Family tax credits:
Do children get the support in New Zealand that they would get in Australia?

CPAG Backgrounder June 2020

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Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand’s high level of child poverty is not the result of economic necessity but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of child poverty.

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Introduction

All OECD countries have ways of recognising that households with children have additional costs. The mechanisms include universal benefits, tax reliefs, targeted payments or tax credits. Both Australia and New Zealand use targeted or abating child tax credits as the dominant mechanism and this backgrounder compares their generosity and operation.

No two international contexts are directly comparable, and indeed Australia has a significantly different tax system to that in New Zealand. The PAYE rate structure is much more progressive with a zero first band of $20,000 of income and a 10% GST that exempts many necessities. Even with these advantages for low income people, Australia’s tax credits specifically for the support of children are significantly more generous. New Zealand’s family tax credit system at present is overly complex and unfairly penalises children in the poorest households.

While other income support mechanisms such as paid parental leave are important in shaping family and child wellbeing, this backgrounder focuses specifically on the tax credits for children paid to the principal caregiver.

Important differences between the two systems, discussed in more detail in Table 1, include:

- There are no work requirements in the Australian system, unlike Working For Families. Components of Working For Families (the In-Work Tax Credit and the Minimum Family Tax Credit) require families to be in paid work\(^2\) and off-benefit in order to be eligible. By contrast, under the Australian system, those on income support may be eligible for the maximum rate of payment automatically, depending on their partner’s circumstances. This renders families receiving income support significantly worse off under the New Zealand system (see scenarios 1 and 2 below).

- For lower income families, the Australian system includes an end-of-year lump-sum payment when entitlements are reconciled which can be used to offset overpayments. This reduces the likelihood of overpayment liabilities and is a more appropriate alternative to the real-time adjustments administered by Inland Revenue in NZ which has the potential to cause significant uncertainty and stress for low-income families.

- The Australian system acknowledges the financial difficulties associated with being a low-to-middle income sole parent, with those sole parents earning less than $100,000 automatically eligible for the maximum rate of Family Tax Benefit B. A sole parent under Working For Families receives the same treatment as a two-parent household, and earning up to $100,000 would be abated harshly (see scenario 3).

- The income thresholds for maximum payment rates are lower in the NZ system than they are in the Australian system, meaning that families lose eligibility much sooner as their income increases in the NZ system. The Australian system also tapers off payments more gradually, albeit with higher abatement rates (see scenarios 5 and 6 below).

\(^2\) From 1 July 2020, the paid work requirement does not set a minimum number of hours
Table 1: a comparison of Australia and New Zealand’s tax credits for children

<table>
<thead>
<tr>
<th>FEATURES</th>
<th>AUSTRALIA (dollar amounts in AUD)</th>
<th>NEW ZEALAND (dollar amounts in NZD)</th>
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<tbody>
<tr>
<td>Tax credits for children</td>
<td>Family Tax Benefit Part A (FTBA) and Part B (FTBB)</td>
<td>Working For Families (WFF), made up of the Family Tax Credit (FTC), the In-Work Tax Credit (IWTC), the Minimum Family Tax Credit (MFTC) and the Best Start Tax Credit (BSTC).</td>
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<td>as at 1 July 2020</td>
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<td>General eligibility criteria</td>
<td>Must meet residency requirements and have dependent children aged 0-15, or 16-19 if still in full-time schooling.</td>
<td>Must meet residency requirements and have dependent children aged 0-17, or 18-19 if still in full-time schooling or tertiary education.</td>
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<td>Overview and maximum rates</td>
<td>The Family Tax Benefit has two parts – FTBA and FTBB – each with their own eligibility criteria.</td>
<td>WFF is complex with different eligibility criteria for each of the four components. It consists of two main tax credits – the Family Tax Credit and the In-Work Tax Credit – as well as two other tax credits, namely the Minimum Family Tax Credit and the Best Start payment.</td>
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<td></td>
<td>FTBA is more widely available than FTBB, albeit abated according to household income until the payment received is nil. Families will automatically receive the maximum FTBA rate ($93.10 p/w per child 0-12; $121.10 weekly per child 13-19) if their household income is below $54,677. There are no work requirements attached to this payment.</td>
<td>The FTC is a payment calculated according to income and number of children. This is paid regardless of families’ source of income (i.e. beneficiaries are eligible). The maximum rate for this payment is $113.00 for the first child, and $91.00 for each subsequent child.</td>
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<td></td>
<td>FTBB is a targeted payment with specific eligibility criteria that seeks to compensate for limited engagement with the workforce based on family circumstances. It provides extra assistance to families with young children, single parent families and some couple families with one main income earner. Single parents automatically receive the maximum amount of FTBB ($79.17 weekly per child under 5; $55.30 per child 5-18) so long as they earn under $100,000.</td>
<td>The IWTC is only available to those families in paid work and not on any core benefit. The maximum rate for this payment is $72.00 each week for up to three children, with an extra $15 per week for additional children.</td>
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<td>Rate of abatement</td>
<td>There are two income tests for FTBA, and the test that gives a family the highest rate will be applied. Under test one, the maximum rate of FTBA is abated at a rate of 20 cents for</td>
<td>The abatement threshold for WFF is currently $42,700, after which an abatement rate of 25 percent applies. The FTC is abated first, followed by the ITWC.</td>
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<td>Maximum income thresholds</td>
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<td>------------------------------------------------------------------------------------------</td>
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<td>The Australian system allows families to earn more before they reach the maximum income thresholds (see scenarios 5 and 6 below), albeit with high abatement at higher income levels.</td>
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Maximum income thresholds apply beyond which only the base rate of FTBA is paid, and thresholds beyond which FTBA may not be paid. These vary according to the number and age of children in a household. These thresholds are more generous than in NZ under the WFF system. For a family with one child under the FTBA, 100 percent abatement applies at $104,184.

