

## **Budget Sensitive**

Office of the Minister for Social Development and Employment

Office of the Minister of Revenue

Cabinet

## **INCREASING MAIN BENEFIT ABATEMENT THRESHOLDS ON 1 APRIL 2021 AND CONSEQUENTIAL ADJUSTMENT TO THE MINIMUM FAMILY TAX CREDIT**

### **Proposal**

- 1 This paper seeks Cabinet agreement to:
  - 1.1 increase main benefit abatement thresholds on 1 April 2021; and
  - 1.2 consequentially adjust the Minimum Family Tax Credit threshold for 2021/22.

### **Relation to government priorities**

- 2 Increasing main benefit abatement thresholds is signalled as a priority in the Labour Party's 2020 manifesto. This aligns with the Government's priority to support New Zealand's economic recovery through incentivising those on main benefit to engage in paid work and builds on our commitment to ensure benefit abatement thresholds better reflect existing labour market settings.

### **Executive Summary**

- 3 Main benefits are targeted to people who need it the most through the eligibility criteria and the benefit abatement regime. People receiving a main benefit can earn up to a certain level of income per week (abatement threshold) before their benefit begins to reduce.
- 4 The abatement thresholds were adjusted on 1 April 2020 through funding secured through Budget 2019. However, prior to this adjustment, main benefit abatement settings had not been adjusted for almost a decade.
- 5 This has meant that the value of what people could earn before their benefit abated has declined in real terms over time as wages have increased. The number of hours beneficiaries can work before their benefit begins to abate has reduced significantly over the years and the current settings offer little incentive to engage in paid work while receiving a main benefit.
- 6 Therefore, I propose that the abatement thresholds be increased to \$160 and \$250 per week from 1 April 2021, which will allow beneficiaries to work up to eight hours on minimum wage before abatement occurs. This is in line with our manifesto commitment.
- 7 This increase will allow working beneficiaries to keep a greater proportion of their earnings as they can work more hours before their benefit begins to abate. This will improve financial incentives for a significant number of people to enter the labour

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market and maintain part-time work while on a benefit. While the proposed increase better incentivises part-time work than full-time work, it ensures that some (who may be currently facing reduced hours) can access financial assistance while still being attached to their job.

- 8      Increasing the abatement thresholds to \$160 and \$250 per week is expected to benefit approximately 82,900 individuals and families by on average of \$18 per week. Of these, approximately 50,200 are families with children. These changes are estimated to reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure<sup>1</sup> and 2,000 (+/- 3,000) on the BHC50 measure<sup>2</sup> in 2021/22.
  
- 9      The proposed increase will increase the benefit cut-out point<sup>3</sup>, which has a number of flow-on impacts to other financial assistance:
  - 9.1      Of the 82,900 individuals and families, around 50,300 are non-beneficiaries who currently receive the Accommodation Supplement (AS), who will become eligible for a higher rate of payment (average gain of \$12 a week);
  - 9.2      A small number of non-beneficiaries (approximately 4,000) will become newly eligible for AS;
  - 9.3      A small number of non-beneficiaries (approximately 7,000) will become newly eligible for a main benefit; they will also become eligible for the Winter Energy Payment during the winter period.
  
- 10     s 9(2)(f)(iv) 
  
- 11     Abatement threshold changes also affect decisions on the Minimum Family Tax Credit (MFTC). The MFTC has been adjusted annually to reflect changes in settings, such as benefit rates and abatement thresholds, to maintain the financial incentives provided by the MFTC for families with children to work at 20 or 30 hours a week.
  
- 12     The MFTC threshold needs to be adjusted for 2021/22 to reflect the proposed increases to the abatement thresholds. We recommend a partial increase for 2021/22, increasing the MFTC threshold to \$30,576 per annum. This proposed partial increase ensures that sole parents, who account for approximately 90% of the MFTC recipients, remain better off working and receiving MFTC than receiving a benefit. The partial increase also has a lower fiscal cost, reduces the impact on financial disincentives to work full-time and will have less of an impact on the cost of options being considered as part of the review of Working for Families tax credits. This review will include further consideration of the MFTC.

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<sup>1</sup> AHC measures the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs, and is measured by the threshold line set at 50 per cent of the median income in 2017/18, after housing costs are removed.

<sup>2</sup> BHC50 is a moving-line income measure, with the poverty threshold taken the year the data is gathered (low income, before housing costs – moving-line measure). BHC50 measures the number of children in households with much lower incomes than a typical household, and is measured by the threshold line set at 50 per cent of the median household income in the year measured.

<sup>3</sup> The point at which a person’s payment is reduced to zero because of their income or assets.

