CHiLD POVERTY ACTION GROUP

CPAG 2023 Policy Brief on Working For Families

Fix "Working For Families" income assistance for children in low-income families

Susan St John, Mike O'Brien[i]

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VISION

All tamariki will grow up surrounded by loving, thriving whānau within supportive communities where there are resources, opportunities and systems to enable them to live self-determined lives and futures.

CPAG acknowledges that tamariki Māori and whānau have unique rights as tangata whenua, affirmed within He Whakaputanga and Te Tiriti o Waitangi. The significant inequities in well-being outcomes and child poverty for tamariki Māori are the result of ongoing colonisation, systemic racism and neglect. Reducing child poverty in Aotearoa requires our country to address the inequitable distribution of power and resources that prevents Māori from flourishing.

Working For Families (WFF) is a $3 billion social security programme to assist with the income needs of low-income children. Its main component is the Family Tax Credit which is a weekly amount paid to the caregiver for each child. A second main component, the In Work Tax Credit (IWTC), is also paid to the caregiver but only if certain criteria are met. Currently the IWTC is paid only when the family is not on a benefit and has some paid work. There is also a Minimum Family Tax Credit, paid to those few parents working fixed required hours per week but only when the family is not on a benefit. Best Start is an additional payment when there is a newborn.

ISSUES — THE CURRENT REALITY

1. Over 220,000 children are systemically locked into income poverty (AHC50 moving line measure)[ii]. This is almost one-fifth (19.4%) of all children in Aotearoa New Zealand (Figure 1).[1] Over 200,000 children live in families for whom a benefit is the main source of income,[2] and they are four times more likely than other children to

[i] Associate Professor Susan St John QSO, CNZM, Honorary Academic, University of Auckland. Associate Professor Mike O'Brien ONZM, Honorary Academic, University of Auckland.

ii "AHC50" means the children live in households whose income is 50% or less of NZ's median household income after housing costs (AHC), equivalised (adjusted) for household size. "AHC40" means the household has 40% or less of that median. See StatsNZ "Concepts and Definitions" for moving/fixed line explanations.

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live in poverty (material hardship).[3] Tamariki Māori, Pacific children and disabled children are more likely to be locked into material hardship than are children overall.

Figure 1: NZ child poverty rates 2013–2022 (AHC60/50/40)

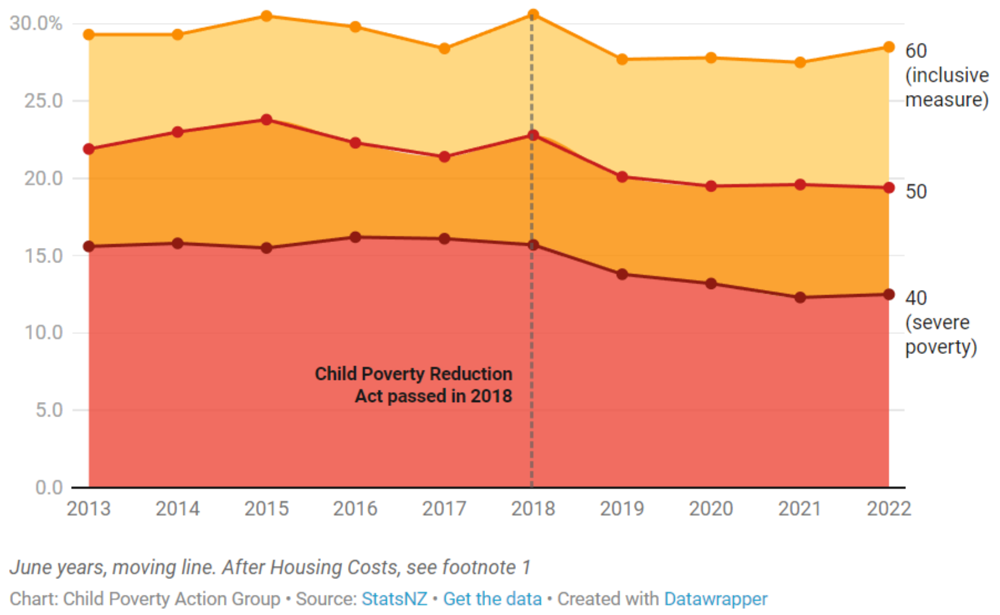
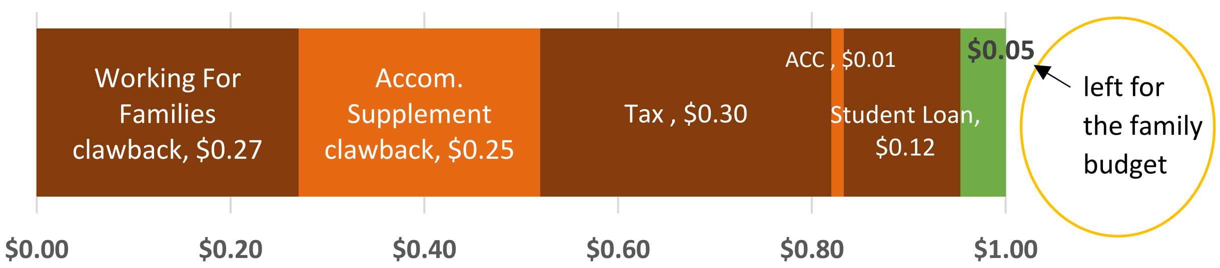


