

# Cost Estimates of the APONT CDP Job Proposal

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# Cost Estimates of the APONT CDP Job Proposal\*

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## 1 Introduction

This report estimates the cost and income support offset effect of a job creation proposal suggested by The Aboriginal Peak Organisations Northern Territory (APONT) in the Community Development Programme (CDP) region. The proposal includes the following components:

- 10,500 part-time jobs (20 hours per week) will be made available to those who are unemployed or deemed unemployed (with approved activities), aged between 18 and 64 years of age. These jobs will pay \$18.29 per hour, which is the national minimum wage in the 2017–18 financial year. The proposal assumes that there is no supply-side barrier for job uptake if the person is available. The job takers will still be considered as eligible for the Newstart Allowance (subject to income testing), although they will not be eligible for the Work for the Dole Supplement. It is also assumed that the individuals will not join the new scheme if their current activities have a higher weekly wage, even if the nominal wage rate might be lower due to unpaid components of the work.
- 1,500 full-time jobs (38 hours per week) will be made available to people who are currently on Youth Allowance. The jobs will be available for six months and pay \$17.03 per hour, which is the current trainee rate. To estimate the annualised welfare effect, participants are assumed to remain in similar economic circumstances for the rest of the year. These jobs do not preclude access to part-payment of Youth Allowance subject to the usual income testing.

The report provides the estimated direct wage cost of the proposal and the net cost of the proposal when welfare offset effects are taken into account. Additionally, it also reports the estimated changes in the income support payments, expected changes in average income, and the employment circumstances in the affected region.

The next section describes the methodology used in the report. Section 3 reports the results and section 4 highlights the limitations and the critical assumptions.

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## 2 Methodology

### 2.1 Base Data

Australia does not have a household survey that is dedicated to studying the household income and employment status in the Community Development Programme (CDP) region, as it mostly consists of remote to very remote areas and has a high indigenous population density. The most common household economic surveys, Survey of Income and Housing (SIH) from the ABS, and Household Income and Labor Dynamic Australia (HILDA) contains only limited observations sampled from remote areas, thus may not be a representative dataset for the population living in the CDP region.

The National Aboriginal and Torres Strait Islander Social Survey (NATSISS) is one of the few surveys that is specially designed for studies of the indigenous population, and its sampling includes remote areas which are essential for estimating the population characteristics of CDP. NATSISS was conducted from September 2014 to June 2015 with a sample of 11,178 Aboriginal and Torres Strait Islander people living in private dwellings across Australia (ABS, 2016). The NATSISS contains information about the income and employment of selected individuals in the sample households; however, as only selected individuals were interviewed in a household, there is insufficient information to accurately derive the welfare payment status of all members in the household, as Australian welfare payments are means-tested based on the entire income unit.

Given NATSISS's coverage of the remote area and the indigenous population, we use it to approximate the distribution of the household characteristics in the CDP region. The estimates in this report use indigenous households in the four regions shown in Table 1 to approximate the household characteristics of the CDP. The approximation covers about 93.4% of the CDP population.

Table 1: CDP Region

Region
Queensland Remote/Very Remote
South Australia Remote
Western Australia Remote/Very Remote
North Territory Remote/Very Remote

While NATSISS provides distributions of a variety of household characteristics, the survey itself does not cover sufficient household member information nor the variables to simulate the impact of the federal income and transfer policies. To address this, we mimic the NATSISS household characteristics using selected regional households in the Survey of Income and Housing (SIH) 2015–16 by changing the observation weights.

The SIH collected information from a sample of 17,768 households over the period July 2015 to June 2016. (ABS, 2017). This dataset contains a wide range of the socio-economic characteristics that are often used in simulating tax and transfer system reform in Australia. Only households in regional areas of QLD/SA/WA/NT are selected to retain the intra-household characteristics of the regional population. The weights of the selected households in SIH are changed so that the reweighted dataset has the

same characteristics as the observed CDP region in NATSISS. This process can be done semi-parametrically by changing the weight of the population SIH as shown in DiNardo, Fortin, & Lemieux (1996) and Biewen & Juhasz (2012). The method allows us to complement NATSISS's known characteristics distribution while importing the complex conditional intra-household distribution from the SIH.

