



**Australian Government**  
**Department of Social Services**

# Multi-agency Government Submission

Senate Community Affairs Legislation Committee inquiry  
Social Services and Other Legislation Amendment  
(Simplifying Income Reporting and Other Measures) Bill 2020



## List of contributing agencies to this submission

- Department of Social Services
- Services Australia
- Australian Taxation Office

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## Executive Summary

From 1 July 2020, subject to the passage of legislation, social security recipients with employment will report the income they are paid each fortnightly entitlement period, rather than what they calculate they have earned. This change is enacted through the Social Services and Other Legislation Amendment (Simplifying Income Reporting and Other Measures) Bill 2020. This measure will make it easier to report income correctly, simplify the user experience for income support recipients reporting employment income and reduce the occurrence of inaccurate payments.

The accuracy of income support payments will increase because recipients will no longer have to manually calculate the income they have earned each fortnight. This will significantly improve the accuracy of payments and reduce under and over payment amounts. Approximately 1.2 million individuals report employment income to Centrelink at least once over the course of a year and stand to benefit from this simplification.

Assessing employment income when paid is supported by the expansion of the payroll information collected through Single Touch Payroll (STP), administered by the Australian Taxation Office (ATO). From July 2020, the prefilled STP data will initially include employer name with income details to be included as employers report more granular STP data to the ATO. Over the course of the 2020-21 financial year the ATO will progressively provide Services Australia with the payroll information of mutual clients, which will then appear as a prefilled figure in their Centrelink reporting tools at the end of each reporting fortnight. Income support recipients will have the ability to amend their prefilled information.

This measure will deliver savings of \$2.1 billion over four years exclusively through improved payment accuracy. Assessing employment income when paid does not change payment rates or eligibility criteria. This is not an income compliance measure and there is no debt component to the savings.

Assessing employment income when paid will reduce complexity in the social security system and deliver benefits for all users, in particular income support recipients engaged in irregular or intermittent employment.

## Introduction

The Social Services and Other Legislation Amendment (Simplifying Income Reporting and Other Measures) Bill 2020 (the Bill) changes the way welfare recipients report their employment income to Services Australia. Instead of calculating the value of the shifts they have completed each fortnightly reporting period, recipients in employment will instead report the gross value of what they have been paid - as it appears on their payslip.

In addition to making it easier for individuals to meet their reporting obligations, assessing employment income when paid will allow the use of payroll information, provided to Services Australia by the Australian Taxation Office (ATO), through Single Touch Payroll (STP) to make reporting income even easier. Information will only be exchanged for mutual clients.

This measure will further simplify income reporting by treating all employment income consistently. Currently, the apportionment of employment income is determined by the income type, with some amounts being assessed when earned and others when received. Under these changes all types

of employment income will be prospectively apportioned from the first day of the entitlement period in which the amount is paid for the same duration as the associated earning period.

## Change of Income Assessment Model

### Current earned assessment model and new paid assessment model

Income support is paid every two weeks, with each fortnight's rate determined by the previous two week's income. At the end of every fortnight people report their income for the past two weeks to Services Australia to determine the amount of income support payment they will receive the next day.

Currently, income support recipients report what they have **earned** to Centrelink each fortnight. Social security recipients are required to calculate and report their and, if applicable, their partner's employment income based on the value of shifts they have worked each fortnight, not what they have actually been paid.

What an individual has earned is the amount that they are legally entitled to recover from their employer for the work they have done. Income is earned once a person has completed their shift, even if they are not paid until later.

#### Reporting income under the current earned model

1. John is a Newstart recipient and works casually as a waiter. The number and length of shifts he works each week are highly variable.
2. At the start of each fortnightly Centrelink entitlement period John uses the Centrelink employment diary to keep a record of the shifts he works and the rate of pay applicable to each shift.
3. At the end of his fortnightly entitlement period John tallies the earnings in his employment diary to calculate what to report:
  - Wed 3rd: 3 hrs x \$22 p/h
  - Fri 5th: 4 hrs x \$25.41p/h
  - Sun 7th: 4 hrs x \$29.24 p/h
  - Tue 9th: 3 hrs x \$22 p/h
  - Fri 12th: 4 hrs x 25.41 p/h
  - Sat 13th: 4 hrs x 28.38 p/h
  - Mon 15th: 3 hrs x \$22 p/h

Total for the fortnight: \$631.76

4. John reports his \$631.76 of gross earnings for the fortnight on the final day of his fortnightly entitlement period to receive his part-rate Newstart payment of \$266.14. (This example assumes John has previously used his working credits.)