- 13 The partial increase to the MFTC threshold will benefit around 4,000 families. Approximately 400 of these will be newly eligible for the payment.

**Background**

*Main benefits provide income for people who are unable to fully support themselves through paid work*

- 14 Main benefits are targeted to people who need it the most through the eligibility criteria and the benefit abatement regime, which gradually reduces payments that people receive as their other income, for example from work, increases.
- 15 Generally, the full rate of benefit will be available to people earning up to a certain amount; this is the abatement threshold. Above this amount, payments reduce gradually as people’s incomes increase based on the abatement rate. Allowing people to work for a small number of hours without having their benefit payment affected encourages labour market entry, and also recognises that there are additional costs associated with work, such as transport costs.
- 16 There are two main benefit abatement regimes, which seek to align the financial incentives to work with the level of labour force engagement expected of the individual (based on their circumstances):
- 16.1 **The full-time regime** has a relatively high abatement rate of 70 percent which is designed to incentivise full-time work. This mainly applies to people on Jobseeker Support (JS)-related benefits.<sup>4</sup>
- 16.2 **The part-time regime** has two abatement thresholds, with a relatively low abatement rate of 30 percent applied at the first threshold, and an abatement rate of 70 percent applied at the second threshold. This is designed to incentivise part-time work and applies to people receiving Sole Parent Support (SPS) and Supported Living Payment (SLP).
- 17 The full-time abatement regime is also applicable for recipients of New Zealand Superannuation (NZS) and Veteran’s Pension (VP) if they choose to include a non-qualifying partner in their payment.<sup>5</sup> If they choose to include a non-qualifying partner, they receive payment as a couple but the payment becomes subject to an income test based on the income of both partners.
- 18 Recipients of VP who are under 65 also have their payments subject to an income test. VP (under 65) is a grandparented income support payment under the War Pensions Act 1954 for veterans who are unable to work due to illness or injury. The abatement regime for VP (under 65) mirrors those for SPS and SLP, which is designed to encourage part-time work.
- 19 The current abatement thresholds are set out below:

<b>Abatement rate at different thresholds</b>	<b>Current amount beneficiaries can earn per week before their benefit begins to abate</b>
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<sup>4</sup> This includes Jobseeker Support on the grounds of a health condition, injury or disability.

<sup>5</sup> From 9 November 2020, the option to include non-qualifying partners in payments for NZS or VP is no longer available.

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JS (abatement rate of 70%)	\$90
NZS and VP with non-qualifying partner (abatement rate of 70%)	\$115
SPS, SLP and VP (under 65) – Threshold One (abatement rate of 30%)	\$115
SPS, SLP and VP (under 65) – Threshold Two (abatement rate of 70%)	\$215

- 20 Under the current settings, a JS recipient would have their benefit reduce by 70 cents for every dollar earned over \$90 per week. For a SPS recipient, their benefit would reduce by 30 cents for every dollar earned over \$115 per week, and by 70 cents for every dollar earned over \$215 per week.

**Prior to the adjustments made on 1 April 2020, abatement thresholds had remained unchanged for almost a decade**

- 21 Abatement thresholds are increased through one-off changes, rather than being adjusted annually. On 1 April 2020, the abatement thresholds were adjusted through funding secured through Budget 2019. This funding committed to progressively increase the abatement thresholds for main benefits over four years (until 2023) in line with minimum wage increases [CAB-19-MIN-0174.36 refers].<sup>6</sup> The adjustment aimed to ensure that the number of hours a beneficiary could work on minimum wage before abatement occurred would not reduce any further.
- 22 However, prior to the April 2020 adjustment, the last adjustment to main benefit abatement settings occurred in September 2010, when changes were made for recipients of (what was then known as) Domestic Purposes Benefit, Invalid’s Benefit, Widow’s Benefit as well as for VP (under 65), and NZS and VP with non-qualifying partners. For the full-time abatement regime for JS, the threshold had remained at \$80 since it was last adjusted in 1996.
- 23 This has meant that the value of what people could earn before their benefit abated has declined in real terms over time as wages have increased. For example, a person receiving JS in 1997 could work approximately 11.4 hours on minimum wage (\$7.00 per hour) before their benefit abated. In 2019, a person receiving JS could only work for approximately 4.5 hours on minimum wage (\$17.70 per hour) before their benefit abated.

**Increasing the abatement thresholds will support beneficiaries to work more**

- 24 I consider that it is timely to increase the abatement thresholds as the current settings are out of line with the original abatement settings. The number of hours beneficiaries can work before their benefit begins to abate has reduced significantly over the years and current settings offer little incentive to engage in paid work while receiving a main benefit.
- 25 Therefore, I propose that the abatement thresholds be increased on 1 April 2021 as set out below:

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<sup>6</sup> Budget 2019 funding of \$97.1 million to increase abatement thresholds over four years from \$80, \$100 and \$200 in 2019 to \$105, \$130 and \$230 in 2023. These adjustments set the new thresholds by rounding to the nearest \$5.

