

1998-99

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

SENATE

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

REVISED SUPPLEMENTARY EXPLANATORY MEMORANDUM

Requests for amendments to be moved on behalf of the Government

Amendments consequential upon requests for amendments to be moved on  
behalf of the Government

Amendments to be moved on behalf of the Government

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

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

**OUTLINE AND FINANCIAL IMPACT STATEMENT**

Outline

The changes proposed to the A New Tax System (Compensation Measures Legislation Amendment) Bill 1998 (the Bill) affect the *Social Security Act 1991*, the *Veterans' Entitlements Act 1986*, and the *A New Tax System (Family Assistance) Act 1999* (when enacted).

***Background***

The Bill, as currently drafted, provides for a 4% increase in the rate of social security and veterans' pensions, benefits and allowances from 1 July 2000. This includes a 4% increase in the rate of rent assistance.

The 4% increase incorporates a component that represents an advance on future CPI increases that result from the impact of the GST. To ensure that double compensation does not occur, the Bill provides for the advance on CPI to be recouped by adjusting CPI increases that occur after 1 July 2000 until the overall increase in payment rates is 1.5%.

A number of changes are made to the scheme currently provided for in the Bill. These changes are as follows.

***Increase the rate of rent assistance by 7%***

Changes are made to the Bill to increase the rate of rent assistance by 7% instead of the current 4%.

To avoid double compensation, CPI increases that occur after 19 March 2001 will be adjusted until the overall increase in rent assistance is 5%.

***Adjustment of CPI increases for benefits and allowances***

The adjustment provisions, as they apply to social security and veterans' benefits and allowances, will be modified so that:

- CPI increases are adjusted from the first indexation day after 19 March 2001; and
- adjustment occurs until the overall increase in benefit and allowance rates is 2%.

### ***4% increase in pension rates – introduction of a new pension supplement***

The Bill, as currently drafted, provides for a 4% increase in the maximum basic rates of social security and veterans' pensions. Under existing legislation, these pension rates (incorporating the 4% increase) cannot fall below 25% of male total average weekly earnings (MTAWE).

Instead of including the 4% increase in the maximum basic rate, a new pension supplement is introduced. The rate of the pension supplement is initially set at 4% of the maximum basic rate and after that is subject to CPI indexation in March and September of each year. This is consistent with the indexation arrangements for maximum basic rates of pensions.

By keeping the maximum basic rate and 4% pension supplement separate, pensioners are assured of a maximum basic rate of pension that is at least 25% of MTAWE and the additional pension supplement.

To avoid double compensation, changes are also made to enable 2% of the maximum basic rate of pension and 2% of the pension supplement as at 19 March 2001 to be recouped by adjusting CPI increases that occur after that date.

### **Financial impact**

The cost to revenue of the changes to the compensation package is:

\$533 million in 2000-01

\$523 million in 2001-02

\$853 million in 2002-03

## NOTES ON REQUESTS FOR AMENDMENTS

### *Amendments to the Social Security Act 1991*

The A New Tax System (Compensation Measures Legislation Amendment) Bill 1998 (the Bill) increases the maximum basic rates of social security pensions that are subject to the MTAW safety net by 4%. As currently drafted, this is done by incorporating the 4% increase into the maximum basic rate.

**Requests for amendments number 1 to 4** change this approach for social security pensions by introducing a separate payment called a pension supplement, the rate of which is set at 4% of the maximum basic rate of pension (thereby representing the 4% increase).

**Request for amendment number 1** amends section 1064 of the Social Security Act by inserting new module BA to provide for the new pension supplement.

New point 1064-BA1 provides that the pension supplement is based on a person's maximum basic rate of pension. Because there are several maximum basic rates of pension depending on a person's family situation, there will also be several pension supplement amounts, determined on the same basis.

The amount of the pension supplement is set at 4% of the maximum basic rate of pension as at 1 July 2000, rounded to the nearest multiple of \$2.60. The amount of the pension supplement is set under new points 1064-BA2 and BA3 and the rounding rules are contained in new points 1064-BA4 to BA6.

A note at the end of new point 1064-BA2 indicates to the reader that the pension supplement amounts are indexed 6 monthly in line with movements in the CPI.

