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CHiLD POVERTY ACTION GROUP

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To: public.consultation@ird.govt.nz

c/o Team Manager, Technical Services
Office of the Chief Tax Counsel
National Office, Inland Revenue Department
PO Box 2198, Wellington

COMMENT AND DISCUSSION: EXPOSURE DRAFT Reference: PUB00225

INCOME TAX, WORKING FOR FAMILIES TAX CREDITS – PRINCIPAL CAREGIVER – DEPENDENT CHILD – PRIMARY RESPONSIBILITY FOR DAY-TO-DAY CARE – MEANING OF “TEMPORARY BASIS”

Child Poverty Action Group (CPAG)¹ thanks the Inland Revenue Department for the opportunity to comment on this Exposure Draft.

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Question:

1. Can a person looking after a child on a temporary basis become eligible to receive Working for Families tax credits (WfFTC)?

IRD Answer:

2. To be eligible for WfFTC, a person needs to meet a number of requirements, including that they are the **principal caregiver** of a **dependent child**.

IRD Explanation:

5. The Working for Families (WfF) regime is aimed at helping families with dependent children, through the provision of financial support to ensure an adequate family income, and to help make it easier to work and raise a family. The WfF regime includes four different tax credits: the family tax credit (FTC), the in-work tax credit (IWTC), the minimum family tax credit (MFTC), and the parental tax credit (PTC).

6. There are a number of requirements that have to be met in order for someone to qualify for WfFTC. The main requirements are that the person has to be at least 16 years old, has to satisfy certain residence requirements, and has to be the principal caregiver for one or more dependent children.

CPAG Comments:

- i. While the purpose of the WfF regime is clearly stated at 5. as “helping families with dependent children, through the provision of financial support to ensure an adequate family income”, we note that the statement at 6 regarding eligibility requirements does not mention minimum hours of paid work for significant parts of these tax credits. Also, paid work requirements for eligibility to WfFTC are merely implied in the examples given. The work requirement denies access to WfF assistance in the form of the IWTC for many of the most needy children. The PTC and MFTC likewise require work-based criteria.
- ii. Shared care 31 – 32. In a case of shared care where one parent/caregiver meets the paid work requirement and the other does not, the Family Tax Credit is apportioned based on

¹ 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 rate of child poverty is not the result of economic necessity, but is due to policy neglect and an ideological emphasis on flawed economic incentives. CPAG promotes public policies that address the underlying causes of the poverty endured by tens of thousands of New Zealand children.

the percentage of care provided to the child. However in such cases the IWTC is not apportioned but is paid in total to the parent in paid work, even though they may provide only one third of the care and take even less responsibility for the dependent child. CPAG finds this a particularly unjust system.

- iii. There appears to be a grey area between power and 'responsibility' for day-to-day care of a dependent child thus 'principal caregiver' and eligibility for WfFTC, and actual 'provision of care' and the associated costs of that provision. See Example 1, 36 – 41, where the grandmother provides food, accommodation and care for the child for 5 months without financial support from WfF, while the mother continue to receive the WfF financial support. We would hope an informal arrangement between the parents and the grandmother would ensure the grandmother was reimbursed for the costs of the care for the child (funded through WfF) she provided. While this is a potentially problematic area, we would prefer such fair treatment was encouraged by the IRD, not regulated.