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Abatement rate at different thresholds	What beneficiaries can earn per week before their benefit begins to abate	
	Current	From 1 April 2021
JS (abatement rate of 70%)	\$90	\$160
NZS/VP with non-qualifying partner (abatement rate of 70%)	\$115	\$160
SPS/SLP and VP (under 65) - Threshold One (abatement rate of 30%)	\$115	\$160
SPS/SLP and VP (under 65) - Threshold Two (abatement rate of 70%)	\$215	\$250

- 26 These proposed increases are in line with our manifesto commitment to increase abatement thresholds to \$160 and \$250 per week from 1 April 2021. We committed to support families towards better futures by allowing people to keep more of what they earn while on a benefit.
- 27 These increases will allow working beneficiaries to keep a greater proportion of their earnings as they can work up to around eight hours on minimum wage<sup>7</sup> before their benefit begins to abate, recognising that eight hours is a typical working day. For recipients of SPS, SLP and VP (under 65), they can work up to 12.5 hours before their benefit abates at the higher rate. These increases mean the thresholds will better align with the original abatement settings which enabled beneficiaries to work for longer hours before abatement occurred.
- 28 The proposed changes to the abatement thresholds do not impact Youth Payment or Young Parent Payment as these benefits have a separate abatement regime, which is the same as the regime for Student Allowance.<sup>8</sup> The changes also do not impact Orphan’s Benefit or Unsupported Child’s Benefit as these do not have an income test.

*Increasing abatement thresholds will increase the incomes of working beneficiaries and better incentivise part-time work...*

- 29 I believe the proposed increases will improve financial incentives for a significant number of people to enter the labour market and maintain part-time work while on a benefit. This is because beneficiaries will be able to work for longer before their benefit begins to abate and keep a greater proportion of their earnings.
- 30 A significant number of non-beneficiaries (low-income working individuals and families) who are currently receiving the AS will also become eligible for a higher rate of payment. This is because the AS abatement threshold for non-beneficiaries is aligned to the JS benefit cut-out point<sup>9</sup>, which will increase as the abatement threshold increase.

<sup>7</sup> Based on minimum wage increasing to \$20.00 per hour on 1 April 2021.

<sup>8</sup> The current abatement threshold is \$224.58 per week; any earnings above this point are abated at 100 percent.

<sup>9</sup> Benefit cut-out point is the point at which a person’s payment is reduced to zero because of their income or assets.

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- 31 Increasing the abatement thresholds to \$160 and \$250 per week is expected to benefit approximately 82,900 individuals and families by on average of \$18 per week.<sup>10</sup> Of these:
- 31.1 around 29,500 individuals and families currently receiving a working-age benefit are expected to benefit from the change with an average weekly gain of \$29;
  - 31.2 around 3,100 individuals and families receiving NZS are expected to benefit with an average weekly gain of \$21;
  - 31.3 more than half (50,300) are non-beneficiaries receiving AS, who will gain an average of \$12 a week;
  - 31.4 around 50,200 are families with children; these changes are estimated to reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure and 2,000 (+/- 3000) on the BHC50 measure in 2021/22.
- 32 I note that the proposed increases will likely mean that working beneficiaries in part-time work may be less incentivised to move to full-time work as the proposed changes reduce the financial gain from moving from part-time to full-time work. This may be of concern where financial incentives to work full-time are currently relatively weak, for example, for sole parents on low/minimum wages with childcare costs.
- 33 However, given the economic impacts of COVID-19 and many people facing reduced hours, the proposed increase in abatement thresholds ensures that those with reduced hours can access financial assistance while still being attached to their job.
- 34 Better incentivising beneficiaries to enter the labour market and maintain part-time work can ensure people take the opportunity to be in employment without losing financial security. This is especially important for those already disadvantaged in the labour market prior to COVID-19, such as sole parents and people with a health condition, injury or disability. Part-time work can also provide a pathway to full-time work by providing opportunities to connect with the labour market, get work experience and become familiar with the demands that can come with employment.

