



Quick guide to the In-Work Tax Credit

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We all want to see New Zealand children develop and thrive, free from the lifelong effects of poverty. There is no quick fix - but there is one thing this government could do today to help lift thousands of New Zealand children from the deepest poverty. With a simple tweak to an outdated, discriminatory policy, they could make the In-Work Tax Credit available to the kids who need it most of all.

What is the In-Work Tax Credit?

It's part of the Working for Families package. It was phased in about 15 years ago to replace the child tax credit and was given a new lease on life when it was tasked with improving labour market participation (as an incentive) and reducing poverty. That incentive is worth at least \$72.50 a week, more for large families.

Who gets it?

Parents with dependent children who work at least 30 hours a week between them, and single parents who work a minimum of 20 hours. It's not for families getting income support from a benefit, including the student allowance.

Does it help reduce child poverty?

For some. It helped reduce child poverty but only for those low-income families who qualified. Because it cuts out last, the In-Work Tax Credit (IWTC) can still be paid to families earning more than \$100k1, while the families who need the most support are missing out.

Child poverty rates are several times higher for kids in workless households, but when a working family is hit by job loss, they lose both their wage and their IWTC at the same time. The paid-work criteria also means that if the earning parent decides to leave the relationship, the IWTC goes out the door with them. In either of these situations, these newly workless families might now qualify for income support, but that automatically excludes them from the IWTC - no matter how many hours they work.

Is it working as an incentive for paid work?

Probably not. It is a poorly designed incentive to work. When the IWTC came in, some partnered women actually reduced their hours of paid work. That's because the payment allowed them to be better supported at home.

1 <https://www.ird.govt.nz/-/media/Project/IR/PDF/IR271.pdf>

What about children's rights and wellbeing?

It's not looking good here either. In 2008 the Human Rights Tribunal found that families excluded from the IWTC were disadvantaged "in a real and substantive way"². Also, New Zealand has signed up to international human rights treaties not to discriminate against kids for their parents' actions, and to make sure their families get the support they need.³

Can we fix this?

Yes! Right now, the kids whose families don't qualify for the IWTC are in the most entrenched poverty. Removing the discriminatory eligibility criteria and simply joining the IWTC to the Family Tax Credit is one relatively quick way to help meaningfully reduce child poverty. This way, it will go to the kids who need it most.

² Gray, D. (2008). Statement of evidence: CPAG v Attorney General Wellington: Human Rights Tribunal

³ <https://www.ohchr.org/en/professionalinterest/pages/crc.aspx>