From 1 July 2020, payment recipients in employment will report the gross income that has been **paid** to them during the fortnight, rather than the amount of gross income they calculate they have earned. This will significantly simplify the reporting requirements of income support recipients as they will be able to report the gross amount that appears on their payslip. Amounts will

be considered ‘paid’ when an employer has distributed the money to their employees or set aside their wages to be collected.

#### **Reporting income under the income paid model**

1. John is a Newstart recipient and works casually as a waiter. The number and length of shifts he works each week are highly variable.
2. At the end of his fortnightly entitlement period John refers to his payslip to report the income he has been paid to Centrelink.
3. John reports his \$631.76 of gross earnings for the fortnight on the final day of his entitlement period to receive his part-rate Newstart payment of \$266.14.

In addition, those who are transitioning to work will be better supported, as they can continue to get their full rate of payment until they are paid by their employer.

A diagram illustrating the reporting requirements under the Change of Income Assessment Model measure is available at Appendix 1.

### **Recipients affected by this measure**

Around 1.2 million income support recipients who report earnings in the course of a year will benefit from this measure, which makes it simpler to correctly report income. Over the course of 2017, there were around 15 million corrections to recently reported earnings, where people discovered when they got their pay that they had incorrectly reported their earned income for the previous fortnight.

The measure will affect recipients who report income on Jobseeker Payment, Parenting Payment (Single and Partnered) ABSTUDY, Austudy, Youth Allowance, Special Benefit, Age Pension, Carer Payment and Disability Support Pension. Farm Household Allowance from the Agriculture portfolio is also included.

## **Simplifying Income Reporting**

### **When income is taken to be paid**

Under the changes in the Bill “paid” refers to the point at which an employer disburses employment income to their employees. This will typically be the point at which a payroll system is run and tax and super withholding occurs.

“Paid” may not necessarily be the same day an employee receives their employment income. For example, if an employer runs their payroll on a Thursday, but due to bank delays the amount does not arrive in the bank account of the employee until Friday, the income will be considered “paid” on the Thursday.

It is necessary to consider income as paid when disbursed by an employer to both prevent individuals from delaying collection of their earnings to maximise the level of income support they receive, and to allow the use of STP information for prefilling purposes.

The proposed legislation provides discretion for a delegate of the Secretary of the Department of Social Services to consider amounts as paid or unpaid in irregular situations, including:

- If income is paid but no pay period is identified the income will be attributed forward over a period not exceeding 52 weeks, as appropriate. The length of apportionment will depend on the nature of the employment income.
- If it can be demonstrated that a scheme exists to defer payment of employment income to obtain a social security advantage then the income may be assessed when earned.
- If an employer declares that they have paid their employees, but in reality the funds have not been made available, the income will be considered to have been paid only once actually available. The reporting date will be the date employment income is available.

## Apportionment of income

To avoid disadvantaging one group of employees over another in the welfare system, income will be assessed for the same length of time as the associated earning period. The finish and start date for the employment pay cycle will be used to determine the number of days the gross income will be apportioned.

A person paid fortnightly will have their gross income applied from the start date of the entitlement period and apportioned forward for the fortnight. A person who is paid monthly will have their income applied from the beginning of the entitlement period in which it is paid and apportioned forward for the relevant number of days.

### **Apportionment example:**

A person who reports a gross income of \$1,500 for the fortnight will have their income applied over that fortnight. A person who reports a gross income of \$1,500 paid for a month will have their income applied from the beginning of the Centrelink entitlement period in which it was paid and apportioned forward for the relevant number of days for which it was paid (i.e. 28, 29, 30 or 31 days).

Where a person is paid for a longer period their employment income can be attributed forward for a period of up to 52 weeks. This could occur where a person receives a bonus which relates to a specified period (for example a quarterly sales bonus).

Apportioning amounts for a maximum of 52 weeks is consistent with the current apportionment of lump sum amounts that do not have an identifiable associated earning period for pensioners (current section 1073A in the Social Security Act 1991). Limiting apportionment to 52 weeks ensures that recipients are not prevented from receiving income support for more than a year following the receipt of a large lump sum payment.

In limited circumstances where employment income is paid to a person but is not paid in respect of a particular period a delegate of the Secretary of the Department of Social Services will attribute this employment income over a period not exceeding 52 weeks, as appropriate in the circumstances. In most situations, the basis of determining the length of apportionment will depend on the nature of the employment income. This information will generally be provided by the recipient, and Services Australia will ask for follow-up information as required. This could include lump sum back pay or the payment of a bonus for a period that hasn't been defined by the employer.

