CHiLD POVERTY ACTION GROUP

A New Zealand where Children can flourish

Priorities for supporting family incomes

There are about 40,000 hospital admissions of children in New Zealand every year, with preventable illnesses that have links to poverty and unhealthy housing. The number of such admissions has increased since 2000.

If our welfare system was working, it would have reduced the numbers of children admitted to hospital with illnesses associated with poverty. It hasn't.

Warm, dry, secure housing provides a foundation for children's health. Sufficient income is equally important.

For children: *"The combined effects of inadequate family incomes, high living costs and poor housing conditions can lead to serious and prolonged illness."* [1]

Incomes for families with children have been grossly neglected and inadequate income is a strong contributor to poor health. Income poverty and material hardship arise from several sources:

- Very low main benefits
- Low wages
- High taxes
- Eroding tax credits for families
- Lack of proper indexation
- Punitive interactions of different targeted measures
- High health and housing costs

1 In Gibson, Abraham, Asher, Black, Turner, Waitoki & McMillan, 2017, *Child poverty and mental health: A literature review*, prepared on behalf of the New Zealand Psychological Society and Child Poverty Action Group.

There is a strong case for higher, and wage-linked adult benefits, a higher minimum wage and lower tax rates in the lower income ranges. To support families needing assistance, increases to the main benefits (and Working for Families) could be used instead of relying on the Accommodation Supplement and the tightly income and asset tested Temporary Additional Support which are both complex to access, and can trap people further in debt.

The needs of children in low-income families are best met by well-designed child-related tax credits paid to the caregiver. Welfare reforms need to be integrated so that families do not lose so much of their targeted assistance when they earn extra income.

Based on principles of equity, reduction of child poverty, simplification and cost effectiveness CPAG recommends that Working for Families (WFF) is significantly improved[2].

2 Fix Working For Families website at https://www.

CPAG's recommended priority for family incomes in the 2017 election is to significantly improve Working for Families in order to markedly reduce child poverty, and support substantially reducing the number of child hospital admissions for preventable illnesses.

Recommendations

1. Support the increases in the Family Tax Credit (FTC) rates that come in 1 April 2018. They are a needed simplification of rates and provide a real boost for large very low-income families.
2. Immediately remove all hours of work requirements for all child-related tax credits.
3. Treat all low-income children the same by abolishing the In-Work Tax Credit and adding $72.50 to the FTC for the first child payment. This would simplify, remove discrimination, and measurably impact on child poverty without being delivered all the way up the income scale.
4. Reset the abatement rate on tax credits to 20%. This would reduce the amount of WFF that is lost when the family has additional income, e.g. through working overtime or secondary earner going back to work. Under current policy, this rate is set to INCREASE to 25% in 2018.
5. Set the threshold for abatement at $45,000 (catch-up for inflation since 2005)
6. Abolish the Parental Tax Credit (PTC) and add $50 per week to the newborn's FTC for one year if Paid Parental Leave is not taken.
7. Restore full annual CPI indexation for all WFF rates and the abatement threshold. Introduce a link to wage growth as is done for NZ Super.

Other changes

- Modernise the welfare system to become more of an individually-based system with couple and single-aligned rates and individual income tests
- Liberalise the treatment of extra earned income for parents on a part-benefit (i.e. allow them to earn a greater amount before their benefit is sharply reduced).
- Abolish the MFTC and make it easier to stay on a part benefit and get full WFF.
- Move away from use of the accommodation supplement for families over time by using the framework of the FTC that better reflects family size,
- Review social welfare benefits for adequacy then, in future, adjust on the basis of relationship to the average wage, as is done for the age pension, New Zealand Superannuation
- Raise minimum wage significantly. CPAG supports a minimum wage increased to $19.88 advocated for by the New Zealand Council of Trade Unions[1].

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1 See "Minimum wage needs to be two-thirds of average wage": http://www.union.org.nz/minimum-wage-needs-to-be-two-thirds-of-the-average-wage/

Background: Income support for families Working for Families

Income assistance is provided to eligible families with dependent children aged 18 or younger through WFF tax credits, usually paid weekly or fortnightly to the caregiver to assist with the costs of children. The maximum amounts are payable up to a threshold of total family income (the abatement threshold). After that threshold, every dollar earned results in an abatement or loss of entitlement. For example, in 2017, an extra $10,000 earned means a loss of $2,250 of annual WFF tax credits (through the current abatement rate of 22.5%).

