



CPAG 2023 Policy Brief on Working For Families

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

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June 2023

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

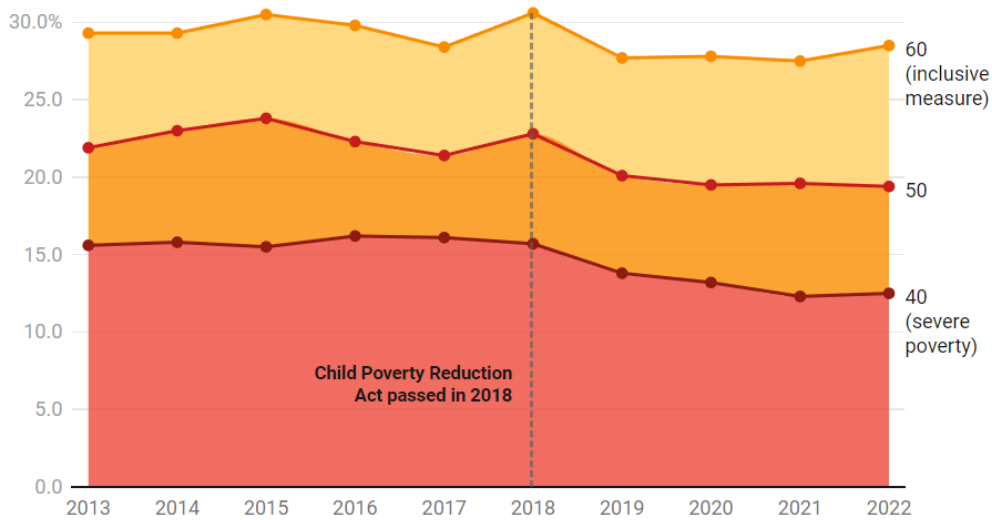
1. Over 220,000 children are systemically locked into income poverty (AHC50 moving line measure)ⁱ. This is almost one-fifth (19.4%) of all children in Aotearoa New Zealand (Figure 1).¹ Over 200,000 children live in families for whom a benefit is the main source of income,² and they are four times more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

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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.

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)

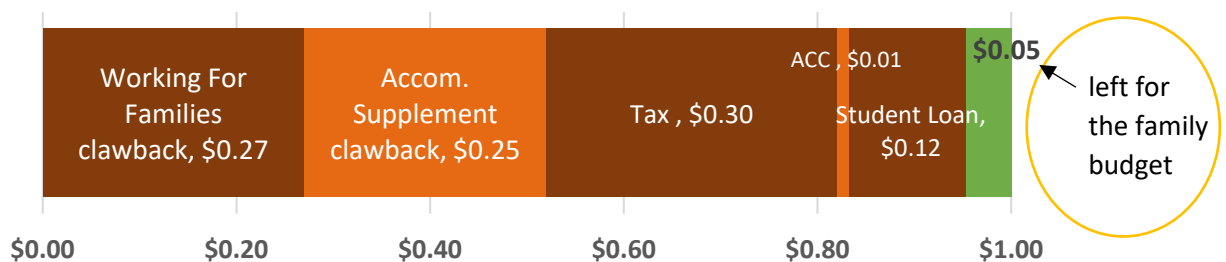


June years, moving line. After Housing Costs, see footnote 1
 Chart: Child Poverty Action Group • Source: StatsNZ • Get the data • Created with Datawrapper

chart reproduced from CPAG “[Latest Child Poverty Figures](#)”⁴

- 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 componentsⁱⁱⁱ 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 CPI¹⁰ 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 full 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

^{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-care¹² 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

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