*... and will result in some people becoming newly eligible*

- 35 Changes with welfare system settings often have various flow-on impacts. Increasing abatement thresholds will result in some people becoming newly eligible. This is because abatement thresholds determine the benefit cut-out point, which is the point at which a person's payment is reduced to zero because of their income or assets.
- 36 A small number of people will become newly eligible for AS; it is estimated that around 4,000 additional people could take up AS as a result of the changes. A small number of people will become newly eligible for a main benefit as well. It is estimated that around 7,000 additional people could take up a main benefit as a result. They will also

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<sup>10</sup> The modelling factors in flow-on impacts of the proposed abatement threshold changes, including likely increase to the Minimum Family Tax Credit (MFTC). The overall number of people affected by the abatement threshold changes include families who are expected to gain through increases in the MFTC. The modelling is also based on the Pre-Election Economic and Fiscal Update 2020 forecasts. These forecasts were prepared during a time of high uncertainty, and actual volumes of benefit receipt have tracked lower than the forecast. Therefore, the actual numbers may be lower once more recent forecasts are considered.

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become eligible for the Winter Energy Payment (during the winter period) as eligibility for this payment is linked to main benefits.

*A small number may be financially disadvantaged as a result of the abatement threshold increases but I propose compensating them through a Transitional Assistance Payment*

37 A small number of people may be financially disadvantaged as a result of the proposed abatement threshold increases; around 79 individuals and families are expected to lose an average of \$19 a week. People are likely to be disadvantaged for the following reasons:

37.1 Childcare Assistance – supplementary assistance payments, including AS, are included as income for the purposes of determining the rate of Childcare Assistance payable. Some may face a reduction in the hourly subsidy rate as a result of abatement threshold increases if they become newly eligible for AS or their AS payment increases.

37.2 Temporary Additional Support (TAS) – TAS recipients with high disability costs can receive additional support over and above the upper limit through an additional top-up called the disability exception. Some people will lose their disability exception as a result of increases to their rate of benefit or other supplementary assistance, resulting in them moving off the TAS upper limit and becoming ineligible for the Disability Allowance exception.

38 I propose to implement a Transitional Assistance Payment (TAP) for these people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases, to be available for up to 12 months. A TAP is a temporary non-taxable payment, paid through a welfare programme established under section 101 of the Social Security Act 2018.

39 This approach is consistent with other recent packages of changes to the income support system. For example, a TAP was provided for clients who were financially disadvantaged on 1 April 2020 because of one or more of the changes from the Income Support and COVID-19 Recovery Packages, which included abatement threshold increases.

s 9(2)(f)(iv) [Redacted]

40 s 9(2)(f)(iv) [Redacted]

41 s 9(2)(f)(iv) [Redacted]

## Abatement threshold changes will also affect decisions on the Minimum Family Tax Credit

*The Minimum Family Tax Credit ensures that families with children are better off not on a benefit when in work than receiving a main benefit*

- 42 The Minimum Family Tax Credit (MFTC) is one of the Working for Families tax credits. It is received by low-income working families in each week that they work the required hours<sup>11</sup>, do not receive a main benefit and have income below the prescribed weekly threshold.
- 43 On 30 November 2020, Cabinet agreed to retrospectively increase the MFTC threshold for the 2020/21 tax year to \$29,432 to reflect the \$25 increase to main benefit rates made on 1 April 2020 in response to COVID-19 [CAB-20-MIN-0490 refers]. Under this threshold, the MFTC tops up a family's income to at least \$566 a week after tax.
- 44 The MFTC is intended to support the "making work pay" objective of the Working for Families package. Its purpose is to ensure that a family who works the required hours and does not receive a benefit always has a higher income than they could receive on a benefit. The MFTC threshold is set at \$1 above the maximum income a two-parent family could receive on a benefit and is therefore sensitive to changes that impact the incomes of beneficiary families, such as benefit rates and abatement thresholds.<sup>12</sup>
- 45 The MFTC works by providing a payment so that a family's income reaches exactly the legislated threshold. For example, if a sole parent earns \$25,000 of net income, then they would receive a payment of \$4,432 on an annual basis under the new 2020/21 threshold as agreed to by Cabinet. If the sole parent works more and earns \$1 more, their payment is reduced by \$1. Therefore, there is no financial incentive for families receiving the MFTC to increase their hours or earnings until their net income is above the prescribed threshold.
- 46 However, the MFTC does ensure there is a strong financial incentive for families to increase their hours of work up to the 20- or 30-hour threshold and move off benefit.
- 47 In the 2019/20 tax year, around 3,800 families received the MFTC. The average MFTC payment per family was \$3,100 at a total fiscal cost of approximately \$12 million. Approximately 90% of those who receive the MFTC are sole parents.

*The MFTC has been increased annually since 2006*

- 48 As part of the introduction of Working for Families, on 26 April 2004, Cabinet agreed to increase the MFTC on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards [CAB Min (04) 13/4 refers].
- 49 Consequently, the MFTC threshold has been increased each year since 2006 to reflect the latest changes to relevant settings (such as benefit rates, the minimum wage and abatement thresholds).

