Budget Sensitive

Office of the Minister for Child Poverty Reduction

Office of the Minister for Social Development and Employment

Cabinet

Initial Working for Families changes to support low-income families

Proposal

1 This paper seeks agreement to:

1.1 increase the Family Tax Credit (FTC) rate and increase the FTC and In-Work Tax Credit (IWTC) abatement rates to support low-income families, on top of the planned Consumer Price Index (CPI) adjustment of Working for Families (WFF) payments in April 2022; and

1.2 pass on the FTC increase to the rates of Orphan's Benefit (OB), Unsupported Child's Benefit (UCB), and Foster Care Allowance (FCA) and related allowances.

2 The paper also seeks agreement to some related minor technical policy changes to be included in the legislation.

Relation to government priorities

3 Reducing child poverty is critical to the Government's priority of improving child wellbeing and laying the foundations for the future. Child poverty is a long-term enduring issue that is affecting New Zealand children now and continues to impact them into the future. We are committed to continuing our bold ambitions to more than halve child poverty within ten years, and to contribute to our goal of making New Zealand the best place in the world for children and young people.

4 The changes proposed in this paper contribute to the welfare overhaul work programme, which lays the foundations to achieve the Government's vision of a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity, and are able to participate meaningfully in their communities. The proposal also plays an important role in supporting our economic recovery – providing further stimulus to the economy at the same time as reducing inequality and enhancing support for Māori and Pacific families who are disproportionately represented in our lowest income families.

5 Improving child wellbeing is an area of cooperation under the Cooperation Agreement between The NZ Labour Party and The Green Party of Aotearoa NZ.

Executive Summary

6 The WFF package was implemented between 2004 and 2007 to support income adequacy and reduce child poverty; and to improve financial incentives for low-income earners to participate in the labour market.

7 In its report in 2019, the Welfare Expert Advisory Group recommended significant changes to WFF as part of a wider suite of changes to income support settings. The Government agreed to review WFF as part of the Welfare Overhaul work programme.

8 We are committed to making fundamental changes to WFF in the coming years. The review will consider changes to the structure and design of WFF payments, with a focus on support for additional in-work costs, particularly childcare costs, and administrative, operational and client experience improvements.

9 We are now prioritising this review as the next critical step towards our commitment to support income adequacy for both beneficiary and low-income working families, and reduce child poverty.

10 The Government has set both three-year child poverty targets, and ten-year targets to more than halve rates of measured child poverty in New Zealand by 2027/28, and a goal to make New Zealand the best place in the world for children and young people. Additional changes to increase incomes for low-income families are key to progressing towards our current three- year child poverty targets, and any changes need to be implemented through Budget 2022 in order to have a full impact on the three-year targets.

11 Under current settings, the indexation of FTC and Best Start Tax Credit (BSTC) is triggered once the CPI has a cumulative increase of 5% since the last adjustment. The increases have now reached 8.57%, meaning both the FTC and BSTC will be increased from 1 April 2022. This provides an opportunity to make further changes alongside this adjustment.

12 We want to take early action now to respond to the increasing financial pressure and hardship that many families have experienced as a result of the COVID-19 restrictions and make progress towards our next three year child poverty targets.

13 That is why, in addition to the CPI increases, we propose to:

13.1 increase the FTC payment by $5 per child per week from 1 April 2022. This will see extra income going to hundreds of thousands of low to medium income families with children.

13.2 make a small increase to the abatement rate for the FTC and IWTC, from 25% to 27%. The payments abate sequentially from a family taxable income of $42,700. This small increase to the abatement rate will help to concentrate the greater gains to households on the lowest incomes.

14 Introducing these changes together ensures the additional investment from the policy changes and CPI indexation are targeted to the families in greatest need, while also still seeing gains higher up the income spectrum, and ensuring no one is worse off than they were before the changes.

15 In total, these changes mean:

15.1 the eldest child rate for FTC will increase by $14.69 per week; and the subsequent child rate will increase by $12.83 per week

15.2 child poverty is forecast to reduce by 5,000 +/- 4,000 children on the before-housing-costs, moving-line measure (BHC50); and by 6,000 +/- 5,000 children on the after-housing-costs, fixed line poverty measure (AHC50).[1]

16 This proposal, in combination with the planned CPI indexation, will provide many lower income working and beneficiary families with a meaningful boost to their weekly income. In total, 346,000 families will be better off by an average of $20 per week.