> The 'abatement rate' is the percentage of an extra earned gross dollar over the threshold that is 'clawed back'. The new rate of 25% for WFF in 2018 will mean that each extra dollar earned over the abatement threshold ($35,000) causes a loss of 25 cents of WFF.

The WFF tax credits[3]:

1. The main tax credit is the Family Tax Credit (FTC). The FTC is paid, per child, per week, regardless of the source of income. It is a non-discriminatory payment as all low income children are treated the same (see Table 1).

2. The next most important tax credit for children is the In-Work Tax Credit (IWTC) of $72.50 per week (as at 1 April 2017). It is available only to low-income families not receiving a main social welfare benefit, and where the parents meet the work test of a minimum of 30 hours in paid work per two-parent household, or 20 hours for a sole-parent. These criteria mean that around 230,000 children are excluded from this significant assistance.

3. The Parental Tax Credit (PTC) is a minor tax credit of up to $220 a week for the first ten weeks after a baby's birth. Families can't receive both PTC and Paid Parental Leave. The problem is that families receiving a benefit don't qualify for this assistance – so babies likely to be most in need of the income assistance to meet basic necessities are excluded.

4. The Minimum Family Tax Credit (MFTC) is of minor significance affecting only around 4000 families. It is not child-linked but also has a work test of a minimum of 30 hours in paid work per two-parent household, or 20 hours for a sole-parent. This tax credit is paid at a variable rate to bring the family's net annual income to $23,816. But extra income reduces the MFTC dollar for dollar, making it impossible for the family to benefit from working longer hours to earn extra income.

A family's total WFF (sum of 1-3 above) is reduced or abated above a fixed threshold: first the FTC then the IWTC then the PTC until there is nothing left.

Recent changes

The Family Incomes package announced in the 2017 budget is expected to start 1 April 2018.

The maximum FTC rates are increased as shown in Table 1. Overall the first child under 16 gets a maximum increase of $9 a week (9.7%) for that child, and each subsequent child under 16 gets an increase of $18 (24%) to $27 (42%) depending on age.

Table 1. Family tax credit per child rates 2017 and new rates 2018

Annual Rate	Current	1 April 2018
Eldest child, 16-18	**$5,303**	**$5,303**
Eldest child, 0-15	**$4,822**	
Subsequent child, 16-18	**$4,745**	**$4,745**
Subsequent child, 13-15	**$3,822**	
Subsequent child, 0-12	**$3,351**	

Table 2 shows the maximum WFF amounts for a family of five children, including the changes announced in the 2017 budget for 2018/19 year.

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workingforfamilies.govt.nz/

3 http://www.cpag.org.nz/assets/CPAG%20WFF%20Tax%20Credit%20descriptions%20FINALrevised.pdf

Table 2. Maximum WFF weekly Entitlements in New Zealand (Five Children) 2017/8 and 2018/19

Maximum Weekly Entitlements 2017/18

Age of Children	14	12	9	7	4	Weekly Sum	Annual Sum
FTC	$92.73	$64.44	$64.44	$64.44	$64.44	$350.49	$18,225
IWTC*	$72.50			$15.00	$15.00	$102.50	$5,330
Total (Max. Available)	$294.11			$79.44	$79.44	$452.99	$23,555

Maximum Entitlements 2018/19

Age of Children	14	12	9	7	4	Weekly Sum	Annual Sum
FTC	$102	$91.25	$91.25	$91.25	$91.25	$467.00	$24,284
IWTC*	$72.50			$15	$15	$102.50	$5,330
Total (Max. Available)	$357			$106.25	$106.25	$569.50	$29,614

**not available for families on benefits, student allowances, NZ Superannuation or if not meeting fixed hours of work requirement.*

While a welcome increase and simplification of the FTC rates, the Family Incomes package also increases the abatement rate from 22.5% to 25%, and reduces the income threshold to $35,000. This means the reduction in assistance with increased earned income is even more pronounced.