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<sup>11</sup> 20 hours for sole parents and 30 hours combined for couples.

<sup>12</sup> This threshold is then rounded up to the nearest \$52 to produce a whole-dollar weekly amount.

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- 50 As such, if the abatement thresholds increased as proposed on 1 April 2021, a decision would be required on whether to adjust the MFTC for the 2021/22 tax year to reflect the abatement threshold increase.

*We recommend partially increasing the MFTC threshold for 2021/22 in response to the proposed increases to the abatement threshold*

- 51 As noted above, prior to the adjustments made on 1 April 2020, the abatement thresholds had not been adjusted for almost a decade. Given that the proposed increases to the abatement thresholds are significant, the MFTC threshold would also require a significant adjustment to reflect this change.
- 52 We have considered three options around adjustment to the MFTC threshold for 2021/22 to reflect the abatement threshold increases:
- 52.1 Increase the MFTC threshold to \$32,604 per annum (\$627 per week) to fully reflect the abatement threshold increases – this would incur a fiscal cost of \$51 million over the forecast period;
- 52.2 Partially increase the MFTC threshold to \$30,576 per annum (\$588 per week) – this would incur a fiscal cost of \$17 million over the forecast period;
- 52.3 Do not increase the MFTC threshold.
- 53 These options involve trade-offs between financial incentives to work, fiscal costs and impacts on future reforms through the upcoming review of Working for Families. Appendix One sets out in detail the advantages and disadvantages of each of the options.
- 54 A partial or full adjustment to the MFTC threshold are finely balanced options. A full adjustment would ensure that no family could be better off on a benefit than they would be moving off benefit and receiving the MFTC and preserves the full policy intent of the MFTC.
- 55 However, a full adjustment extends the range of income over which families receive the MFTC, thereby reducing the financial incentive for those families to work greater hours or earn more income.
- 56 Also, a full adjustment would incur a significant fiscal cost and may make options for reform through the upcoming review of Working for Families more costly.
- 57 Therefore, we recommend partially increasing the MFTC threshold for 2021/22 by reflecting the maximum amount of income a sole parent on benefit could receive, instead of the maximum amount a two-parent household on benefit could receive. This partial increase ensures that:
- 57.1 Sole parents, who account for approximately 90% of the MFTC recipients, remain better off working and receiving MFTC than receiving a benefit
- 57.2 Changes to the MFTC will have less of an impact on the cost of options for reforming Working for Families
- 57.3 The impact of the changes to the MFTC on the financial disincentives to take up full-time work for low-income sole parents are smaller.

- 58 The partial increase to the MFTC threshold will benefit around 4,000 families on MFTC. Approximately 400 of these will be newly eligible for the payment.
- 59 We do not recommend not adjusting the MFTC threshold. This would mean that sole parents and couples will be better off on benefit than receiving the MFTC when they are receiving WEP and working over 20 or 30 hours.

### Financial Implications

- 60 The total cost of the policy changes proposed in this paper is estimated to be \$410.979 million (net) over the next five years.

#### *Abatement threshold increases*

- 61 A pre-commitment to Budget 2021 is required in order to increase the abatement thresholds to \$160 and \$250 per week on 1 April 2021. The proposed increases to the abatement thresholds in 2021 are estimated to cost \$387.496 million (net) over the next five years.

- 62 Note that this accounts for increasing the abatement thresholds in 2021 only;   
s 9(2)(f)(iv)   
  


- 63 In addition, a pre-Budget commitment is required for the following:
- 63.1 \$80,000 in Transitional Assistance Payment payments to be available for up to 12 months for people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases
- 63.2 \$6.403 million in operational costs, including costs for additional resources and IT system changes to implement the abatement threshold changes and administer TAP.

#### *Adjustments to the MFTC threshold*

- 64 A pre-commitment to Budget 2021 is required in order to increase the MFTC threshold for the 2021/22 tax year. The proposed increase is estimated to cost a total of \$17 million over the forecast period.

### Legislative Implications

#### *Increasing the abatement thresholds on 1 April 2021*

- 65 An Order in Council under sections 452(1) and 452(2)(c) of the Social Security Act 2018 is required to increase abatement thresholds for JS, SPS, SLP and NZS on 1 April 2021.
- 66 In addition, an amendment to the Veterans' Support Regulations 2014 under section 265(1)(29A) of the Veterans' Support Act 2014 is required to increase abatement thresholds for VP. Subject to Cabinet agreement to the proposal, the Minister for Veterans has agreed to the Regulations being amended in order to implement the proposed increases on 1 April 2021.

