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Veterans' Affairs Legislation Amendment (Budget Measures) Bill 2009

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Contents

Glossary

Abbreviation	Definition
ADF	Australian Defence Force
CCB	Child Care Benefit
DHOS	Defence Home Owner Scheme
DHOAS	Defence Home Ownership Assistance Scheme
DSHA	*Defence Service Homes Act 1918*
DFHIS	Defence Service Home Insurance Scheme
FTB-A	Family Tax Benefit Part A
FTB-B	Family Tax Benefit Part B
ITAA	*Income Tax Assessment Act 1997*
MRCA	*Military Rehabilitation and Compensation Act 2004*
SSA	*Social Security Act 1991*
VEA	*Veterans' Entitlements Act 1986*

Veterans' Affairs Legislation Amendment (Budget Measures) Bill 2009

Date introduced: 28 May 2009

House: House of Representatives

Portfolio: Veterans' Affairs

Commencement: On the day after Royal Assent.

Links: The relevant links to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

To provide for amendments to the *Veterans' Entitlements Act 1986* (VEA) and other Acts necessary to implement several 2009-10 Budget initiatives. These are:

- to allow the payment of an entitlement under the VEA to a person resident overseas into a bank account in an overseas bank,
- to extend access to the Defence Service Home Insurance Scheme (DSHIS) to persons eligible under the *Defence Home Ownership Assistance Scheme* (DHOAS), and
- to wind up and pay out the dependants' pension paid to dependants of a veteran.

Background

Part 1–Deposit of certain payments into foreign bank accounts

2009-10 Budget initiative

The government announced the initiative to provide payments to an overseas financial institution where the recipient of a payment under the VEA is residing overseas.[1] Currently, payments provided to a VEA recipient residing overseas have to be made into a bank account in an Australian financial institution. Then the individual has to arrange their own transfer of the funds to themselves overseas.

1. Australian Government, Budget measures: budget paper no. 2: 2009-10, Commonwealth of Australia, p. 365, viewed 5 June 2009, http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm

Cost

The estimated cost of this initiative is $0.2 million in 2009-10, $0.1 million in 2010-11, $0.1 million in 2001-12 and $0.1 million in 2012-13.[2]

Some payments are payable overseas

Some payments provided under the VEA are payable even where the person resides overseas. These payments commonly include the Age Service Pension, Disability Pension, and War Widow's/er's Pension. This is the same as other payments provided under the *Social Security Act 1991* (SSA), that are payable to a person residing overseas like the Age Pension and the Disability Support Pension.

Comment

This initiative to provide VEA payments to recipients residing overseas into their overseas bank account is long overdue. Centrelink has been providing payments to recipients residing overseas into their overseas financial institution accounts since 2001.

Part 2–Amendments relating to insurance

2009-10 Budget initiative

The government announced the initiative to provide access to the DSHIS to members of the DHOAS in the 2009-10 Budget.[3]

Cost

The estimated cost of this initiative is $0.2 million in 2009-10, $0.1 million in 2010-11, $0.3 million in 2001-12 and $0.3 million in 2012-13.[4] The Budget announcement projected that this initiative would realise a net saving of $1.0 million over four years and will eventually be cost neutral. This would be realised by the balance between payouts on claims against monies received from premiums.[5]

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2. Australian Government, Budget measures: budget paper no. 2: 2009-10.

3. Australian Government, Budget measures: budget paper no. 2: 2009-10, Commonwealth of Australia, p. 394, viewed 5 June 2009, http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm

4. Explanatory memorandum, p. ii.

5. Australian Government, Budget measures: budget paper no. 2: 2009-10, Commonwealth of Australia, p. 394.

Defence Home Ownership Assistance Scheme

The DHOAS provides eligible Australian Defence Force (ADF) members with access to a subsidy on the interest incurred on their home loan. The aim of the scheme is to improve retention rates in the ADF by making home ownership easier for ADF members in today's competitive housing market. Members are given an incentive to remain in the ADF through access to progressively higher levels of subsidy assistance the longer they serve.

