Transfer Facts

A knowledge-based series by the Tax and Transfer Policy Institute

What are transfer payments?

Transfer payments are cash payments provided by the Australian government to individuals and families. In the Australian tax and transfer system, there are three main categories of transfer payments:

- Pensions (such as the Age Pension, Carer Payment and Disability Support Pension)
- Allowances (such as Jobseeker Allowance and Youth Allowance)
- Family Payments (such as Family Tax Benefits, Parental Leave, Childcare Subsidy)

Eligibility for most transfer payments is determined by a combination of income and/or assets tests. Unlike Australia's health and education systems, access to transfer payments is not a universal right.

Transfer payment principles

Australia's transfer payment system is complex. There is no single universal principle that guides how eligibility criteria are determined, or how transfer payment levels are set or administered, across all transfer payments. Instead, within categories of transfer payments, there are some principles that shape the eligibility criteria and administration of payments.

For pensions, the guiding principle is that individuals in this category are unable to maintain full employment and therefore have an on-going dependency on the transfer payment. In contrast, allowances are regarded as temporary support, since recipients are deemed capable of entering and maintaining employment. Family payments differ from the two other categories as they are principally a mechanism to support families with the costs of raising children.

Eligibility and access

There is no single eligibility test for those seeking to access transfer payments. In some cases, eligibility for a particular transfer payment requires a person to meet a prescribed condition of entitlement. For example, to access the childcare subsidy, a person must have a child in childcare. A second example is the age pension, where an individual must be older than a particular age. Beyond that, additional eligibility rules can apply based on factors such as income and assets. In addition, eligibility and the rate of payment can be adjusted according to whether the claimant for the transfer payment is single or partnered, or owns their own home or rents. The eligibility criteria for the three categories of payments are summarised below.

- Pensions

Most pensions are subject to both an income and asset test. These tests set the maximum and minimum amounts of income that an individual can earn, and assets that an individual can hold, and remain eligible to receive a full or part pension. In addition to specifying income and asset thresholds, the income test includes a concept of deeming – which is used to determine income from certain financial assets, irrespective of the actual return from those assets. Typically deeming applies to assets such as term deposits, managed investments and securities, with the deeming rates set by the Minister for Social Services.

- Allowances

Like pensions, allowances are subject to both an asset and income test. For recipients of the Jobseeker payment, Youth Allowance and Austudy, an additional test, known as the liquid assets waiting period applies. Liquid assets are financial sources that are readily available to an individual, such as money in a savings account, shares, or money owed to an individual by an employer. This test is used to determine the waiting period for someone seeking to access one of the prescribed allowances. The waiting period is determined based on the value of an individual's liquid assets, civil status (single or partnered), and presence of dependents; it ranges from 1 to 13 weeks [1].

- Family payments

As a general rule, family payments are only subject to an income test. The thresholds vary according to the payment being received.

How are transfer payments funded?

Each year the Parliament of Australia passes a number of Appropriation Bills, commonly referred to as “Supply Bills”. These Bills allow the government to spend money it has received through government receipts, including taxation. They allow the government to pay for a range of services, including health and education, as well as fund transfer payments such as those described in this Transfer Fact.

Summary

Like the tax system, the transfer system has been developed in an ad hoc manner for more than a century and would benefit from a thorough review to ensure that it is fit for purpose. The last comprehensive review into the transfer payment system occurred in 2015 [2]. The review found that changes to the social support system over time have led to “unintended complexities, inconsistencies and incoherencies”. It noted that the system delivers differing levels of financial support to people with similar basic living costs and similar capacities to work. This has resulted in a system that is complex and difficult to navigate. It is also highly politicised, all too often used by governments to secure favour with the electorate. As the Australian population ages, demand on the transfer system will continue to grow putting further pressure on the tax system to secure sufficient revenue to meet the needs of Australian society.

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[1] On 11 Sep 2019, the Government introduced a Bill (Social Services Legislation Amendment (Payment Integrity) Bill 2019) seeking to amend the waiting period under the Liquid Assets test. The proposal is to extend the waiting period from 13 weeks to 26 weeks for an individual with liquid assets valued at more than $11,500 (more than $23,000 for a couple). A similar Bill was tabled in 2017.

[2] Department of Social Services A New System for Better Employment and Social Outcomes - Final Report of the Reference Group on Welfare Reform to the Minister for Social Services, February 2015

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