Social Security and Other Legislation Amendment (Income Support Bonus) Bill 2012

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Contents

Purpose of the Bill .................................................................................................................................................. 2
Background .......................................................................................................................................................... 2
Current rates ....................................................................................................................................................... 3
Campaign to raise payment rates ..................................................................................................................... 4
Senate inquiry into the adequacy of allowances ................................................................................................. 5
Widespread support for a rate increase reined in by cost implications .......................................................... 7
Committee consideration ................................................................................................................................. 9
Financial implications ....................................................................................................................................... 9
Statement of Compatibility with Human Rights ............................................................................................ 9
Key issues and provisions ............................................................................................................................... 9
Extra support welcome but small change for reform campaigners ................................................................. 10
Qualification for the Income Support Bonus .................................................................................................. 10
No means test .................................................................................................................................................... 11
New bonus will not entitle a recipient to any other bonuses or supplements .................................................. 11
Test days and the benefits of lump sums over rate increases ...................................................................... 11
Bonus amounts and indexation ....................................................................................................................... 12
Payment ............................................................................................................................................................. 12
Income management ....................................................................................................................................... 13
Income tax exemption ..................................................................................................................................... 13
Social Security and Other Legislation Amendment (Income Support Bonus) Bill 2012

Date introduced: 29 November 2012

House: House of Representatives

Portfolio: Education, Employment and Workplace Relations

Commencement: On Royal Assent

Links: The links to the Bill, its Explanatory Memorandum and second reading speech can be found on the Bill’s home page, or through http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation. When Bills have been passed and have received Royal Assent, they become Acts, which can be found at the ComLaw website at http://www.comlaw.gov.au/.

Purpose of the Bill

The purpose of the Social Security and Other Legislation Amendment (Income Support Bonus) Bill 2012 (the Bill) is to amend the Social Security Act 1991, the Social Security (Administration) Act 1999, the Farm Household Support Act 1992 and the Income Tax Assessment Act 1997 to allow for an Income Support Bonus payment to be paid to certain income support recipients.

Background

The Bill proposes the introduction of a new lump sum payment, the Income Support Bonus, to be paid twice yearly to certain income support recipients from March 2013. The new payment was announced as a 2012–13 Budget measure where it was referred to as a new ‘income support supplement’ intended to ‘assist with cost of living pressures’.1 The new payment will provide an extra $210 per annum for singles and $175 per annum for a member of a couple if they are in receipt of Newstart Allowance, Youth Allowance, Parenting Payment, Sickness Allowance, Austudy or Special Benefit.2 Some ABSTUDY and farm household assistance payment recipients will also be eligible for the new bonus payment. All of these income support benefits are paid at very low rates, compared to pensions and the minimum wage, and there has been significant pressure on the Government to lift rates or find some other way to assist recipients of these payments who face significant financial difficulties.


2. Parenting Payment, Austudy and Special Benefit recipients will also need to be under pension age to be eligible. Pension age is defined in subsections 23(5A)–(5D) of the Social Security Act 1991 and is currently 65 for men and most women but is lower for women born before 1949. More information on these payments is available from the Department of Human Services website, viewed 21 December 2012, http://www.humanservices.gov.au/customer/services/
Current rates

Allowances such as Newstart and Youth Allowance are paid at some of the lowest income support payment rates within Australia’s social security system. These payments are directed at those of working age who are able to work but are currently out of a job, not earning enough income to support themselves, or who are caring for young children, as well as those who are pursuing activities such as study or are undertaking apprenticeships and require financial assistance. Pension payments such as the Disability Support Pension and the Age Pension are targeted at those who have either retired or are unable to work and, by comparison, are paid at higher rates than allowances. The following table outlines the current base rates of payment for the main income support payments:

