CPAG Fix Working for Families Campaign - FAQ

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1. What is Working for Families?

Working for Families is a package of tax credits. Inland Revenue says it is designed to help by making it "easier to work and raise a family". For families with children under 18 years old, the tax credits offset the tax payable by the household to acknowledge the costs of raising children. For example, a family with children on a given income has more expenses and less ability to pay tax than a family with no children on the same income. So giving some tax back to the family with children (a tax credit) makes it fairer.

In New Zealand, only low and middle-income families are assisted with these tax credits. The credits are usually paid to the caregiver weekly, not at the end of the tax year.

2. Who benefits?

Working for Families pays extra money to approximately 380,000 New Zealand families. Financial support is available for:

a) *almost all families with children earning under $70,000 a year*
b) *many larger families with children earning up to $100,000-$150,000 a year*

Working for Families tax credits are delivered by Inland Revenue to most families except for those on social security benefits. Work and Income pay the tax credits for beneficiary families along with social security benefits.

3. What exactly are Working for Families tax credits?

Working for Families tax credits are made up of four types of payments:

- Family Tax Credit
- In-Work Tax Credit
- Minimum Family Tax Credit
- Parental Tax Credit.

Each kind of tax credit has different eligibility rules.
The first two are the most important and account for 98% of the spending on WFF tax credits. For full details, see Working for Families: A detailed explanation.

4. Isn't The In-Work Tax Credit about work and not about children?

No. It is paid only to caregivers who have responsibility for children.

The Human Rights Review Tribunal has confirmed that this tax credit is a payment for children. In 2008 it said:

> [169] The Crown's argument that the challenged tax credits cannot be described as 'child-related' has no basis whatsoever in the evidence we heard. A number of witnesses were asked to identify what facts or circumstances might justify a conclusion that the tax credits are not child-related, despite the fact that eligibility depends on having the care of dependent children, and the rates of payment depend on the number of children being cared for. No satisfactory explanation was given.

(HRRT Decision CPAG v Attorney General Dec 2008)

The In-Work Tax Credit provides essential financial assistance for low-income families based on numbers of children. It is worth $72.50 per week for families with 1 to 3 children, $87.50 for a 4-child family, $105.50 for a 5-child family, and $117.50 for a 6-child family.

It is a payment to meet the extra costs of those children and is part of the weekly Working for Families payment made to the *primary caregiver*, NOT the paid worker. It is indistinguishable from the rest of the Working for Families payments when it arrives in the pay-packet.

However, it is not paid to a parent or parents who are on a benefit. It is directly tied to paid work. To get it, at least one parent/caregiver must be in paid employment. A sole parent must be doing paid work for at least 20 hours per week. A couple must be doing paid work for at least 30 hours per week between them. This means that one parent can be doing 30 hours' paid work and the other parent can be at home.

When an unpaid primary caregiver has a partner in paid employment, it is the partner's paid work that gives the children the right to the In-Work Tax Credit even if the caregiver is not in paid work. Clearly, it does not operate as a work incentive for the caregiver. In comparison, a sole parent who is also the primary caregiver MUST have paid work in order to be eligible for the In-Work Tax Credit.

5. Why is Working for Families unfair?

Working for Families is unfair because the minimum paid work requirement for the In-Work Tax Credit (20 hours per week for a single parent and 30 hours for a couple) excludes many of the poorest children. Children's needs do not change just because parents lose hours of work or have to rely on social security benefits.

It is the **worst-off children** who miss out on a tax-funded payment made for children to help with the costs of bringing them up. The denial of this payment has been a major factor in entrenching child poverty.

Parents' work hours cannot be averaged over a year. So a sole caregiver in casual employment working 25 hours one week and 18 hours the next week will not qualify for the In-Work Tax Credit in the second week. It is also cut for those whose contracts do not go for the full year, such as teacher aides who lose work in the summer break.

Study, even if full-time, is not recognised as work for the In-Work Tax Credit.

The In-Work Tax Credit is also unfair because the paid work test ignores the shortage of suitable regular employment opportunities for caregivers, and the often prohibitive costs and conditions of low paid part-time work.

5.1. Who is excluded?

Between 200,000 and 250,000 children in families experiencing the greatest hardship, are excluded from the weekly child-related In-Work Tax Credit (and the Parental Tax Credit, a payment for newborns). These are the children of beneficiaries or students. These children do not qualify even if their parents do have paid work for 20 hours (sole parents) or 30 hours (couples), because they are also on a part-benefit. Children are also excluded because their parents do not meet the minimum requirement for hours worked even when family is not on a benefit.

5.2. Is the complexity justified?

Working for Families is so complex because it is trying to combine two different aims – provide a work incentive and reduce child poverty.

To simplify it, Working for Families must have one aim only: to reduce and prevent child poverty. There are many other more effective ways to incentivise work or make work pay for low income workers that do not disadvantage our children.