Amount of subsidy

The amount of the monthly subsidy depends on two key factors:

- length of service, which determines the eligible subsidy tier, and
- the amount borrowed up to the subsidised loan limit.

ADF members can be eligible under one of three subsidy tiers. As the member reaches certain service milestones they can move into a higher subsidy tier. For permanent ADF members, the minimum years of service for the three subsidy tiers are 4, 8 and 12 years of service. For reservists it is 8, 12 and 16 years of service. As shown in the table below, the higher the eligible tier, the greater the benefit under DHOAS.[6]

Subsidy Tier Level	Minimum Permanent Service	Minimum Reserve Service	Subsidised Loan Limit	Maximum Monthly Subsidy
1	4 years	8 years	$187,159	Up to $200
2	8 years	12 years	$280,738	Up to $301
3	12 years	16 years	$374,318	Up to $401

Defence Home Ownership Assistance Scheme replaced the previous Defence Home Owner Scheme

The Defence Home Owner Scheme (DHOS) was introduced in 1991 to assist eligible members, and ex-members, of the ADF to purchase their own home by providing a subsidy on the interest of a home loan borrowed from the approved lender, the National Australia Bank. The scheme is administered in accordance with the *Defence Force (Home Loans Assistance) Act 1990*. After a review of the DHOS, the Howard government

6. These subsidised loan limits are valid as at 2008-09. Loan limits for 2009-10 are being reviewed. This may result in a change to the loan limit amounts and maximum monthly subsidy values, potentially a decrease, effective as at 1 July 2009.

announced changes to the provision of home loan assistance in the 2007-08 Budget.[7] This Budget initiative eventually saw the *Defence Home Ownership Assistance Scheme Act 2008*.[8]

Part 2 of this Bill is basically extending access to the DSHIS to persons eligible for assistance under the new DHOAS.

Part 3–Provisions relating to dependants' pensions

The Government announced the initiative to close up the dependants' pension from the end of September 2009.[9] The proposal is to cease the payment as at 22 September 2009 and to provide a lump-sum advance payment of three years payment, as a pay-out amount.

Cost

The estimated cost of this initiative is $5.3 million in 2009-10 followed by savings of $2.2 million in 2010-11, $2.0 million in 2001-12 and $1.9 million in 2012-13.[10]

Dependants' pension

Dependants (children and spouses) of veterans were eligible under the Repatriation Act for a dependants' pension. The rate of payment depended on the rate of pension paid to the veteran or member, that is, 10 per cent of the amount of pension paid to the veteran/member. The current maximum rate of dependants' pension paid is $8.42 a fortnight, but some dependants are paid as little as 29 cents a fortnight. These payments have remained unchanged for many years. There have been no new grants of dependants' pension since 1985 and except for a small increase in the rate as a part of the

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7. Australian Government, *Australian Government, Budget measures: budget paper no. 2: 2007-08,* Commonwealth of Australia, p. 105, viewed on 9 June 2009, http://www.budget.gov.au/2007-08/bp2/html/index.htm

8. P Pyburne, *Defence Home Ownership Assistance Scheme Bill 2008,* Bills digest no. 141, 2007-08, Parliamentary Library, Canberra, 18 June 2008, viewed 9 June 2009, http://www.aph.gov.au/library/pubs/bd/2007-08/08bd141.htm

9. Australian Government, *Budget measures: budget paper no. 2: 2009-10,* Commonwealth of Australia, pp. 394–395, viewed on 9 June 2009, http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm

10. Australian Government, *Budget measures: budget paper no. 2: 2009-10,* Commonwealth of Australia, pp. 394–395.

compensation arrangements provided for the introduction of Goods and Services Tax (GST) in 2000, the rates have been frozen since 1964.[11]

It is interesting to note that since 1985 there have been no new grants of dependants' pension. The main reason for this is the need to provide these payments over the past 20 years has been taken over by other assistance payments to the parents/carers of a child. These payments were originally the Chile Endowment and then became the Family Allowance and now the Family Tax Benefit Part A (FTB-A) and the Family Tax Benefit Part B (FTB-B) payments.