Population of SIH households are reweighted by a factor  $\omega$  based on its characteristics

$$\omega(X) = \frac{\Pr(X|\text{NATSISS})}{\Pr(X|\text{SIH})} = \frac{\Pr(\text{NATSISS}|X)}{\Pr(\text{SIH}|X)} \frac{\Pr(\text{SIH})}{\Pr(\text{NATSISS})}. \quad (1)$$

Where  $X$  is a vector of household characteristics, including the state of residence, equivalised income, demographic structure in the household, household type, and tenure type. The probabilities of  $\Pr(\text{SIH}|X)$  are estimated by a logit model as shown in Table 2.

Table 2: Reweighting of SIH

Variable	Coefficient	Standard Error
State of Residence (base: Queensland)		
- South Australia	-0.012	(0.17)
- Western Australia	-1.30***	(0.12)
- Northern Territory	-2.57***	(0.14)
Equivalised Income (in '000)	5.47***	(0.00)
Equivalised Income (in '000) ^2	-0.00***	(0.00)
Equivalised Income (in '000) ^3	0.00***	(0.00)
Equivalised Income (in '000) ^4	0.00***	(0.00)
Number of 15+ in the household (base: 1)		
- 2 People 15 years of age or over	0.087	(0.20)
- 3 People 15 years of age or over	-0.29	(0.23)
- 4 People 15 years of age or over	-0.21	(0.31)
- 5 People 15 years of age or over	-1.55**	(0.54)
Number of 15- in the household (base: 0)		
- 1 Child under 15	-0.31*	(0.16)
- 2 Children under 15	-0.22	(0.17)
- 3 Children under 15	-0.58**	(0.18)
- 4 Children under 15	-1.80***	(0.27)
Household Type (base: Single family)		
- Multiple family household	-1.40***	(0.33)
- Lone person household	0.23	(0.23)
- Group household	1.92**	(0.61)
Tenure Type (base: Owner w/o a mortgage)		
- Owner with a mortgage	-0.0037	(0.20)
- Renter	-2.31***	(0.17)
- Other	-1.74***	(0.24)
Constant	3.74***	(0.29)

Note: Standard errors in parentheses, \* p<0.05, \*\* p<0.01, \*\*\* p<0.001

The final dataset is adjusted to the estimated population count in the CDP region,

which is expected to have around 192 thousand residents using the 2016 Census data and the national average population growth rate. It is also assumed that the remote residents in the selected regions in the NATSISS survey represent the general population characteristics in the CDP area.

Table 3 provides some basic descriptions of the population characteristics using the reweighted SIH and compares it with the national estimates. As shown, the CDP population tends to be younger, have a larger family, and less likely to have completed tertiary education compared with the general population in Australia.

Table 3: Descriptives of demographic characteristics of the CDP sample

Variable	National	CDP (reconstructed)
Average age	37.9	30.3
Proportion of male (%)	49.6	50.8
With a bachelor degree or above	21.4	8.5
Average household size	2.6	3.2
Average number of dependents in a household	0.6	1.0

## 2.2 Employment Selection Model

The propensity of working is estimated using a probit model conditionally on age, gender and family characteristics

$$P(e = 1|X) = P(\epsilon > -X\beta) = \Phi(X\beta)$$

where an individual is considered as working when engaging in paid employment. We estimated single male, single female, partnered male, and partnered female separately to allow a greater degree of heterogeneity in the labour supply preference. The estimation is based on the sample of the population aged between 18 and 64 and not currently in education. The report uses reduced form models (Aaberge & Colombino, 2014), which assumes the proposal affects labour demand instead of changing the incentive structure of the labour supply (as altering the taxation system). The coefficients of the models are reported in Table 4. They are largely consistent with expectations, and in line with the labour supply literature (Birch, 2005; Cai & Kalb, 2006).

Table 4: Coefficients of the employment model

Variable	Single male	Single female	Partnered male	Partnered female
Age*0.1	0.11 (0.36)	0.89* (0.39)	0.44 (0.34)	0.82* (0.33)
Age squared*0.01	-0.02 (0.04)	-0.11* (0.05)	-0.07 (0.04)	-0.12*** (0.04)
Education (Base: below year 12)				
- Postgraduate	0.71* (0.36)	0.72* (0.33)	0.74** (0.25)	0.99*** (0.21)