The five-child family illustrated in Table 2 has a maximum entitlement that is 26% higher after the changes are implemented, and in 2018 will deliver another $116.50 a week. Some very low income, larger, younger families will gain a real boost in income. But many hard-working families will pay a high price for this Families Package that was supposed to assist them. The increased clawback on family incomes over $35,000 will make it harder for them to move out of poverty.

To illustrate, in 2017, a one child family has a maximium WFF of $4,822. If the parents work 60 hours a week at the minimum wage rate of $15.75 (gross income of $49,140), after abatement the WFF entitlement is $1922. In 2018, the new maximum WFF $5303 entitlement after abatement for this family falls to $1768. The only reason the family is not actually worse off is that they gain from the tax cuts in the Family Incomes Package.

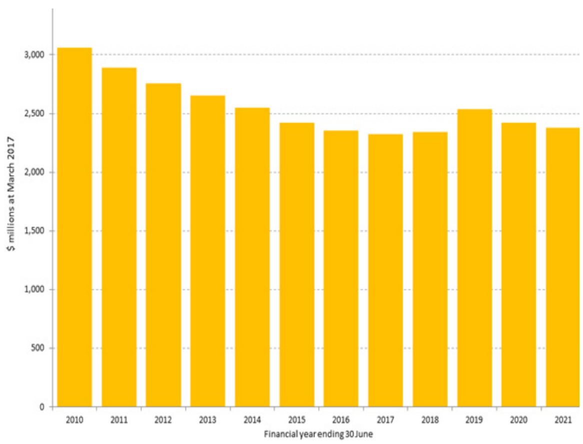
It is of great concern that many low-income families will be subject to high Effective Marginal Tax rates (EMTR) over long income ranges. The family illustrated in Table 1 face the ‘bleed out’ of their WFF over an income range of $118,000 starting from $35,000 and finishing at $153,000. This is particularly worrying if there is an Accommodation Supplement to abate at 25% and/or a 12% repayment of student loan. To illustrate, if this family is getting $35,000 and has the opportunity to earn another $10,000, after tax (of 17.5% + ACC 1.4% + WFF 25% + AS 25% + KiwiSaver 3% + Student Loan repayment 12%) they may only retain $1,630 of the $10,000. That is an EMTR of nearly 84%.

The changes in context

WFF expenditure fell sharply in real terms from 2010 to 2017 as shown in Figure 1 and it required an additional $700 million per annum in 2017 just to restore its 2010 original value. Using 2010 as a starting point, there is no evidence to suggest that WFF was too generous then and needed to be cut back. That year child poverty was very high, foodbank usage was increasing and the housing crisis was emerging. Over time, fewer families receive any help from these tax credits, and others have received far less than they should, as it has become a more tightly targeted programme.

The chart shows that for 2018/19, the increased rates described above, coupled with faster abatement results in a blip for increased spending for 2018/19 of about $370m that again quickly erodes out to 2021 because there is no commitment to proper annual indexation.

Figure 2. Real Expenditure on WFF (derived from Budget 2017)



Lower spending between 2010 and 2017 was achieved by a combination of three tools.

- Failure to index the WFF package, either annually to inflation, or to provide a wage link (as is done for New Zealand Superannuation (NZ Super)).
- Reducing the income threshold from which the abatement rate applies
- Increasing the abatement rate

The last inflation adjustment to WFF was 1 April 2012. A fiscally neutral change was made in 2016 when the unindexed In-Work Tax Credit for working families was increased by $12.50 a week, but that was offset by an increase to the abatement rate to 22.5% and a reduction in the threshold to $36,350.

The next inflation adjustment would be 2018 and would be of the order of 7%, but the Family Incomes Package announced for 1 April 2018 would appear to replace that.

The discussion above suggests that to get to 2010 spending in real terms would need another $700 million per annum in 2017, not allowing for any compensation for the failure to index annually.

And let's not forget the original flaw in WFF

Most importantly, another $500 million per annum is needed to remove the discrimination that denies at least $72.50 a week of the IWTC to the very worst-off families who are unable to meet the required work test. Making this payment available to all low-income families irrespective of their hours of work would have the overall effect of a dramatic reduction in the measures of child poverty especially for the worst-off families.

The Government needs to spend $1.2 billion immediately to fix WFF, to protect the health and wellbeing and future of our children, so they can flourish.