CHiLD POVERTY ACTION GROUP

Working for Families

An outline of the complex Working for Families eligibility criteria, the problems inherent in the tax credit system, and CPAG's recommendations to solve the problems. These proposed solutions would substantially alleviate poverty among those worst-off families.

Working for Families: how it works

If you have children living with you and your family's income is under a certain amount each week, you can get support from the government's Working for Families (WFF) tax credit package.

The four types of tax credits to assist families with the costs of raising children are described below. People without children don't get assistance from Working for Families.

If your income is under $36,350 per year and you have one or more children, you may be entitled to the maximum of the two main tax credits depending on whether you are on an income-tested benefit and/or in paid work. If you are receiving more than $36,350 per year, Working for Families, entitlements decrease with each extra dollar of income until finally you are no longer eligible.

Your 'income' may be made up of:

- salary and wages
- ACC, benefit income, NZ Superannuation or Student allowance
- business income
- child support paid or received

The four tax credits

The two main tax credits are the Family Tax Credit and the In-Work Tax Credit. The other tax credits are the Parental Tax Credit and the Minimum Family Tax Credit. The Minimum Family Tax Credit tops up annual income (after tax) of a family with dependent children to $23,764. The qualifying criteria are different for each tax credit. To qualify for the In-Work Tax Credit and the Parental Tax Credit you cannot be receiving a benefit.

Family Tax Credit

You can get a Family Tax Credit (FTC) if you have dependent children and your income is in the range of eligibility. The amount varies depending on the number of children in your care and how old they are. Your income can be from any source, including an income-tested benefit:

- salary or wages
- self-employment
- a student allowance
- NZ Superannuation or Veteran's Pension
- an income tested benefit, or
- another source.

You can't get the FTC for child(ren)if you receive a foster care allowance, orphan's benefit or unsupported child's benefit.

If family income increases over $36,350 your FTC begins to reduce.

In-Work Tax Credit

To qualify for the In-Work Tax Credit (IWTC) you must not be on a benefit or student allowance. You must also be in paid work for 30 or more hours per week for a couple, 20 hours for a sole parent. The IWTC is worth at least $72.50 per week. Larger families may qualify for an extra $15 per week per child if there are more than three children. The 30 hours can be added together between the two adults.

If you have dependent children and meet the work-hours requirement, you can get both the FTC and the IWTC. The income threshold for the IWTC is much higher than the FTC, and the IWTC only begins to reduce once all your FTC is gone.

When was Working for Families first implemented, and why?

Working for Families was introduced between 2005 and 2007, but its value has eroded over time. The amount you receive does not reflect the current cost of raising children, especially for those who do not get the full package. Other countries like Australia, Germany, Sweden and

Canada support families with adequate child benefits or family tax credits that go to all low-income families on the same basis, with income thresholds for eligibility that are much higher.

The aims of Working for Families were: to incentivise paid work; to ensure income adequacy; and to support people "into paid work". There was no acknowledgment of the proven social, cultural and educational reasons that parenting children, particularly in the first three years, is a valid job and a vastly important one.

Working for Families: the problem

The In-Work Tax Credit of at least $72.50 per week is given exclusively to families who are not receiving a benefit and are in paid work for the minimum of the required weekly hours. This means that families on income-tested benefits are denied a very significant payment for their children. This is also true of the Parental Tax Credit for new newborns where a benefit is paid. As well the rules around hours of work mean that families on fluctuating hours or casual contracts, are not always eligible week by week. Sole parents may work 10 hours, or 15 hours, to fit in with the needs of their children. If they go off the benefit, work the full 20 hours or more, and get the full WFF they are very vulnerable to any loss of hours of work. When they don't meet the required hours they lose entitlement to the work-based credits and may have to apply for a benefit all over again, with any stand-down periods that apply. They are forced to choose between security and a very low income and more income with high insecurity.

Working for Families has done little to alleviate poverty among lowest income families (on benefits) because they are denied the $72.50 week IWTC and at the time of the introduction of WFF there were offsets to benefits that reduced the impact of the increased Family Tax Credit. Many families on benefits were already struggling with serious hardship since the huge cuts to benefits in the 'mother of all budgets' in 1991. Since that time circumstances for many families have worsened, as costs of housing and basic necessities have risen steeply and continue to rise, while the core benefit has had only a $25 real increase since 1972.

Who gets the Family Tax Credit and the In-Work Tax Credit?

WFF entitlements. Who gets What	Family (couple) with children. Working 30 hours or more	Family (couple) with children. Working less than 30 hours	Sole parent family with children. Working 20 or more hours and not receiving benefit	Sole parent family with children. Working 20 or more hours and receiving part benefit	Sole parent with children. Working less than 20 hours
Family Tax Credit (income threshold of $36,350 or less)	✦	✦	✦	✦	✦
In Work Tax Credit	✦		✦		

** Minimum family tax credit paid only if income is less than $23,764*

Working for Families: Problems for low income working families

In 2011, the National-led government made changes to Working for Families - to save costs over time, these changes (phased in from 2012) particularly affect low income working families.

