

## Working for Families Tax Credits

[Tax Credits](#) for children help make the total income tax paid by a family fairer when parents have dependent children to support. In some countries all families, are helped by such payments, but in New Zealand, policy focuses on only low and middle income families, by abating or reducing child tax credits when total income exceeds a threshold. The IRD website lays out the purpose as:

“Working for Families Tax Credits (WfFTC) are paid to eligible families with dependent children aged 18 or younger to help with the family's day-to-day living costs.”

The child must be 18 years or younger, and financially dependent (doesn't work more than 30 hours a week, or receive a student allowance, a benefit or other government assistance). The family must meet residency requirements.

WfFTC includes 4 different types of tax credit payments. Tax credit amounts depend on the number of dependent children under age 18; total family income; the source of income; hours worked; whether care is shared; and the ages of the children. The primary caregiver may be eligible for a combination of these tax credits.

Working for Families Tax Credits				
Tax Credit Name	<a href="#">Family tax credit (FTC)</a>	<a href="#">In-work tax credit (IWTC)</a>	<a href="#">Parental tax credit (PTC)</a>	<a href="#">Minimum family tax credit (MFTC)</a>
<b>Eligibility requirement/s</b> include dependent child/ren under age 18; and NZ residency	Paid in full to total annual family gross income of <b>\$36,350</b> , then abated (reduced for extra earnings)	<b>Paid work required:</b> <b>couple minimum 30 hours per week,</b> <b>single minimum 20 hours per week</b> Not on a benefit	<b>Prior paid work;</b> Not receiving paid parental leave, income-tested benefit, NZ Super, student allowance, or ACC	<b>Paid work required:</b> <b>couple minimum 30 hours per week,</b> <b>single minimum 20 hours per week</b>
<b>Weekly rate from 1 April 2016</b>	First child under 16 years: \$92 First child 16 or over: \$101 Next child/ren under 13: \$64 Next child/ren 13 to 15: \$73 Next child/ren 16 or over: \$91	1, 2 or 3 children: up to \$72.50 More than 3 children: further \$15 per child	Up to \$220 a week for the first 10 weeks	Variable rate to bring family's net annual income to <b>\$23,764</b>
<b>Approx. Number of families affected</b>	380,000			
<b>Total Cost WfFTC year ended June 2016</b>	\$2.4 billion			

### How does family income affect the WfFTC total payment?

Total tax credits are usually paid weekly or fortnightly as one cash amount to the primary caregiver.

For a family receiving **the MFTC top up**, extra income reduces the MFTC payment dollar for dollar. This ensures that a low income family that is not on any benefit and fulfils minimum hours worked rules gets at least a net \$23,036 per annum. The top-up is variable depending on other income, including child support.

The other 3 tax credits are added together and reduce when family income is over \$36,350 gross.

When joint annual income is over \$36,350 gross each extra dollar of family income reduces the annual WfFTC entitlement by 22.5 cents.

**Example:** Take a one-child family on \$36,350. The FTC is \$92 and the IWTC is \$72.50. The primary caregiver will be paid \$164.50 per week. This is an annual entitlement of non-taxable income of \$8,554. For family income above \$36,350, the abatement from 1 April 2016 is 22.5%. This means a range of income over which the payment falls is \$8,554/.225, or \$38,017. Thus WfFTC will finally disappear at a total income for this family of \$74,367.

Now if this family has a second child, the FTC is \$156, the IWTC is \$72.50 and for the first 10 weeks the PTC is worth a total of \$2,200. Thus the annual total WfFTC is \$14,082.

If the family is eligible for the FTC, ITWC and the PTC, technically, that is the order in which they are reduced, so that for example a high income household may still get some IWTC or PTC. For the two-child family receiving the PTC, WfFTC finally disappears at \$98,937.