chart reproduced from CPAG "Latest Child Poverty Figures"[4]

2. The state burdens middle- and low-income families in paid work with unrealistic "clawbacks" – for each dollar families earn over a very low threshold, they may receive only a few cents. This is because state income assistance abates (reduces) so quickly in several domains that it locks families into poverty traps. For example, for every dollar earned over a low threshold, "Working For Families" income assistance for children reduces by 27 cents, and the Accommodation Supplement reduces by 25 cents (Figure 2).

Figure 2: When family paid-work income is over $48,000, there may as little as 5 cents left out of each extra dollar earned.



BARRIERS REQUIRING POLICY ACTIONS

The numbers above show that New Zealand's key income assistance programme for children, "Working For Families", is failing to ensure that all children live free from poverty. As a society, we support older New Zealanders far more successfully with NZ Superannuation than we support families with children.[5]

As the name suggests, "Working For Families" has attempted to mix paid-work incentives with vital assistance for children.[6] These are two very separate goals. The state mixing the two goals has had catastrophic results for many families who do not get the financial assistance they need to support their children adequately.

Key components[iii] of Working For Families include:

- Family Tax Credit, paid per child (in 2023/24, $136 weekly for the first child and $112 weekly for every subsequent child).[7] All families who meet the (low) income criteria are eligible for the full amount, whether or not they are in paid work and/or receive a benefit.
- In Work Tax Credit (IWTC), paid per family ($72.50 weekly for 1 to 3 children, and $15 extra for every additional child). In order to be eligible for the IWTC, low-income families (i) must not receive a benefit, and (ii) must have some paid work. The "In Work" name is a misnomer: not all families who are in paid work are eligible to receive the IWTC: those who also receive a benefit or part-benefit because their paid-work earnings are particularly low, are not eligible. Moreover, the work of parenting is undermined by and invisible in this "in work" nomenclature.

Issues with Working For Families include:

1. **Discrimination:** The IWTC discriminates against many of the poorest families on the basis that they receive a benefit. The state denies the support of the IWTC to these worst-off families (those on benefits), thus locking over 200,00 children into (more severe) income poverty.[ii] This contravenes New Zealand's ratification of the Convention of the Rights of the Child, which states that children are to be protected from discrimination and "In all actions concerning children … the best interests of the child shall be a primary consideration."[8] When whānau Māori require income support through the benefit and so are not eligible for the IWTC, this discrimination exacerbates the inequities for tamariki Māori and contravenes their rights as tangata whenua, particularly given "States are obliged to implement special measures to realise Indigenous children's rights to life, survival and development."[9]
2. **Lack of annual increases to reflect inflation and wage growth:** Unlike NZ Superannuation rates, Working For Families rates are not annually adjusted for CPI[10] inflation, let alone wages; instead, they are adjusted only when cumulative inflation exceeds 5% since the previous adjustment. This means that WFF rates do not keep up with living costs.
3. **Working For Families income-abatement thresholds not annually increased:** therefore, as time goes by fewer families are eligible for the ull Working for Families support they need. In 2018, the income level where Family Tax Credit and IWTC