One change was to the abatement rate, which is the rate at which Working for Families entitlements begin to decrease, once income goes over a certain level, known as the threshold. The current maximum income you can earn and get the maximum entitlement for the Family Tax Credit and the In-Work Tax Credit (if you work the right number of hours) is $36,350. First the FTC is reduced and then the IWTC so that, for example, for a one child family there is zero entitlement after $74,000.

But this is set to drop, because National's policies ensure that, over time, the abatement rate, which in 2011 was 20% (or 20c for every dollar earned over the threshold) will increase to 25% and the income threshold (for maximum WFF entitlement) will reduce from $36,350 to $35,000 pa.

WFF has never been indexed properly - that means it has not increased annually according to other price increases, such as costs of basic necessities (CPI). There are no adjustments to WFF until the cumulative inflation rate exceeds 5%. Unfortunately the list of things that determines the CPI (a shopping basket containing all the average prices of things people apparently buy) is not a good reflection of things people living below the poverty line actually buy. It includes imported electronics like flat screen TVs and mobile phones, which are high cost items that have come down in price, which makes the overall inflation rate lower. This means it takes a longer time to reach 5% inflation total. For example the last increase was 2012 and the next one may not occur until 2019 because inflation is so low. With experienced living costs going up, and WFF remaining unchanged, and even decreasing because of the abatement rate and lowered threshold, families become worse off.

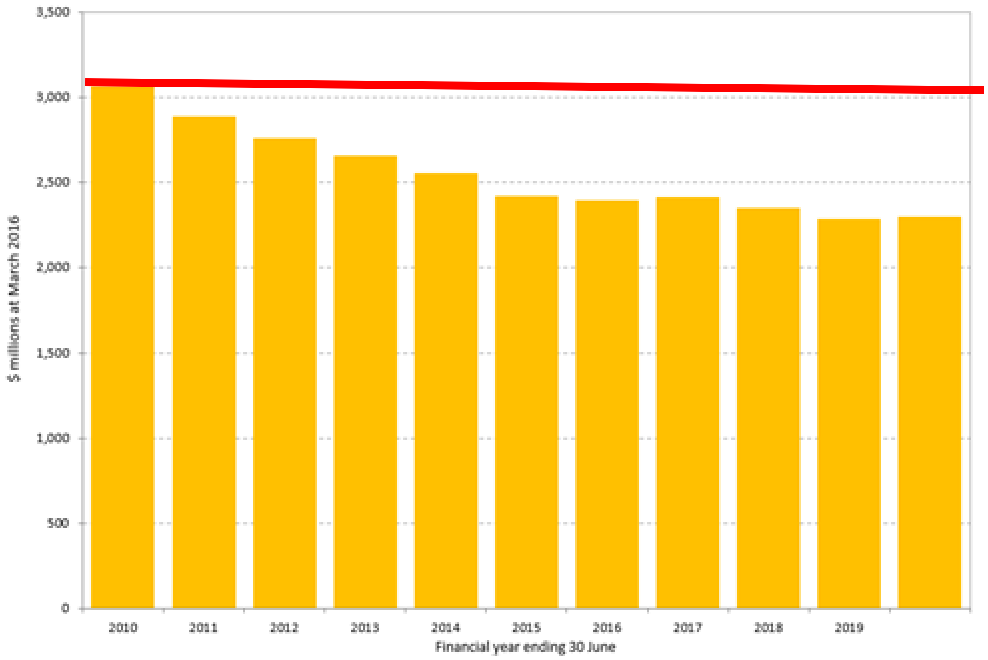
NZ Superannuation is indexed annually not just to prices but also to wages. This is a much better policy   If WFF were properly indexed to wages, the amounts and thresholds for the maximum entitlements would have looked something like this:

	Nominal original values WFF 2005-7	Fully adjusted for CPI to Q2* 2016	Fully adjusted for changes in real net wages to Q2** 2016	Actual 2016 values (Abatement Rate increased to 22.5 c)
Family Tax Credit, first child (FTC) $per week	$82	$98.07	$114.45	$92
Family Tax Credit, each additional child	$57	$67.74	$79.11	$64
In Work Tax Credit, one to three children(IWTC)	$60	$71.78	$83.88	$72.50
Plus $15 for each additional child	$15	$17.69	$20.67	$15
Threshold, joint income (annual)	$35,000	$44,484	$51,982	$36,350

*This CPI adjustment expresses the 2005-7 amounts in current (2016 quarter 2) dollarsie as if it was adjusted instantly.
** This wage adjustment shows what the 2007-7 amounts would be if based on wage changes to the 2016 quarter 2.

Government has successfully cut its total WFF spending in today's dollars as the chart shows. In 2016, WFF should be $700m higher to restore the real 2010 spending.

Working for Families spending 2010 – 2019 ($2016 real)
Source: Derived from Budget 2016.



Working for Families: the solution

- Remove all fixed work hours requirements.

- Add the $72.50 of the In-Work Tax Credit to the first child Family Tax Credit for ALL low income families. For the 4th and subsequent children currently $15 per child is paid in IWTC. This too needs to be joined onto the per child rate. One simple way to effectively do this is to add $10-15 to the 2nd and subsequent child rate.

- Re-set the abatement rate to 20%.

- Index all parts of Working for Families to wages, back to 2005, and have a new, much higher, threshold for entitlement for the maximum Family Tax Credit accordingly.