Similar amendments are made to sections 1065, 1066 and 1068A of the Social Security Act by **requests for amendments number 2, 3 and 4** respectively.

**Request for amendment number 5** provides for the indexation of the pension supplement. The CPI indexation table in subsection 1191(1) of the Social Security Act is amended to ensure that pension supplement amounts are indexed on 20 March and 20 September each year in line with movements in the CPI. The indexation regime for the pension supplement is the same as that which applies to index maximum basic rates of pension.

**Request for amendment number 6** inserts a new section 1206GAA into the Social Security Act. This new provision provides for a 7% increase in the rate of rent assistance on 1 July 2000.

New subsection 1206GAA(1) identifies those rent assistance amounts that are to be increased by 7%. These are listed in Table A at the end of new section 1206GAA.

New subsection 1206GAA(2) provides the mechanism for increasing the amounts listed in Table A, that is, the amount is increased by 7% and then rounded to the nearest 20 cents (for rent assistance amounts expressed in fortnightly terms) and \$5.20 (for amounts expressed in annual terms).

### ***Amendments to the Veterans' Entitlements Act 1986***

The Bill also increases the maximum basic rates of veterans' pensions that are subject to the MTAW safety net by 4%. This is currently done by incorporating the 4% increase into the maximum basic rate.

Consistent with amendments to the Social Security Act, this approach will be replaced by the introduction of a new pension supplement that represents the 4% increase.

**Request for amendment number 7** amends section 30 of the VE Act (war widow/er pension) in two ways.

First, subsection 30(1) is amended to separately identify an amount of pension supplement as a component of war widow/er pension.

Second a new subsection 30(1A) is inserted that sets the amount of the pension supplement. The amount of the pension supplement is the fortnightly amount of pension supplement that would be payable to a service pensioner who is not a member of a couple.

**Request for amendment number 8** provides for the indexation of the pension supplement. The CPI indexation table in subsection 59B(1) of the VE Act is amended to ensure that pension supplement amounts are indexed on 20 March and 20 September each year in line with movements in the CPI. The indexation regime for the pension supplement is the same as that which applies to index maximum basic rates of pension.

**Request for amendment number 9** amends Schedule 6 of the VE Act by inserting new module BA to provide for the new pension supplement.

New point SCH6-BA1 provides that the pension supplement is based on a person's maximum basic rate of pension. Because there are several maximum basic rates of pension depending on a person's family situation, there will also be several pension supplement amounts, determined on the same basis.

The amount of the pension supplement is set at 4% of the maximum basic rate of pension as at 1 July 2000, rounded to the nearest multiple of \$2.60. The amount of the pension supplement is set under new points SCH6-BA2 and BA3 and the rounding rules are contained in new points SCH6-BA4 to BA6.

A note at the end of new point SCH6-BA2 indicates to the reader that the pension supplement amounts are indexed 6 monthly in line with movements in the CPI.

**Request for amendment number 10** inserts a new section 198GA into the Veterans' Entitlements Act.

New section 198GA provides for a 7% increase in the rate of rent assistance on 1 July 2000. This is done by increasing the rent assistance amounts in column 4 of the Table in subpoint SCH6-C8(1) by 7% on 1 July 2000 and rounding the resultant amounts to the nearest \$5.20.

## NOTES ON AMENDMENTS CONSEQUENTIAL UPON REQUESTS FOR AMENDMENTS

### *Amendments to the Social Security Act 1991*

**Consequential amendments number 1 to 4** are consequential upon the introduction of the new pension supplement.

**Consequential amendment number 1** amends the method statement in point 1064-A1 of the Social Security Act to build the new pension supplement (new step 1A) into the overall rate calculation process.

A reference to the new step 1A is also inserted into step 4 of point 1064-A1 so that the pension supplement, like the maximum basic rate, is a component of the “maximum payment rate” of pension.

Similar amendments are made to points 1065-A1, 1066-A1 and 1068A-A1 of the Social Security Act by **consequential amendments number 2, 3 and 4**.