If a recipient disagrees with a decision about the length of the attribution they will have access to the full range of review and appeal rights. This will mean they have the right to request a review by an Authorised Review Officer (ARO) who is an experienced senior officer whose major function is to conduct reviews of disputed decisions. They will also have access to further avenues of appeal through the Administrative Appeals Tribunal.

Cameos which further illustrate the apportionment of income under these changes are available at Appendix 2.

## Consistent treatment of income

Under the changes, all employment income will be treated consistently whether a person is paid a regular fortnightly or weekly pay, a monthly pay, quarterly commission, annual bonus or a one-off lump sum such as back pay.

Currently, irregular or one off payments are treated differently depending on the type of payment. For example a Christmas bonus is apportioned forward for up to 52 weeks and a lump sum back payment of wages is applied retrospectively for the period over which it was earned and may result in a debt.

## Calendar-monthly payments provision for a small group of pensioners

The interaction between the varying length of calendar months and fortnightly entitlement periods means people paid calendar-monthly would potentially have fluctuations in their fortnightly income support payments. People paid weekly or fortnightly would not experience this gap.

A small number of social security pensioners (primarily Age Pension recipients, estimated to be fewer than 2,500) are paid the same amount of employment income on a set day of each month. The general method of apportionment under the changes would result in fluctuating levels of income support for these individuals.

To ensure that those paid a set amount of income on a set day of each month will continue to receive a consistent level of income support, this measure allows for current assessment methods to continue to apply to recipients paid in this way (with the exception of the income being assessed when paid).

As is currently the case, this treatment primarily applies to Age Pensioners who can demonstrate they are paid the same amount of income on a set day of each month and are likely to continue. These Age Pensioners do not need to report their income each fortnight and only report when they have a change in their income such as a wage increase or ceasing employment.

The majority of recipients paid monthly will be assessed under the 'standard' apportionment method (assessed prospectively for the same length as the earning period, beginning from the first day of the entitlement period in which the amount is paid), with the remainder assessed under the calendar-monthly method described here.

This is not a grandfathering measure and will be available to new entrants.

## Measures to maintain payment integrity

Under the new assessment rules, by deliberately deferring receipt of employment income it would be possible to be paid a higher rate than otherwise entitled.



To address this, the Bill includes an anti-avoidance measure that provides a delegate of the Secretary of the Department of Social Services discretion to decide that employment income is to be assessed before it is paid. This would apply where a person has intentionally deferred their pay cycle in order to maximise their income support rate.

The anti-avoidance provision has been designed to only apply in very limited situations where the delegate of the Secretary of the Department of Social Services is satisfied a scheme to defer the payment of employment income exists and the sole or dominant purpose is to obtain income support or additional income support for a person. This provision will not apply where an employer delays paying an employee - for example, due to a power outage or lack of funds.

For the anti-avoidance provision to apply it will not be sufficient to demonstrate an individual has obtained an advantage. It must also be demonstrated that there was an intention to defer payment for that purpose. For example, if an employer is unable to pay their employee for four weeks and that individual receives two maximum rate support payments the provision will not apply.

If a recipient disagrees with the application of the anti-avoidance provision they will have access to the full range of review and appeal rights (detailed at page 7 and 14).

The anti-avoidance provision in the Bill is modelled on the existing anti-avoidance provision in the Social Security Act 1991 for private companies and private trusts, section 1209D. It adopts the same criteria of demonstrating the scheme was for the “sole or dominant purpose of obtaining a social security advantage”, to ensure the provision cannot be misapplied. It also adopts the same language as found in 1209D to describe what constitutes a social security advantage.

## Financial impact

This measure will achieve savings of \$2.1 billion over four years through increased payment accuracy.

The savings for this measure were determined by extrapolating the instances of over and under reporting of employment income across the income support system using the Department of Social Services’ Random Sample Survey. Within the Random Sample Survey, ‘payment accuracy’ refers to the proportion of social security outlays (in dollars) that have been paid to the right person, for the right payment, at the right rate, on the right date. The accuracy of reported employment income is consistently rated as one of the highest risks to payment accuracy in the Random Sample Survey.

By making it easier to report income to Centrelink the vast majority of mistakes associated with reporting employment income will be avoided. None of the expected savings are the result of debts being raised, changes to payment eligibility or payment rates. Additionally, the sharing of STP data between Services Australia and the ATO will further simplify the process of reporting income.

