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2021 Series: Rethinking Income Support for Children

Part 2:

Australia and NZ tax credits for children. A 5-year comparison: 1 July 2018 – 1 July 2023

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About Child Poverty Action Group

Child Poverty Action Group (CPAG) is an independent, registered charity founded in 1994 which works to eliminate child poverty in Aotearoa New Zealand through research, education and advocacy. CPAG highlights that the country's high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives, exacerbated by racism and discrimination. We envisage an Aotearoa where our society shows respect, generosity and care for *all* children.

We focus on eliminating poverty for *children* because:

- **Overall effects of poverty are worst for children**: Child development is adversely affected by poverty, and can lead to detrimental effects for an entire life.
- **Children are more likely to experience poverty:** Children are over-represented among those in deprived households.
- **Children don't get a say:** Decisions affecting children are made without their input; only adults can vote for parliamentary representation.

About the authors

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Series: Time to Rethink Income Support for Children

This paper is the second of a series making recommendations for the Government's planned Working for Families (WFF) overhaul. The full set of CPAG's WFF recommendations includes:

1. Indexing WFF payment rates to wages to halt relative erosion of income support for children, and indexing WFF thresholds, to CPI or minimum wage. (subject of Part 1: Ensuring Adequate Indexation of *Working For Families*)
2. Make WFF child-centric by decoupling it from all paid work requirements. This entails extending the equivalent of the In-Work Tax Credit to all low-income children, whether their parents are on-benefit or not, in order to help ensure incomes for all children are adequate in the most cost-effective manner. (A recommendation of this current paper)
3. Increasing Family Tax Credit payment rates, over and above indexation, as a one-off (in conjunction with benefit increases), to help ensure incomes for all children are adequate and reduce government reliance on the Accommodation Supplement.
4. Changing the WFF name, after appropriate consultation, to better reflect the purpose of ensuring all children can flourish, free of financial need.
5. Abolishing the Minimum Family Tax Credit in favour of a fully seamless and integrated income support progression between the benefit system and paid work, in order to reduce insecurity of potential reduced income due to system gaps and potential faults.
6. Decreasing the WFF abatement rate for low-income families, in order to lower their effective marginal tax rates.

Introduction

This backgrounder provides a comparison of the Australian and New Zealand family tax credits. This serves as an update to our more comprehensive comparison of Australia and New Zealand, *Do children get the support in New Zealand that they would get in Australia?,* (CPAG June 2020).

Both countries use a tax- funded payment to the caregiver to help with the costs of children, but they differ from each other in the details of design of these family tax credits/benefits. For our purposes here, we limit the comparison to low-income families with dependent children aged 5-18 (19 in Australia). A broader study would include those aged 0-5, but each country has different provisions for younger children and it would be more complex. The simple picture we paint by a more limited comparison is sufficient to highlight the significant gulf between the two countries of the treatment of families supported by a benefit and those who are not.

Comparison

The starting point for comparison is 1 July 2018, when the NZ Families Package was implemented, with an estimated 1 July 2023 position based no changes in family tax credits in Budget 2021, an expected lack of policy change in Budget 2022 but a 5% inflation adjustment.[1] Table 1a and Table 1b contrast the maximum weekly Working For Families (WFF) tax credit support for each child in New Zealand families, on- and off-benefit. Families who are receiving a main benefit do not qualify for the In Work Tax Credit (IWTC), meaning they miss out on a weekly $72.50, or an annual income of $3,770 when there is up to 3 children, and an extra $15 weekly income, or $750 per annum for each child in larger families (see Table 1c).

Table 1a Nominal weekly per child tax credits in NZ *with* IWTC (not on benefit) (NZD)

Children aged 5-18, per child	1-Jul-18	1-Jul-21	Est[2] 1-Jul-23	5 year expected increase
1st child	185.54	185.54	191.15	3.02%
2nd child	91	91	95.55	5.00%
3rd	91	91	95.55	5.00%
4th	106	106	110.55	4.29%
5th	106	106	110.55	4.29%
6th	106	106	110.55	4.29%

Table 1 b Nominal weekly child tax credits in NZ *without* IWTC (on benefit) (NZD)

Children aged 5-18, per child	1-Jul-18	1-Jul-21	1-Jul-23	5-year expected increase
1st child	113	113	118.65	5.00%
2nd child	91	91	95.55	5.00%
3rd	91	91	95.55	5.00%
4th	91	91	95.55	5.00%
5th	91	91	95.55	5.00%
6th	91	91	95.55	5.00%

[1] The announced WFF review been postponed until 2022 and therefore changes are unlikely before 2023. Currently, indexation only occurs when cumulated inflation exceeds 5% and that may occur in 2022 or 2023.

[2] Allows for a CPI adjustment to FTC of 5%, the IWTC is unadjusted as it is not included in the cumulative 5% rule that applied to the FTC.