**Consequential amendment number 5** amends the “Indexed and Adjusted Amounts Table” in section 1190 of the Social Security Act. New item 1AA of the Table identifies pension supplement amounts that are then indexed in accordance with section 1191 of the Social Security Act. **Consequential amendment number 5** is therefore consequential upon the indexation arrangements inserted for the new pension supplement.

**Consequential amendment number 6** amends note 2 at the end of subsection 1192(2) of the Social Security Act (inserted by clause 121 of Schedule 1 of the Bill) so that it reflects the adjustment arrangements in new section 1206GB as inserted by **consequential amendment number 20**. That is, on indexation days after 19 March 2001 (instead of 1 July 2000), the indexation of amounts that were increased by 4% on 1 July 2000 may be affected by the adjustment arrangements in section 1206GB.

**Consequential amendment number 7** also amends note 2 at the end of subsection 1192(2) of the Social Security Act. This change reflects the 7% increase in rent assistance rates and has the effect of highlighting the impact of new section 1206GB on amounts that were increased by 4% or 7% on 1 July 2000.

**Consequential amendments number 8, 10, 11 and 16** omit references to pension maximum basic rates from the table in new section 1206GA (inserted by clause 122 of Schedule 1 of the Bill). The effect is that the maximum basic rates of those pensions will not be increased by 4% under section 1206GA but will be provided for by the pension supplement.

**Consequential amendments number 9, 12, 13, 14, 15, 17 and 18** omit references to rent assistance rates from the Table in new section 1206GA. The effect is that the rent assistance amounts will not be increased by 4% under section 1206GA but will be increased by 7% under new section 1206GAA.

**Consequential amendment number 19** changes the heading to section 1206GB. This amendment is required because the adjustment rules in section 1206GB will not only apply to payments that have been increased by 4% but also to rent assistance amounts that are increased by 7%.

**Consequential amendment number 20** provides for the modification of the way certain amounts are indexed after 19 March 2001.

The new adjustment rules apply to:

- amounts in the table in new section 1206GA that are subject to the 4% increase and that are indexed in line with movements in the CPI under Division 2 of Part 3.16 of the Social Security Act;
- rent assistance amounts listed in the table in new section 1206GAA that are subject to a 7% increase;
- the maximum basic rates in points 1064-B1, 1065-B1, 1066-B1 and 1068A-B1; and
- the pension supplement amounts.

The method statement in new section 1206GB would operate to modify the way these amounts are indexed after 19 March 2001 as follows.

The adjustment rules would operate in relation to these amounts as follows.

Step 1 is used to identify the current figure for the affected amount as at 19 March 2001.

The current figure is then multiplied by 0.02 to arrive at the “provisional overall adjustment amount” (see step 2).

The provisional overall adjustment amount is then rounded in accordance with new subsections 1206GB(3) to (5) using prescribed rounding bases 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 19 March 2001. 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. If the indexed amount is a pension supplement, the result will need to be rounded to the nearest \$2.60 in accordance with step 7.

The result obtained under step 6 or 7 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 MTAW (the note at the end of step 8 refers). Where step 8 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 9 applies. Under step 9, the current amount is taken to be the indexed amount (there is no CPI adjustment to the affected amount for that first indexation day after 19 March 2001). The indexed amount may, however, be increased under section 1195 to keep the amount at 25% of MTAW (the note at the end of step 9 refers). Step 10 then applies.

Step 10 is used to work out the "remaining adjustment amount" which is relevant for the second indexation day for an affected amount that occurs after 19 March 2001. 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 19 March 2001 is worked out using step 11. 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 12 requires a comparison between the remaining adjustment amount and the second indexation increase amount.

If the remaining adjustment amount is less than or equal to the second indexation amount, then steps 13 is invoked. Under step 13, the remaining adjustment amount is subtracted from the indexed amount. If the indexed amount is a pension supplement, the result will need to be rounded to the nearest \$2.60 in accordance with step 14.

The result obtained under step 13 or 14 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 MTAW (the note at the end of step 15 refers). Where step 15 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 16 applies. Under step 16, the current amount is taken to be the indexed amount (there is no CPI adjustment to the affected amount for that second indexation day after 19 March 2001). The indexed amount may, however, be increased under section 1195 to keep the amount at 25% of MTAW (the note at the end of step 16 refers). Step 17 then applies.