Variable	Single male	Single female	Partnered male	Partnered female
- Bachelor	0.61* (0.30)	0.65** (0.25)	0.32 (0.20)	0.71*** (0.14)
- Cert III/IV/Diploma	0.18 (0.16)	0.17 (0.18)	0.25* (0.12)	0.51*** (0.12)
- Year 12	-0.01 (0.23)	0.21 (0.23)	0.08 (0.17)	0.27 (0.14)
Has disability	-1.17*** (0.24)	-2.27*** (0.23)	-1.32*** (0.27)	-1.29** (0.40)
Presence of children under school age	-0.73 (0.66)	-0.72* (0.29)	0.07 (0.15)	-0.50*** (0.14)
Number of dependent children	-0.03 (0.23)	-0.09 (0.10)	-0.01 (0.06)	-0.16** (0.05)
Constant	0.35 (0.65)	-1.06 (0.72)	0.04 (0.70)	-0.76 (0.67)
Observations	702	694	1623	1655

Note: Standard errors in parentheses, \* p<0.05, \*\* p<0.01, \*\*\* p<0.001

It is assumed that the 10,500 part-time jobs will attract individuals who are currently unemployed or deemed unemployed and those who are receiving Newstart Allowance. Additionally, individuals who currently have part-time jobs are assumed not to participate in the new scheme unless the weekly wage exceeds the current level. For the 1,500 full-time jobs, only individuals who are currently on Youth Allowance are eligible. It is also assumed that the participants will remain eligible for the Newstart and Youth Allowances if their total income is lower than the required threshold.

To simulate the effects of moving people from out-work to in-work, we first estimate the propensity of working for all potentially eligible individuals and use a standard alignment technique (SBDL) described in Li & O'Donoghue (2014) to ensure a pre-defined number of individuals are selected. Mathematically, observations that satisfy

$$\Phi(X_i\beta + u_i) \geq p^*$$

are selected, where  $u_i$  is a random number following the standard normal distribution  $\mathcal{N}(0, 1)$ .  $p^*$  is a threshold that equals to the  $n$ th highest value of  $\Phi(X_i\beta + u_i)$  if  $n$  observations are selected. Individuals meeting the criterion will be moved into employment. As the weights of most observations in the dataset are greater than 1, it is unlikely that the selected number of individuals will match the proposal exactly; however, the difference is small, as shown in Table 9.

### 2.3 Tax Transfer Simulation

This report uses STINMOD+ to simulate the changes in disposable income, including changes in the tax and transfer payment. STINMOD+ is a microsimulation model that calculates the effects of tax and transfer policy on disposable incomes (Li & La, 2018). It comprehensively models the tax and transfer system in Australia and includes all personal taxations and federally administered welfare payments other than NDIS. The

model replicates the implementation of the programs in real life, incorporating elements such as income testing and asset testing. STINMOD+ is also used as a platform for advanced economic modelling and can be linked with other economic and behavioural models. It can provide estimates of poverty and inequality, cost of the reforms and the distributional impact of changes to the tax and transfer policies. The model can also be used as a tool to understand the work incentives of household members and any implied intra-household redistribution. All estimates are annualised results based on current (the financial year 2017–18) taxation and transfer policies. Appendix A lists the major benefits included in STINMOD+.

As the number of Newstart Allowance beneficiaries typically exceeds the number of unemployed, based on the ABS definition, the simulation assumes the following population may also be eligible for the Newstart Allowance. This change intends to capture some of those who receive Newstart Allowance but may not be officially classified as unemployed based on the ABS definition.

- Individuals who earn less than minimum wage with no additional non-wage income source
- Males aged between 18 and 59 years who are not in education or employment and who do not have a disability status (as described in the disability support pension eligibility criteria)
- Females aged between 18 and 59 years with no dependent children, and who are not in education or employment and who do not have a disability status (as described in the disability support pension eligibility criteria).

### 3 Results

#### 3.1 Quality of the Reweighting

This section examines the quality of the reweighting process used in approximating the CDP region. The NATSISS sample reported in this section is derived from households with valid reported demographic and income variables (see Table 2 for details). Table 5 to Table 7 compares the distributions of selected variables between NATSISS and reweighted SIH. Due to the page limit, only selected variables are shown, but all key demographic and income variables show high degrees of similarities in their distributions.

Besides the variables included in the regression, Table 13 also reports the unemployment rates (as per ABS definition), which are not directly controlled in the reweighting process. The statistics derived suggest the reweighted dataset resembles the distribution of the households, as in the NATSISS survey, thus reducing the bias in estimating the welfare effects in regions with high indigenous population density.

