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To: The Finance and Expenditure Committee

Re: Income Tax Bill

Contact persons:

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1. Introduction

Child Poverty Action Group (CPAG) advocates for better policies for children. We thank the committee for the opportunity to make a submission and **would also like to make an oral submission (in Auckland)**.

This submission is on behalf of the members of Child Poverty Action Group. This bill is major rewrite of the Tax Act and it is of key importance to New Zealand to get it right. While it is supposed to give legislative authority to existing policies we have real concerns that these changes are going through with so little opportunity for public input into this highly technical and difficult piece of legislation. This submission concentrates on section M "Tax Credits for Families" while noting that other aspects of the Bill are also of concern to CPAG.

We have grave disquiet about the complexity of this Bill and its administration by the Inland Revenue Department. While the various complex family assistance credits are carefully defined in this Bill, the IRD is going to change the key names on the 16th March.

See <http://www.ird.govt.nz/wff-tax-credits/>

The terminological confusion is most concerning as many low-income families' wellbeing can be seriously affected when complexity reduces their chances of getting the correct entitlements to tax credits under the Act. If the legislature goes to the effort to define terms then the onus must be on the Department administering the relevant Act to use those terms as defined. There is already a great deal of confusion in the community about family assistance entitlements,

We are especially concerned that '**Family Support**' a per child per week payment for all low income children is to be given the same name as an existing but totally different measure the **Family Tax Credit** after the passing of this bill. The existing **Family Tax Credit** is a top-up payment to give a guaranteed income of around \$17,000 pa, has a 100% abatement rate, is not based on the numbers of children and is limited to those meeting the required hours worked. The potential for confusion is huge, along with making everything that has been written on Family Support and the Family Tax Credit by commentators in the past meaningless.

The changing of the name Family Tax Credit to Minimum Family Tax Credit also is seriously undesirable. The two new names **Family Tax Credit** and **Minimum Family Tax Credit** are very similar and suggest they are related in some way. But there are totally different so that the latter does not imply that there is some minimum of the former in any sense whatsoever. The name of the Family Tax Credit used to be called the Guaranteed Minimum Family Income (GMFI). The GMFI far more correctly describes this income top up.

2. Part M – Tax credits for families

[1] This section is unnecessarily complex, with definitions, exemptions, exceptions and qualifications scattered throughout. We submit that it needs to be redrafted in order to give effect to the stated purpose of clarifying and simplifying the legislation. Nothing in this section is clear or simple. This section deals with tax credits for low-income earners and beneficiaries, and is therefore aimed at the most disadvantaged members of the community. These earners are the least likely to be able to interpret this legislation, and have the capacity to appeal any adverse rulings. For this reason we urge this section be rewritten in clear and simple language so that it is easy to understand for both taxpayers and administrators.

[2] We note the in-work-payment is included in this section. This payment has been described as a work incentive, yet its inclusion in this section suggests it is a payment for the child or children. If it was a work incentive we submit that at very least Clause MD2 should be amended so that it (Clause MD2 (2)(c)(i)) first reduces the amount of the in-work-payment then (Clause MD2 (2)(c)(ii)) second, reduces the amount of the family support. But this Act clearly reinforces CPAG's view that, in requiring the recipient to be the principal caregiver of one or more dependent children, the work incentive aspect is secondary. This to be the substance of the CPAG complaint currently before the Human Rights Review Tribunal. It is noted that that the working tax credit in the UK is not tied to children, but adult based and bleeds out first from a very low income at a high rate, so that it is clearly a transition to work measure. Is a work incentive really needed for a family with several children on say \$100,000, by giving them an in-work payment?

[3] We note Clause MD9, (fifth requirement: full-time earner) includes an ACC recipient if their incapacity occurred on or after 1 January 2006 **and** (Clause MD9 (4)(a)) if they receive a Child Tax Credit for the entitlement period ending 31 March 2006. We submit Clause MD9 (4)(a) be removed, or that the "and" be replace with an "or". We note the use of "and" works to make Clause MD9 (4)(a) contradict Clause MD9 (4)(d), given that the eligibility criteria for the Child Tax Credit and the in-work-payment are different. As it is written it would be possible for an ACC recipient who has an accident after Jan 2006 to not have been receiving the Child Tax Credit when working in the previous tax year because their income was too high. After the accident the household income may fall a lot but they still will not qualify for the in-work payment. We are also puzzled by Clause MD9 (4)(d) in that it appears to be saying that a person is eligible for the in-work-payment if they were eligible for the in-work-payment at the time of the incapacity. Yet it is eligibility for the in-work-payment that the Clause is attempting to define.

[4] We also note that to deny the in-work payment to any family where the accident incurred before Jan 2006 is against the spirit of the ACC Act, highly discriminatory and unjust. We submit that Clause MD11 (1)(b)(i) be amended so that "social assistance payment" be replaced by "an income-tested benefit". We believe the term "social

assistance” is too broad, and the Clause should not include those receiving ACC or non-income tested benefits such as New Zealand Superannuation.

[5] We submit that Clauses MC6 (b)(ii) and (iii) be removed.

[6] The circumstances under which an Order in Council may be made are clearly laid out in Clause MF7. We are concerned that family plus components such as the in-work payment may be adjusted beyond the CPI provision as allowed for family support. This opens the door to governments to expand work-related child-based assistance at the expense of family support that goes to all children on the same basis.

[7] CPAG also submits that the Clauses around the in-work-payment be reconsidered in light of the principle of the Child Support Act that children should continue to have the same material standard of living that they would have had had the parental separation not taken place. At present some dependent parents get the IWP (eg non-working mothers cohabiting with a partner who supports her and her children) and some do not (eg non-working mothers with a former partner who supports her and her children, but who is not-cohabiting with that provider). The irony here is that it costs more not less to maintain two separate households. To uphold this principle, the hours worked by a payer of Child Support should be taken into account when assessing if a parent qualifies for the IWP. We can see no reference to this in this Bill.

[8] We submit that Clause MA7 (1)(c) be removed. There is no logical reason why someone who is the spouse or partner of a full-time earner should themselves be defined as a full-time earner. When components of family assistance require a certain number of hours to be worked the circumstances under which they are entitled to these payments are adequately covered by Clauses MA7 (1)(a), (b) and (d). We submit that for the purposes of Part M Clause MA7 (1)(c) is redundant, and in the interests of clarity it ought to be removed.