Fix Working for Families Campaign

Part Two Summary

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The second phase of the Fix Working for Families (FWFF) campaign focuses on the working poor. Policy since the implementation of Working for Families (WFF) has squeezed this tax credit package for the very groups that need it.

1. Indexation of the rates

Inflation (Consumer Price Index/CPI) adjustments to WFF rates occur only when cumulative inflation is greater than 5% and the last adjustment was 1 April 2012.[1]

The inflation rate is measured to the year ended September, to give the Inland Revenue enough time to implement the adjustment in the following April.

Cumulative inflation since September 2011 has not yet exceeded 5%, and no adjustment is expected until 2018, possibly 2019, to any part of WFF. The IWTC was increased by $12.50 a week from 1April 2016 but as it is not indexed and had not been changed since 2006, this increase was only an inflation adjustment and the IWTC still remains unindexed.

Indexation is a vitally important issue. If the living standards of low-income families are to be protected, all parts of family assistance must be automatically adjusted for inflation every year. Moreover the indexation should be to wages, the same as for New Zealand Super (NZ Super). This is very important in times of low measured inflation but high housing costs for most families.

[1] http://www.ird.govt.nz/technical-tax/legislation/2011/2011-23/2011-23-wfftc/.

The cost of Working for Families was $2.4 billion in the year ended June 2016. A full five percent adjustment after six years (2018) would cost about $120m. This delay saves the Government a cumulative $350m (approximately).

2. Budget changes 2011

In the 2010 Budget, National froze the threshold for abatement at $36,827 and the 2011 budget introduced further cost saving, with particular impact on low wage working families.[2]

Until 2012, WFF tax credits abated at the rate of 20 cents in the dollar. **The rate of abatement** increased to 21.25% on 1 April 2012 and again to 22.5% on 1 April 2016. It will increase by a further 1.25 percentage points every time the Family Tax Credit (FTC) amounts are increased for inflation, until the abatement rate reaches 25%.

In addition, the **income threshold** at which WFF tax credits begin to abate was decreased from $36,827 to $36,350 on 1 April 2012. The threshold will continue to decrease by $450 each time there is an inflation adjustment until the threshold reaches $35,000.

These changes were sold as benign gradual changes that were of minor consequence only and would make WFF more affordable. Finance Minister Bill English said:

> *These changes are expected to generate $448 million of savings over the four years to 2014/15. As a result, the total cost of WFF will reduce from $2.8 billion in 2011/12 to $2.6 billion in 2014/15.* [3]

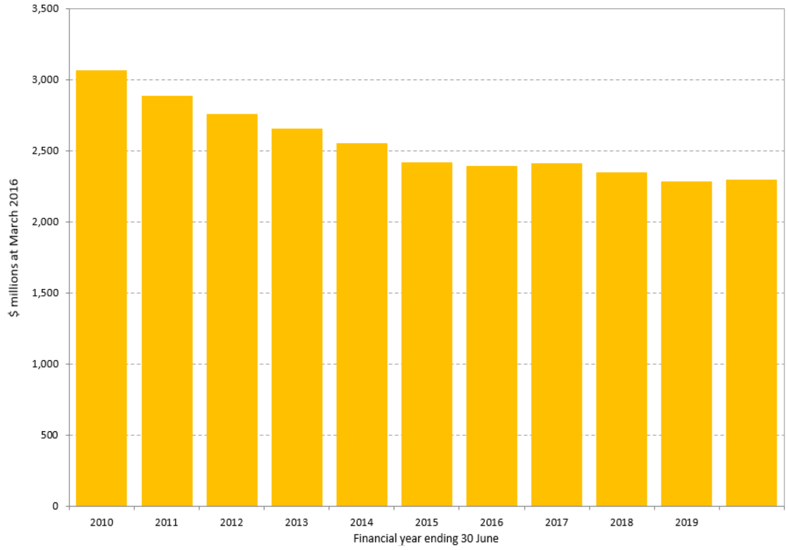
But these savings were calculated against the frozen status quo of a threshold of $36,350 and a 21.25% rate of abatement.

Had the original threshold for WFF been properly adjusted since it was introduced at $35,000 in 2005 it would be $44,000 today. If indexation had been to average wages it would be $52,000.

Over all the loss of indexation to all part of the WFF package can be seen from this chart of real (March $2016) expenditure on WFF**. To restore real spending in 2016 to 2010 levels (keep the rectangles the same height) another $700m was required in 2016. The cumulative loss to date since 2010 is around $2 billion.**

[2] http://www.ird.govt.nz/technical-tax/legislation/2011/2011-23/2011-23-wfftc/.
[3] English, B. (2011) Budget Economic and Fiscal Update.

Chart 1: Real spending on Working for Families



A family today whose income is $44,000 loses $1,721 today more than they would lose if there had been proper CPI indexation. They would be $3,296 better off had indexation been to wages.

3. Australian comparisons

The Australians do indexation far better than New Zealand. Every year rates and thresholds are adjusted.

The threshold income, from which reduction to Family Tax Benefit A applies, has risen from $A32,485 in 2004 to over $A51,903 in 2016 because of annual adjustments.

The rate of abatement is 20% until very high income levels. A forthcoming paper will examine the difference in more detail.

4. The living wage campaign

The proper indexation of WFF has profound implications for working and non-working families. The failure to adjust WFF has contributed to growth in family poverty since 2007 and is part of the reason there is a Living Wage campaign. Erosion in WFF means the living wage rate is less effective in delivering the desired standard of living.

CPAG asks the Living Wage campaign to support the FWFF campaign

Summary

Part Two of the FWFF campaign seeks to have WFF restored to its former real value and for indexation to be to wages. Costings will follow. Without this, policy directions will reduce its value still further and more working families will struggle, and reliance upon food banks and other charities will increase.