Table 5: Distribution of the age 15+ in a household between NATSISS and reweighted SIH

Number of people aged 15+	NATSISS	Reweighted SIH
1	27.8%	28.1%
2	41.3%	41.8%
3	14.8%	13.9%



Number of people aged 15+	NATSISS	Reweighted SIH
4	7.5%	7.1%
5	8.5%	9.0%

Table 6: Distribution of the number of dependents in a household between NATSISS and reweighted SIH

Number of People under 15	NATSISS	Reweighted SIH
0	51.4%	56.7%
1	19.0%	18.2%
2	12.8%	12.5%
3	9.1%	7.4%
4	7.8%	5.1%

Table 7: Distribution of the tenure type in a household between NATSISS and reweighted SIH

Tenure Type	NATSISS	Reweighted SIH
Owner without a mortgage	6.2%	6.5%
Owner with a mortgage	7.7%	8.1%
Rent	81.0%	80.8%
Other	5.1%	4.6%

Table 8: Income and labour force variables between NATSISS and reweighted SIH

Variable	NATSISS	Reweighted SIH
Equivalised Weekly Income (\$)	652.3	668.8
Employed (18-64, %)	43.2%	48.3%
Unemployed (18-64, %)	13.3%	11.2%
Not in the labour force (18-64, %)	43.4%	40.5%

### 3.2 Direct Cost of the Proposal

The direct cost of the proposal includes only the wage cost in this estimation. It does not consider the administrative overhead for running the job scheme.

Table 9 reports the wage component cost of the proposal. As shown, the proposal is expected to cost 225.6 million dollars. Note that the simulated direct cost slightly differs from theoretical baseline as weights are used in the calculation.

Table 9: Wage cost of the proposal

Number of individuals directly affected	12,008
Direct cost of the program (simulated)	225.7 (million dollars)
Direct cost of the program (expected)	225.6 (million dollars)

### 3.3 Changes to Welfare Payments

Besides direct job creation, a major secondary effect of the proposal is the reduction in specific welfare payments. Table 10 reports the expected changes to Centrelink payments. A negative number indicates a drop in the number of recipients. The analysis suggests there will be a net reduction in the number of welfare recipients if the proposal is implemented. Given the simulation is based on a weighted survey, small changes in the absolute number of recipients should be treated with caution.

Table 10: Estimated changes to the welfare system (selected benefit)

Program	Changes in the number of recipients
Newstart allowance	-612
Youth allowance	-1,543

Table 11: Number of job scheme participants who currently receive welfare payments (selected benefit)

Program	Number of participants
Newstart allowance	7,091
Youth allowance	3,000

Note: The simulated number of participants differs from the number of jobs provided as some participants did not receive a Centrelink payment although they were previously not working. This may be due to the overall household income or other factors that affect eligibility for the relevant income support payments.

### 3.4 Overall Cost of the Proposal

Table 12 summarises how the proposal interacts with the welfare system and estimates the net cost of the program considering some participants in the program will withdraw from the welfare system. Additionally, the calculation takes into account the potential changes in the welfare eligibilities of their family members. As an individual participant in the program, he or she may withdraw from benefits such as Youth Allowance, rental assistance and potentially receive a reduced amount of family tax benefit. The reduction in the “others” category are mostly driven by payments specific to families with children, such as the parenting payment. Assuming the individuals remain in a similar job after

the six-month period in the sponsored full-time jobs, the net cost of the proposal is less than the direct wage cost, as shown in Table 9.

Table 12: Net cost of the proposal

Item	Cost (in million dollars)
Wage cost of the proposal	225.7
Centrelink payment (annualised)	-85.7
- Newstart (incl. rent assistance)	-60.0
- Youth allowance (incl. rent assistance)	-17.3
- FTB and child related benefit	-2.5
- Others	-5.9
Income tax (incl. various offset)	-11.9
Net cost of the proposal	128.1

Note: The estimate for the wage cost of the proposal assumes a six-month duration of the full-time jobs and a 12-month duration of the part-time jobs. The negative number in the income tax category indicates an increased amount of income tax, thus reducing the net cost of the program.

### 3.5 Changes in Income Source, Poverty and Employment

Table 13 reports changes to income sources arising from the proposal for households across the included regions. On average, households in the region will increase their average gross income (pre-tax) by 6.8%, but the increase will be partially offset by the withdrawal of welfare payment, resulting a net gain of 3.3% in disposable income. Table 14 reports the simulated changes to those households with at least one family member participating in the new job scheme, an average net gain of 50.3% in disposable income. It should be noted that the disposable income in Table 13 and Table 14 includes items such as medicare rebate and childcare rebate to fully reflect the changes in the welfare transfer and the costs to the government. The ABS usually classify rebates as social transfers in kind, and thus exclude them from being included in disposable income calculations.

