

Chapter 1

Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018

1.1 The Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018 (Bill) extends an indexation pause on certain higher income limits for the following family payments:

- Family Tax Benefit Part A (FTB A)
- Family Tax Benefit Part B (FTB B)
- Paid Parental Leave (PPL) and
- Dad and Partner Pay (DAPP).

1.2 The Bill also pauses indexation for the annual FTB A and FTB B supplements.

1.3 Indexation for each payment will not recommence until 1 July 2021.

Background

1.4 This Bill implements a measure titled 'Family Tax Benefit and Paid Parental Leave — maintaining income thresholds' which was announced in the 2017 *Mid-Year Economic and Fiscal Outlook*.¹

1.5 Indexation is the automatic increase of certain amounts in line with inflation as measured by the Consumer Price Index. *A New Tax System (Family Assistance) Act 1999* and the *Paid Parental Leave Act 2010* provide for regular indexation and specify the method of indexation.²

Family Tax Benefit payments

1.6 FTB A and FTB B are payments that help to defray the cost of raising children. The rate of FTB A a family is eligible for depends on the family's adjusted taxable income and the number and age of the children they have. The rate of FTB A payable varies from nil to \$237.86 a fortnight per child depending on the age of the child and the family's adjusted taxable income.³

1 The Hon. Scott Morrison MP, Treasurer of Australia and Senator the Hon. Mathias Cormann, Minister for Finance, *Mid-Year Economic and Fiscal Outlook 2017–18*, December 2017, p. 179; The Hon. Dan Tehan MP, Minister for Social Services (Minister), *Explanatory Memorandum—Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018*, pp. 1, 3.

2 *A New Tax System (Family Assistance) Act 1999*, sch. 4 cl. 3; *Paid Parental Leave Act 2010*, ss. 42, 43.

3 Department of Human Services, *A guide to Australian Government payments – 1 July–19 September 2018*, p. 2 <https://www.humanservices.gov.au/sites/default/files/2018/06/co029-1807.pdf> (accessed 10 July 2018) (Payments Guide).

1.7 There are three different methods of calculating the payable rate of FTB A. One of the factors used to determine which method of calculation should be used is whether an individual's adjusted taxable income exceeds the 'higher income free area'.⁴

1.8 The higher income free area is currently \$94 316.⁵ If the family's adjusted taxable income is above the higher income free area, the amount of the payment is reduced by 30 cents for every dollar the family earns above the higher income free area until the payment is nil.⁶

1.9 The higher income free area is due to be indexed on 1 July 2020.⁷ The effect of the Bill is that the higher income free area will remain at \$94 316 until 1 July 2021.⁸

1.10 A family may be eligible for the FTB A supplement if it has an adjustable taxable income of less than \$80 000 per year.⁹ Before 1 July 2018, the gross amount of FTB A supplement was worth up to \$737.30 per child.¹⁰

1.11 The effect of the Bill is that the gross amount of the FTB A supplement will not be reindexed until 1 July 2021.¹¹

1.12 Families are not eligible for FTB B where the higher income earner in a couple, or a single parent, has an adjusted taxable income of \$100 000 or more.¹²

1.13 Families who are eligible for FTB B are also eligible for the FTB B supplement. Prior to 1 July 2018, the FTB B supplement was \$357.70.¹³

1.14 The Bill has the effect of maintaining the income limit and the FTB B supplement at current levels until 1 July 2021.¹⁴

4 *A New Tax System (Family Assistance) Act 1999*, sch. 1, cl. 1.

5 *Payments Guide*, p. 3.

6 *A New Tax System (Family Assistance) Act 1999*, sch. 1 cl. 28.

7 *A New Tax System (Family Assistance) Act 1999*, sch. 4 cls. 1, 7.

8 Bill, sch. 1 cl. 1.

9 *A New Tax System (Family Assistance) Act 1999*, sch. 1 cl. 38A.

10 Minister, *Explanatory Memorandum—Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018*, p. 3.

11 Bill, sch. 1 cl. 1.

12 *A New Tax System (Family Assistance) Act 1999*, sch. 1 cl. 28B.

13 Minister, *Explanatory Memorandum—Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018*, p. 3.

14 Bill, sch. 1 cl. 1.

Paid Parental Leave and Dad and Partner Pay

1.15 PPL is paid to the primary carer of a newborn child (usually the birth mother) who is on leave from work in the first year of life, or in cases of adoption, the placement of the child, for up to 18 weeks at national minimum wage.¹⁵

1.16 PPL is only payable if in the relevant year the person had an adjusted taxable income not more than the PPL income limit.¹⁶ The relevant year may be different for a primary or secondary claimant. For a primary claimant, the relevant year for the purposes of PPL is the financial year before the claim was made or the child was born /placed with the family, whichever is the earlier.¹⁷ For a secondary claimant, the relevant year is the financial year that ended before the person made the claim or the person became the primary carer for the child.¹⁸ The PPL income limit is currently \$150 000.¹⁹

1.17 Section 42 of the *Paid Parental Leave Act 2010* provides that the PPL income limit will be indexed on 1 July 2020. The Bill postpones indexation of the PPL income limit to 1 July 2021.²⁰

1.18 DAPP provides financial support to fathers and partners that take time off work around the birth or adoption of a child. DAPP is paid for a maximum of two weeks at national minimum wage.²¹

1.19 DAPP is subject to an income limit. The income limit for DAPP is the income limit for PPL.²² The Bill therefore also postpones the indexation of the income limit for DAPP until 1 July 2021.