17 We intend to progress these changes through urgent primary legislation to ensure Inland Revenue has sufficient time to make the required system change. This also provides an opportunity to include several additional, relatively minor items that would otherwise require an alternative legislative vehicle or Orders in Council to be progressed.

18 We propose passing on the FTC increase to the rates of the OB, UCB, and FCA to provide additional support for caregivers. The $5 rate increase for these payments would also apply from 1 April 2022.

19 In addition, we are seeking agreement to make additional relatively minor changes through this Bill to:

19.1 make a remedial amendment to the CPI measure used to make adjustments to FTC and BSTC

19.2 make two changes for 1 April 2022 through primary legislation rather than by Order in Council - the CPI adjustments to FTC and BSTC, and the previously agreed Minimum Family Tax Credit (MFTC) threshold adjustment.

20 s 9(2)(f)(iv) [redacted]

[1] Access to the data used in this study was provided by Statistics NZ under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented in this study are the work of the author, not Statistics NZ or individual data suppliers.

Background

21 In 2018 the Government established the Welfare Expert Advisory Group (WEAG) to advise them on the future of New Zealand's social security system, including the WFF scheme. In its report in 2019, "Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand", the WEAG recommended significant changes to the design and targeting of WFF, as part of a wider suite of changes to income support settings. Cabinet subsequently agreed to a review of WFF as part of the medium-term Welfare Overhaul work programme [CAB-19-MIN-0578].

22 On 12 May 2021, the Cabinet Social Wellbeing Committee (SWC) noted that Income Support Ministers had agreed to bring forward the Review and determined its scope [SWC-21-MIN-0068].

23 Income Support Ministers agreed that:

23.1 The original WFF objectives of supporting income adequacy and reducing child poverty, and improving financial incentives for low-income earners to enter the labour market remain important.

23.2 The review focus on:

23.2.1 low-income working families, while maintaining support for beneficiary families

23.2.2 options that target support to lower-income families rather than more universal support

23.2.3 the principle of making work pay and assisting with the costs for people in work.

Summary of Working for Families payments

Around 57% of all families in New Zealand receive WFF, at a cost of $3 billion for the 2021 financial year. WFF is made up of the following tax credits:

- **Family Tax Credit (281,000 families, $2.1 billion)**: the main payment received by both beneficiary and working families and is not dependent on work status. Currently, families receive $113 per week for the eldest child and $91 per week for each subsequent child. This payment begins to abate at $42,700 of annual income at 25%.
- **In-Work Tax Credit (190,000 families, $602m)**: the main in-work payment for families who do not receive a benefit. It pays $72.50 per week for families with 1 to 3 children, with an extra $15 per week for each subsequent child. After the Family Tax Credit is fully abated, it is abated at 25%.
- **Best Start Tax Credit (75,000 families, $276m):** this payment provides $60 per week to all families with a child under one year old, and for lower income families with a child under 3. In the two subsequent years, this payment begins to abate at $79,000 of income at 21%.
- **Minimum Family Tax Credit (4,000 families, $21m):** this payment tops up incomes of working families who go off benefit to a guaranteed minimum income level, so that these families are not worse off when they leave benefit. The minimum income is currently set at $31,096 after tax.

24 Changes have already been made to improve WFF through the Families Package, as well as more recently two key changes to the IWTC:

24.1 removing the hours test – effective from 1 July 2020, the requirement for working families to meet the hours test was removed, meaning that people can now continue to be eligible for IWTC payments even if they work as little as an hour a week (previously a minimum of 20 hours a week for sole parents and 30 hours for couples was required).

24.2 introducing 'grace periods' – as part of the response to COVID-19, the Government announced 'two-week grace periods' that took effect from 1 April this year. This means families can now continue to receive the IWTC payment for up to two weeks while not working. This ensures people who are transitioning between jobs, for example, or who have short periods without work can still receive the IWTC payment.

More fundamental changes to WFF will be considered next

25 The Review of WFF is considering fundamental changes to the structure and design of WFF payments. The following work streams have been developed:

25.1 s 9(2)(f)(iv) [redacted]

25.2 s 9(2)(f)(iv) [redacted]

25.3 s 9(2)(f)(iv) [redacted]

26 s 9(2)(f)(iv) [redacted]

27 As these more fundamental changes are explored, there is a strong case for making immediate adequacy-focused changes now, given the additional pressures for many families arising from the impacts of COVID-19, and the need to continue to make progress on the child poverty targets.