By prefilling an individual’s wages or salary in their Services Australia reporting tool, for the individual’s confirmation or amendment, the accuracy of income reporting will be further improved.

Recipients who commence employment will continue to receive income support up until they are paid by their employer.

The measure was summarised in the 2019-20 Budget (page 158) as follows:

#### Changing the Social Security Income Assessment Model

Expense (\$m)	2018-19	2019-20	2020-21	2021-22	2022-23
Department of Human Services	1.2	20.3	8.7	-	-
Department of Social Services	-	0.2	-655.6	-706.8	-756.0
<b>Total — Expense</b>	<b>1.2</b>	<b>20.5</b>	<b>-646.9</b>	<b>-706.8</b>	<b>-756.0</b>

Source: Budget Paper No. 2

Most of the savings achieved through this change, around 80 per cent, will come from recipients of working-age payments as these individuals are the most likely to be in employment.

## Interaction with Single Touch Payroll

The ATO has been supporting employers to progressively transition to STP reporting. It is expected that by 1 July 2020 approximately 650,000 employers (79% of all employers) will be reporting STP information for an estimated 12 million individuals (95% of all employees).

From July 2019 the ATO commenced sharing STP data (STP phase 1) with Services Australia. Information is only provided to Services Australia when the ATO has been notified the employee is a customer of Services Australia. The information is currently limited to discovery activities and is not being used for direct interactions with recipients.

Phase 1 data includes the salary and wages, tax, lump sum payments and allowances as per the corresponding PAYG Payment Summaries (for example Individual Non-Business Payment Summary) in Year to Date (YTD) format on or before the pay day of the employee.

From 1 July 2020 the ATO will be ready to start collecting more granular income data from employers who wish to start reporting the expanded STP data set early, before full implementation on 1 July 2021. The expanded data set includes the disaggregation of gross income, the collection of Child Support Agency deduction and garnishee amounts and a cessation reason. This expanded data set was designed in consultation between the ATO, Services Australia, the Department of Social Services, the software industry and the payroll industry. This expanded STP data set will become mandatory for all employers (except micro employers with 1-4 employees using a low or no cost STP solution) from 1 July 2021.

### Making it easier to report employment income accurately

Services Australia will use the employer reported STP payroll information to make it easier for income support recipients to report employment income. This will improve the accuracy of income reported.

From September 2020, Services Australia will look to prefill payroll information into income support recipients' fortnightly reports, similar to how the ATO prefills tax returns. This is subject to employer take-up of the expanded STP data from July 2020. The ATO expect there to be a small number of voluntary early adopters reporting the expanded data set. Recipients will be prompted to review, confirm or update the STP data, before it is used to assess their entitlements. From July 2020, Services Australia will begin to prefill the name of the organisation associated with the payroll payment until employers report more granular STP data to the ATO.

Where a recipient works for an employer not covered by STP, they will continue to have to report their income to Centrelink. If STP data is not available, recipients will still benefit from easier reporting arrangements. A recipient will be able to refer to their payslip to report their employment income to Centrelink.

A timeline of the Change of Income Assessment Model measure and Single Touch Payroll is available at Appendix 3.

## Implementation

### Transition arrangements

Transitioning to the new model of assessment will require recipients with ongoing employment to undertake a one-time calculation to ensure that their income is not double counted—once when reported as earned and again when paid. The Bill has been designed to make this transition as simple as possible.