[iii] "Best Start" is another key Working For Families component, assisting families with babies under 1 year old, regardless of income, except for periods of paid parental leave. Families with children aged 1 to 3 can also have it in full if income is under $79,000. Very few families receive the tightly targeted fourth Working For Families component, the "Minimum Family Tax Credit" and it is not further discussed in this policy brief.

abatement starts ($42,700) was 24% *above* the full-time minimum wage, but now (in 2023) it is nearly 10% *below* a full-time minimum wage.[iv]

4. **High rate of clawback:** The Family Tax Credit/ IWTC abatement rate of 27% is far too high; it is a paid-work disincentive for low- and middle-income families.
5. **Complexity:** Some eligible families miss out because of system complexity, and/or incur debt to IRD because of alleged overpayments.

RECOMMENDED POLICY ACTIONS

Recommendation 1

- Rename "Working For Families" to reflect the needs of children, not paid work.

The best interests of all children and their families must be put at the centre of this policy. Child payments supposed to alleviate poverty should not also be used to 'incentivise paid work'.

Recommendation 2

- Remove discrimination. Decouple vital assistance for children from all paid work requirements and the source of parental income.

The IWTC should be immediately folded into the Family Tax Credit, to form one simple payment for which all low-income children are eligible. This would be a targeted and very efficient way of reducing child poverty, offering a higher level of support only to those who currently do not get the IWTC.

This move would cost approximately $500m per year, and would be highly cost-effective in helping lift children out of severe poverty, and stop the discrimination against them.

Recommendation 3

- Index all aspects of financial assistance for children (including Best Start) to wages annually (and to CPI inflation where it exceeds wage growth), as is the case for NZ Superannuation.

Recommendation 4

- Empower low-income families in paid work by:
    i. *Restoring the threshold at which WFF starts to abate to its original real value, and index annually to wages (and to CPI inflation where it exceeds wage growth).*
    From 1 April 2023 the threshold should be $52,700 instead of $42,700.[11]

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iv In contrast, in Australia, the abatement thresholds of their more generous income assistance for children are indexed annually to CPI inflation: in the July 2021/22 year, abatement started at AU$56,137, and in the 2022/23 July year it starts at AU$58,108. A family in Australia on AU$58,000 receives Family tax credit assistance in full, while by this income in New Zealand, over NZ $4000 has been clawed back from WFF. (Services Australia, Historical versions of A guide to Australian Government payments (July 2021 and July 2022). Australian Government.)

ii. *Decreasing the WFF abatement to its original 20% (currently 27%) to lower the effective marginal tax rates (clawbacks) and improve the returns from work*. This increases direct incentives to work, offering 7 cents more for every dollar earned.

iii. *Increasing the threshold for abatement of benefits from 7 to 15 hours at the minimum wage*.

iv. *Exploring targeted ways to help with the costs of paid work such as child-care*[12] *and transport subsidies*.

IMPACTS AND INDICATORS

If implemented, these actions would be steps towards moving Aotearoa to be a nation where all children and families flourish free from poverty.

1. **Significantly more children and their families will be empowered to live free from the toxic stress of poverty.**

   They will have better life outcomes, and be better able to contribute to society. The research is clear that giving families enough money is the most effective way to create positive outcomes.[13]
   The Government would be much more likely to meet its child poverty reduction targets and meet them on schedule, including reducing material hardship; and child poverty would also measurably reduce on a range of other indicators (Recommendations 2 & 4 above) and be "future-proofed" – there would be some guarantees against erosion (Recommendation 3 above).