Table 1: Basic income support payment rates as at 20 September 2012

<table>
<thead>
<tr>
<th>Payment</th>
<th>Rate per fortnight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newstart Allowance</td>
<td></td>
</tr>
<tr>
<td>- Single</td>
<td>$492.60</td>
</tr>
<tr>
<td>- Single, with dependent child(ren)</td>
<td>$533.00</td>
</tr>
<tr>
<td>- Partnered person</td>
<td>$444.70</td>
</tr>
<tr>
<td>Youth Allowance</td>
<td></td>
</tr>
<tr>
<td>- Single, no children, 18+, away from home</td>
<td>$407.50</td>
</tr>
<tr>
<td>- Single, with children</td>
<td>$533.80</td>
</tr>
<tr>
<td>- Partnered person, no children</td>
<td>$407.50</td>
</tr>
<tr>
<td>- Partnered person, with children</td>
<td>$447.40</td>
</tr>
<tr>
<td>Age Pension/Disability Support Pension</td>
<td></td>
</tr>
<tr>
<td>- Single</td>
<td>$712.00</td>
</tr>
<tr>
<td>- Partnered person</td>
<td>$536.70</td>
</tr>
</tbody>
</table>

Note: Basic rates only—the above information does not include additional benefits payable such as Pension Supplement or other payments such as Rent Assistance which are available to some recipients.


Parenting Payment falls somewhere between pensions and allowances in terms of rates paid and the participation requirements that apply. Parenting Payment (Single) is paid to single parents with a child under the age of eight and Parenting Payment (Partnered) is paid to one partner in a couple with a child under the age of six who meets the income and assets tests as well as relevant participation requirements. Parenting Payment (Single) is currently paid at a rate of $662.60 per fortnight while Parenting Payment (Partnered) is paid at the partnered rate of Newstart Allowance. Parenting Payment (Single) recipients are entitled to a Pensioner Concession Card and the payment is indexed in a similar way to pensions (see next section).
**Campaign to raise payment rates**

The Budget announcement of the income support bonus payment came in the wake of a long-running campaign led by welfare groups to lift the rate of Newstart Allowance and similar payments. This campaign called for a $50 per week increase in the single rate of allowance payments, citing a recommendation by the *Review of Australia’s Future Tax System* led by Ken Henry (the Henry Review). The Henry Review, which examined and made recommendations regarding Australia’s tax and transfer system, did not actually recommend a specific increase in the rate of Newstart Allowance but did recommend improving the relativity between the single and couple rates, reducing the difference between rates of allowance payments and pension payments, and setting a uniform way of indexing the different payments.

The call for a $50 per week increase for singles is intended to raise the single rate of allowances to be equivalent to two-thirds of the combined couple rate. Couples are considered to be able to share costs and their individual rates are therefore less than that for singles. The 2009 Pension Review led by Jeff Harmer found that the appropriate relativity between single and couple rates of pension should be between 64 and 67 per cent. Based on this finding, the Rudd Government increased the single rate of pensions by $30 a week in 2009, setting the single rate at two-thirds of the combined couple rate. The single rate of Newstart Allowance is currently around 55 per cent of the combined couple rate but there is no set relativity as there is for pensions.

Pensions have been paid at a higher rate than allowances for the previous three decades, but since 1997 the difference between the payments has been skewed by the use of different indexation.

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6. Ibid., recommendation 84. The term ‘transfer’ refers to a direct government payment or benefit made to an individual or family based on certain eligibility criteria rather than in return for goods or services.


methods. Newstart Allowance is indexed to movements in the Consumer Price Index (CPI) in March and September each year and Youth Allowance is indexed to the CPI once a year in January. Pensions are indexed twice a year (in March and September) by the greater of the movement in the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI)—an index designed to better reflect the price changes affecting pensioners. The combined couple rate of pensions is also benchmarked to 41.76 per cent of Male Total Average Weekly Earnings (MTAWE) with the single rate equivalent to 66.33 per cent of the combined couple rate. The effect of this is that pensions have, since 1997, been increasing in line with wage rises or the CPI while allowances have increased only in line with the CPI—and over this period, wages have generally increased at a greater rate than prices. The Henry Review found that:

... some difference in the level of payments can be justified on the basis of differing needs and presenting different incentives to different groups ... Harder to justify is the fact that rates of pension and allowances are not merely different, but the gap between them is widening ... If the current indexation arrangements remain in place, it is likely that by 2040, a single pensioner would be paid more than twice as much as a single unemployed person. A continuous decline in Newstart Allowance against community standards would have major implications for payment adequacy and the coherence—in terms of horizontal equity—of the income support system.

The campaign to raise the rate at which allowances are paid has focused on this growing gap between payment types, the issue of relativity between the single and couple rates, and the cost of living pressures faced by those in receipt of allowances.