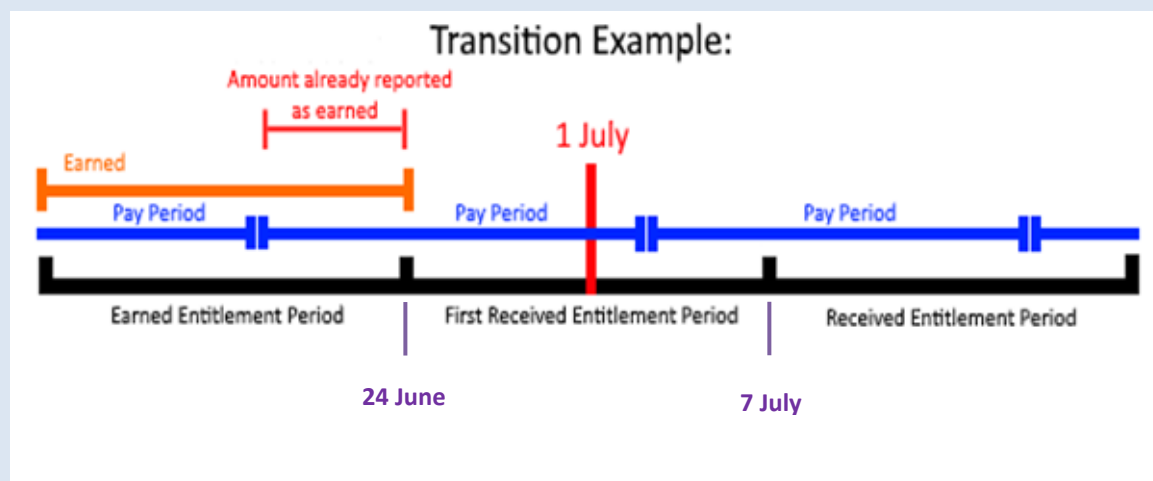
In their social security entitlement fortnight within which 1 July 2020 falls, recipients will be asked to subtract any income they have previously reported under the earned model from the income they are reporting as paid by their employer. For example, an individual who is paid \$200 and already reported \$50 of that amount the previous fortnight under the earned model will report \$150.

Work has been undertaken to identify the needs and challenges for both recipients and staff, and to use these insights to develop a suite of supporting resources that will address both the technical and behavioural changes. To assist with the changes, recipients will be notified through a bulk mail-out and targeted messaging in advance. Messages advising of the changed requirements will also be included in the reporting channels during the transition. Income support recipients will be supported to continue to report employment income via their usual Services Australia channels whether electronic, phone or in person.

A specially designed calculator will also help people work out what they should report. The transition calculator will be available online along with examples of how to report, frequently asked questions and video messages. Messages advising of the changed requirements will also be included in the regular Services Australia income reporting tools during the transition, such as the online portal and the app. People will also be able to contact a staff member for help if needed. Face-to-face training will be delivered to all Services Australia staff to support recipients requiring assistance in relation to changes.

### Detailed Transition Example

1. Maria receives Newstart allowance and also works as a guitar instructor. She works the same pattern of shifts every week.
2. In the lead up to 1 July 2020 (subject to the passage of legislation), Maria receives letters from Services Australia which advise her of the change to the way her income is assessed and reported. To get more information she watches one of the videos available online and learns how to calculate her income during the transition period by deducting income she has already reported when earned.
3. Maria's transition fortnight runs from Wednesday 24 June to Tuesday 7 July 2020. On 7 July, Maria uses the calculator available on the Services Australia website to report the employment income she has been paid that has not already previously been reported as earned. Maria does this by subtracting the value of the shifts she worked prior to 24 June from the income she is paid between 24 June and 7 July (marked in the diagram below as "Amount already reported as earned").
4. Maria correctly reports the employment income she is paid during the transition period, and so avoids having any of her income assessed twice (once when earned and again when paid).
5. After the transition period, for the fortnight commencing 8 July 2020 Maria is aware that she will only need to report income received, based on the materials and supports provided in preparing for the change in income reporting.



## Reporting channels

Recipients will continue to report employment income via the various Services Australia channels including:

- Centrelink online account through myGov
- Express Plus Centrelink mobile app
- Self-service Income reporting line (13 EARN)
- Staff assisted phone or service centre channels

These channels will be available to recipients reporting employment income or confirming employment income received via Single Touch Payroll, once fully implemented. The Report Employment Income service guides the recipient through the reporting process with a range of assistive tools.

The following page shows a visual concept of what the reporting of employment income under a paid model is proposed to look like from 1 July 2020 (pending passage of legislation). It is important to note these screens are an early prototype and will be developed with user testing.

The image displays two digital screens showing the 'Report employment income' interface. The left screen is a mobile app interface for 'centrelink', featuring a blue header with a menu icon, 'My Profile', and 'Make a claim'. The main content area asks 'What employment income did you receive in the last period?' and provides a form to enter details for 'ABC Enterprises Pty Ltd' (ABN: 55 222 333 444). It includes radio buttons for 'No' (selected) and 'Yes', a text field for 'How much were you paid (before tax and deductions)?', and a date picker for 'What date were you paid on?'. The right screen is a desktop version of the same interface, showing a 'Welcome back, John' message and a 'myGov' logo. It includes a 'Previous' section with a question about working or being paid by any employers in the period (27 Jun - 10 Jul 2020). Below this, there are checkboxes for 'I have not been paid by any employer this period', 'ABC Enterprises Pty Ltd', and 'XYZ business'. An 'Add a new employer' button is also present. Both screens feature a 'Next' button and a chatbot icon labeled 'TBC' at the bottom.