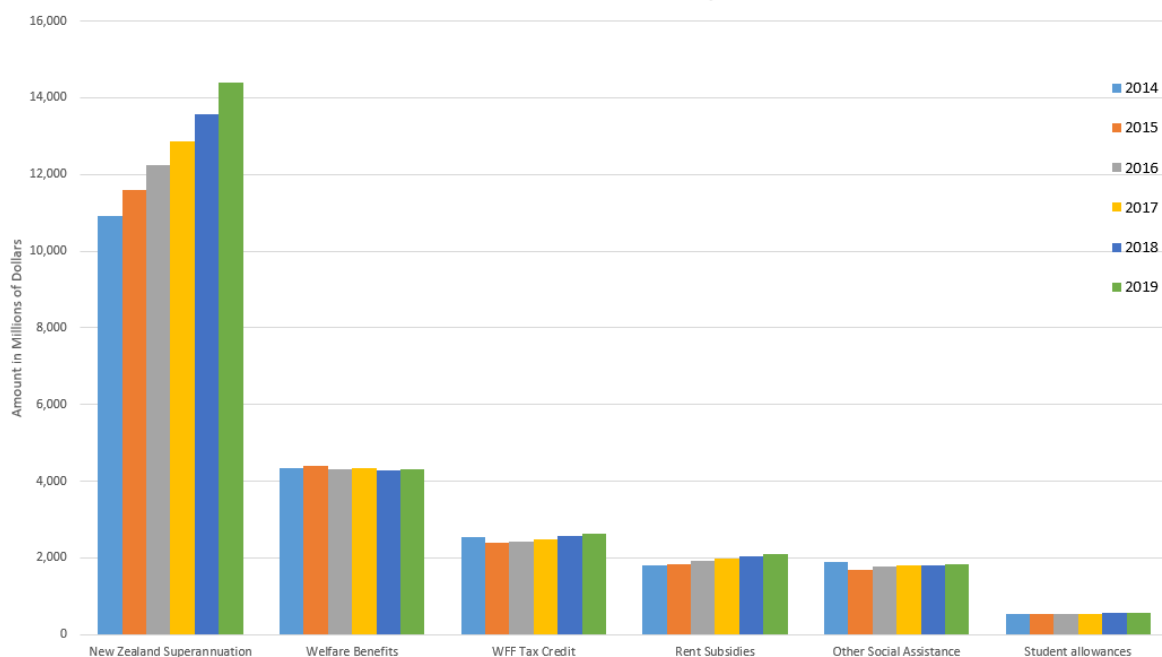
When there are many children, some IWTC may be being paid to caregivers in households on incomes well over \$100,000.

## Costs and importance of WfFTCs

Reflecting the neglect of WfFTC including lack of annual indexing, and some tightening of abatement and threshold, the total costs have been falling as shown in 2015 Budget table. Over the forecast period, note the large increase in payments for NZ Superannuation and the small increases for Family-based Tax Credits.

<b>Budget Table 2015 Transfer Payments and Subsidies</b>						
	<b>2014 Actual \$m</b>	<b>2015 Forecast \$m</b>	<b>2016 Forecast \$m</b>	<b>2017 Forecast \$m</b>	<b>2018 Forecast \$m</b>	<b>2019 Forecast \$m</b>
<b>New Zealand Superannuation</b>	<b>10,913</b>	<b>11,589</b>	<b>12,256</b>	<b>12,861</b>	<b>13,571</b>	<b>14,383</b>
Jobseeker support and emergency benefit	1,691	1,686	1,616	1,574	1,531	1,519
Supported living payment	1,422	1,512	1,519	1,530	1,536	1,564
Sole parent support	1,222	1,186	1,187	1,242	1,218	1,224
<b>Family tax credit</b>	<b>1,965</b>	<b>1,857</b>	<b>1,837</b>	<b>1,835</b>	<b>1,916</b>	<b>1,983</b>
<b>Other working for families tax credits</b>	<b>567</b>	<b>550</b>	<b>577</b>	<b>655</b>	<b>648</b>	<b>639</b>
Accommodation assistance	1,146	1,128	1,137	1,151	1,169	1,174
Income related rents	660	718	774	818	872	927
Disability assistance	379	377	379	378	379	380
Student allowances	539	520	529	548	560	558
Other social assistance benefits	1,519	1,310	1,409	1,423	1,436	1,450
<b>Total social assistance grants</b>	<b>22,023</b>	<b>22,433</b>	<b>23,220</b>	<b>24,015</b>	<b>24,836</b>	<b>25,801</b>
<b>Subsidies</b>						
KiwiSaver	804	882	720	765	806	845
Official development assistance	533	531	542	573	586	586
<b>Total transfer payments and subsidies</b>	<b>23,360</b>	<b>23,846</b>	<b>24,482</b>	<b>25,353</b>	<b>26,228</b>	<b>27,232</b>