**Senate inquiry into the adequacy of allowances**

On 26 June 2012, the Senate agreed to a motion moved by Australian Greens (Greens) Senator Scott Ludlam for a committee inquiry into the adequacy of the allowance payment system. The subsequent report of the inquiry by the Senate Education, Employment and Workplace Relations Committee (the Committee) stated that ‘the overwhelming majority of submissions expressed the view that the current rate of payment was inadequate, impeding recipients’ ability to meet their basic costs of living in an acceptable manner’. The Committee examined cost of living pressures for allowance recipients including the costs of caring for children, housing, food and the costs of searching for work. The report concluded its section on the adequacy of allowance payments stating:

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10. Payments are ‘indexed’ to ensure they keep the same value in real terms, relative to changes in the price of goods and services.
11. Parenting Payment (Single) is indexed to CPI movements and benchmarked to wages but is not indexed to the PBLCI.
On the weight of evidence, the committee questions whether Newstart Allowance provides recipients with a standard of living that is acceptable in the Australian context for anything but the shortest period of time.\(^\text{15}\)

The Australian Labor Party (Labor) senators on the Committee—Senators Gavin Marshall and Alex Gallacher—stated in their additional comments that ‘it is plain that Newstart Allowance is too low, particularly for single recipients’ and lent in-principle support to an increase in the rate of payment.\(^\text{16}\) The Labor senators stated:

> If payments are so low that welfare agencies and social security experts tell us that being reliant on Newstart Allowance actually impedes people’s ability to gain employment, then this is counterproductive to the very objective of the allowance payment, which is to support people temporarily as they transition into paid employment.\(^\text{17}\)

Greens Senator Rachel Siewert also recommended that the rate of Newstart be increased by $50 per week and proportional increases be applied to the other allowance payments.\(^\text{18}\)

The evidence presented to the Committee indicated that many recipients of allowances struggled to make ends meet and households reliant upon allowance payments were much more likely to experience deprivation and financial stress.\(^\text{19}\) The Joint Agency submission from the Government departments involved in social security payment policy and delivery argued, however, that:

> Assessing living standards is highly complex and there is no agreed way to accurately quantify and compare living standards across individuals and households. The concept of ‘adequacy’ is problematic in that it relies on subjective judgements on an appropriate living standard and there is no conclusive measure of adequacy. It is also inappropriate to consider allowance payment rates in isolation as they are one component of a broader package of assistance that is targeted to the needs of recipients.\(^\text{20}\)

The Joint Agency submission stated that different household types could receive a range of government benefits depending on their circumstances and that while many low-income families reported persistent financial stress, many did not report any such stress.\(^\text{21}\)

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15. Ibid., p. 50.
16. Government Senators’ additional comments, ibid., p. 89.
17. Ibid., p. 86.
18. Australian Greens additional comments, ibid., p. 93.
21. Ibid., p. 102.
The Joint Agency submission to the inquiry did not put forward an explicit position as to whether current payment rates were adequate or not. It did, however, put forward the view that the current system is fairly effective at encouraging people to transition from income support into the workforce quickly, with those experiencing the most financial difficulties being the long-term unemployed and those with significant barriers to participation.

While the majority report of the Committee did not recommend an increase in the rate of Newstart or other allowances it did conclude that these payments do not allow people to live at an acceptable standard in the long term. The Committee’s recommendations focused on improving employment assistance and making the income test more generous, holding that ‘the best form of welfare is a job’.\(^\text{21}\)

**Widespread support for a rate increase reined in by cost implications**

The campaign for an increase in the base rate of allowance rates has received widespread support from not only welfare and social service groups but also from business groups, unions, various economists and members of parliament. For example, the Business Council of Australia argued in its submission to the *Inquiry into the adequacy of allowances* that there is a need for an increase in the Newstart Allowance on an ‘adequacy and fairness basis’ and that ‘there is concern that the low rate of Newstart itself now presents a barrier to employment and risks entrenching poverty’.\(^\text{23}\)

Minister for Employment and Workplace Relations, Bill Shorten, stated recently that ‘it would be very, very tough living on $35 a day. And anyone in my business that denies this must surely be either heartless or utterly out of touch’.\(^\text{24}\) However, the Minister emphasised that ‘the budget bottom line always has to be an important consideration’ echoing his comments earlier in the year when he ruled out an increase in allowance rates:

> Australia’s social security system needs to provide a strong safety net for people who need financial assistance while also acting as an incentive for people to take up paid work ... In the current economic climate, I believe we have got the balance about right. Particularly when delivering a surplus next year and continuing our strong economic management is an important part of this balance.\(^\text{25}\)

\(^{22}\). Senate Education, Employment and Workplace Relations References Committee, *Report of the inquiry into the adequacy of the allowance payment system*, op. cit., p. 54.


