserted by **item 122 of Schedule 1**). CDA is also indexed each January in line with movements in the CPI.

In order to maintain parity between the rates of DNCB and CDA, **item 1** links the rate of DNCB directly to the rate of CDA while retaining the Minister's discretion.

Item 1 therefore repeals the existing subsection 58G(2) and inserts a **new subsection 58G(2)**. Under new provision, DNCB is payable at the same fortnightly rate as CDA under subsection 967(1) of the Social Security Act or such higher amount as determined by the Minister in writing.

The result is a 4% increase in the rate of DNCB on 1 July 2000 (in line with the increase in CDA).