Table 1 c. Total Nominal annual WFF tax credits for families 1-6 children, with and without the IWTC as at 1 July 2021, 5 year cumulative loss for those on benefits. (NZD)

WFF annual totals	with IWTC $	without IWTC $	Annual loss per beneficiary family	IWTC as % WFF	Estimated 5-yearly loss (2018-2023) $
one child family	9,648	5,878	3,770	39%	18,850
2 child family	14,380	10,610	3,770	26%	18,850
3- child family	19,112	15,342	3,770	20%	18,850
4-child family	24,594	20,074	4,520	18%	22,600
5-child family	30,076	24,806	5,270	18%	26,350
6- child family	35,558	29,538	6,020	17%	30,100

As Table 1c demonstrates – assuming no change to WFF policy – over the 5 years from July 2018 to 2023, children in families on benefits will have lost a minimum total of $18,850, and more for larger families, because they are excluded from the child-related IWTC. Moreover, ***all* low-income children in NZ have also missed out on regular CPI increases, as well as wage indexation** (See *Ensuring Adequate Indexation of Working for Families* CPAG, May, 2021). The wage index, for example, is estimated to increase 15.7% over this five-year period.[3]

To compare these New Zealand figures to the maximum equivalent tax credits in Australia, the different and more supportive overall context in Australia, as summarised in Table 2, must be understood. While this memo is concerned only with maximum tax credits, ie those paid to low income families, the Australian system of family tax benefits for children is far more generous to middle income families in paid work, with regularly adjusted abatement thresholds and a lower rate of abatement. The Australian tax system is also far less punitive for low-income families, with a significant tax-free bracket and a GST of only 10%, with basics largely excluded.

Table 2. General tax settings compared: Australia and New Zealand

	NZ (NZD)			Australia (AUD)		
	As at 1-Jul-18	**As at 1-Jul-21**	**Expected 1-Jul-23**	**As at 1-Jul-18**	**As at 1-Jul-21**	**Estimated 1-Jul-23**
Child-related tax credit abatement thresholds	NZ$42,700	NZ$42,700	NZ$42,700	AU$53,728	AU$56,137	AU$57,152
Child-related tax credit abatement rates	25%	25%	25%	20%	20%	20%
Rate of GST	15%	15%	15%	10%	10%	10%
Exclusions	rents	rents	rents	basics	basics	basics
Bottom income tax threshold	NZ$14,000	NZ$14,000	NZ$14,000	AU$18,200	AU$18,200	AU$18,200
(Tax rate))	10.5%	10.5%	10.5%	0%	0%	0%

[3] CPAG's estimate, using the Reserve Bank inflation/wage calculator and assuming same percentage wage growth for 2022 and 2023 as for 2021.

Tables 3a-c shows the actual value of maximum Family Tax Benefits A and B in Australia. As Table 3a implies, the child-related tax credit rates in Australia are the same for those on benefits and those who are not.

Table 3a Maximum weekly child-related tax credits (Family Tax Benefit A and B) Australia (AUD)

Children 5-19	**Jul-18**	**1-Jul-21**	**estimated 1-Jul-22**	**estimated 1-Jul-23**	**5 year % expected increase**
each child FTB A*<13	106.13	111.04	113.26	115.53	8.85%
each child FTB A* 13-19	133.72	139.89	142.69	145.54	8.84%
FTB B* per family	61.49	64.00	65.28	66.59	8.29%

*includes supplement

Table 3b. Total annual child-related tax credits (Family Tax Benefit A and B) Australia, children aged 5-13 (AUD)

Children aged 5-13	**Jul-18**	**1-Jul-21**	**1-Jul-22**	**estimated 1-Jul-23**	**5 year % expected increase**
one child family	8,716	9,102	9,284	9,470	9%
2 child family	14,235	14,876	15,174	15,477	9%
3- child family	19,754	20,650	21,063	21,485	9%
4-child family	25,273	26,424	26,953	27,492	9%
5-child family	30,791	32,198	32,842	33,499	9%
6- child family	36,310	37,972	38,732	39,507	9%

Table 3c Total annual child-related tax credits (Family Tax Benefit A and B) Australia, including up to two children aged 13-19 (AUD)

up to 2 children aged 13-19	Jul-18	1-Jul-21	1-Jul-22	Estimated 1-Jul-23	5 year % expected increase
one child >13	10,151	10,602	10,814	11,031	9%
1 child<13 , one>13	15,670	16,376	16,704	17,038	9%
1 child<13 ,two>13	22,623	23,651	24,124	24,606	9%
2 child<13 , two>13	28,142	29,425	30,013	30,613	9%
3 child<13 , two>13	33,661	35,199	35,903	36,621	9%
4 child<13 , two>13	39,179	40,973	41,792	42,628	9%

Table 4 compares the maximum child-related tax credits in both countries as at 1 July 2021. It shows that for families off-benefit, the maximum Australian tax benefits are more generous than in New Zealand, especially as family size increases and when higher rates for older children apply. In Australia, annual indexation applies. The relative generosity must also be viewed in the light of Table 2 where the tax environment for low-income families is much more benign.