Below is a visual concept of what the **future state** for reporting employment income under STP could look like once implemented:

The image shows two versions of a digital form for reporting employment income: a mobile app interface on the left and a desktop website interface on the right. Both interfaces are divided into two main sections: 'What we know about you.' and 'What you need to tell us.'

**Mobile App Interface (Left):**

- Known information (prefilled):**
  - Employer 1:** Pay start date: 20/05/2021, Pay end date: 31/05/2021, Income: \$536.85. Includes an 'UPDATE\*\*' button.
  - Employer 2:** Pay start date: 17/05/2021, Pay end date: 30/05/2021, Income: \$340.85. Includes an 'UPDATE\*\*' button.
- What you need to tell us:**
  - Did you have other income from employment not listed above? ☐ Yes\* ☐ No
  - Did you look for work or meet your participation requirements? ☐ Yes ☐ No\*
  - Are there any other changes to your circumstances that may affect your entitlement? ☐ Yes\* ☐ No
- A green 'SUBMIT' button is at the bottom right.

**Desktop Website Interface (Right):**

- The 'myGov' logo is at the top center.
- Known information (prefilled):**
  - Employer 1:** Pay start date: 20/05/2021, Pay end date: 31/05/2021, Income: \$536.85. Includes an 'UPDATE\*\*' button.
  - Employer 2:** Pay start date: 17/05/2021, Pay end date: 30/05/2021, Income: \$340.85. Includes an 'UPDATE\*\*' button.
- What you need to tell us:**
  - Did you have other income from employment not listed above? ☐ Yes\* ☐ No
  - Did you look for work or meet your participation requirements? ☐ Yes ☐ No\*
  - Are there any other changes to your circumstances that may affect your entitlement? ☐ Yes\* ☐ No
- A green 'SUBMIT' button is at the bottom right.

Brackets on the left of each interface group the top section as 'Known information (prefilled)' and the bottom section as 'Questions DHS could ask'. A bracket on the right of the desktop interface groups the questions section as 'Questions DHS could ask'.

## Support available for recipients

Funding of \$30 million over the three years to 2019-20 is being provided to Services Australia to support recipients and its workforce to transition to the new employment income reporting model. Work has been undertaken to identify the needs and challenges for both staff and recipients, and to use these insights to develop a suite of supporting resources that will address both the technical and behavioural changes. This work will assist Services Australia to meet the temporary increase in demand that is expected during this transition.

Subject to further testing and development, the following support concepts have been proposed (these are additional to the standard support services):

- Bulk mailout letter – Recipients impacted by the changes to be issued with a letter outlining the changes, including examples and information of where additional information can be sought.
- Webpage updates, Social Media and IVR messaging – Updates to online and recorded information with appropriate messaging prior, during and after the changes have been implemented.
- Facilitated face-to-face training – Delivery of facilitated face-to-face training to all Services Australia staff to support recipients requiring assistance in relation to the changes via a non digital channel.
- Translated fact sheets for Culturally and Linguistically Diverse recipients.
- Indigenous Radio announcements.
- Transition calculator – A transition calculator to assist recipients in undertaking a one-off calculation in the reporting period that crosses over 1 July 2020.

- Video On Demand tutorials – Creation of step-by-step videos within the recipient’s authenticated reporting channels and via links in communication products.
- Enhancements to digital reporting – Updates to existing digital Report Employment Income channels to deliver a more streamlined recipient experience, with improved help functionality, clearer instructions and improved question flows.
- BOT assistant – Introduction of new capability in the Report Employment Income digital channels to provide recipients with step-by-step guidance.

## Reviews procedure

By prefilling an individual’s wages or salary in their Centrelink reporting tool with STP data, which is reported by their employer, the accuracy of income reporting will be improved.

An individual retains the obligation to report their employment income accurately, and they will have the ability to confirm, edit and add to STP data.

Where an individual continues to report information which differs from what is reported through STP data, Services Australia may contact the recipient to understand any issues and ensure reporting is correct.

## Quality Assurance

Services Australia will use a quality assurance framework to support implementation of these measures. Change impact assessments have already been completed to determine where recipients and staff may be impacted by the measure. User testing is undertaken prior to the measure being rolled out to ensure the design of user interfaces meet user expectations, and support individuals with low digital literacy.

