



Family and Community Services and Veterans' Affairs Legislation Amendment (Further 2004 Election Commitments and Other Measures) Bill 2005

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Family and Community Services and Veterans' Affairs Legislation Amendment (Further 2004 Election Commitments and Other Measures) Bill 2005

Date Introduced: 17 February 2005

House: House of Representatives

Portfolio: Family and Community Services

Commencement: Schedule 1 commences on 1 January 2005. Schedule 2 commences on 1 July 2005. Schedule 3 and the remainder of the Bill commence when the Act receives Royal Assent.

Purpose

The Bill

- introduces a supplement to Family Tax Benefit part B (FTBB),
- makes aged care accommodation bonds exempt assets under the Social Security and Veterans' Affairs Assets Test, and
- replaces the existing formula for the child income cut out amount for Family Tax Benefit (FTB) with a set amount of \$11,233.

Background

Family Tax Benefit part B rate increase

During the 2004 election campaign the government promised to increase the rate of Family Tax Benefit part B (FTBB) by \$300 per annum from 1 July 2005.¹ The detail of the commitment was announced by the Minister for Family and Community Services, Senator the Hon. Kay Patterson on 9 February 2005². The Minister announced that the rate increase would be delivered as an end of year bonus payment once FTBB recipients lodged their annual income tax return. She indicated her reasons for this decision as follows:

“Following the positive response I received from parents who received the lump sum payments last year, I have decided to deliver this commitment in a lump sum also. Parents have told me the lump sum allowed them to purchase items such as school uniforms, replace household goods, pay for a special sporting activity and provide a boost to saving for their children's future.³”

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She also announced that the implementation date had been brought forward from July 2005 to January 2005. This meant that at the end of the 2004-05 year a half year payment of \$150 would be available.

Senator Evans, the Shadow Minister for Social Security claimed that paying the \$300 increase in this form effectively delayed delivery and saved the Government money⁴.

Delivery of the rate increase as a lump sum is consistent with the introduction of the \$600 lump sum addition to Family Tax Benefit part A (FTBA) from July 2004. That payment was in part introduced to reduce the number of families faced with Family Tax Benefit debts. Both FTBA and FTBB are income tested on the basis of estimates of income made at the beginning of the financial year. Many families underestimate their income and have their entitlement adjusted once they submit their tax return. The most recent data on the numbers of families with FTB overpayments for the 2003-04 year indicate that this approach has been successful in reducing the numbers of families with overpayments compared to earlier years. There were 125,845 families with overpayments, 8% of the 1,591,590 families who received FTB⁵.

In May 2004 the ALP criticised the way the increased rate of FTBA was delivered. They claimed it should be paid fortnightly rather than at the end of the financial year, because families needed the money during the year to meet family expenses. The ALP criticised the Government for not addressing the fundamental features of the FTB income test that caused the debts to accrue.⁶ That criticism was maintained during the 2004 election campaign.

Child income and Family Tax Benefit

Under section 22A (1) of the *Family Assistance Act 1999* certain children cannot be regarded as children for the purposes of FTB eligibility if the child's adjusted taxable income exceeds a cut-out amount. Children aged five to 15 years who are not undertaking full-time study or primary school education and all those aged 16 years or more are covered by this provision. At present the cut-out amount is determined with reference to the rate of FTBB for children aged five years or more and the income test free threshold under the FTBB income test. Both of these reference values have been changed or are likely to be changed in the future as family assistance policy evolves. This Bill removes the present formula and sets a specific dollar amount for the cut-out amount. This will remove any chance of cut-out amount being influenced by future changes to the structure of FTBB.

Aged Care Accommodation Bonds

Operators of hostel level aged accommodation have been levying capital contributions from new residents since the 1950s. These accommodation bonds are held by the operator, who can deduct a portion each year for the first five years and keep the interest earned from investing the bond. The balance of the bond is refunded if the resident dies or leaves

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the facility. Bonds may be paid as a lump sum, periodic payment, or a combination of the two.

The Government promised to exempt accommodation bonds from the assets test during the 2004 election campaign⁷.

Main Provisions

Item 1 and 2 of Schedule 1 provide for the inclusion of the FTBB supplement in the calculation of the rate of FTBB under **clause 29 of Schedule 1** of the *Family Assistance Act 1999*.

Item 3 of Schedule 1 inserts **new Division 2A into Schedule 1** of the *Family Assistance Act 1999*. It sets out the amount of the supplement and states that the amount as indexed on a July 1 only applies to the income year starting on that July 1 and not to entitlements for the year just ended.

Items 4 to 7 of schedule 1 provide for annual indexation of the supplement.

Items 1 and 2 Schedule 2 repeal existing definitions of the cut-out amount in **subsections 22A920 and 25(3)** of the *Family Assistance Act 1999* and substitute the new amount of \$11,233.

Items 3 to 5 of Schedule 2 provide for annual indexation of the new cut-out amount.

Part 1 of Schedule 3 amends the *Social Security Act 1991* to exempt accommodation bonds from counting as assets under the assets test.

Items 1 and 4 of Part 1 of Schedule 3 provide for income derived from renting a former principal home, to pay an accommodation bond by periodic payments, to be exempt from the social security income test.

Items 2 and 7 of Part 1 of Schedule 3 provide for a customer's accommodation bond balance to be disregarded for the assets test.

Item 3 of Part 1 of Schedule 3 provides for an accommodation bond balance to still count as an asset for purposes other than the assets test, such as the provisions about asset disposal.

Part 2 of Schedule 3 amends the *Veterans Entitlements Act 1986* to exempt accommodation bonds from the assets test in much the same manner as is achieved in **Part 1** for the **Social Security Act 1991**.

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Endnotes

- 1 Extra Assistance for Families 26 Sept 2004, p. 5
- 2 Hon. K. Patterson (Minister for Family and Community Services), *Extra assistance for 1.3 million Australian families*, media release, 9 February 2005.
- 3 *ibid.*
- 4 Senator C. Evans (Shadow Minister for Social Security), *\$550 million funding grab to shore up budget bottom line*, media release, 10 February 2005.
- 5 Senate Community Affairs Legislation Committee, Answers to Estimates questions on Notice, Family and Community Services Portfolio, 2004-05 Supplementary Budget Estimates – December 2005, Question No. 35.
- 6 Wayne Swan, 'Family Assistance Legislation Amendment (More Help For Families--One-Off Payments) Bill 2004 : Family Assistance Legislation Amendment (More Help For Families--Increased Payments) Bill 2004: Second Reading', House of Representatives, *Debates*, 12 May 2004, p. 28348
- 7 *Recognising Senior Australians- Their Needs and Their Carers* 1 Oct 2004, p. 8. Full text at: <http://parlinfoweb.parl.net/parlinfo/Repository1/Library/partypol/OMZD60.pdf>

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