

Submission to Senate Community Affairs Legislation Committee

Social Security Legislation Amendment

(More Generous Means Testing of Youth Payments) Bill 2015

Contents

About the National Welfare Rights Network.....	3
Alignment of income testing arrangements for family assistance and dependent youth allowance – removal of FAMT	3
Removal of the parental income test exemption for holders of a low income card	5
Maintenance Income Test	5
Overall comments.....	5
Summary	6

About the National Welfare Rights Network

The National Welfare Rights Network (NWRN) is the peak community organisation in the area of social security law, policy and administration. We represent community legal centres and organisations whose role is to provide people with information, advice and representation about Australia's social security system.

NWRN member organisations operate in all states and territories of Australia. They are organisations which have community legal services and workers dedicated to social security issues. Their services are free and they are independent of Centrelink and government departments.

The NWRN also has as Associate Members the Central Australian Aboriginal Legal Aid Service (CAALAS) and the North Australian Aboriginal Justice Agency (NAAJA).

The NWRN develops policy about social security, family assistance and employment assistance based on the casework experience of its members. The Network provides submissions to government, advocates in the media and lobbies for improvements to Australia's social security system and for the rights of people who use the system.

Alignment of income testing arrangements for family assistance and dependent youth allowance – removal of FAMT

Currently, dependent youth allowance and family tax benefit both use a version of adjusted taxable income for the purpose of applying the parental income test (although for youth allowance it is known as “combined parental income”). The parents’ taxable income is used; but adjustments are made to add certain amounts back in to ensure fairness and appropriate targeting of payments. Specifically, it adds back in adjusted fringe benefits, target foreign income, net investment losses and reportable super contributions¹. From an administration perspective, this means an assessment can be made in most cases from the parents’ previous year’s tax return.

The FAMT was introduced in 1996. Youth allowance was introduced in 1998. The definition of combined parental income was introduced in 1998, but reportable superannuation contributions was not added to the definition until 2009.

Removing the FAMT and effectively using adjusted taxable income (contained in the definition of “combined parental income” in s1067G-F10) as the sole basis for the parental income test dramatically simplifies the existing test. The concept of taxable income includes, for example, income from trust distributions or company dividends and therefore includes income that a family derives from these sources. However, it is true that the test is not as rigorous as the existing rules for treatment of trusts and companies that were introduced for other social security payments in 2002 and which are designed to look

¹ S 1067G-F10

beyond formal structures to assess the real value of assets and income that should be attributed to a person having regard to the level of actual control that person or their associates have over the decisions of the entity and the sources of the entities income and assets.

The Government estimates that 6,060 young people will either qualify for youth allowance for the first time or have their rate increased under the measures to abolish the family actual means test. The Government should take care to capture and analyse data to evaluate these measures. We recommend mandatory review of these measures and clarity from the Government about what data it will be collecting to evaluate these measures. To the extent that specific examples can be identified where adjusted taxable income is not fairly capturing a families' true wealth, this should be dealt with by changes to the definition of combined parental income rather than by retaining a separate and complex family actual means test.

It may ultimately be necessary to add another category of income to 1067G-F10 something along the lines of *"(f) income attributable to the parent under Part 3.18 (Means Test Treatment of Private Companies and Private Trusts)"*.

Removal of asset testing for dependent youth allowance recipients

The NWRN opposes the removal of the personal assets test and the family assets test for dependent youth allowance recipients. Removal of asset testing for youth allowance undermines the fairness and consistency of the means testing of social security payments.

The means testing arrangements for social security payments include both income and assets to ensure that payments are targeted to those most in need.² The inclusion of assets in the means test is intended to ensure that assistance is targeted to those who lack the means to support themselves.

Removal of the personal and family assets tests for dependent youth allowance runs contrary to this basic principle of the social security system. It has the potential to enable government support to be paid to families or individuals with relatively high levels of assets. In the absence of the government explaining how the current exclusion of these families from youth allowance is unfair, rather than simply a consequence of the targeted nature of the system, the NWRN opposes this aspect of the bill. A parental income test and family assets test should both apply until the young person becomes independent. If there are inequities in the application of the family assets test to certain families, these should be identified and dealt with by modifications to, or exemptions from, the current assets test – not by abandoning a bedrock aspect of the social security system.

² The only exception to this is the beneficial treatment of blind pensioners, who are exempt from means testing (unless in receipt of rent assistance).

Removal of the parental income test exemption for holders of a low income card

NWRN does not oppose the proposed removal of the exemption from the parental income test, noting that these parents will generally not have income or assets which impact significantly on payments and, due to the alignment of family assistance and youth allowance income tests, it is likely to be administratively more straightforward to apply the income test.

This is because the information required for the parental income test is generally contained on the tax return and many will transition directly from family payments to youth allowance.

As the Parliamentary Library has pointed out³ it is likely only to be a small group that would have income at a level that would significantly impact on their child's youth allowance.

However, only the Department can answer the question of whether it is more efficient to administer the parental income test than the exemption.

Maintenance Income Test

The measure which would introduce a separate maintenance income test is generally beneficial. DSS estimates that it will result in an increase in payments for 3,800 ABSTUDY and Youth Allowance claimants, with an average increase of \$900 per year. This change is beneficial and NWRN supports this measure.

However, we do note that the 850 recipients who will see a reduction in their rates from 1 January 2017 are likely to be young people who have finished school early, but continue to have maintenance paid until they reach 18. This is because youth allowance is generally only paid to young people who have finished secondary school, whereas maintenance is generally paid until the child turns 18 or finishes year 12. The reduction appears to be a result of applying a higher taper rate to maintenance income as is currently the case for FTB. These young people are likely to face greater workforce barriers due to their age and educational attainment and are at risk of long term exclusion from the labour market. Measures to address this issue would be welcome.

Overall comments

In our opinion, inadequacy of the youth allowance rate itself, and the extremely narrow criteria for independent status are the main social security issues affecting access to education. If spending on youth allowance is to increase, it should be to increase rates of payment, make the criteria for independent status more flexible and increase access to the payment for lower income families rather than high income and asset families.

³ Klapdor, M. Bills Digest No 31 2015-16

Concluding summary

NWRN supports the measure which would add family tax benefit children to the family pool for youth allowance.

NWRN supports the proposed treatment of maintenance income, but notes some concerns.

NWRN considers that the family assets test and personal assets test should be retained.

NWRN does not oppose the abolition of the FAMT, however notes some concerns and recommends mandatory review of these measures and clarity from the Government about what data it will be collecting to evaluate these measures.

NWRN does not oppose the proposed removal of the exemption from the parental income test.