For FTBB, 100 percent abatement applies at $100,000 for single parents. In order to be eligible for some rate of FTBB, the higher earner in a two-parent household with children under 5 must not earn over $100,000, and the secondary earner must not earn more than $28,197. If the youngest

BSTC is abated separately to the rest of WFF. It is a universal payment for a child’s first year, so no income limits apply. For a child’s second and third years, BSTC is abated at 21 percent for income over $79,000.

Maximum income thresholds are lower under WFF than under the FTB system, as is evident in scenarios 5 and 6. For a family with one child, for instance, the FTC is abated at 100 percent when household income exceeds $65,000 NZD, and the IWTC is abated at 100 percent when household income exceeds $80,000 NZD. This is compared to $104,184 AUD for FTBA and $100,000 AUD for the primary earner under FTBB.

The MFTC is targeted and only those with incomes $27,768 or less are eligible, however recipients must be in paid work.

BSTC is a universal payment for a child’s first year, so no income limits apply. For a child’s second and third years, an income limit of $93,858 applies.
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<th>Tailoring of payments</th>
<th>The FTB system adjusts payments according to the age of children, the number of children, and household income. Unlike WFF which deals with combined household income, the FTBB payment distinguishes between the primary and secondary earner as it seeks to ‘compensate for limited engagement with the workforce’. This reduces payment for families on two incomes, even if these incomes are relatively low (see scenario 4).</th>
<th>In general, the WFF system adjusts payments according to the number of children within a household, the household income, and where this income is sourced from. WFF does not vary payment rates according to a child’s age, unlike the FTB system. The one exception to this is the BSTC payment which is age-targeted, paying out $60 per week until the age of 1. Families may also be eligible for this payment until their child turns 3 depending on their combined income.</th>
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<tr>
<td>Work requirements</td>
<td>Neither the FTBA nor the FTBB require families to be in paid work in order to be eligible. Depending on their partner’s circumstances, people on income support may be automatically eligible for the maximum rate of FTBA payment.</td>
<td>Parts of WFF are designed as a work incentive. The IWTC and the MFTC are both conditional on parents maintaining paid work and not accessing any benefit. This penalises the poorest of the poor and is complicated to administer for those who come on and off a benefit, or into and out of paid work.</td>
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<td>Adjustments and overpayments</td>
<td>As of 2004, the FTBA and FTBB include an end-of-year supplement paid out when entitlements are reconciled which can be used to offset overpayments. This is worth $766.50 per child for FTBA and $372.30 per family for FTBB, and is designed to reduce the likelihood of overpayments liabilities among low-income households. The supplement for FTBA is subject to a combined income threshold of $80,000. There is no income threshold for the FTBB supplement, though households must submit a tax return if required in order to be eligible.</td>
<td>Overpayments within WFF are adjusted ‘real-time’ throughout year by Inland Revenue rather than accumulating at the end of the year. This system has the potential to create difficulties for families, whose income from tax credits may be unpredictable due to fluctuations throughout the year as Inland Revenue applies its adjustments. CPAG raised these concerns in a 2017 submission on Inland Revenue’s Making Tax Simpler <a href="#">here</a>.</td>
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<td>Indexation</td>
<td>The FTB is indexed in line with CPI, occurring in July each year, when indexation has not been paused. Currently, there are indexation pauses on the upper income limits and end-of-year supplements for both FTBA and FTBB, justified according to the ‘significant savings’ this enables, with the Government arguing that this pause primarily affects those with higher incomes.</td>
<td>Inflation adjustment occurs for the FTC only when cumulative inflation passes 5 percent. This means that the value of the FTC is eroded for low-income families until this 5 percent is reached. The IWTC is reviewed every three years without any obligation for adjustment.</td>
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Scenarios

These scenarios are indicative only and do not take into account the other policies measures that may affect poverty outcomes. Poverty has been on the rise in Australia with policy changes since the GFC.

