CHILD POVERTY ACTION GROUP

Submission on Making Tax Simpler

To the **Deputy Commissioner Policy and Strategy**
Inland Revenue

This submission is from:
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Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high level of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in.

Submission

We wish to make the following comments with respect to Working for Families

Making Tax Simpler Better Administration of Social Policy: Working for families (WFF)

Simplification

In principle, CPAG supports simplification of administration of entitlements and obligations of WFF by Inland Revenue
However, there are inadequacies that must be addressed:

- Design issues are a much greater problem. In the case of WFF it is too easy to forget that the tax credits are essentially payments for children. Complexity arises because they are paid to the 'caregiver' based on relationship status, hours of work and joint family income. Confusion of purpose does not help the needs of children. See CPAG's, Fix Working for Families campaign
- Income is not the only basis for current targeting. Real time accuracy requires parents to regularly update their circumstances. Accuracy is dependent on definitions around who is in a relationship, what other sources of income there might be, whether hours of work are met, etc. These are very nuanced and family-specific characteristics that are not well-suited to an automated approach.
- It would appear that data-matching between the Ministry of Social Development (MSD) and Inland Revenue (IR) is to be used. This may include judgements on people's relationships that could be highly intrusive and grow more so over time if not constrained and/or monitored.
- Centralisation of family information and 'real-time' adjustments to targeted social provision were promised in the 1991 budget. CPAG asks, is this proposal just a reinvention of the failed smart card idea that could not be made to work, not because of technology, but because of the highly nuanced nature of most families?
- The definition of being in a relationship differs significantly from that of the Property (Relationships) Act. We need consistency of the definition of all terms across all legislation and government departments, see The complexities of relationship in the welfare system and the consequences for children (Dec 2014)

Recommendation

CPAG would like to see a complete review of how benefits, WFF, abatements, definitions of relationship, hours worked, and income interact before this technocratic 'simplification' is progressed.

Uncertainty issues

A system of child payments targeted on total family income runs into the problem of a possible debt at the end of the year for the caregiver. More regular updates of family income however may increase the uncertainty of her income.

- Periodic adjustments on a real-time basis for those families in casualised employment as the examples in the document show, can leave the caregiver with a highly variable income to pay the invariable expenses for her children. Whether or not they receive compensating payments from the earner of the extra income is unknown and unassumable.
- There is no reason to suppose one system is worse than the other. Under existing provisions, debt may be written off for hardship reasons or repayment managed in the interests of fairness. Under the proposal, adjustment is immediate and may cause budgeting problems for the caregiver, with no possibility of write-off.
    - Even granted that the IR brief excluded looking at design changes, the document does not review how the same problem is tackled in other countries, specifically Australia. There is merit in retention of part of WFF to be paid after the end of the year reconciliation as is done in Australia to avoid overpayment.

Recommendation

CPAG prefers that the caregiver has certainty of payments. Children's needs don't change just because incomes are bouncing around in casualised labour markets. If there are dramatic changes to household income, they can be encouraged to alert IR. Overpayment problems can be dealt with by withholding some of WFF as in Australia

Who decides?

- Detail of an appeals procedures are lacking in the document, yet IR frequently gets things wrong, or is provided with incomplete or erroneous information. The lack of appeal process is worrying as the adjustments will be made automatically and maybe not understood by the caregiver at all.
- The employee cuts announced at IR suggest that greater and greater use will be made of automation and less use made of discretion. This runs the danger of hurting the many families whose circumstances are more varied than the system allows for.

Recommendation

There must be far more attention to checks and balances in the system if this 'simplification' proceeds. There also needs to be an independent ombudsman to oversee what could be a draconian appropriation of power to a government department.

Use of regulations

The option to make greater use of regulations is worrying. Policy change needs adequate consultation.

Recommendation

Do not devolve more power to the regulatory process.

Conclusion

- Technocratic solutions to complex social problems do not have a good history in New Zealand or elsewhere.
- Simplification objectives and less debt are better achieved by simplifying the policy itself. This is also more likely to be in the interests of the child/ren and promote goals of reducing child poverty and social equity.
- ***Before proceeding*** with the tax simplification exercise there needs to be a complete overhaul of definition of income and relationship status to get consistency and rationality between the departments.
  The danger is that the proposed real-time adjustments to mitigate the problems of overpayments and debt may end up just making a poor system work more efficiently and more ruthlessly.

  The IR could play more of a leadership role in advising the government of sensible reforms to meaningfully simplify WFF. Some things could be usefully recommended by IR to the incoming government e.g.:
  - Remove hours of work requirement from the In-Work Tax Credit (IWTC).
  - Remove need to be off benefit from IWTC and the PTC.
  - Hold back some of WFF until the end of the year for a final reconciliation.
  - Reduce harsh abatement provisions of WFF.

Thank you,

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