EXPLANATORY STATEMENT

Veterans’ Entitlements Income (Exempt Lump Sum – Arrears of Special Zone B Tax Offset) Determination.

2006 No. 15

Subsection 5H(12) of the Veterans’ Entitlements Act 1986

The Purpose and Operation of the Attached Instrument

A payment is deemed not to be ordinary income for means-testing once it is stated to be an exempt lump sum by a determination under paragraph 5H(12)(c) of the Veterans' Entitlements Act 1986 (VEA). The amount specified in the Determination at Part 2 of the Schedule as an exempt lump sum is an exempt lump sum for the purposes of the definition of ‘ordinary income’ in subsection 5H(1) of the VEA.

The attached instrument provides for the exemption of these payments from the income assessment of the person or the person’s partner’s income support payment.

Background

In 2001 the Australian Tax Office (ATO) determined that the King Island and Furneaux Island groups should be classed as Special Tax Zone, this qualifies the residents for a higher tax rebate. As the reclassification reflected an error in ATO decision-making, tax returns were amended for the period 1997 to 2001 (the standard four year tax backdating period).

The ATO subsequently determined that late objections (ie. those lodged after the standard four years) will be considered due to their initial incorrect ruling. The ATO will also review tax returns from 1 July 1990 to 30 June 1997. The taxation office will make one-off payments for this period under existing legislation.

The Department of Veterans’ Affairs has always taken the policy view that taxation refunds should not be considered as income for the purposes of the VEA. Given the size of the refunds (up to $11 000 per customer), it is necessary to ensure any payments were not assessed as ordinary income under the VEA.

The attached instrument provides for taxation refunds received as a result of the reclassification of King Island and Furneaux Island group as a Special Tax Zone to be exempt from the income assessment of the person or the person’s partner’s income support payment.

Consultation

None. This instrument is beneficial to customers because it exempts taxation refunds received as a result of reclassification of King Island and Furneaux Island group from the VEA income test. Public consultation was therefore regarded as unnecessary.