5.3. What about a caregiver's unpaid work?

The social and economic contributions made by unpaid parents, carers, volunteers, and others not in paid employment are of immense social value, but are given no recognition for the In-Work Tax Credit. The value of looking after young children is clear when that work is outsourced to others who get paid.

6. Did the introduction of Working for Families reduce child poverty levels?

Yes, it did, but only for children in families supported by a paid worker (as described above). This shows that more money can be effective.

However, the worst-off families were no better off.

> **From 1992 to 2004, children in workless households generally had poverty rates around four times higher than for those in households where at least one adult was in full-time work. From 2007 to 2013, the difference was even greater – around six to seven times higher for children in workless households. This to a large degree reflects the greater Working for Families assistance for working families than for beneficiary families (MSD 2015: *Household incomes report*).**

7. But doesn't the In-Work Tax Credit simply offset the costs of working?

CPAG argues that parents in low-paid work must be well supported by Working for Families, but the paid work-hours criteria are unnecessary, unhelpful and unfair. Low-paid workers are currently exposed if they fall on hard times and lose hours because the loss of the IWTC can be very harmful for their children.

The costs of working are real. If the primary caregiver received the In-Work Tax Credit unconditionally, whether in paid employment or not, they could choose to spend the money to meet some of the costs of paid work when they felt it was appropriate.

The argument that it is 'simply a subsidy to employers' fails to acknowledge that both the very young and the old need generous, well-supported redistributive programmes to ensure there is enough income. We do well to ensure this for all older people with New Zealand Superannuation (NZ Super) but fail too many children with the Working for Families tax credits.

8. Don't parents need a work incentive?

Of course it's good to reward an extra hour of work adequately, but current policy does not do this. The In-Work Tax Credit says that either you work for 20 hours and get the lump sum, or you miss out. Research into the effectiveness of Working for Families shows that the In-Work Tax Credit appears to have little impact on overall hours worked by primary caregivers. There are many ways to incentivise work that don't disadvantage children. However, for those parenting alone, these may not apply. There are simply not enough appropriate family-friendly jobs with the right number of hours available. Some parents may not have the other supports, such as quality local childcare, that are necessary to be able to commit to employment; or they or their children may be in poor health.

The In-Work Tax Credit potentially incentivises only some parents. Caregivers in a couple can receive it even though they are at home full-time looking after their children if their partner works. The same caregiver loses this payment for her children if her partner loses his job. If one parent manages to get a job for 20 hours a week, they still don't qualify because a couple requires 30 hours. If they each work 15 hours, and are receiving a part-benefit, they don't qualify either.

9. What does 'abatement rate' and 'indexation' mean?

Abatement: Working for Families tax credits 'abate' or reduce after a certain level of total family income is reached. Currently once income is $36,350 (the threshold), additional income reduces Working for Families by 22.5% (the abatement rate) for each extra dollar earned over the threshold.

Here's an example (from the Detailed Explanation): A one-child family earns $36,350. The FTC is $92 and the IWTC is $72.50, so the primary caregiver will be paid $164.50 per week. This is an annual entitlement of non-taxable income of $8,554. For family income above $36,350, the abatement rate from 1 April 2016 is 22.5%. This family can earn $38,017 over the threshold or a total income of $74,376 before they lose all entitlement. If their increased income is unexpected and they have been receiving WFF on a weekly basis they will have to repay the IRD any overpayment.

Indexation: This refers to the ways in which Working for Families is adjusted as prices and wages increase. Working for Families is only adjusted for prices and only when cumulative inflation is more than 5%. There has been no increase since 2012 as measured inflation has been very low. Under current policy the threshold is set to decline over time to eventually reach $35,000. Had the threshold been properly adjusted for inflation since WFF was introduced in 2005 it would be round $45,000 today.

10. Why should we index Working for Families tax credits to average wages?

It is important that the standard of living of all groups in New Zealand is maintained relative to general living standards. We index NZ Super to average wages, and should have the same system for families with children.

11. Why do I have to go through Inland Revenue for a 'benefit' for my children?

The advantage is that it treats the child payments as something that reduces total tax paid by the family. It makes it clear that having children reduces the burden of taxation for families. Tax credits may be more acceptable than benefits.

12. What are CPAG policy recommendations to Fix Working for Families?

1. Join the In-Work Tax Credit ($72.50 from 1 April 2016) to the Family Tax Credit for the child payment, thereby removing all paid work hours requirements.
2. Reset the abatement rate from 22.5% to 20% and freeze it. This would reduce the amount of Working for Families that is lost when somebody has additional income, e.g. through a pay rise. Under current policy, this rate is set to INCREASE to 25%.
3. Restore full annual indexation of Working for Families threshold from 2005 (which would be $45,000 in 2016).
4. Index annually all aspects of Working for Families tax credits to wages.
5. Abolish the Parental Tax Credit and add $100 per week to the newborn's Family Tax Credit for one year if Paid Parental Leave is not taken.
6. Abolish the Minimum Family Tax Credit and liberalise the treatment of extra earned income for parents on a part benefit.