



Australian Council of Social Service

16 October 2015

Chair

Senate Standing Committee on Community Affairs

By email: community.affairs.sen@aph.gov.au

Dear Senator,

Re: Inquiry into the Social Services Legislation Amendment (More Generous Means Testing for Youth Payments) Bill 2015

Thank you for the opportunity to participate in this inquiry.

The proposed legislation would ease income and assets testing for Youth Allowance for dependent young people. While on the whole the measures proposed would simplify the system and reduce effective tax rates facing parents, in responding to the Bill we have taken careful account of the tight budgetary environment, the fact that other Bills before the Senate would sharply reduce payments for people at risk of poverty, the inadequacy of the maximum rates of Youth Allowance, and the impact of common tax avoidance strategies on the integrity of social security income tests. While there is value in improving consistency of treatment of youth and family payments, the first priority should go to improving the adequacy of payments for those most at risk of poverty.

In short, we propose that:

- The Family Actual Means Test be removed, but only if the integrity provisions relating to private trusts in the personal income test for income support payments are extended to Youth Allowance for dependent young people in the same legislation.
- The family assets test and personal assets test be retained.
- The easing of the parental income test where a family receives multiple family and youth payments be supported.

Family actual means test

The Family Actual Means Test (FAMT) was introduced to strengthen the income testing of youth and student payments against income tax avoidance strategies that were common at the time and have become more widespread since, including the diversion of personal income into private trusts and companies, 'negative gearing', and salary sacrifice arrangements. The method used to achieve this goal - detailed reporting on family expenditures - was complex and involved high compliance costs for parents.

Subsequently, improved and less intrusive rules were adopted to deal with these income minimisation practices in the Family Tax Benefit (FTB) and income support payment income tests. The existing parental income test for Youth Allowance incorporates most of the FTB provisions. The Bill proposes to remove the FAMT and rely on the existing parental income test rather than using two separate 'means tests' to measure family income.



This would simplify the system and improve consistency with the FTB rules, but would leave one important 'gap' in the parental income test: minimisation of income through private trusts, which is addressed in the personal income tests for income support payments but not in the parental income tests for Youth Allowance or FTB.

We recommend that the FAMT be abolished, but only if the provisions relating to income diverted into private trusts in the broader income support system are extended to Youth Allowance for dependent young people in the same legislation. This would remove a weakness in the parental income test treatment of private trusts and improve consistency of treatment between the Youth Allowance parental income test and those for other income support payments.

Family and personal assets tests

We can see no clear justification for removing assets tests for Youth Allowance for dependent young people. A basic principle of our income support system is that people who have the financial means to provide for themselves do so. Any inconsistency in the treatment of assets between youth and family payments could be dealt with by extending assets testing to family payments.

We understand the assets test currently affects rates of payment for only a small minority of families receiving Youth Allowance but it is likely to become more important in future years as household wealth increases. If there are anomalies in the assets test treatment of farms, these should be resolved across the social security system rather than by exempting one payment.

We recommend that the proposed abolition of family and personal assets tests be opposed

Parental income tests for families with children receiving more than one payment

The high effective marginal tax rates and paid work disincentives for families receiving multiple family and youth payments are a long standing problem in our social security system. This arises due to the 'stacking' of multiple income tests for FTB and Youth Allowance, which gives rise to some of the worst paid work disincentives in the social security system.

We recommend that the proposed easing of parental income tests where parents face multiple income tests from different payments be supported.

Adequacy of Youth Allowance

While sensible reform of income tests is needed, much greater priority should be given to improving the maximum rates of payment for those young people and families with the least resources.

The maximum rate of Youth Allowance for young people 16 to 17 years living at home is just \$117 per week and that for young people 'away from home' is only \$214 per week. The 'at home' rate is no greater than Family Tax Benefits Part A for children aged 13 to 15 years, yet the costs of supporting older teenage children are likely to be significantly higher.



The maximum rate of Youth Allowance for young people 18 to 21 years living at home is just \$141 per week and that for young people 'away from home' is only \$214. This is well below the rate of Newstart Allowance for a single adult (\$267) which of itself is insufficient to meet basic needs. Yet the cost of supporting a young person of this age are unlikely to be much different to the cost of living for a single adult, apart from housing costs when the young person lives at home or shares accommodation with others (which are accounted for in the 'at home' rate and Rent Assistance).

Another Bill before the Senate would reduce payments for young people aged over 21 years and delay income support for four weeks for many young people. Instead of reducing income support for those in greatest need, we strongly recommend that the adequacy of maximum rates of youth payments be improved as a high priority. This is the best way to assist young people from rural areas studying away from home, as well as other young people vulnerable to financial hardship.

To discuss this submission further, please contact Peter Davidson, Senior Adviser on (02) 9310 6208.

Yours sincerely,

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