Proposal to increase the Family Tax Credit combined with an increased abatement rate

28 There are several reasons why there is a strong case for taking immediate action as part of the WFF review to improve the adequacy of income support for families on our lowest incomes.

28.1 There is an ongoing need to make progress towards our child poverty targets:

28.1.1 Reducing child poverty was an agreed objective of WFF in 2004 [CAB Min (04) 13/4]. Since then we have passed the Child Poverty Reduction Act 2018 with cross-party support, which provides a framework to ensure progress is being made on multiple fronts to reduce child poverty. As part of this legislation, we set ten-year child poverty targets to more than halve rates of measured child poverty in New Zealand by 2027/28, and have recently set our second round of three-year targets, which cover the 2021/22, 2022/23 and 2023/24 years. These are currently estimated to require reductions of around 2-3 percentage points (ppt) or 25-35,000 children on each measure over the three-year period.

28.1.2 As previously advised [SWC-21-MIN-0095], we have an ambitious and comprehensive plan for achieving our targets. The Families Package, the indexation of main benefits to wages, and successive benefit increases in 2020, 2021, and 2022 have provided significant and immediate improvements to the living standards of low-income families in New Zealand. However we know there is more to do. Additional changes to increase incomes for low-income families are key to progressing towards our current three- year child poverty targets, and any changes need to be implemented through Budget 2022 in order to have a full impact on the three-year targets.

28.2 We also know that COVID-19 and the associated alert level restrictions have created additional pressures for many families. Additional support has been provided, for example, through the rollout of the Wage Subsidy to respond to Alert Levels and through extra funding for social services. However permanent changes to further support families will not only help achieve progress towards reducing inequality, it will also provide further support and stimulus to our economy as we recover from the economic impact of COVID-19.

28.3 The planned CPI adjustment of Working for Families also provides us with a window of opportunity to make changes to the targeting of payments. Under current settings, the indexation of FTC and Best Start Tax Credit (BSTC) is triggered once the CPI has a cumulative increase of 5%. The increases have now reached 8.57%, meaning both the FTC and BSTC will be increased from 1 April 2022. This provides an opportunity to make further changes that target assistance to those on lower incomes which do not result in families being worse off than they were previously.

Ministers explored a range of options to target gains to those on the lowest incomes

29 In considering immediate WFF changes, Ministers explored a range of options, which combined increases to FTC rates with various increases to abatement settings to reduce the cost and target the gains to those on the lowest incomes. We explored both:

29.1 'two tier' options that apply a second abatement threshold at different points (between $60,000 and $85,000) and then introduce higher rates of abatement above that threshold (ranging between 25% and 39%)

29.2 'single tier' options that introduce a higher rate of abatement above the current threshold which aim to achieve broadly similar objectives.

30 In general, the single-tier options were less likely to result in families being financially disadvantaged by the changes. They also had a more modest impact on effective marginal tax rates (described further below) and spread those over a much broader range of middle-higher income families.

The proposed change, combined with the scheduled lift in the FTC and the Best Start rate, will mean a meaningful increase in assistance in April next year

31 We propose to:

31.1 increase the FTC rate by $5 per child per week for all eligible families from 1 April 2022, on top of the scheduled CPI indexation

31.2 apply a small increase to the abatement rate for the FTC and IWTC, from 25% to 27%, which will help to concentrate the greater gains to households on the lowest incomes. The payments currently abate at 25% from a family taxable income of $42,700.

32 Under existing settings, the FTC and BSTC payments will increase by 8.57% in April next year, which means FTC rates are currently scheduled to rise by around $10 for the first child, and $8 for each subsequent child. The proposed increase to FTC will occur on top of this, which means the total proposed combined FTC increase on 1 April next year is:

32.1 $14.69 to the first child rate ($127.72 per week/$6,642 per year)

