

# CHiLD POVERTY ACTION GROUP

Income splitting tax credit  
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4 February 2010

Submission to Policy Advice Division, Inland Revenue  
Department, on

**“An Income-splitting tax credit for families with  
children: an official issues paper”.**

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This submission is made on behalf of CPAG.

Child Poverty Action Group (Inc) (CPAG) is a non-profit group formed in 1994, and made up of academics, activists, practitioners and supporters. CPAG has a strong education and research role which enables it to contribute to better informed social policy to support children in Aotearoa New Zealand, specifically children who live in poverty. CPAG believes that our high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in. [www.cpag.org.nz](http://www.cpag.org.nz).

CPAG Executive Spokespersons and contacts. We would welcome further discussion on the points raised in this submission

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## Income splitting

CPAG agrees that recognising the costs involved in raising children, and assisting single income families, and/or making it easier for one parent to remain at home, are worthwhile aims. However, **income splitting** is not an appropriate policy response.

1. *Income splitting should not be a priority for scarce resources.* It is anticipated that income splitting will cost \$450m, and as much as 43%, or \$194 million of that cost is expected to go to households with incomes over \$120,000 (Inland Revenue Department, 2008a). If there is more money to be found for families, the urgent and critical problem is the meagre child-related support given to families on benefits and other low income families. Income splitting does not help low income struggling families. It offers little or no assistance to low income families, and none at all to sole parent families.

Income splitting will have no effect on child poverty. Yet the MSD's own 2008 report on living standards shows that one in five New Zealand children are experiencing 'serious hardship' and 'unacceptably severe restrictions on their living standards' (Perry, 2009).

2. *Income splitting is not a recognition of the worth of the stay at home parent. The income splitting proposal is not actual income splitting and it reinforces stereotypes that do not help women.*<sup>1</sup>

Under progressive taxation on an individual basis, there is an incentive to actual income splitting (putting assets in her name as the lower paid taxpayer, encouraging her to work part-time to assist in his business where appropriate). Under notional income splitting as proposed in the 2009 Officials' issues paper, there is no incentive for actual redistribution of household resources so that she has income and assets in her own right. Instead, there is an end of year calculation that results in a rebate. While it is good that this is paid to the caregiver (rather than as a tax offset to the primary earner's tax liability), the rebate cannot be taken as recognising the value of her care-giving. The higher his income the greater the value of her work on this measure.

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<sup>1</sup> This section assumes for simplicity that 'he' is the breadwinner – obviously the roles can be reversed.

CPAG strongly supports the discussion in 2.13 and 2.14. In this modern world, it is clear that women need to maintain some attachment to the workforce. Notional income splitting provides a clear disincentive for her to work part-time (and thus retain her skills) because she is taxed at the joint rate; and it provides an incentive for him to work more (usually higher paid) hours. The stereotypes that did not work well for women in past times are reinforced. This may be ultimately bad for both partners, and could result in a less productive workforce.

3. *The problem has been mis-specified.* There is said to be an inequity between the single earner and dual earner households on the same income. But like may not be compared to like here. For example: take two couples, with children, each on a total annual income of \$100,000. In the first couple, there is a single earner working 40 hours; and in the second, both parents work 40 hours. The second family thus has 40 hours of childcare to pay for while the first obtains those services on a tax-free basis from the stay at home parent. They are not in the same horizontal situation and should not be taxed the same.
4. *Current arrangements provide an incentive for sharing of work and care.* In the example above, suppose the second family shares work and care, so each parent works 20 hours and each cares for the children for 20 hours. The incentive to share on this basis while children are young may be healthy for society, and more in tune with the realities of the 21<sup>st</sup> century. It is illogical to argue, as in 1.2, that income splitting gives parents 'greater choice'. When faced with the choice of whether he works an extra 10 hours overtime a week or she does some work part-time (in a less skilled position often), the clear message is that it is better for him to work. This does not promote 'work-life balance'.
5. *Working for families is the mechanism for transferring taxes paid by workers to caregivers.* The income splitting proposal has not been thought through for those who get Working for Families as well.
6. *Income splitting provides perverse incentives to claim partnership.* In contrast to the welfare system where it is disadvantageous to be defined to be in a 'couple', this proposal offers an incentive for parents to be classified as in a partnership of some kind. Given the remarkable diversity and fluidity of families in New Zealand (see for example Families Commission, 2008), this

policy may be very hard to administer (as is the current welfare system) .  
What happens for example when parents separate?

7. *Income splitting is optional*. Whose option will this be:- his or hers?

CPAG urges the government not to proceed with this costly and inequitable proposal. In 2001, the McLeod Tax Review (The Treasury, 2001, p. 98) concluded:

*Income splitting creates as many problems as it solves. Also, it is not well targeted. Income splitting favours any couple with one income. Traditional families with an 'empty nest' and a well-paid principal earner would benefit; working sole parents with dependent children would not.*

## References

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