Provisions of the Bill

1.20 The Bill contains one schedule with five items.

1.21 Item 1 amends the *A New Tax System (Family Assistance) Act 1999* to extend the indexation pause on the following payments until 1 July 2021:

- the higher income free area for FTB A
- the income limit for FTB B
- the gross supplement amount for FTB A and
- the gross supplement amount for FTB B.

15 *Paid Parental Leave Act 2010*, s. 4.

16 *Paid Parental Leave Act 2010*, s. 37.

17 *Paid Parental Leave Act 2010*, s. 39.

18 *Paid Parental Leave Act 2010*, s. 39.

19 *Paid Parental Leave Act 2010*, s. 41.

20 Bill, sch. 1 items 3–4.

21 *Paid Parental Leave Act 2010*, ss. 115AE(5), 115EC.

22 *Paid Parental Leave Act 2010*, s. 115CJ.

1.22 Items 2–5 amend the *Paid Parental Leave Act 2010*. Items 3 and 4 postpone the indexation day for the PPL income limit from 1 July 2020 to 1 July 2021.

1.23 Items 2 and 5 amend guides to the eligibility for PPL and DAPP. These sections advise that to be eligible for the payments, a person's income must not be more than the PPL income limit of \$150 000 until 30 June 2020 when the income limit will be indexed. Items 2 and 5 amend the guides to reflect that the income limit will remain at \$150 000 until 30 June 2021.

Financial impact

1.24 The amendments are expected to save \$321.9 million over four years.²³ A year-by-year breakdown of the savings expected from the measure is included in the table below.

Table 1.1: Year-by-year breakdown of savings

Year	2017–18	2018–19	2019–20	2020–21	Total
Savings (\$m)	-1.0	41.2	80.9	200.0	321.9

Source: The Hon. Scott Morrison MP, Treasurer of Australia and Senator the Hon. Mathias Cormann, Minister for Finance, *Mid-Year Economic and Fiscal Outlook 2017–18*, December 2017, p. 179.

Legislative scrutiny

1.25 The Senate Standing Committee for the Scrutiny of Bills examined the Bill and made no comment on it.²⁴ The Bill has also been considered by the Parliamentary Joint Committee on Human Rights which found that it did not raise human rights concerns.²⁵

Conduct of the inquiry

1.26 The Bill was introduced to the House of Representatives on 10 May 2018.²⁶ On 21 June 2018, pursuant to adoption of the Selection of Bills report, the Bill was referred to the Senate Community Affairs Legislation Committee for inquiry and report by 14 August 2018.²⁷ The Senate subsequently granted further extensions of time for the committee to finalise its report by 28 November 2018.²⁸

23 Minister, *Explanatory Memorandum—Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018*, p. 1.

24 Senate Standing Committee for the Scrutiny of Bills, *Scrutiny Digest No. 6 of 2018* (20 June 2018), p. 54.

25 Parliamentary Joint Committee on Human Rights, *Report No. 5 of 2018* (19 June 2018), p. 53.

26 *House of Representatives Votes and Proceedings*, No. 109, 10 May 2018, p. 1520.

27 *Journals of the Senate*, No. 101, 21 June 2018, pp. 3242–3243.

28 *Journals of the Senate*, No. 107, 14 August 2018, p. 3442; *Journals of the Senate*, No. 111, 21 August 2018, p. 3555; *Journals of the Senate*, No. 120, 19 September 2018, p. 3823; *Journals of the Senate*, No. 124, 17 October 2018, p. 3963.

1.27 The committee advertised the inquiry on its website and wrote to organisations requesting submissions by 20 July 2018. The committee received five submissions. A list of submissions to the inquiry can be found at Appendix 1.

1.28 The committee thanks the submitters who contributed to the inquiry.

Issues identified and number of people affected

1.29 Through the Senate Estimates process and its submission, the Department of Social Services (Department) has provided advice about the number of people that are likely to be affected by the Bill.