- 67 Should Cabinet agree to the proposal, I will report back separately to the Cabinet Legislation Committee to progress these legislative changes in early 2021.

*Transitional Assistance Payment*

- 68 Subject to Cabinet decisions, I intend to approve and establish a welfare programme under section 101 of the Social Security Act to provide a TAP for up to 12 months for the small number of people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases.

*Minimum Family Tax Credit*

- 69 Changes to the MFTC threshold can be made by an Order in Council as set out in sections ME 1(4) and MF 7(1)(d) of the Income Tax Act 2007. However, an Order in Council is required by 1 December 2020 for changes to apply from 1 April 2021. Therefore, the proposed adjustment to the 2021/22 MFTC threshold would need to be made via an amendment to the Income Tax Act 2007.
- 70 Should Cabinet agree to the proposed change to the MFTC, we recommend that Inland Revenue be instructed to draft the necessary amendments to the Income Tax Act 2007 to give effect to the revised thresholds for 2021/22 to be included in the next available tax Bill. This amendment would need to be passed by March 2021 for MFTC payments to be made at the new rate from 1 April 2021.

## Impact Analysis

### Regulatory Impact Statement

- 71 The Regulatory Impact Assessment (RIA) requirements apply to the proposals in this paper. A RIA has been prepared and is attached.
- 72 On 30 November 2020, Cabinet agreed to adjust the MFTC threshold for the 2020/21 tax year, but a RIA could not be undertaken due to time constraints [CAB-20-MIN-0490 refers]. As required under Cabinet's RIA requirements, the attached RIA also incorporates a Supplementary Analysis Report for the proposal on adjusting the 2020/21 MFTC threshold.
- 73 The Quality Assurance reviewers at Inland Revenue and Ministry of Social Development have reviewed the *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit* RIA and consider that the information and analysis summarised in it partially meets the quality criteria of the Regulatory Impact Analysis framework.
- 74 It partially meets the quality criteria for the following reasons:
- 74.1 There has been no analysis of the behavioural impacts. This is understandable given the timeframes and difficulties undertaking this analysis. However, the abatement thresholds and the MFTC are intended to encourage people to engage in work. Ideally, RIA would include an estimate of how many people will move into work as a result of the changes. The team notes the employment impacts will be monitored following implementation.
- 74.2 There is minimal discussion of alternative options to the abatement threshold increases, such as the staged increases committed to by the Government as part of Budget 2019. However, the Treasury RIA team advised the Ministry of

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Social Development that a full RIA for the abatement threshold increases was not required because the increases were a manifesto commitment.

- 74.3 In terms of the MFTC, the status quo is based on a long-established policy of full alignment of the MFTC with benefit changes. There are now differing views on the appropriateness of this automatic linkage when there are significant increases in benefit entitlements and the case for change does not adequately consider the impact on the identified group of people who would be relatively worse off if the MFTC is not increased. Moreover, the analysis relies on certain assumptions about the fiscal cost, which could benefit from further explanation, such as the degree of behavioural response that could lead individuals to shift from paid employment with MFTC to paid employment with welfare support. The behavioural responses are uncertain. The team notes the employment impacts will be monitored following implementation.
- 74.4 The team notes that the options have administrative implications but there is little discussion of the impacts, for example from backdating MFTC payments.
- 74.5 Consultation with stakeholders – beyond government departments – has not happened due to time constraints and budget sensitivities.
- 75 The team recommends the Ministry of Social Development and Inland Revenue monitor the behavioural outcomes of the changes, especially the employment outcomes.

### Population Implications

- 76 Increasing abatement thresholds on 1 April 2021 will benefit approximately 82,900 low-income working individuals and families. Of these, approximately 15,500 are Māori families who will gain an average of \$17 a week, and 5,100 are Pacific families who will gain an average of \$17 a week.
- 77 The proposed increase will improve financial incentives to work part-time, which is particularly important for some cohorts, such as sole parents and people with a health condition, injury or disability, for whom suitable work may only be part-time due to their health conditions or childcare requirements. Approximately 21,310 sole parent families are expected to gain from the proposed abatement threshold increases (including from flow-on impacts to supplementary assistance such as Accommodation Supplement) by on average \$17 a week. Approximately 8,024 recipients on Jobseeker Support on the grounds of a health condition, injury or disability, Supported Living Payment and Disability Allowance are expected to gain by an average of \$26 a week.
- 78 A small number of people (sole parents and people with a health condition, injury or disability) may be financially disadvantaged as a result of the abatement threshold increases. A Transitional Assistance Payment will protect the entitlements of these people, who would otherwise lose additional support for childcare or disability costs, for up to 12 months.
- 79 The partial increase to the MFTC threshold for 2021/22 is expected to benefit around 4,000 families. Approximately 400 of these will be newly eligible for the payment. The vast majority of these families are sole parents.