Post implementation, changes will be monitored and measured against intended benefits and recipient outcomes using a range of existing processes. This includes analysis of recipient sentiments through their engagement with Services Australia, e.g. formal and informal feedback channels including social media and Ministerial correspondence and accessible management information to undertake on-going comparative analysis in relation to improvements in payment accuracy.

# Additional provisions in the Bill

## Amendments to the Pension Bonus Scheme

An Age Pensioner’s Pension Bonus Scheme (the Scheme) entitlement will continue to be determined under current arrangements rather than under the treatment of employment income under this Bill. This will ensure there is no disadvantage to those registered for the scheme.

The Scheme was introduced on 1 July 1998 and is now a closed scheme. As at June 2019, there are approximately 19,000 members of the Scheme.

## Changes to treatment of certain income insurance payouts

Currently under the social security law there is no way to assess an income insurance payout except in the fortnight in which the income is received.

This means that a very small number of individuals can receive large income insurance payouts without the income affecting their rate of payment outside of a single fortnight. The Bill seeks to address this discrepancy by assessing these payments consistently with other lump sum income types, i.e. prospectively for up to 52 weeks. This provision would not result in debts being raised or apply to compensation payments as there are already specific provisions to assess those lump sum payments.

## Conclusion

Assessing employment income when paid will lead to more accurate income support payments and simpler reporting requirements for recipients. Assessing employment income once it has been paid by an employer will allow the use of STP data for income reporting purposes.

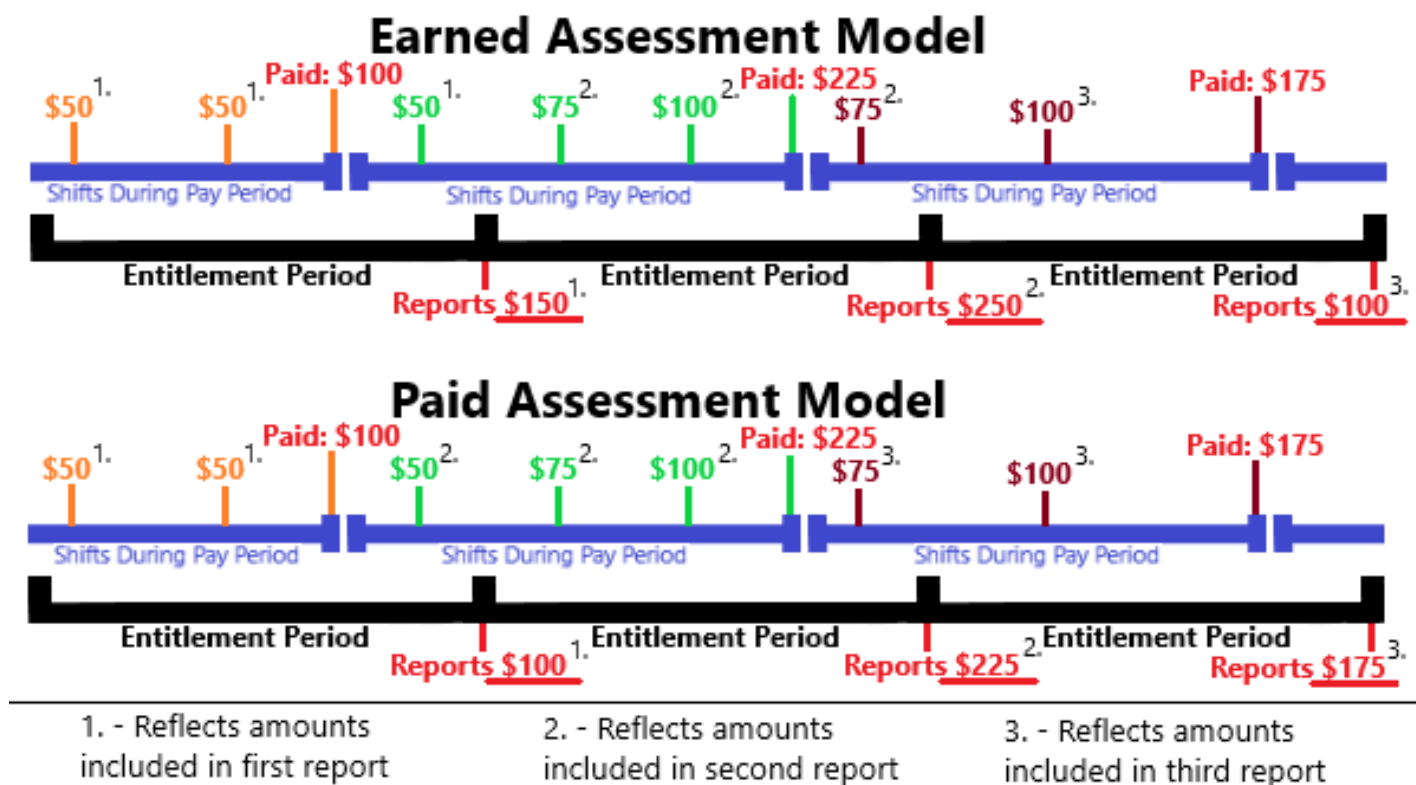
By allowing recipients to report their employment income as it appears on their payslip the longstanding complexity involved in calculating and reporting earned amounts will be addressed, and the assessment of employment income will be simplified through the removal of different assessment methods for different pay types. Making it easier to report income accurately will also allow individuals to better understand how their employment income affects their income support payments.