Social Assistance Allocations, 2014 - 2019



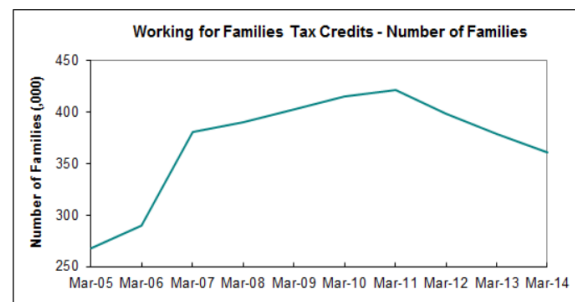
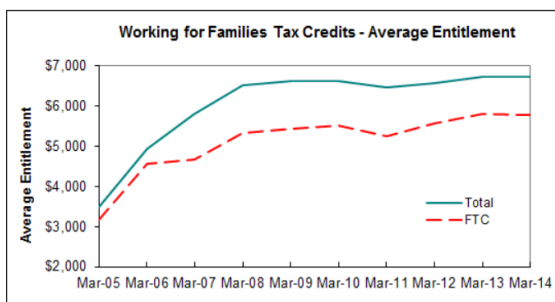
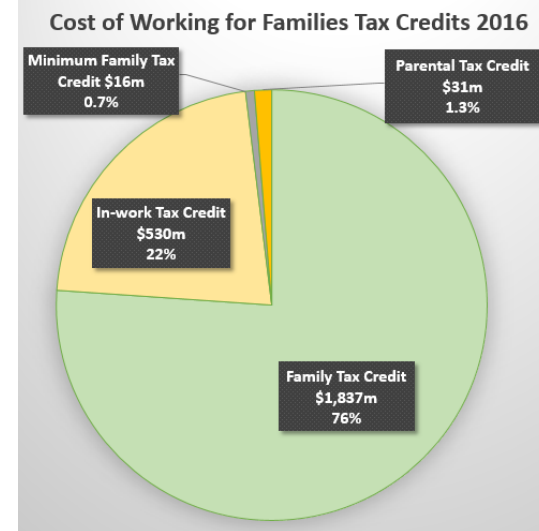
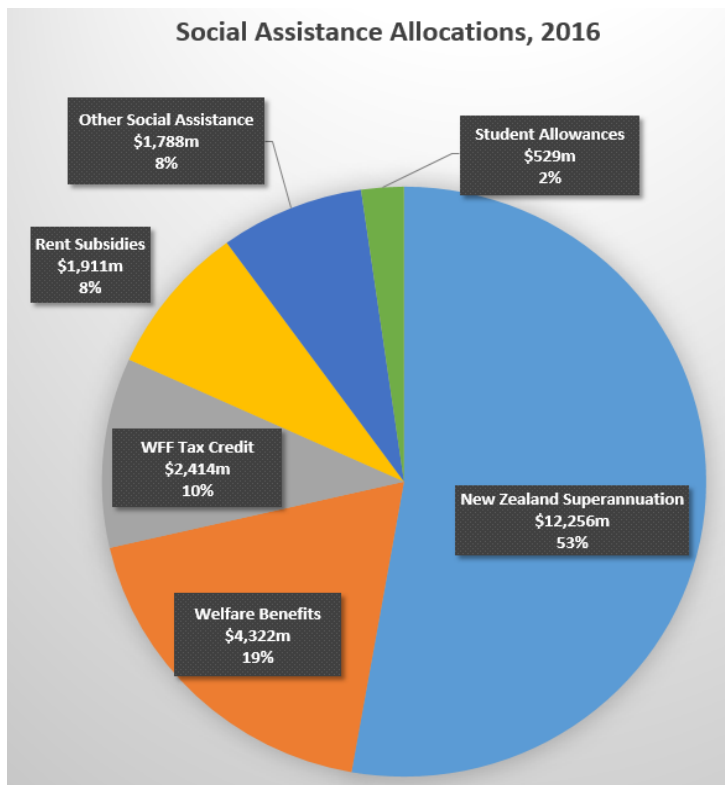
## The importance of each component of WfFTC:

The FTC is by far the most significant at over three quarters of the total cost of WfFTC (76%). The next most important tax credit is the IWTC at 22%, followed by the PTC at 1.3%. The MFTC is almost insignificant at 0.7% of the total cost. There are only about 4,000 families on the MFTC.

IRD Annual Report 2015 (yr ended June)				
Benefits and other unrequited expenses	2013/4 \$000	2014/5 \$000	2016 proj. \$000	% WfFTC
Child tax credit (grandfathered, phasing out)	1,835	1,298	1,100	0.05
Family tax credit	1,965,263	1,854,048	1,837,000	76.09
In-work tax credit	533,266	511,186	529,000	21.91
Minimum family tax credit	14,275	15,975	16,000	0.66
Parental tax credit	17,640	20,967	31,000	1.28
<b>Total WfFTC</b>	<b>2,532,279</b>	<b>2,403,474</b>	<b>2,414,100</b>	<b>100</b>

**Comparison: Paid Parental Leave** (PPL) is not part of WfFTC. It is a taxpayer-funded payment to new parents that is not income-tested. From 1 April 2016 PPL is paid for 18 weeks, and paid to non-standard workers (such as casual, seasonal, and employees with more than one employer) and those who have recently changed jobs. [In 2015 around 26,000](#) families received PPL out of over 60,000 live births.

IRD Annual Report 2015 (yr ended June)			
	2013/4 \$000	2014/5 \$000	2016 proj. \$000
Paid parental leave payments	164,504	180,286	233,000



Source: IRD website