\(^{24}\). D Harrison, ‘Shorten opens the door to debate on Newstart rates’, *The Sydney Morning Herald*, 30 August 2012, p. 5, viewed 18 December 2012, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F1881547%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F1881547%22)

The Minister for Families, Housing, Community Services and Indigenous Affairs, Jenny Macklin, sparked controversy in the first week of 2013 after stating that she could live on the Newstart Allowance.\(^{26}\) The Prime Minister, Julia Gillard, was later asked whether she could live on the payment and responded by saying that it would be ‘incredibly tough’.\(^{27}\) Newspaper reports indicated that the Government was considering raising the allowance payment rate but a number of ministers have stated that their main priority was to help those on income support to find work and that the Government would consider the findings of the Senate inquiry report before making any decisions.\(^{28}\)

Media reports also suggested that the Coalition was considering an increase in allowances and that the issue ‘is on the policy agenda’.\(^{29}\) However, the Shadow Minister for Families, Housing and Human Services, Kevin Andrews, would not commit to an increase in rates if the Coalition was elected to office, stating that it would ‘need to look at the books and determine what is realistic, possible and appropriate’. Mr Andrews said he would support an increase in spending on training for the unemployed and that if ‘Newstart is increased, it should not be a long-term entitlement without concerted efforts on the part of the recipient to find work’.\(^{30}\)

The Department of Education, Employment and Workplace Relations (DEEWR) has estimated that the cost of increasing the single rate of allowances by $50 per week from 20 March 2014 and indexing allowance payments to growth in Male Total Average Weekly Earnings (MTAWE)—the same way pensions are indexed—would cost approximately $8 billion over four years.\(^{31}\) This estimate provided to the Senate Committee inquiry (not a formally endorsed costing) includes a rate increase for single recipients of Newstart Allowance, Youth Allowance (other than those living in the parental home), Sickness Allowance, Special Benefit, ABSTUDY (other than those under 22 living in the parental home), Austudy, Parenting Payment Partnered, Disability Support Pension (under 21 without children), Widow Allowance and Partner Allowance as well as the change in indexation arrangements; additional recipients due to increased income test cut-off points and costs for implementation and service agencies.

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30. Ibid.

DEEWR did not provide the Senate Committee with estimates as to the cost of alternatives such as smaller rate increases or increasing the single rate without changing the indexation method.

Committee consideration

At its meeting of 28 November 2012, the Senate Selection of Bills Committee resolved that the Bill not be referred to any committee for inquiry and report.\(^{32}\)

Similarly, the House of Representatives Selection Committee has not referred the Bill for inquiry.\(^{33}\)

The Bill has not yet been considered by the Senate Standing Committee for the Scrutiny of Bills or the Parliamentary Joint Committee on Human Rights.

Financial implications

The Explanatory Memorandum for the Bill states that the estimated financial impact of the Bill will be approximately $1.07 billion over four years, including the cost of the Income Support Bonus payments and administrative expenses.\(^{34}\)

Statement of Compatibility with Human Rights

As required under Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011 (Cth), the Government has assessed the Bill’s compatibility with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of that Act. The Government considers that the Bill is compatible.\(^{35}\)

Key issues and provisions

The Bill proposes amendments to allow for the payment of a new lump sum payment, the Income Support Bonus, to certain income support payment recipients in March and September each year, beginning in 2013. Single recipients in receipt of an eligible payment on a relevant test day (that is, 20 March and 20 September) will receive an Income Support Bonus payment of $105 ($210 annually if they are eligible on both test days). A member of a couple will receive an Income Support Bonus of $87.50 for each test day they are eligible ($175 annually). The Minister stated in his second reading speech that the bonus is intended to ‘assist vulnerable members of our society, including those


\(^{34}\) Explanatory Memorandum, Social Security and Other Legislation Amendment (Income Support Bonus) Bill 2012, p. 3.