The simplification of income reporting addresses stakeholder concerns around the difficulty that individuals have in meeting their reporting requirements and will help to ensure that people are getting the level of support to which they are entitled.



## Appendices

### Appendix 1 – Diagram of earned and paid assessment model



## Appendix 2 – Additional worked examples

### Reporting Income from Irregular Shifts:

Jerry is a Youth Allowance recipient and sometimes picks up shifts helping his cousin mow lawns.

During his semester break he works four shifts mowing lawns and is paid the following week.

During the entitlement period that his pay day falls in, Jerry reports the gross income paid for his lawn mowing work.

In subsequent entitlement period in which Jerry is paid no income, Jerry reports \$0 of income.

### Treatment of back pay:

Monique is a kitchen hand on Newstart working in the hospitality industry.

After four years of working at a restaurant, it is found that staff have been underpaid for those four years.

Monique is paid back pay to make up for the underpayment, in the form of a significant lump sum payment.

Currently, the back pay is assessed retrospectively against the four years of Newstart payments, with the possibility of a social security debt raised for any overpayments found in hindsight.

Under the paid model, the lump sum will be applied from the beginning of the fortnight in which it is paid and apportioned for 52 weeks. No debt is raised.

As Monique is still on Newstart, the apportioned back pay is applied forward and she receives a reduction in her rate for 52 weeks. If she ceases income support due to getting a new job, the 52 weeks will continue (a job seeker can sometimes come on and off income support until they obtain sufficient shifts / income to exit payment). If Monique were to claim Newstart before the 52 weeks has expired, she would only receive a reduced rate for the remainder of the 52 week period.

Monique has the benefit of the back pay in her hand.

### Reporting Income for Delayed Pay:

Jack is a Newstart Recipient and works casually for a local builder.

Jack's boss is paid every 5 weeks. He then has to run his own payroll to pay his employees, including Jack. He runs payroll every 6 weeks.

Under the new model, employment income is reported when it is paid. However the requirement for Jack to report his employment income fortnightly remains, even when he is not paid.

For entitlement periods in which Jack has not been paid, he will report that he has been paid \$0.

In the entitlement period in which Jack is paid, he will report the full gross amount. When doing so, he will also inform Centrelink the period for which this was paid – in this case, six weeks.

Services Australia will then apply the employment income from the beginning of the fortnight in which it is paid and apportioned forward for six weeks.

**Partners reporting income:**

Members of a couple who are both recipients of an income support payment are on the same entitlement fortnight.

This means they have the same reporting day, report earnings for the same fortnightly period and have the same social security payment day.

**Currently**, each member of the couple reports the gross employment income they have earned during the fortnight by calculating their hours worked and the gross hourly rate. They do this even if they haven't yet been paid for that work.

Services Australia takes into account the gross employment income each member of the couple has earned when determining the rate of income support payable to each of them.

**Under the paid model**, each member of the couple will continue to have the same reporting day and the same entitlement fortnight. However, they will each report the gross employment income they have been paid by their employer during the entitlement fortnight.

It won't matter if their employment pay dates fall on different days within the entitlement period. It won't matter if they each have a different pay cycle, such as monthly, fortnightly or weekly, because of the approach to **apportioning** income forward for the period over which is was earned.

It also won't matter if this pay reflects work undertaken on dates that fall during an earlier fortnightly entitlement period or was paid by multiple employers. The important information will be the gross amount paid during the fortnight period for each employer and the start and finish date of the employment pay cycle. This information can be found on a person's payslip.

Services Australia will use the reported income for each member of a couple to determine the rates of income support payable.

## Appendix 3 – Timeline of Change of Assessment Model and Single Touch Payroll