Step 17 requires the process in steps 10 to 16 to be repeated for the third and subsequent indexation days until the remaining adjustment amount is zero.

**Consequential amendment number 21** makes a consequential amendment to new subsection 1206GB(2) (inserted by clause 122 of Schedule 1 of the Bill) so that it reflects the new adjustment rules described above. The existing reference to “step 9” is changed to read “step 11”.

### *Amendments to the Veterans' Entitlements Act 1986*

**Consequential amendment number 22** amends the “Indexed and Adjusted Amounts Table” in section 59A of the VE Act. New item 2 of the Table identifies pension supplement amounts that are to be indexed in accordance with section 59B of the VE Act. **Consequential amendment number 22** is therefore consequential upon the indexation arrangements inserted for the new pension supplement.

**Consequential amendment number 23** amends note 2 at the end of subsection 59C(2) of the VE Act (inserted by clause 3 of Schedule 2 of the Bill) so that it reflects the adjustment arrangements in new section 198H as inserted by **consequential amendment number 29**. That is, on indexation days after 19 March 2001 (instead of 1 July 2000), the indexation of amounts that were increased by 4% on 1 July 2000 may be affected by the adjustment arrangements in section 198H.

**Consequential amendment number 24** also amends note 2 at the end of subsection 59C(2) of the Veterans' Entitlements Act. This change reflects the 7% increase in rent assistance rates and has the effect of highlighting the impact of new section 198H on amounts that were increased by 4% or 7% on 1 July 2000.

**Consequential amendment number 25** makes a number of changes to Schedule 6 of the VE Act as a result of the introduction of the new pension supplement.

The relevant method statements in Module A of Schedule 6 are modified to build the new pension supplement into the overall rate calculation process. The effect is that the pension supplement, like the maximum basic rate, is a component of the “maximum payment rate” of pension.

**Consequential amendments number 26 and 27** omit references to pension maximum basic rates from the table in new section 198G (inserted by clause 32 of Schedule 2 of the Bill). The effect is that the maximum basic rates of those pensions will not be increased by 4% under section 198G but will be provided for by the pension supplement.

**Consequential amendment number 28** omits item 13 of Table A at the end of new section 198G (as inserted by clause 32 of Schedule 2 of the Bill). The effect is that rent assistance rates for veterans' will not be increased by 4% under section 198G but will be increased by 7% under new section 198GA.

**Consequential amendment number 29** changes the heading to section 198H. This amendment is required because the adjustment rules in that provision will not only apply to payments that have been increased by 4% but also to rent assistance amounts that are increased by 7%.

**Consequential amendment number 30** provides for the modification of the way certain amounts are indexed after 19 March 2001.

The adjustment regime provided for in **consequential amendment number 30** works in the same way as the adjustment regime described above in relation to certain social security payments.

**Consequential amendments number 31 to 37** make a number of changes to new subsections 198H(3), (4) and (5) (inserted by clause 32 of Schedule 2 of the Bill) so that these new provisions reflect the new adjustment rules in **consequential amendment number 30**.

## NOTES ON AMENDMENTS

**Amendments number 1 and 2** amend the commencement provision in the Bill to ensure that new Schedule 4 of the Bill commences immediately after the commencement of Schedule 4 of the *A New Tax System (Family Assistance) Act 1999*.

### *Amendments to the A New Tax System (Family Assistance) Act 1999*

**Amendment number 3** inserts a new Schedule 4 into the Bill. New Schedule 4 amends the Family Assistance Act by inserting a new clause 9 and method statement into Schedule 4 of that Act.

New clause 9 operates to modify the way the rate of rent assistance is indexed after 19 March 2001. The method statement in clause 9 (outlining the adjustment arrangements for rent assistance) works in a similar way to the adjustment regime described above in relation to certain social security payments. The differences are:

- the MTAW safety net does not apply to rent assistance so the references to section 1195 (or the Family Assistance Act equivalent) are not relevant; and
- as the 7% increase will be included in the rate of rent assistance, any references to a supplement are not relevant.