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THE
TEN MYTHS
OF THE
'IN WORK TAX CREDIT'

Calling part of weekly family assistance an *'in work' tax credit* has created misconceptions in the minds of the public. CPAG has compiled some common fallacies and exposes how poorly designed this payment is for many low income families

Myth 1: The In Work Tax Credit is about work not children

The IWTC provides financial assistance for low income families, based on numbers of children. It is worth $60 per week for 1-3 child families but increases to $75 per week for a 4 child family, $90 for a 5-child family, and for a six child family it is $105 a week**. It is a payment to meet the extra costs of those children and took the place of the child tax credit.**

It is part of the weekly Working for Families payment made *to the primary caregiver*, NOT the worker. It is indistinguishable from the rest of the WFF payment except that some needy families do not get it because they are on benefits.

Thus caregivers can receive it even though they are home full-time looking after their children because their partner works. The same caregiver loses this payment for her children if her partner loses his job, thus doubling their punishment. If one parent manages to get a job for 20 hours a week, they still don't qualify because a couple requires 30 hours. If they each work 15 hours, on a part-benefit they don't qualify either.

Myth 2: The In Work Tax Credit is needed to create a gap between benefits and work

A gap already exists. A sole parent benefit (DPB) is $288 net a week. The couple rate for unemployment benefit (UB) or sickness benefit (SB) is $336 or $168 each. The net guaranteed minimum income for a family 'in work' of 20 hours a week (sole parent) or 30 hours (for a couple) is $427.

A married person on the UB rate of $168 would be much better off in work. If both parents work 40 hours at the minimum wage they would receive a net $870.

There are many ways to extend the gap without using a child-related payment. The minimum wage and guaranteed floor can be lifted, taxes can be lowered, GST can be cut, help for work-related costs and child care increased, temporary payments used to ease the transition, such as travel and clothing grants, or two weeks benefits given to the newly employed as suggested in the *2002 Agenda for Children* .

Myth 3: The In Work Tax Credit is fair because it rewards extra work effort

The IWTC does not reward extra work effort, it rewards meeting certain criteria: being in work for 20 hours a week for a sole parent or 30 hours for a couple and no fewer hours than that. Once those hours are reached extra work is not rewarded.

In fact some partnered women clearly reduce their hours of work because they have the extra income from the IWTC.

The IWTC is not paid to everyone who is working. No matter how many hours beneficiaries undertake in paid work, they do not qualify. A sole parent working less than 20 hours, which may be all that is possible or available, does not qualify.

Myth 4: The In Work Tax Credit is designed to help unemployed people get work

This is not true as it is not paid to anyone who does not have children. The young unemployed, who are arguably the most in need of an incentive to get work, do not qualify for this payment.

Myth 5: It operates fairly for couples who separate and share care

It does not work fairly for families who have separated because the IWTC is not apportioned to shared care, but may be received by the non-custodial parent in full. Because the family tax credit ***is*** apportioned, mother can end up with about 2/3rd of the family assistance that the father may get even though his shared care is of a limited nature enabling him to work full time.

Strangely, if both separated parents work 20 hours and are off benefit - they are ***both*** eligible for the IWTC in full.

Myth 6: The IRD are better at administering sensitive social policy than WINZ

When the earning parent leaves a relationship, even if the care giving parent does not access any benefit, the family assistance for the children is cut. Suddenly it matters that s/he is not doing 20 hours in paid work. If the IRD find the IWTC is still being collected, they will allege overpayment.

Child Poverty Action Group is aware of a sole parent with a bill for $1500 for such an overpayment of the IWTC. These parents had chosen to no longer live together, but they continued with the same financial arrangements as before separation. Ironically, it would have been much more expensive for the government if the mother had gone on a benefit.

As far as the IRD was concerned, they were no longer entitled to the IWTC, despite the fact that her ex-partner was working more than 30 hours a week and financially supporting her and their child. The needs of the child were not of concern.

The IRD has no expertise in administering sensitive social policy that affects the well–being of children.

Myth 7: The In Work Tax Credit operates on logical and fair principles

In the situation described above, the care giving partner who received the family assistance contribution of the IWTC based on the other partner's paid work, was the partner who was billed for the "overpayment" by the IRD.

It is also hugely unfair that any IWTC payment deemed, “overpaid”, the end of the year because he earned more than was expected, becomes the debt of the caregiver.

Myth 8: Other countries have similar tax credits

In Australia all low income children are treated the same for the tax credits. ***AND***, their scheme is more generous, especially where there is a new baby.

The Earned Income Tax Credit in the United States is based on an entirely different principle, and rewards an extra hour of work. Every extra hour is rewarded with a subsidy (not a lump sum payment) and then that amount is reduced as soon as the family’s income exceeds a threshold. The effect is to concentrate the payment on low-income people as they transition into work. That is completely different to the IWTC that goes right up the income scale at a total expense of more than $500 million annually.

In 2003, the UK separated the Family Credit into a child-related payment, and a work incentive called the Working Family Tax Credit. This is not related to the numbers of children and is tightly targeted to low income families moving into work.

New Zealand’s IWTC goes right up the income scale and is not reduced until other WFF payments have been abated. For a one child family abatement begins from a gross income of $56,000, and for a 5-child family abatement begins when gross income reaches $114,000.

Myth 9: New Zealand’s In Work Tax Credit is easy to administer

It is not easy to administer as it requires evidence that the parent/s is/are not on a benefit, and that the minimum required hours of work are worked consistently. With erratic casual work, and hours changing each week, it is extremely difficult for families to know what their eligibility is, and it is difficult for IRD to monitor.

Myth 10: The In Work Tax Credit has been a huge success because lots of sole parents have been incentivised into work

The Ministry of Social Welfare argued that a few sole parents were incentivized into work from 2006 to 2007 because of the IWTC.   But the figures show that very soon after 2007 all of the extra employment had disappeared. There are more sole parents on the DPB in 2011 than before the IWTC was introduced.

The state of the economy clearly has more impact on employment than the IWTC. Many other factors, such as suitable child care, and having healthy children, impinge on whether a sole parent comes off the benefit and can sustain work.

It is a very badly designed family assistance package indeed when losing a job because of a recession or an earthquake or ill-health results in the child-related payment being cut.

Additional information:

St John, S. (2011). ***Working for Families.*** **In M. Dale, M. O'Brien & S. St John (Eds.),** ***Left Further Behind*****. Auckland: Child Poverty Action Group Inc.**

IRD http://www.ird.govt.nz/wff-tax-credits/

CPAG contact: Susan St John, s.stjohn@auckland.ac.nz