2. **New Zealand would no longer be shirking its responsibilities under the UN Convention of the Rights of the Child via the IWTC.**

   Folding the IWTC into the Family Tax Credit (Recommendation 2 above) would remove the current discrimination against children, and would put the best interests of the child at the heart of the state's key income assistance programme for children.

3. **It is likely that more families could choose to enter paid work.**

   Removing some of the costs and barriers of going into paid work (Recommendation 4 above) would enable more caregivers to go into paid work, if their circumstances and caring duties allow.[14]

Fixing income assistance for low-income children is an essential step:

- for New Zealand to meet its targets for UN Sustainable Development Goal 1: "End poverty in all its forms everywhere"[15]
- for New Zealand to meet its obligations under the UN Convention of the Rights of the Child
- towards the national vision "that New Zealand be the best place in the world for children and young people".[16]

References

[1]StatsNZ (2023). Child Poverty Statistics: Year Ended June 2022. See analysis of these figures at Child Poverty Action Group (2023). Latest Child Poverty Figures. CPAG, NZ.

[2] MSD (2023). “Recipients of other working and non-working-age benefits, by recipient characteristics, last 5 years”, National Level Data Tables Dec 2022, Benefit Fact Sheets webpage.

[3] Perry, B. (2022). Child Poverty in New Zealand: Overview and Selected Findings. Wellington: MSD, p. 12, Fig. 4.

[4] CPAG (2023). Latest Child Poverty Figures. (Analysis of Stats NZ child poverty figures for June 2022 year.) CPAG, NZ.

[5] St John, S. (2023). Serious Deficiencies in the Social Policy Process.

[6] St John, S., & Craig, D. (2004). Cut Price Kids. CPAG, NZ,

[7] IRD (2023). IR271: Working For Families tables.

[8] Article 3, UN Convention on the Rights of the Child (NZ ratified, 1993).

[9] Charters, C., Te Aho, F., & Mason, C. (2022). Thematic Report: The Rights of Tamariki Māori in Aotearoa New Zealand: New Zealand’s Sixth Periodic Review under the UN Convention on the Rights of the Child.

[10] Consumer Price Index. StatsNZ (2023). CPI Explainer.

[11] Baucher, T. (2023). “Five tips to get ready for tax year end”. The Week in Tax, podcast 27 March (starts at: “Serious Design Issues”). Baucher Consulting.

[12] See CPAG 2023 Policy Brief on early childhood care and education, at www.cpag.org.nz/policybriefs, for further detail.

[13] Berentson-Shaw, J., & Morgan, G. (2017). *Pennies from Heaven: Why cash works best to ensure all children thrive.* David Bateman.

[14] For example, see Landivar, L. C., Scarborough, W. J., Collins, C., & Ruppanner, L. (2022). Do high childcare costs and low access to Head Start and childcare subsidies limit mothers’ employment? A state-level analysis. *Social Science Research*, *102*, 102627.

[15] United Nations (2015). sdgs.un.org/goals

[16] NZ Government (2019). Child and Youth Wellbeing Strategy.

APPENDIX 1

WORKING FOR FAMILIES TAX CREDITS (WFF) – Q & A

DOCUMENT PURPOSE

This brief overview sets out the core components of WFF and is designed to provide a quick guide. It is not exhaustive; any reader seeking more information should look at the MSD Publication *The New Zealand Income Support system as at July 1, 2022* or go to the Inland Revenue website - https://www.ird.govt.nz/working-for-families/about.

1. What is Working for Families (WFF)?
   WFF is a set of tax credits paid by government to the caregiver in families with dependent children; as it is a payment to support families with children, it cannot be described as a subsidy to employers as some commentators have done.

2. What are the different parts of WFF?
   a. Family Tax Credit (FTC)
   b. In Work Tax Credit (IWTC)
   c. Minimum Income Tax Credit MITC)
   d. Best Start Tax Credit BSTC)
      [Note: Independent Earner Tax Credit (IETC) is not part of WFF and paid only to those in low paid work without children and not eligible for WFF; it is not included here].

