

# 2019 SUMMIT

**Whakamana  
Tāngata:  
Where to  
from here?**

**18 November**



CHILD  
POVERTY  
ACTION  
GROUP

Otago University  
Wellington

**The case for the Earned Income Tax  
Credit?**

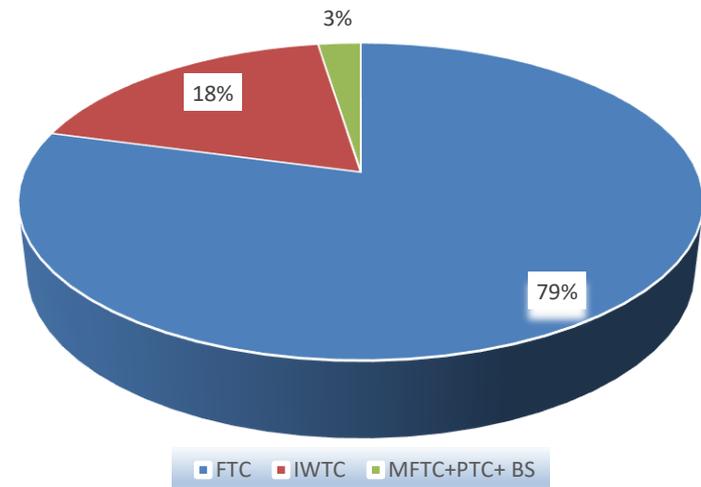
**Susan St John  
CPAG economics**

# Currently

The two WFF main payments for low income children are

- The Family Tax Credit
  - Aim is child poverty
- The In Work Tax Credit
  - Aim is child poverty *and*
  - To incentivise paid work

Total WFF main tax credits \$2.8 billion  
year ended June 2019



Source: Tax expenditures:  
Budget 2019

# WFF was a major package 2005-2007

- Did it incentivise paid work?
  - NO
- Did it help lock in high rates of poverty for those who missed out?
  - YES

## Can we count the ways the IWTC failed as a work incentive?

- Very expensive- around \$525m pa
- Paid well up income scale: do high income families need a work incentive?
- Incentivises meeting fixed hours of work
- Self employment hours hard to estimate
- Much harder for sole parents to get it
- Minor positive impact on sole parents but partnered mother reduced hours of work
- Prolongs EMTRs (work disincentives) as is abated last at 25%
- Collateral damage? Hurts the worst off children

# Sadly, the WFF package

**WHILE** WFF reduced child poverty for working families

**WFF failed** the poorest children as it denied them a critical payment to alleviate their poverty- a cumulative \$7-10 billion since 2006.

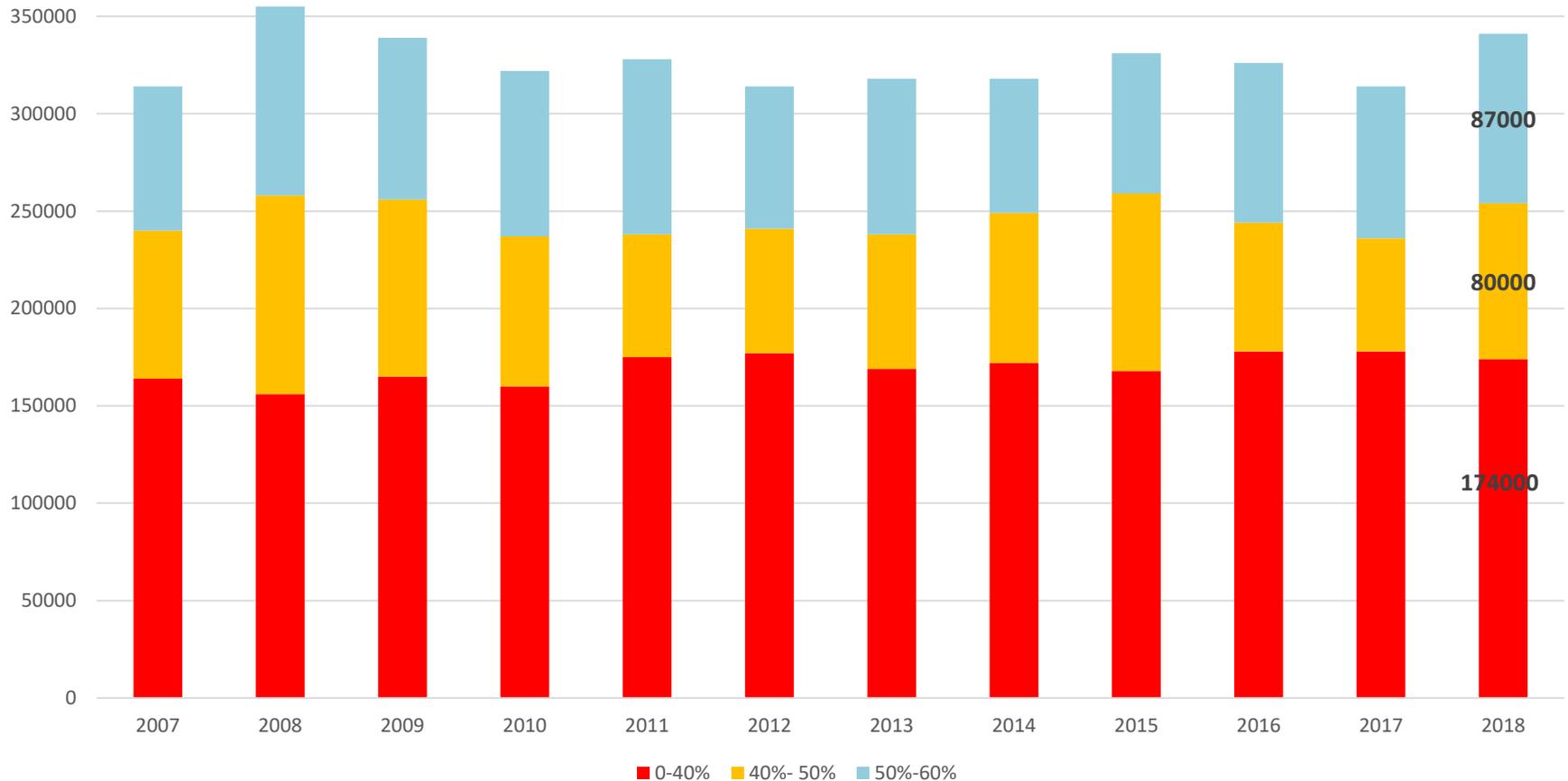
“WFF had little impact on the poverty rates for children in workless households” Perry 2019 p 175