Under the proposal, current recipients of the dependants' pension will receive a lump-sum equivalent to three years' payments. Approximately 26 000 people will receive a one-off lump-sum payment of up to $656.76. Lump-sums will be paid at the end of September 2009 at which time the pension will cease.

Comment

The fact that there are still dependants' pensions being paid to the dependants of persons entitled to a payment under the VEA is somewhat anachronistic. Dependants' assistance is now and has been for many years been provided with the main family assistance payments like FTB-A, FTB-B and also the Child Care Benefit. The only other payments provided to a person, as they are the dependant of a veteran or a person qualified to a payment under the VEA, is the Partner Service Pension and the Orphan's Pension. However, even the Partner Service Pension has recently had access to qualification narrowed; recognising that generally an adult of working age should qualify for an income support payment in their own right.[12]

Main provisions

Part 1–Deposit of certain payments into foreign bank accounts

Item 1 changes the reference to 'an account with a bank' in existing subsection 430(1) of the *Military Rehabilitation and Compensation Act 2004* (MRCA) to an account with a bank account or, where a person is physically outside Australia, a foreign corporation that takes money on deposit.

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11. Australian Government, *Budget measures: budget paper no. 2: 2009-10*, Commonwealth of Australia, pp. 394–395.

12. D Daniels, P Yeend, *Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Further 2008 Budget and Other Measures) Bill 2008*, Bills digest no. 52, 2008-09, Parliamentary Library, Canberra, 31 October 2008, http://www.aph.gov.au/library/pubs/bd/2008-09/09bd052.htm

Item 4 changes the reference to 'an account with a bank' in subsection 58F(1) of the VEA to an account with a bank or, where a person is physically outside Australia, a foreign corporation that takes money on deposit. **Item 7** does likewise to existing subsection 122A(1).

Part 2–Amendments relating to insurance

Item 11 inserts a **proposed section 38CAA** into the *Defence Service Homes Act 1918* (DSHA) which empowers the Commonwealth to undertake insurance in respect of:

- a house,
- the building materials on the site of a house, or
- the permanent structural improvements of a house.

for which a person is eligible under the DHOAS.

Item 12 inserts a **proposed section 38EAA** which provides for the cancellation of insurance undertaken under the **proposed section 38CAA** when the person ceases to be eligible to the DHOAS.

Part 3–Provisions relating to dependants' pensions

Item 14 inserts a **proposed subsection 52–65(1E)** into the *Income Tax Assessment Act 1997* (ITAA) to ensure that any lump-sum payment under section 198N of the VEA is not taxable income.

Veterans' Entitlements Act 1986

Item 15 inserts a **proposed section 198N** into the VEA. **Proposed section 198N** details the dependants' pension payable under subsection 4(6) or (8B)[13] of the *Veterans' Entitlements (Transitional Provisions and Consequential Amendments) Act 1986* will not be payable after 22 September 2009. **Proposed section 198N** provides that those persons currently in receipt of dependants' pension will be entitled to a lump-sum payment equal to three years entitlement at the rate the pension was last paid to them.

13. The Bill itself makes reference to a subsection 4(8b), however no such subsection exists. This appears to be no more than a typographical error and subsection 4(8) of the *Veterans' Entitlements (Transitional Provisions and Consequential Amendments) Act 1986* clearly relates to the relevant subject matter.

Concluding comments

The move to allow payments under the VEA into an account in an overseas financial institution is long overdue.

The extension of access to the DSHIS to persons eligible for assistance under the new DHOAS is essentially an update to ensure this incentive aimed at retaining members in the ADF is continued.

The dependants' pension has seen no new grants since 1985 and the rates frozen since 1964, indicating how outmoded this payment is. The payout of three years lump-sum advance is quite generous, given the payments could, and probably should, have just been stopped as of a date in the future.