3. Who is eligible for each of the different parts of WFF?
   a. Family Tax Credit (FTC)– Families with a low income whether receiving a benefit or not.
   b. In Work Tax Credit (IWTC)– Families in paid work, not on a benefit
   c. Minimum Family Tax Credit (MFTC) – top up for families in low paid work, not on a benefit and working 20 hours as a sole parent or 30 hours a week for a couple .
   d. Best Start Tax Credit (BSTC) – Paid (after paid parental leave ceases) to all families with a child under one and income tested for families with a child between one and three.

4. How do the different parts of WFF link together?
   a. Recipients in paid work may receive both the FTC and the IWTC, but only if no benefit or part benefit is paid regardless of paid work effort.
   b. Recipients in paid work may also receive the MFTC and the IWTC. They would also receive the FTC.
   c. Those receiving the BSTC may also receive other WFF tax credits.

5. What are the payment rates (1 April 2024) for the different parts of WFF? [Note: these are maximum rates which will vary depending on income and the number of children]
    a. FTC - $144.00 maximum for first child and $117.00 for each additional child.
    b. IWTC - $72.50 for 1-3 children; $15 for 4th and each additional child
    c. MFTC – guarantees a minimum of $658 after tax per week. It is abated dollar for dollar for extra earned income. The FTC and IWTC are in addition.
    d. BSTC - $73.00 for child under one; this is maximum for children between one and three years old.

6. How are the payment rates increased?
    a. Rates of FTC and BSTC are increased when inflation cumulatively (over time) exceeds 5%.
    b. IWTC is reviewed every three years; this does not necessarily lead to an increase.
    c. MFTC is reviewed annually; and generally leads to an increase.

7. Who is responsible for payment of WFF?
    a. The Inland Revenue Department is responsible for WFF payments; FTC for beneficiaries is administered through MSD but payment is made by IRD. It is paid directly into the recipient's bank account.

8. What do we mean by *abatement* in relation to WFF?
    a. Using what is called an income test, abatement refers to the rate by which the tax credits are reduced as a recipient's income increases. The FTC is reduced first, and then the IWTC, by 27 cents for every dollar earned above the current threshold of $42,700 combined annual gross income.

9. What do we mean by *thresholds* in relation to WFF?
    a. Threshold refers to the level of income at which the amount that is paid to the recipient decreases as income increases. It is akin to moving into a higher tax bracket in that the level of payment for which the caregiver is eligible decreases as the family's income moves to a higher level. The current threshold is $42,700.

10. How do earnings affect WFF eligibility and entitlement?
    a. See 8 above re abatement.

11. What happens if income changes during the year?
    a. Sometimes the Inland Revenue can adjust WFF payments so that the amount is not over or underpaid. If IR are not informed, additional income can result in a debt to the IR that has to be repaid. There can also be a reimbursement if there is an over-payment.

12. Where can I find more information about WFF?
    a. Go to www. https://www.ird.govt.nz/working-for-families/about

13. What existed before WFF? (Note: Names and eligibility criteria have changed over time)
    a. Family Care was introduced in 1984; replaced by Family Support in 1986.

b. The Family Benefit (established in 1938) was as a universal $6 per child per week from 1979. It was paid without an income test, until its abolition in 1991, when it was added to Family Support.
c. In 1996 the Child Tax Credit was introduced as a $15 per child per week payment but only for those who were 'independent from the state'.
d. In 1999, Family Plus was used to describe tax credits that were only for those who met paid work criteria and received no welfare benefit. These were the Parental Tax Credit, Child Tax Credit and Family Tax Credit.
e. Under Working for Families, 2004, the Family Tax Credit replaced Family Support and became the main payment for children. The Minimum Family Tax Credit replaced the old Family Tax Credit. In 2006, the In Work Tax Credit replaced the Child Tax Credit [For fuller historical details, see https://www.weag.govt.nz/assets/documents/WEAG-report/background-document] and Cut Price Kids 2004 CPAG