CHiLD POVERTY ACTION GROUP

The In Work Tax Credit in Practice:

A reality check for the IRD

The IRD's website has the following information about the In-work tax credit (IWTC).

This briefing takes examples from the IRD website and offers some critical commentary. These case studies disguise the realities of the complexities and unfairness of the IWTC for many families.

A frequent problem is overpayment. As it is the caregiver who usually gets the IWTC, she (or he) is the one who is billed for repayment. The overpayment may occur if her partner's earnings increase, or if the caregiver's circumstances change and she no longer fully qualifies.

Parents may have to deal with both WINZ and IRD in relation to their tax credits if they are on benefits.

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The In Work Tax Credit
(from the IRD website)

What it is

In-work tax credit is a payment for families who are in paid work.

Important
If you are coming off an income-tested benefit to start work you may be eligible for an in-work tax credit. You need to confirm your working hours with us **before** we can start paying you that portion of this. Call us on 0800 227 773.

Who can get it

You can receive an in-work tax credit as long as you're normally in paid work for at least:

- 30 hours each week as a couple, eg one person works 5 hours and the other works 25 hours, or
- 20 hours each week as a single parent.

Note
You must "normally" work these hours. If there is a special reason why you don't work those hours at some time, you may still receive an in-work tax credit.

If you occasionally work the required hours, you'll need to call us on 0800 227 773 to let us know which weeks you qualify for an in-work tax credit. You can keep a record of each time you qualify and let us know before we send out your personal tax summary in July or when you file your *Individual tax return (IR3)*. Or, if you receive your Working for Families Tax Credits payments weekly or fortnightly, you can let us know about each time you qualify during the year.

To qualify for an in-work tax credit you must receive one of the following types of income from your work:

- a salary or wage
- a shareholder salary, if you are a shareholder-employee in a close company, or
- income from a business carried on for profit.

Who can't get it

You can't get an in-work tax credit if you receive:

- an income-tested benefit
- a student allowance, or
- a parent's allowance.

How much you can get depends on:

- your total annual family income before tax, and
- the number of dependent children in your care.

The table below shows how much in-work tax credit you can get depending on the number of dependent children in your care:

1,2,3 Children:	**up to $60 a week**
More than 3 children:	**for each additional child a further $15 a week**

Examples from the IRD website

Case study 1:

Dale is a single parent who works as a teacher's aide for 22 hours a week. She's contracted to work for the school from February to December although she doesn't work during the two week term holidays. She's entitled to receive an in-work tax credit from early February until mid-December because she normally works the required hours. She can't receive an in-work tax credit during the summer holidays because she's not contracted to work for that period.

CPAG says:

Poor Dale, the worst of both worlds: her fixed contract stops from mid-December and re-starts in February, as does her in-work tax credit of $60 a week. While working, to survive on teacher aide rates of $14 per hour when she can only work 22 hours, the government has to pay her another tax credit, the Minimum Family Tax Credit, to top up her low wages. From mid-December, she is not eligible for this top up either because she is not working 20 hours. Also, to work 22 hours a week during the year, she had to sign up for full-time childcare with a for-profit provider for her 3 year old. She must sign up for all 52 weeks of the year, at a cost to her (after the '20 hours free') of $205 per week. If she cancels for the time she is not working, her child will lose his place. Whether she goes back on the DPB for January or tries to eke out an existence on her own, HER CHILD receives $60 less per week for at least 6 weeks over December and January.
CPAG says 22 hours a week for 46 weeks is surely equivalent to 20 hours for 52 weeks. She should be entitled for the full 52 weeks of the year to this important payment for her child.

Case study 2:

Diane is a single parent, who works 25 hours a week for wages. One week she is sick, and can only work 15 hours. Because she normally works 25 hours, she's still entitled to an in-work tax credit for the week she is sick.

CPAG says:
Let's hope Diane recovers quickly. The costs of her childcare continue even if she is not working, or is working reduced hours. She is working 25 hours which means that she will be off benefit and her income is supported by the Minimum Family Tax Credit and the in-work tax credit, and possibly by some child support. If the sickness persists and she cannot work the minimum required 20 hours, she must go on a sickness benefit or DPB and is no longer entitled to either the in-work tax credit or the Minimum Family Tax Credit. Accordingly, her income will be significantly reduced

Case study 3:

Rob worked 40 hours a week as a salesperson. He got a new job as a store manager, also working 40 hours a week. He resigned from his sales job, but had two weeks after he finished before his new job started. He couldn't receive an in-work tax credit for the two weeks while he was between jobs, because he wasn't working at all.