The proposal will also affect the prevalence of poverty in the region given the increased labour income in participants' households. The program is estimated to reduce the population-wide poverty rate from 22.7% to 20.1% in the region, with the poverty line calculated as 50% of national median equivalised disposable income after housing (excluding rebates). Among the 12,008 program participants, it is estimated that 3,854 live in a household with an income less than the poverty line, and 2,118 of them are expected to be out of poverty if the job scheme is implemented.

Table 13: Changes in mean value of the disposable income and welfare payment (annual, per income unit)

Item	Current (\$)	Proposed (\$)	Changes (%)
Gross pre-tax income	38,993	41,643	6.8%
FTB and child related benefit	4,610	4,582	-0.6%
Pensions, allowances and rebate	11,865	10,966	-7.6%

Item	Current (\$)	Proposed (\$)	Changes (%)
Taxation	7,703	7,831	1.7%
Disposable income (incl. rebates)	47,765	49,360	3.3%

Table 14: Changes in mean value of the disposable income and welfare payment for affected income units (annual)

Item	Current (\$)	Proposed (\$)	Changes (%)
Gross pre-tax income	13,284	34,311	158.3%
FTB and child related benefit	1,013	940	-7.2%
Pensions, allowances and rebate	14,009	6,836	-51.2%
Taxation	2,980	4,020	34.9%
Disposable income (incl. rebates)	25,326	38,067	50.3%

The number of individuals engaging in paid employment in the area is estimated to increase by about 11,000, increasing the employment to population ratio from 48.2% to 57.8% among the population aged between 18 and 64. This ratio—although it is expected to increase if the proposal is implemented—is still lower than the national average, which is at 75.7% based on the latest SIH.

## 4 Limitations

It is important to note the assumptions used in this analysis and understand its limitations. The most notable assumptions used in this report include,

- Approximation of the CDP. As there is no survey specific to the CDP region, population characteristics in the region are approximated using selected NATSISS households living in the remote areas. It is assumed that the subpopulation extracted from NATSISS is representative.
- Given that NATSISS does not cover sufficient details about each household, it is therefore assumed that the households in the CDP region and those in regional SIH are similar *conditional* on observed household characteristics as listed in Table 2. As the dataset is derived from SIH regional households, it is possible that household compositions are more biased towards richer households. However, there is insufficient information to formally test the existence of such bias.
- The analysis assumes that there is a sufficient number of eligible people who are interested in taking the newly created jobs.
- The analysis does not consider certain behavioural responses that may or may not take place after the proposal is implemented. For example, it is assumed that individuals will not drop out of education to participate in the scheme. Additionally, it is assumed that there is no labour supply side barrier for those eligible for the newly created jobs. This report assumes a demand-side shock in the labour market.
- The estimates are based on a survey dataset which may be different from the actual characteristics of the population because of sampling and non-sampling errors in the microdata and because of the assumptions underlying the modelling techniques.

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## Appendix

### A. List of tax and transfers modelled in STINMOD+

STINMOD+ model covers three components of the Australian tax and transfer system: the family related benefits, pensions and allowances, and the taxation system.

The following transfer programs are included in STINMOD+

- ABSTUDY
- Age Pension
- Austudy
- Bereavement Allowance
- Carer Allowance
- Carer Payment
- Carer Supplement
- Child Care benefit and Child Care Rebate
- Childcare Subsidy
- Dad and Partner Pay
- DVA Pension

- Disability Support Pension
- Energy Supplement
- Family Tax Benefit A and related benefits
- Family Tax Benefit B and related benefits
- Farm Household Allowance
- Newstart Allowance (incl. participation supplement)
- Parental Leave Pay
- Parenting Payment (single and partnered)
- Partner Allowance
- Pensioner Education Supplement
- Remote Area Allowance
- Sickness Allowance
- Special Benefit
- Widow Allowance
- Widow B Pension
- Wife Pension
- Youth Allowance
- and others.

The following taxation rules are included in STINMOD+

- Income tax
- Medicare Levy and Medicare Levy Surcharge
- Temporary Levy such as flood levy and budget repair levy
- Tax Offsets such as low income tax offset, beneficiary tax offset, seniors and pensioners tax offset
- Private health insurance rebate
- Education tax refund
- Superannuation concessional contribution tax
- Superannuation excess concessional contribution charge
- Very high income contribution tax (Division 293 tax)
- Government super co-contribution
- Low income superannuation tax offset