\(^{35}\) The Statement of Compatibility with Human Rights can be found at pages 14–15 of the Explanatory Memorandum to the Bill.
Newstart Allowance, to manage unforseen expenses and increasing costs. The new payment will be tax-free and indexed twice a year from September 2013 in line with the CPI.

**Extra support welcome but small change for reform campaigners**

As discussed in the background section of this Bills Digest, there has been an ongoing campaign to boost the basic rate of the allowance payments for singles by $50 a week. The new Income Support Bonus will offer eligible singles the equivalent of around $4 extra a week. This amount falls far short of the expectations of those campaigning for an increase in the basic rates of payment, including the Labor and Greens Senators who called for an increase following the Inquiry into the adequacy of allowance payments. The report of this inquiry was tabled in the Senate on the same day that the Bill was introduced in the House of Representatives. The additional support will still be welcomed by welfare groups and payment recipients. More significant rate increases and reforms remain unlikely in the current budgetary climate.

**Qualification for the Income Support Bonus**

[Item 4](#) of the Bill inserts [new Part 2.18B](#), comprising [proposed sections 919–921](#), into the [Social Security Act 1991](#) (SS Act). These are the key provisions regarding the qualification for the Income Support Bonus and the amounts to be paid. [Proposed section 919](#) provides that recipients of the following payments will qualify for the Income Support Bonus if they qualify for one of these payments on a relevant ‘test day’:

- Newstart Allowance
- Youth Allowance
- Parenting Payment
- Sickness Allowance
- Austudy payment or
- Special Benefit.

Eligible recipients of Austudy, Parenting Payment and Special Benefit must be under age pension age to be eligible. The other payments have existing age qualification requirements so that there are no eligible recipients over age pension age.

[Proposed subsection 919(2)](#) of the SS Act also grants eligibility for an Income Support Bonus to those for whom an ABSTUDY living allowance, an exceptional circumstances relief payment under

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37. See footnote 2.

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the Farm Household Support Act 1992 or a payment under the Transitional Farm Family Payment program is payable on one of the test days. ABSTUDY recipients must also be under age pension age to be eligible for the Income Support Bonus. ABSTUDY is an income support payment for students or apprentices who are of Aboriginal or Torres Strait Islander descent. Exceptional circumstances relief payments are paid to farmers in an area declared as an ‘exceptional circumstances’ area who meet the income and assets test. It is paid at the same rate as Newstart Allowance. The Transitional Farm Family Payment program is intended to assist families ‘who are experiencing financial difficulty to manage the impacts of climate variability and market fluctuations regardless of location’. The payment is paid at the same rate as Newstart Allowance and is subject to a similar income and assets test.

No means test

No means test will apply to the new Income Support Bonus. The proposed qualifying provisions set out that the bonus will be paid to those to whom a qualifying payment is ‘payable’ rather than to those that have actually received a qualifying payment. This means that even if an income support recipient receives a zero rate at the time of the test day (because the income test reduces their rate to zero, for example) then they can still receive the full rate of the Income Support Bonus. The bonus will be paid so long as a person qualifies for the relevant payment on the test day and the amount of payment they have received for that test day, if any, is not relevant in terms of payment of the bonus.

New bonus will not entitle a recipient to any other bonuses or supplements

Proposed subsection 919(3) of the SS Act states that a person cannot receive more than one Income Support Bonus in respect of a test day, regardless of how many times the person might qualify for the bonus. Proposed section 921 of the SS Act provides that a person is not considered to be in receipt of a ‘social security payment’, merely because they are in receipt of an Income Support Bonus. The effect of this provision is that receipt of an Income Support Bonus will not create an automatic qualification for any other benefit or payment which requires receipt of a ‘social security payment’. Other parts of the SS Act have receipt of a social security payment as a qualifying criterion (for example, section 914 which sets outs eligibility for the Clean Energy Advance payment) but the term ‘social security payment’ is meant to refer to the main income support payments such as Newstart Allowance or Parenting Payment, rather than supplementary payments or bonuses.

