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Phil O'Reilly (5th April, NZ Herald) is right, Working for Families is a pretty big deal. It represents a long-overdue redistribution worth 1.5 billion dollars per annum. While government is to be congratulated on this package, without it they would clearly be facing severe, and politically unpalatable social distress among many struggling low and middle income families.

Phil O'Reilly is also right that despite its name and the rhetoric surrounding it, Working for Families is not designed to reward extra work effort. He notes that some people make more money working part-time than full-time. This is particularly true for an insidious component called the Minimum Family Tax Credit. A sole parent for example can work 20 hours per week, at the minimum wage, earning $186 net, and receive $161 of this "top- up" tax credit so that she has a guaranteed income of $18044 net per annum. If she earns a dollar more after tax she loses a dollar of the Minimum Family Tax Credit, a 100% effective tax rate.

By being classified as 'working', she also qualifies for the 'In Work Tax Credit', which with Family Support gives her $142 for her first child, plus extra for additional children. Had she stayed on a part benefit working the same 20 hours a week, she would get $38 less per week. But she would have the security that she could fall back on the benefit immediately if her hours of work dried up. The DPB statistics look better when she is defined as a 'working family' even though it costs the state more and her hours of work don't change. How is this a work incentive? What happens when she has earned extra and has to repay dollar for dollar of overpayment at the end of the year?

Brian Easton described a similar proposal which emerged in 1988 under Roger Douglas as fiscally explosive, social reactionary and technically incompetent. Employers will quickly master the rules of the game and have every incentive to keep wages low while jigging work hours for the part time solo parent to qualify for both tax credits.

Phil O'Reilly cites the case of "the Smiths", on a family income of $35,000 a year. While they do face a disincentive as extra income is earned, the 2005 pre-election spend-up reduced their abatement rate from 30% to 20%. This was a step in the right direction, as was the raising of the threshold to $35,000, but the opportunity was not taken to review the fatally flawed In Work Tax Credit, a costly, poorly thought through complication to the package.

In almost every respect the In-Work Tax Credit is just an addition to Family Support*, but one that goes selectively only to 'worthy' families, while being denied to the 250,000 of the poorest children whose parents don't meet the hours of work criteria and independence from the benefit system. The irony is a family with five children on $100,000 can have a parent 'at home' who receives the In-Work Payment of $90 a week. In contrast, the sole parent struggling alone to raise the same number of children on an inadequate DPB misses out.

Like O'Reilly, Child Poverty Action Group agrees as far as possible helping families 'should be done in such a way that it supports the goal of a high skill high wage economy, rather than working against it'. But we have to be clear that is not the role of family tax credits. Their role is two-fold: first to ensure that families of different sizes on the same incomes pay taxes that fairly reflect the numbers of children their income has to support. The second is to ensure that the worst-off families have an adequate income to invest in their children's future.

On the first, all developed countries offer generous tax relief related to family size, and often a universal child benefit. New Zealand has an antiquated 'house of tax credits' with far too much based on crude and outmoded notions of a stable and secure labour market that always offers constant hours of work to parents in difficult circumstances. The reality for many families is 'just in time' variable employment. Parents are in and out of work and often have sick children needing care. Such families face great uncertainty in their income situation compounded by the fear of an end of year tax liability if they take these complicated tax credits.

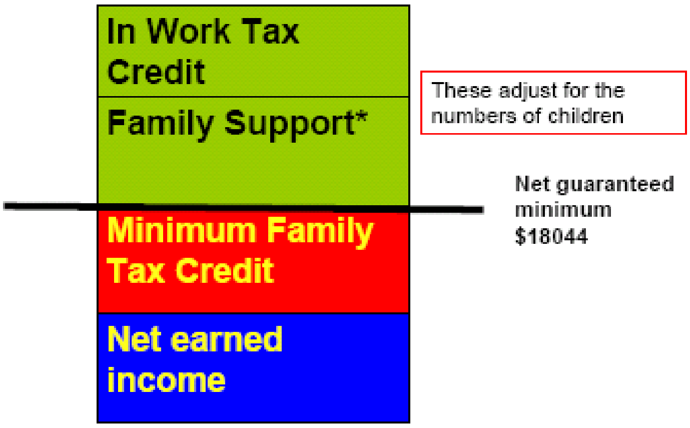
On the second, Working for Families has failed miserably by discriminating against the poorest children, leaving us with an intractable child poverty problem. By implementing a package so complicated and expensive, it is difficult now to suggest how to reform it.

Reilly suggests adjusting tax thresholds, to get rid of the "churn" factor would improve the incentive to be productive and earn wage increases through personal effort. The lowest tax threshold of 15% for incomes up to $9500 has been unadjusted since 1988, and now should be $18,000. But moves like this alone are not sufficient to acknowledge the costs of children.

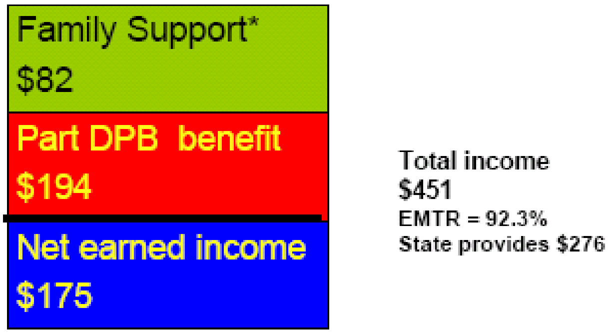
CPAG suggest the first step is to progressively transform the In Work payment into Family Support that goes to all children on the same basis, and then to further transform some of this into a universal family benefit that acknowledges the role of caregiving at all income levels and has none of the anti-work features that O'Reilly is concerned about.

* Family Support was renamed the Family Tax Credit on the 16th March. To eliminate unnecessary confusion the old name has been retained here.

The house of tax credits



Sole parent, 1-child part-time job 20 hrs min wage



If she becomes a 'working family"