**ACOSS (2017) notes for example:** “Absurdly, social security payments for single parents fall as their children grow older and become more expensive.

- When their youngest child turns five, Family Tax Benefits drop by $23 per week.
- When the child reaches eight years, the parent is moved from Parenting Payment to the lower Newstart Allowance, cutting the family’s income by another $85 a week.

1. **Sole parent on income support, one child aged 4:**
   Australia: A single-parent beneficiary family with one child under 5 could receive $172.27 AUD per week ($93.10 from FTBA; $79.17 from FTBB). With the end-of-year supplements, this would be $10,096.84 AUD per annum.
   New Zealand: A single-parent beneficiary family with one child under 5 could receive $113 NZD per week (from FTC; $0 from IWTC, MFTC or BS). This would be $5,876 NZD per annum.

2. **Sole parent on income support, three children aged 2, 5 and 14:**
   Australia: A single-parent beneficiary family with three children aged 2, 5 and 14 could receive $497.07 AUD per week ($307.30 from FTBA; $189.77 from FTBB). With the end-of-year supplements, this would be $28,519.44 AUD per annum.
   New Zealand: A single-parent beneficiary family with three children aged 2, 5 and 14 could receive $355 NZD per week ($295 from FTC; $60 from BS). This would be $18,460 NZD per annum.

3. **Sole parent earning $85,000, two children aged 13 and 17:**
   Australia: A single-parent household with two children aged 13 and 17 could receive $180.87 AUD per week ($125.57 from FTBA; $55.30 from FTBB). With the end-of-year supplement from FTBB, this would be $9,776.90 AUD per annum.
   New Zealand: A single-parent household with two children aged 13 and 17 could receive $68 NZD per week (from IWTC; $0 from FTC). This would be $3,536 NZD per annum.

4. **Two-parent household both in paid work ($25,000 and $35,000), four children aged 3, 6, 8, and 13:**
   Australia: A two-parent household with a combined income of $60,000 with four children aged 3, 6, 8, and 13 could receive $384.85 AUD per week ($379.93 from FTBA; $4.92 from FTBB). With the end-of-year supplements, this would be $23,450.50 AUD per annum.
   New Zealand: A two-parent household with a combined income of $60,000 with four children aged 3, 6, 8, and 13 could receive $388 NZD per week ($301 from FTC; $87 from IWTC). This would be $20,176 NZD per annum.

5. **Two-parent household both in paid work ($40,000 and $50,000), two children aged 8 and 15:**
   [Further details provided for these scenarios]
Australia: A two-parent household with a combined income of $90,000 with two children aged 8 and 15 could receive $78.34 AUD per week (from FTBA; $0 from FTBB). This household would not be eligible for the end-of-year supplement, making their total payment $4,073.80 AUD per annum.

New Zealand: A two-parent household with a combined income of $90,000 with two children aged 8 and 15 could receive $46.00 NZD per week (from IWTC; $0 from FTC). This would be $2,392.00 NZD per annum.

6. Two-parent household, one in paid work ($95,000), one child aged 2

Australia: A two-parent household with one income of $95,000 with one child aged 2 could receive $109.06 AUD per week ($29.89 from FTBA; $79.17 from FTBB). With the end-of-year supplement from FTBB, this would be $6,043.42 AUD per annum.

New Zealand: A two-parent household with one income of $95,000 with one child aged 2 would not be eligible for any WFF payments (0 NZD per annum).

Conclusion

Comparing the Australian and the New Zealand family tax credit systems highlights the need to fix Working For Families. At present, the Australian system is significantly more generous, evident in the higher rates across all six modelled household scenarios. This is particularly the case for families receiving income support. The New Zealand system is discriminatory, penalising the children of parents receiving a benefit.

In light of COVID-19 and associated job losses, it is critical that Working For Families be redesigned so that the children of caregivers who become unemployed do not miss out on these crucial payments. While the minimum work hours for the IWTC were removed on 1st July 2020, parents must still be in paid work and cannot be on income support in order to be eligible. As CPAG has highlighted in previous work, child poverty rates are significantly higher for children raised in workless households, meaning that the design of the NZ system is leaving children in the poorest families even further behind

CPAG modelling also shows that families with children on benefits fall far short of government endorsed poverty lines. Allowing all families on benefits the full access to WFF is an important contribution to plugging this gap and helping government reach its child poverty objectives.

WFF must also be reformed to include annual indexation as is the case in Australia. The Welfare Expert Advisory Group highlighted in 2018 that the WFF indexation policies are ‘out of step’ with the current indexation of main benefits. We must bring our family tax credit system up to speed in line with our benefit system, and in line with the tax credit systems of comparable countries such as Australia, to ensure that the value of tax credits are not eroded for low-income families.

Sources:


