



Resolution of Income Apportionment

The Department of Social Services



The policy problem and preferred policy approach

- Income apportionment was a long-standing practice, dating back to the early 1990s, adopted to calculate social security debts for some people who earned employment income and received a social security payment. Use of the practice ceased in December 2020, when legislative changes made assessing employment income much simpler.
- The historical use of income apportionment is now understood to be generally unlawful.
- Around **5.5 million social security debts**, held by around **3 million people** and worth a total of **\$4.4 billion**, are potentially affected by income apportionment. It is only possible to know which debts are actually affected through a manual review of each individual debt. 97% of the debts are fully repaid. The average age is 19 years.
- Waiving or recalculating affected debts (using the method endorsed in a recent Full Federal Court outcome) would mean reopening debts many years old, causing distress and protracted uncertainty for the people affected and take thousands of officials working many years, diverting critical government resources from frontline services.
- Legislation to **retrospectively validate income apportionment** provides certainty and recognises it was a nonetheless reasonable means of assessing a person’s entitlement to income support, using evidence such as the person’s payslip, as part of calculating a debt.
- This would be accompanied by a **resolution scheme**, to provide people with a debt affected by income apportionment a simple way of seeking fair and reasonable compensation from the Government.



Impact Analysis

Impacts

- The **practical impact of retrospective validation on individuals is minimal**, as it will simply confirm an existing debt amount. Most people will not need to do anything. Any future debts raised relating to pre- December 2020 periods will be treated consistently, using income apportionment, as it will have been made a valid method of raising debts.
- **Debt processing would recommence**, as required by law, for the approximately 160,000 debts subject to income apportionment-related pauses. This will end the uncertainty of these pauses for people with these debt activities.
- A **resolution scheme** will be beneficial to people with debts affected by income apportionment, who can receive a reparation amount if they apply to the scheme. Other cohorts such as other social security recipients and people with unrelated Commonwealth debts will be unaffected.

Who is impacted



Individuals

Retrospective validation: \$0.8 million over 10 years (to understand impacts).
Resolution scheme: \$51.3 million over 10 years, reflecting regulatory cost of applying for and otherwise engaging with the scheme.

Businesses

Retrospective validation: Nil
Resolution scheme: Nil

Community organisations

Retrospective validation: \$2.0 million over 10 years. **Resolution scheme:** \$4.6 million over 10 years. Both reflect regulatory costs of assisting people with relevant debts.

Other considerations and implementation

- Agencies will engage with participants to monitor successful delivery of the resolution scheme