CPAG says:

This example is peculiar to say the least. Rob must be a parent, otherwise he would not get the in-work tax credit. Also, he must be a sole or separated parent, because if he were partnered, the caregiver would get the in-work tax credit. If his children are young, then he is the super hero dad working 40 hours a week as well as providing full-time care. If he is claiming the in-work tax credit on the basis of shared care with an ex-partner it is ironic that the only two weeks he can provide daily care to his children because he is not working are the two weeks he is not entitled to the in-work tax credit.

Case study 4:

Chris is a single parent who works 15 hours a week as a receptionist. Occasionally she works for six hours on a Saturday for another employer, selling takeaways. Chris qualifies for an in-work tax credit for the weeks she works for 21 hours.

CPAG says:

Chris must be in a real bind. Imagine the difficulty she has in establishing what her entitlement is when her hours vary so much. And in the event those 6 extra hours of just-in-time casual employment are cut to 4.5 hours, 19.5 hours does not qualify her for the $60 extra in-work tax credit. Sorry Chris, for those weeks you sacrifice your Saturday, and you have had the extra costs of childcare, but no extra child-related income support. And be very careful to keep track of your weekly hours. At the end of year reconciliation, if you have been inadvertently overpaid the in-work tax credit, IRD will want it back.
Realistically, how can Chris support herself off-benefit when her employment is so variable and precarious? But Chris does not qualify for the in-work tax credit at all if she is on a benefit, even if she works 21 hours. But what about the Minimum Family Tax Credit? This again requires a consistent 20 hours of work and the off-benefit rule also applies. Perhaps she is one of the very few single parents who is financially supported by the ex-partner directly. How long will that last?

Case study 5:

Stu is a single dad who shares the care for his son Dan. He's unemployed and receives unemployment benefit from Work and Income. He's also got a part-time job as a pizza deliverer for 10 to 15 hours a week. Stu can't apply for an in-work tax credit because he receives an income-tested benefit and also does not work enough hours a week.

CPAG says:

Stu is not 'unemployed' if he is employed 15 hours a week and is providing shared care of his son Dan. Caring for a young child goes on 24 hours a day, 7

days a week. Stu's ex-partner is not getting the in-work tax credit either if she is not working a minimum of 20 hours or is on a benefit. Thus the son Dan is getting only the Family Tax Credit and this is shared between his two parents. If the mother has the bulk of the care, she will get 60% of the Family Tax Credit and Stu will get 40%. This is another family that cannot do without that $60 a week of in-work tax credit to support their child's well-being.

Case study 6:

Richard and his wife Susan work full-time and have a total annual family income of $58,000 before tax. They have two school-aged children. They would be entitled to get a family tax credit and an in-work tax credit.

CPAG says;

There is no question that this family needs all the WFF tax credits for their children. The irony here is that if Susan stopped working altogether, she would still get the in work tax credit for her children. It has nothing to do with being a work incentive for her.

Case study 7:

Melinda is a single mother. She works part-time for 20 hours a week and has a total annual family income that is under $21,216 after tax. She is pregnant with her second child. Melinda would be entitled to get a family tax credit, an in-work tax credit, and a minimum family tax credit. She may also be entitled to get a parental tax credit once her baby is born.

CPAG says:

This example is breath-taking. The Parental Tax Credit rules are the same as for other WFF tax credits. The same website says "you can't get a parental tax credit if your family income for the full eight weeks includes an income-tested benefit, even if it is suspended"; Melinda is only entitled to the in work tax credit and the Minimum Family Tax Credit if she is working 20 hours a week and is not on a benefit. It is usually not possible to continue to do paid work of 20 hours a week when raising a new baby on your own.

Case study 7:

Tina and her partner Temapu are expecting their first child. They are both full-time students but neither of them receives a student allowance. Tina can apply for a parental tax credit when their baby is born.

CPAG says:

This example shows the real exclusivity of this extra payment for a new baby. They qualify by having nothing to live on when the baby is born. In Australia, if a family does not qualify for paid parent leave - which is both more generous and more inclusive than New Zealand's, a new baby is given $5000 regardless of whether its parents are paid a benefit or a student allowance. Tina and Temapu get $1200, but only if they stay off a benefit. They can't get the In Work Tax Credit unless they work 30 hours a week between them.
