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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

**SOCIAL SECURITY (PARENTING ALLOWANCE AND OTHER
MEASURES) LEGISLATION AMENDMENT BILL 1994**

SUPPLEMENTARY EXPLANATORY MEMORANDUM

Amendments to be moved on behalf of the Government

**(Circulated by authority of the Hon Janice Crosio MP
Parliamentary Secretary to the Minister of Social Security
representing the Minister for Social Security)**



SOCIAL SECURITY(PARENTING ALLOWANCE AND OTHER MEASURES) LEGISLATION AMENDMENT BILL 1994 (PgA Bill)

OUTLINE AND FINANCIAL IMPACT STATEMENT

These amendments to the *Income Tax Assessment Act 1936* (ITAA) complement the replacement of partner and home child care allowances, which commenced on 20 and 29 September 1994 respectively, with parenting allowance as from 1 July 1995. Beneficiary rebate is to be extended to widow allowance.

The measures have nil or negligible impact on revenue.

AMENDMENTS

1. Summary of changes

The amendments will:

- make supplementary amounts (such as rent assistance), paid with parenting allowance, exempt from income tax;

- make any amount of payment of parenting allowance up to the maximum basic component of parenting allowance exempt from income tax;

- make the balance of provisional rate of benefit parenting allowance taxable but subject to beneficiary rebate;

- provide for tax treatment of bereavement payments in relation to parenting allowance similar to that for other social security allowances;

- make some consequential amendments relating to bereavement payments for recipients of partner allowance; and

- make widow allowance subject to beneficiary rebate.

2. Background

Home child care allowance, to be subsumed into parenting allowance from 1 July 1995, is to be exempt from income tax. (The maximum rate is at present \$60 per fortnight). The PgA Bill proposes that the maximum basic component of parenting allowance, will initially be an amount of \$60. Thus the maximum basic component of parenting allowance replaces home child care allowance at its full rate. In broad terms, the balance of parenting allowance will correspond to partner allowance, for recipients with children, which it supersedes.

Partner allowance should be excluded from the definition of 'rebatable pension' to ensure that pensioner rebate does not apply to it. Beneficiary rebate will apply to partner allowance.

The present provisions for tax treatment of widow allowance in the PgA Bill do not provide for it being subject to beneficiary rebate.

3. Clauses involved in the changes

Amendment (1) effectively extends existing subclause 2(2) of the PgA Bill so as to propose that items 33A to 33E of Schedule 3 will be taken to have commenced on 20 September 1994.

Amendment (2) effectively adds two subclauses to existing clause 15 of the PgA Bill. The new subclause 15(1) will provide that items 162A to 162D of Schedule 1 apply in relation to payments made on or after 1 July 1995. The new subclause 15(2) will provide that item 162E of Schedule 1 will apply in relation to payments made on or after 29 September 1994. Subclause 15(3) replaces existing clause 15.

Schedule 1 Part 4 of the PgA Bill

Amendment (3) inserts into Schedule 1 Part 4 of the PgA Bill a heading which indicates items following it will amend the ITAA. Part 4 of Schedule 1 is concerned with amendment of Acts other than SSA91 consequential to amendment of that Act proposed in the PgA Bill.

Item 162A: inserts a reference to parenting allowance in the index of payments under the *Social Security Act 1991* in Subdivision B of Division 1AA.

Item 162B: inserts a reference to parenting allowance in the table that defines supplementary amounts in Subdivision B of Division 1AA.

Item 162C: inserts New section 24ABXB: Tax treatment of various payments

New section 24ABXB provides for tax treatment of payments of parenting allowance and related bereavement payments. Subsection (1) provides that the whole of each payment of non-benefit parenting allowance is exempt from income tax. Paragraph (2)(a) provides that supplementary amounts such as rent assistance are exempt from income tax. That part of provisional rate of parenting allowance that does not exceed the maximum basic component of parenting allowance is to be exempt from income tax [paragraph (2)(b)]. The balance of each payment is to be taxable [paragraph (2)(c)].

Bereavement payments under sections 951Y and 951ZB of SSA91 will be exempt from income tax [subsection (3)]. The amount of lump sum bereavement payment which will be exempt from income will be determined using exempt bereavement calculator AB in section 24ABZD [subsection (4)].

Item 162D: provides that the definition of 'rebtable benefit' be extended to include parenting allowance to the extent that the amount is not exempt under Division 1AA. This will result in beneficiary rebate being applicable to that part of parenting allowance which is taxable. Beneficiary rebate is calculated so as to negate the tax on a full-rate recipient of a social security benefit or allowance who has no other taxable income. The rebate is reduced by 12.5 cents for every dollar of other taxable income.

Item 162E: effectively excludes parenting allowance from the definition of 'rebtable pension'. This ensures that pensioner rebate does not apply to parenting allowance.

Schedule 3 Part 2 of the PgA Bill

Amendment (4) inserts in Schedule 3 of Part 2 the PgA Bill a new heading which indicates items following it will amend the ITAA. Part 2 of Schedule 3 is concerned with amendment of other Acts consequential to amendments related to partner allowance.

Items 33A, B, C and D: effectively remove from the relevant sections of the ITAA, references to bereavement payments for benefit-increase partners relevant to Job Search Allowance, Newstart Allowance, Sickness Allowance and Special Benefit respectively. With the introduction of partner allowance the concept of benefit-increase partner ceased to exist.

Item 33E: amends the definition of 'rebtable pension' to ensure that partner allowance is not subject to pensioner rebate.

Schedule 4 Part 1 of the PgA Bill

Amendment (5) corrects a drafting error.

Schedule 4 Part 3 of the PgA Bill

Amendment (6): inserts items 49A and 49B in Schedule 4 Part 3 of the PgA Bill.

Item 49A: amends subsection 160AAA(1) of the ITAA to extend the definition of 'rebtable benefit' to include widow allowance. This will result in beneficiary rebate being applicable to widow allowance.

Item 49B: amends subsection 160AAA(1) of the ITAA to exclude widow allowance from the definition of 'rebtable pension'. This ensures that pensioner rebate does not apply to widow allowance.