Test days and the benefits of lump sums over rate increases

Proposed subsection 919(4) of the SS Act specifies the relevant test days upon which qualification for Income Support Bonus is determined, being 20 March 2013, 20 September 2013 and each later 20 March and 20 September. Paying the bonus payment as a lump sum relevant to test days has two

39. In the extremely unlikely circumstance that two or more of the qualifying payments are considered payable on one of the test days.
advantages over a small rate increase: firstly, the extra amount of money is more noticeable to recipients and can help recipients to plan for larger than normal expenditure; secondly, it limits the payment to a smaller number of recipients. Most of the qualifying income support payments have a significant number of people going on and off the payment or who are only paid for a short period of time. For example, according to DEEW, around 60 per cent of those who commence receiving Newstart Allowance each year are in receipt of income support for less than 12 months and around 50 per cent receive payments for less than six months. If the bonus had been paid as a general increase spread across each fortnightly payment (in the same way that the Clean Energy Supplement will be) then all those eligible for a relevant payment would receive some benefit from the new bonus, no matter when they were qualified.

**Bonus amounts and indexation**

Proposed section 920 of the SS Act sets out the amounts payable for the Income Support Bonus. Amounts differ depending on each eligible recipient’s family or relationship circumstances as set out in the following table:

<table>
<thead>
<tr>
<th>Family situation</th>
<th>Amount payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single (not a member of a couple)</td>
<td>$105</td>
</tr>
<tr>
<td>Member of a couple</td>
<td>$87.50</td>
</tr>
<tr>
<td>Member of a couple separated because of illness</td>
<td>$105</td>
</tr>
<tr>
<td>Member of a ‘respite care couple’</td>
<td>$105</td>
</tr>
<tr>
<td>Member of a couple where the partner is in gaol</td>
<td>$105</td>
</tr>
</tbody>
</table>

Items 5 and 6 of the Bill insert new items into the indexation tables in sections 1190 and 1191 of the SS Act respectively to provide that the amounts in the table above will be indexed to movements in the CPI twice yearly on 20 March and 20 September (most, but not all, income support payments are indexed twice yearly on these days). Item 7 inserts new subsection 1192(10) which sets out that the first indexation of the Income Support Bonus will take place on 20 September 2013.

**Payment**

Item 8 inserts proposed section 12L into subdivision B of Division 1 of Part 3 of the Social Security (Administration) Act 1999 (SSA Act), which sets out which payments and benefits do not require a claim to be made before payment is made. Proposed section 12L states that a claim will not be

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40. Joint Agency Submission, op. cit., p. 64.
required for an Income Support Bonus. This means that the Department of Human Services (the Department) will automatically determine eligibility for the payment based on the income support payment recipient meeting the qualifying criteria as set out above. Item 10 inserts proposed section 47DAB into the SSA Act, to provide for the Income Support Bonus payment to be paid on the earliest day considered reasonably practicable and in such a manner as is considered appropriate by the delegated authority (that is, the Department). While payment qualification will be determined based on eligibility on the test day, proposed section 47DAB allows the Department some flexibility in determining when to make the payment. It is most likely that the Income Support Bonus will be paid at the same time as the eligible recipient’s next fortnightly payment falling after the test day.

**Income management**

Item 9 adds the term ‘income support bonus’ to the definition of lump sum benefit at subsection 47(1) of the SSA Act. The payment is also added to list of payments to which income management applies: items 22 and 23 add the term ‘income support bonus’ to the definitions of category I welfare payment and category Q welfare payment at section 123TC of the SSA Act.

Income management is a measure under which certain income support recipients have portions of their payments set aside or ‘quarantined’. The amounts that are quarantined can only be spent on what are considered priority needs such as food, rent or utilities—usually through a special EFTPOS card known as a BasicsCard. There are a range of different income management schemes in place which affect different groups of payment recipients in different ways. Most people affected will generally have 50 per cent of their regular payment quarantined, although under the Child Protection form of income management up to 70 per cent of regular payments are quarantined. Lump sums, advance payments and the Baby Bonus are 100 per cent quarantined and can only be spent on priority goods. The amendments in items 22 and 23 add the Income Support Bonus to the list of those payments affected by income management and, as it will be defined as a lump sum, the entire amount will be quarantined for those receiving the bonus while under income management.\(^{42}\)

**Income tax exemption**

Items 14–20 contain amendments to the *Income Tax Assessment Act 1997* to provide that the Income Support Bonus is exempt from income tax.

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