Table 4. Comparison with Australia for on and off benefit for 1 July 2021-1 July 2022**

up to 2 children over 13*	**NZ Low income off-benefit NZD**	**NZ Low income on benefit NZD**	**Australia: all low incomes AUD**	**Difference NZ vs Australia for those not on benefits $****	**Difference NZ vs Australia for those on benefits $****
one child family	$9,648	$5,878	$10,602	$954	$4,724
2 child family	$14,380	$10,610	$16,376	$1,996	$5,766
3- child family	$19,112	$15,342	$23,651	$4,539	$8,309
4-child family	$24,594	$20,074	$29,425	$4,831	$9,351
5-child family	$30,076	$24,806	$35,199	$5,123	$10,393
6- child family	$35,558	$29,538	$40,973	$5,415	$11,435

***** see table 3c

** makes no allowance for exchange rate difference

Conclusion

A key difference between the two countries is that New Zealand discriminates between 'deserving' children (who parents are not on any benefit) and the 'undeserving' (whose parents are on a benefit). Those on benefits receive markedly less for their children compared to low-income families not on benefits. The compounded effects have a significant impact on the balance sheets of families receiving core benefits. For example, a 6-child family loses $30,100 over five years.

Australia does not discriminate against families on-benefit. When compared to Australia, **all low-income families** in New Zealand receive less, but those on benefits particularly miss out. For the year 1 July 2021- 2022, a 6-child family off-benefit in New Zealand will receive $5,415 less than their Australian counterpart, while the same family on-benefit will receive $11,435 less than they would in Australia.

It is not suggested that every aspect of what Australia does for low-income families is worthy; in particular, Family Tax Credit B is abated against the caregiver's income from a low level unless she is a sole parent. There are other aspects to welfare policy such as how sole parents are treated when the youngest children is aged 8 that are not child-centric.

Unicef international comparisons show that the percentage of children under the 60% after housing costs poverty line in Australia in 2017/18 was around 17.5% (holding steady for at least a decade), whereas in New Zealand, it was much higher, at around 24%, having increased over the decade from around 20%.[4] It is unlikely that Australia has anywhere near the depth of child poverty we have in New Zealand where around 160,000 children languished under the 40% after housing costs poverty line before Covid hit.[5]

The use of a child-related tax credit to incentivise behaviour of adults in New Zealand contributes significantly to the intractable child poverty in this country. It is out of step with Australia and even

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[4] Figure 25. UNICEF Innocenti, 'Worlds of Influence: Understanding what shapes child well-being in rich countries', Innocenti Report Card 16, UNICEF Office of Research – Innocenti, Florence, 2020. https://assets.ctfassets.net/7khjx3c731kq/lYSqwHAIX4yN7gOIpnueS/c9c1005642c66e69c54b93a05cc3bdc0/Report-Card-16-Worlds-of-Influence-child-wellbeing.pdf

[5] Table 7.01. StatsNZ (April, 2020) Child poverty statistics – year ended June 2020 corrected https://www.stats.govt.nz/information-releases/child-poverty-statistics-year-ended-june-2020

in the US, where proposed reforms to the child tax credit make sure that those without paid work do not get less[6].

This issue is of particular urgency in the 2020-21 Covid-induced recession. While there has been some softening of the work-related requirements for the IWTC that require families to be in fixed hours of paid work,[7] caregivers are still required to be off-benefit and in some paid work. As the number of families needing to access benefits increases, whether they have some paid work or not, the loss of the IWTC for their children is punitive.

Allowing all families off- and on-benefit to have full access to WFF is an important and highly targeted, systemic, meaningful change that would be consistent with child poverty objectives, and reduce the disproportionate stress of the Covid pandemic on low income families.

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[6] https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SUBFGHJ_xml.pdf

"House Ways and Means Committee Chair Richard Neal released a bill to extend the American Rescue Plan's increase in the Child Tax Credit amount and its provision as a monthly payment through 2025, while making the full Child Tax Credit permanently available to children in families with the lowest incomes — which is the main driver of the policy's anti-poverty impact. The expansion in the Child Tax Credit would result in a landmark reduction in poverty, reducing the number of children with incomes below the poverty line by more than 40 percent. The expansion would have particularly large impacts on Black and Latino children and children in rural communities — about half of children in these groups received only a partial credit or no credit at all because their incomes were too low prior to the Rescue Plan expansion. The Child Tax Credit expansion would help narrow gaping racial disparities in child poverty rates."

[7] From 1 July 2020, the paid work requirement does not set a minimum number of hours.