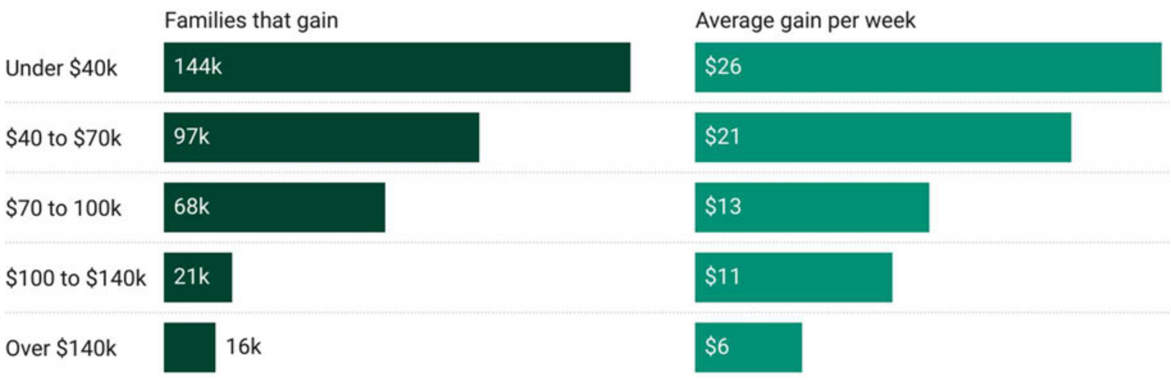
32.2 $12.83 to the subsequent child rate ($104.08 per week/$5,412 per year)

33 The new rates, including the policy change noted above, are shown below:

	TY2021 Pre-CPI	TY2022 Scheduled rate	TY2022 Proposed rate	Total increase
Eldest child rate of FTC	$113.04	122.73	$127.73	+$14.69
Subsequent child rate of FTC	$91.25	$99.08	$104.08	+$12.83
Best Start rate	$60.00	$65.15	$65.15	+$5.15
FTC/IWTC abatement rate	25%	25%	27%	+2ppt
FTC/IWTC abatement threshold	$42,700	$42,700	$42,700	no change

34 In combination, 346,000 families will be better off by an average of $20 per week in total. As shown in the following chart, the gains will be larger for lower income families.

Chart 1: Average gains from policy changes and CPI indexation by family taxable income



Families with taxable income over $140k are likely to be gaining as a result of the indexation of the Best Start Tax Credit which is universal for the first year.

Source: TAWA analysis • Created with Datawrapper

Introducing these changes together ensures additional investment is targeted to the families in greatest need, while still seeing gains higher up the income spectrum.

35 Increasing abatement rates maintains broadly the same child poverty impacts as the FTC increase alone. However, pairing the changes reduces the cost of an FTC increase, which is critical in the current tight fiscal environment, and aligns with our manifesto promise to carefully manage government finances. The policy changes are forecast to reduce child poverty:

35.1 on the before-housing-costs, moving-line measure (BHC50) by 5,000 (± 4,000) children, and

35.2 on the after-housing-costs, fixed line measure (AHC50) by 6,000 (± 5,000) children

36 Approximately two thirds of families currently in receipt of WFF will receive more than they would have done under CPI indexation alone. Most of these families (90%) have a family taxable income below $60,000 per year. Families higher up the income spectrum will receive less than they would have done under CPI indexation alone, however, modelling suggests that no families will be worse off compared to what they currently receive.

Increasing abatement rates increases effective marginal tax rates (EMTRs) for affected families, but the overall impact of this is expected to be small

37 Effective Marginal Tax Rates (EMTRs) are a measure of how an increase in employment earnings translates to an increase in income ‘in the hand’, after accounting for income tax combined with abatement of targeted payments. Currently, families earning above the $42,700 abatement threshold lose 25c in the dollar through the withdrawal of the FTC and IWTC, on top of personal tax. For some low-income families, the EMTRs are higher, particularly if they are also in receipt of the

Accommodation Supplement, have a student loan, and/or receive Childcare Assistance (tiered income thresholds).

38 An increase in FTC payments and a two-percentage point increase in the abatement rate would mean a small increase in the EMTR for affected families. This could have some small impacts on financial incentives to work for sole parent families, or families with a second earner with incomes above $42,700 p.a.. However, the change would be unlikely to have a measurable impact on work incentives or labour supply decisions in the aggregate. Decisions to work are also influenced by many factors other than financial incentives (e.g. availability/suitability of employment and/or childcare).