- 80 Not fully aligning the MFTC threshold from 1 April 2021 could result in a small number of two-parent households being able to receive a higher income on a benefit than they could by moving off benefit at 30 hours of work.

**Human Rights**

- 81 There are no human rights implications arising from the proposals in this paper.

**Consultation**

- 82 The Department of the Prime Minister and Cabinet (Child Poverty Unit), The Treasury and Veterans’ Affairs New Zealand have been consulted on this paper and support the proposals in this paper. The Department of the Prime Minister and Cabinet (Policy Advice Group) have also been informed of this paper.

**Communications**

- 83 The Ministry of Social Development and Inland Revenue will develop communications strategies and work with relevant Ministers’ Offices for communicating changes to the public regarding the abatement threshold increases and MFTC adjustment.

**Proactive Release**

- 84 This Cabinet paper will be proactively released, with redactions made consistent with the Official Information Act 1982.

**Recommendations**

The Minister for Social Development and Employment and the Minister of Revenue recommend that Cabinet:

*Abatement threshold increases*

- 1 **note** that people receiving a main benefit can earn up to a certain level of income per week (abatement threshold) before their benefit begins to reduce
- 2 **note** that abatement thresholds had not been adjusted for almost a decade prior to 1 April 2020, meaning the number of hours someone can work on minimum wage in a week before their benefit begins to reduce has declined over time
- 3 **agree** to increase the abatement thresholds on 1 April 2021 as set out below:

Abatement threshold (what beneficiaries can earn per week before their benefit begins to abate)	From 1 April 2021
Jobseeker Support	\$160
New Zealand Superannuation and Veteran’s Pension with non-qualifying partner	\$160
Sole Parent Support, Supported Living Payment and Veteran’s Pension (under 65) – Threshold One	\$160
Sole Parent Support, Supported Living Payment and Veteran’s Pension (under 65) – Threshold Two	\$250

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- 4 **note** that the increases set out in recommendation 3 are in line with the Labour Party’s 2020 manifesto commitment to increase abatement thresholds so that people can keep more of what they earn while on a benefit
- 5 **note** that a small number of people may be financially disadvantaged as a result of the abatement threshold increases on 1 April 2021, and a Transitional Assistance Payment will be provided to these people for up to 12 months
- 6 **s 9(2)(f)(iv)** [REDACTED]

*Adjustments to the Minimum Family Tax Credit*

- 7 **note** that as part of the introduction of Working for Families, on 26 April 2004 Cabinet agreed to increase the Minimum Family Tax Credit on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards [CAB Min (04) 13/4 refers]
- 8 **note** that the increases to the abatement thresholds as set out in recommendation 3 will require adjustment to the Minimum Family Tax Credit threshold for 2021/22
- 9 **agree** to increase the Minimum Family Tax Credit threshold for 2021/22 to \$30,576
- 10 **note** that this recommended increase balances the trade-offs associated with increasing the Minimum Family Tax Credit, such as fiscal cost, financial incentives to work full-time and impact on the review of Working for Families
- 11 **note** that this increase is sufficient to ensure that all sole parents moving off benefit at 20 hours of work do not suffer a reduction in income; however, is not sufficient to ensure couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week

*Financial recommendations*

- 12 **agree** to increase spending to provide for costs associated with the policy decision to increase the abatement thresholds on 1 April 2021, increase the Minimum Family Tax Credit threshold for 2021/22, additional Transitional Assistance Payment payments and for implementation and operational costs with the following impacts on the operating balance and net core Crown debt:

	\$m - increase/(decrease)				2024/25 & outyears
	2020/21	2021/22	2022/23	2023/24	
Operating Balance and Net Core Crown Debt Impact	25.451	107.473	97.050	90.503	90.503

**BUDGET SENSITIVE**

Operating Balance Impact Only	-	-	-	-	-
Net Core Crown Debt Impact Only	-	-	-	-	-
No Impact (Tax on Benefits)	2.022	9.210	8.409	7.670	7.670
<b>Total</b>	<b>27.473</b>	<b>116.683</b>	<b>105.459</b>	<b>98.173</b>	<b>98.173</b>

13 **approve** the following changes to appropriations to provide for recommendation 12:

	\$m - increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & outyears
<b>Vote Social Development</b>					
<b>Minister for Social Development and Employment</b>					
<b>Benefits or Related Expenses:</b>					
Childcare Assistance	(0.159)	(0.592)	(0.587)	(0.650)	(0.650)
Hardship Assistance	(0.541)	(2.255)	(2.051)	(1.860)	(1.860)
Jobseeker Support and Emergency Benefit	11.363	53.520	48.984	44.855	44.855
New Zealand Superannuation	1.015	4.018	3.587	3.297	3.297
Sole Parent Support	2.548	11.523	10.435	9.277	9.277
Supported Living Payment	1.190	4.627	4.008	3.561	3.561
Transitional Assistance	0.080	-	-	-	-
Winter Energy Payment	0.652	2.477	3.676	3.620	3.620
<b>Multi-Category Expenses and Capital Expenditure</b>					
Improved Employment and Social Outcomes Support MCA					
<b>Departmental Output Expenses:</b>					
Administering Income Support (funded by revenue Crown)	2.107	4.297	-	-	-
<b>Minister for Veterans</b>					
<b>Benefits or Related Expenses:</b>					
Veterans' Pension	0.006	0.024	0.024	0.017	0.017
<b>Minister of Housing</b>					
<b>Benefits or Related Expenses:</b>					
Accommodation Assistance	8.498	36.206	34.542	33.205	33.205
<b>Vote Housing and Urban Development</b>					
<b>Minister of Housing</b>					
<b>Multi-Category Expenses and Capital Expenditure</b>					
Public Housing MCA					

**B U D G E T   S E N S I T I V E**

<b>Non-Departmental Output Expenses:</b>					
Purchase of Public Housing Provision	(0.286)	(1.162)	(1.159)	(1.149)	(1.149)
<b>Total Operating</b>	<b>26.473</b>	<b>112.683</b>	<b>101.459</b>	<b>94.173</b>	<b>94.173</b>

- 14 **note** the following changes to appropriations in accordance with subpart ME of the Income Tax Act 2007, reflecting the changed expenses described in recommendation 9 above:

Vote Revenue Minister of Revenue	\$ million – increase / (decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
<b>Benefits or Related Expenses:</b>					
Minimum Family Tax Credit PLA	1.000	4.000	4.000	4.000	4.000
<b>Total Operating</b>	<b>1.000</b>	<b>4.000</b>	<b>4.000</b>	<b>4.000</b>	<b>4.000</b>

- 15 **agree** that the proposed changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases to annual appropriations be met from Imprest Supply
- 16 **agree** that the operating balance and net core Crown debt impact in recommendation 12 above be charged as a pre-commitment against the Budget 2021 operating allowance
- 17 **agree** that any underspends with the implementation and operational costs to increase the abatement thresholds on 1 April 2021 and administer additional Transitional Assistance Payment payments as at 30 June 2021 be transferred to the 2021/22 financial year to ensure that funding is available for that purpose
- 18 **authorise** the Minister of Finance and the Minister for Social Development and Employment jointly to agree the final amount to be transferred as per recommendation 17, following completion of the 2020/21 audited financial statements of the Ministry of Social Development, with no impact on the operating balance and/or net core Crown debt across the forecast period

*Legislative recommendations*

- 19 **note** that an Order in Council and an amendment to the Veterans' Support Regulations 2014 are required to increase the abatement thresholds as set out in recommendation 3
- 20 **note** that, subject to Cabinet agreement, the Minister for Veterans has agreed to the Veterans' Support Regulations 2014 being amended to implement the abatement threshold increases for the Veteran's Pension
- 21 **agree** to an Order in Council under sections 452(1) and 452(2)(c) of the Social Security Act 2018 to increase the abatement thresholds for Jobseeker Support, Sole Parent Support, Supported Living Payment and New Zealand Superannuation

**B U D G E T   S E N S I T I V E**

- 22    **agree** to amend the Veterans' Support Regulations 2014 to increase the abatement thresholds for the Veteran's Pension under section 265(1)(29A) of the Veterans' Support Act 2014
- 23    **note** that adjustment to the Minimum Family Tax Credit threshold for 2021/22 would need to be made via amendments to the Income Tax Act 2007
- 24    **agree** to amend the Income Tax Act 2007 to implement the adjustment to the Minimum Family Tax Credit threshold for 2021/22 as set out in recommendation 9
- 25    **agree** that the legislative amendments implementing the adjustment to the Minimum Family Tax Credit threshold for 2021/22 be included in the next available tax Bill
- 26    **note** that this amendment would need to be passed by March 2021 for the Minimum Family Tax Credit payments to be made at the new rate from 1 April 2021
- 27    **invite** the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to the Income Tax Act 2007 to give effect to the adjustment to the Minimum Family Tax Credit for 2021/22 as set out in recommendation 9.

Authorised for lodgement

Hon Carmel Sepuloni

Minister for Social Development and Employment

Hon David Parker

Minister of Revenue