1.30 The Department advised the committee that in the 2018–19 financial year an estimated 1.2 million FTB A families and 1.2 million FTB B families may be affected by the indexation pause because they receive the end-of-year supplements for one or both payments.²⁹ Pausing indexation of the supplements will mean that families who are entitled to the FTB A supplement will forgo \$14.60 for each eligible child in the 2018–19 financial year and families entitled to the FTB B supplement will forgo \$7.30 in the 2018–19 financial year.³⁰

1.31 The Department further advised the committee that maintaining the existing income thresholds and limits for FTB A is expected to affect 119 400 families and maintaining the limits and thresholds for FTB B is expected to affect 9300 families.³¹

1.32 Maintaining the existing threshold is expected to affect 680 individuals who would otherwise be eligible for PPL and 530 individuals who would otherwise be eligible for DAPP.³²

1.33 Submitters to the inquiry raised two main issues.

1.34 The National Social Security Rights Network, the National Council of Single Mothers and their Children, and the Australian Council of Social Service raised concerns that extending the indexation pause on the FTB A and FTB B supplements would place additional financial stress on families who rely on the end-of-year payments to supplement their income.³³

1.35 The National Council of Single Mothers and their Children explained that many low income families rely on the supplements to help pay for basic necessities or meet unexpected costs.³⁴ These may include education expenses, costs of running or

29 Mr Shane Bennett, Group Manager, Payments Policy, Department of Social Services (Department), *Committee Hansard*, 31 May 2018, p. 28; Department, *Submission 3*, p. 3.

30 Department, *Submission 3*, p. 3.

31 Mr Bennett, *Committee Hansard*, 31 May 2018, p. 28; Department, *Submission 3*, p. 2.

32 Mr Bennett, *Committee Hansard*, 31 May 2018, p. 28; Department, *Submission 3*, p. 2.

33 National Social Security Rights Network, *Submission 1*, [pp. 1–2]; National Council of Single Mothers and their Children, *Submission 2*, p. 5.

34 National Council of Single Mothers and their Children, *Submission 2* p. 5.

repairing the family car or paying utility bills.³⁵ The Australian Council of Social Service estimated that during the period of the indexation freeze between 2010 and 2016, the FTB A supplement dropped in value by \$85 and the FTB B supplement lost approximately \$40 in value.³⁶ While the supplements were indexed in 2017 and 2018, these submitters are concerned that some low income families may be placed under greater financial stress by increased living costs if the supplements are not indexed.³⁷

1.36 In his second reading speech, the Minister for Social Services, the Hon. Dan Tehan MP (Minister), emphasised that the measure does not affect the fortnightly assistance provided to families who receive FTB A or FTB B.³⁸ The Minister noted that the government spends \$19 billion per year on family tax payments and that pausing indexation 'will contribute to the sustainability of the family and parental payments system into the future, meaning we can continue to help those that need it most'.³⁹

1.37 The second issue raised by submitters is that the extended indexation pause on the higher income limits means that the value of the threshold has reduced over time.⁴⁰

1.38 In its submission, the Department acknowledges that the higher income free area for FTB A and the FTB B income limit has not been increased since 2009 and the income limit for PPL and DAPP has not been indexed since the schemes were introduced in 2011 and 2013 respectively.⁴¹

1.39 The Australian Council of Social Service submits that this has tightened the means test for these payments without additional public debate.⁴² The Department acknowledges that indexation pauses have 'been used by successive governments to better target payments to low and middle income families'.⁴³

Committee view

1.40 The committee acknowledges that some submitters have concerns about the financial pressure that the indexation pause may place on families. The committee considers that in the context of the payments currently extended to families, the additional \$14.60 per child per year to the current payment of \$737.30 per child per

35 National Council of Single Mothers and their Children, *Submission 2*, p. 5. The results of survey on what families spent their family payments on can be found on page 4 of the submission.

36 Australian Council of Social Service, *Submission 4*, [p. 1].

37 National Social Security Rights Network, *Submission 1*, [p. 2].

38 Minister, *House of Representatives Hansard*, 10 May 2018, p. 3643.

39 Minister, *House of Representatives Hansard*, 10 May 2018, p. 3644.

40 Australian Council of Social Service, *Submission 4*, [p. 2].

41 Department, *Submission 3*, p. 1. The income limit for FTB B was reduced from \$150 000 to \$100 000 in 2015.

42 Australian Council of Social Service, *Submission 4*, [p. 2].

43 Department, *Submission 3*, p. 1.

year or the additional \$7.30 to the current payment of \$357.70 is unlikely to make a significant difference to most families. It will, however, provide a substantial saving to the budget between 2018 and 2021 and will help make the income support system more sustainable over the longer term.

1.41 The committee considers that family payments need to be targeted towards those who need it most. Maintaining the indexation pause on the higher income limits for family payments is fiscally prudent, assists the sustainability of the social payments system and assists the task of budget repair.

Recommendation 1

1.42 The committee recommends that the Bill be passed.

Senator Lucy Gichuhi

Chair