“The fall in child poverty rates from 2004 to 2007 for children in one-FT-one-workless 2P households was very large (28% to 9% using the 50% CV-07 measure), **reflecting the WFF impact, especially through the In-work Tax Credit.**”

Perry 2019 p 175

# Our base line statistics: REL thresholds 40%, 50% and 60% of the median HH income (AHC)

## Red is extreme danger-children in Poverty in NZ

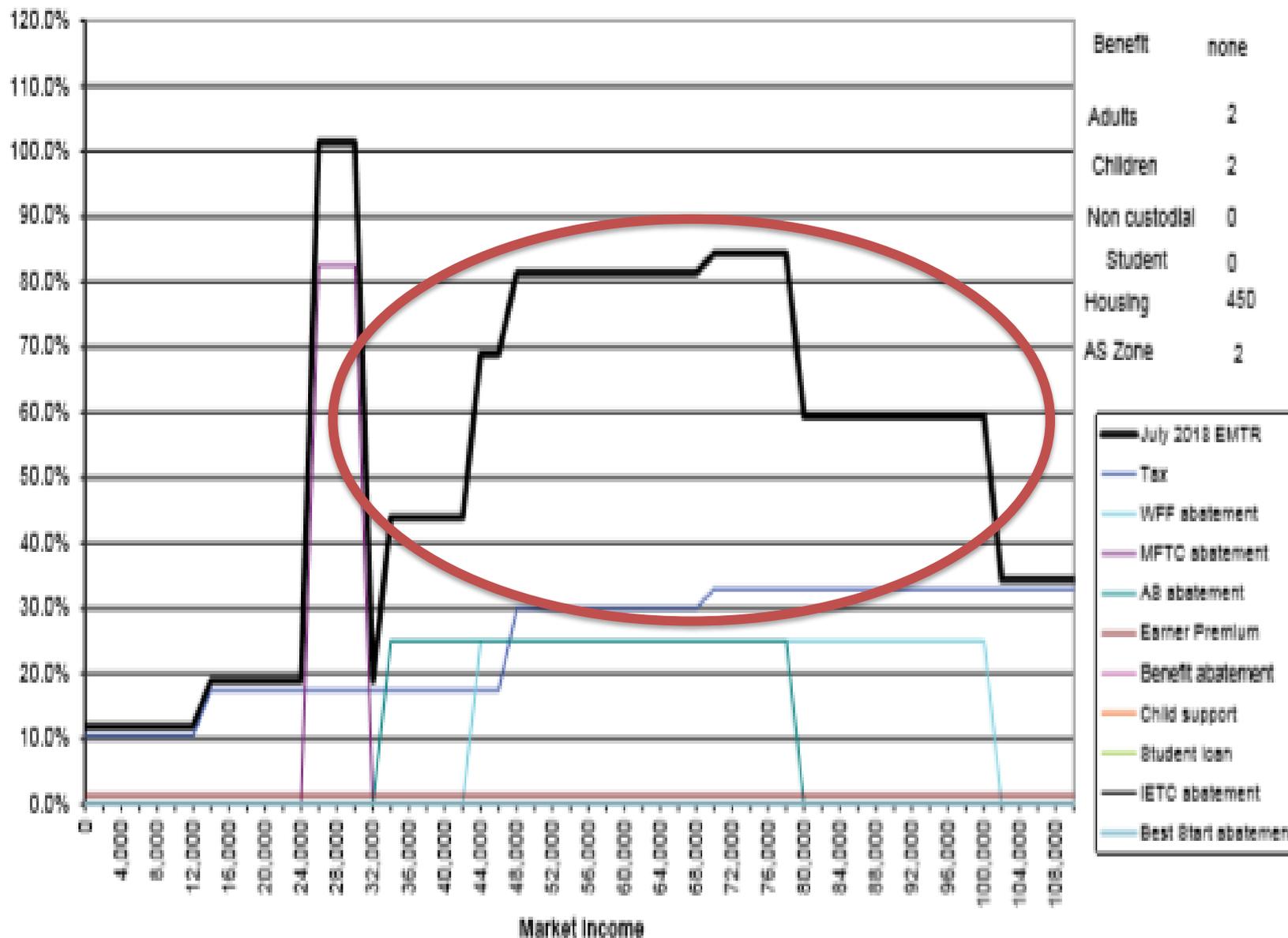


(St John S & So Y. CPAG 2018)

# What are the desirable characteristics of a work incentive?

- Is simple to understand
- Concentrates on transition to work/ low incomes
- Rewards an extra dollar earned
- Is based on the individual not the family
- Not related to payments to reduce child poverty
- Is not beset by disincentives ie impact of overlapping abatements

**Figure 2: Effective marginal tax rate components, July 2018 – single earner family**



# The In Work Tax Credit?

- Is simple to understand
- Concentrates on transition to work/ low incomes
- Rewards an extra dollar earned
- Is based on the individual not the family
- Not related to payments to reduce child poverty
- Is not beset by disincentives ie impact of overlapping abatements

# Labour's Family Package 2018

- Improves **FTC**
  - Eldest child : \$5,878; subsequent children: \$4,745
  - Abates from \$42,700 at 25%
- Left the **IWTC** untouched at \$3770 + extra for larger families

[MINOR

Best Start: \$3120 for new babies

Threshold set at \$79,000 and 21% abatement.

Minimum Family Tax Credit goes from \$23,816 to \$26,156 per annum (\$503 per week after tax).]

# The Independent Earner Tax Credit

- Only for those not getting WFF
- Gives an extra \$10 a week for incomes between \$24,000 and \$44,000
- Is reduced by 13% for income above this
- Disappears by \$48,000

Costs around \$228m

# The Independent Earner Tax Credit ?

- Is simple to understand
- Concentrates on transition to work/ low incomes
- ✓ Rewards an extra dollar earned
- ✓ Is based on the individual not the family
- ✓ Not related to payments to reduce child poverty
- ✓ Is not too beset by disincentives ie abatement problems

## WEAG proposals for work incentives

- **Take the In Work Tax Credit**
  - \$525m
- **And the Independent Earner Tax Credit**
  - \$280m
- **Make it a larger Earned Income Tax Credit**
  - **Extra cost \$670m**
  - **Total cost \$1.475 billion**

- New EITC is costly
  - will it be successful?
- Families on low income and benefits
  - Joint income over \$150 a week (new income exemption for benefits)
  - Each extra dollar earned is subsidised by 20%
  - Maximum of \$50 a week extra once income is \$400.
- What's not to like?

# The Earner Income Tax Credit?

- Is simple to understand
  - ✓ Concentrates on transition to work/ low incomes
  - ✓ Rewards an extra dollar earned
- Is based on the individual not the family
  - ✓ Not related to payments to reduce child poverty
- Is not beset by disincentives ie impact of overlapping abatements

- This puts the work incentive where it is likely to be more relevant BUT
- The EITC has to abate and because it is focused on low income families it will interact with the abatement of the WFF and AS.
- Therefore WEAG change WFF to abate later at \$48,000 and reduce the rate of abatement to 10% up to \$65,000, then 15%.
- Problem is that makes their improved WFF twice as expensive
- Necessitates higher rates of abatement ie 50% from \$160,000

# Budget 2019 also failed the worst-off 174,000 children

---



# What can and should be done immediately

---

	Budget 2018 and 2019
Remove all sanctions on beneficiaries with children	
Progressive universalisation of WFF - join the In Work Tax Credit of \$72.50/wk to the first child payment	
Increase benefits 20%- remove couple penalty	
Reduce abatement rate for WFF from 25 to 20%	
Increase earning cap for beneficiaries (\$165/person)	
Index all benefits and all parts of Working for Families (WFF) annually - as for NZ super	