Passing on the FTC increase to the rates of the Orphan's Benefit (OB), Unsupported Child's Benefit (UCB), and Foster Care Allowance (FCA)

39 We propose passing on the $5 per week increase to the FTC to the rates of the OB, UCB, and FCA. The $5 rate increase for these payments would also apply from 1 April 2022. There will be flow on impacts to the Birthday Allowance and Holiday Allowance, which are paid at half of the weekly base rate payments.

40 Caregivers who receive the OB, UCB, and FCA do not qualify for FTC for the same child. However, increases to FTC rates have resulted in commensurate increases to the base rates of the OB, UCB, and FCA in 2005, 2007, and 2018. This is because the FTC makes a partial contribution towards the costs of raising children. These caregivers are largely whānau and family members of the child, who have a critical role in preventing the need for tamariki enter the State care system.

41 Passing on the FTC increase to caregiver payments will benefit around 15,000 caregivers currently providing the day-to-day care for around 24,000 tamariki who are unable to be cared for by their parents. Many of these caregivers are under financial pressure[2] and increasing financial support for caregivers helps them to support the tamariki in their care.[3]

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

42 s 9(2)(f)(iv) [redacted]

43 s 9(2)(f)(iv) [redacted]

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[2] Many are living in low-income households, with around half of caregivers outside of the State care system earning less than $43,000 per year.

[3] Evidence also indicates that increasing the financial resources of low-income households has benefits for the children in those households, including reduced care and protection involvement and entry to State care. See Oranga Tamariki (2019) Evidence Centre Research Brief: How do welfare and tax settings affect children's involvement with child protective services?, available at https://www.orangatamariki.govt.nz/research/latest-research/welfare-and-tax-settings/

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

44 s 9(2)(f)(iv) [redacted]

Monitoring outcomes

45 The effects of the proposed changes can be monitored using data IR currently collects as part of administering WFF. This data includes the number of WFF recipients, the makeup of those families, the amount and type of payments made, and end of year assessment data on under and overpayments. This administrative data provides descriptive information about WFF recipients, and the actual fiscal cost to the Government of the chosen settings. Inland Revenue and MSD hold data about the WFF payments they make. For MSD this is limited to FTC and BSTC payments made to main benefit recipients.

46 The agencies who are involved in the WFF review are also currently working on advice about how any changes that are progressed as part of the broader WFF review will be evaluated.

Proposal to use the Bill enabling the FTC changes to also give effect to several other relatively minor WFF changes

47 Progressing the FTC changes outlined in this paper will require urgent primary legislation (the Bill) in order to effect the changes by 1 April 2022. This provides an opportunity to include several additional, relatively minor items that would otherwise require an alternative legislative vehicle or Orders in Council to be progressed.

48 Therefore, in addition to the FTC changes outlined above, we are seeking agreement from you to include in the Bill the two following relatively minor changes.

Remedial amendment to change the CPI measure used to adjust FTC and BSTC

49 The Income Tax Act 2007 currently requires FTC and BSTC rates to be increased in line with cumulative increases to the CPI measure referred to as CPI 'all groups excluding tobacco and cigarette products' (CPIX).

50 On 21 April 2016, Cabinet agreed that this CPIX measure would be used to calculate welfare payments until the end of 2020 when annual tobacco excise tax increases ceased, and then to revert back to using CPI (all groups) [CAB-16-MIN-0189 refers].

51 This approach included the indexation approach for WFF payments. In 2017 the Income Tax Act 2007 was amended to change the CPI measure from CPI (all groups) to CPIX, effective from 1 April 2018. However, no provision was made in the Income

Tax Act 2007 to automatically revert back to the CPI (all groups) measure[4]. We recommend that you agree to include in the Bill a remedial amendment to the Income Tax Act 2007 to update the CPI measure used for FTC and BSTC CPI indexation from CPIX to CPI all groups, effective from March 2021, in order to be consistent with the CPI measures used for other similar social support adjustments.

52 FTC and BSTC rates going forward have been forecast in line with the policy decision to use CPI (all groups). For FTC recipients, continuing to use CPIX would equate to an increase of approximately $0.13 per week, per child. While agreeing this technical change does not have a fiscal cost, continuing to use CPIX would have a fiscal cost of approximately $18 million over the forecast period.

53 We also recommend that, for the sake of efficiency, the scheduled CPI adjustment to the FTC and BSTC payments outlined in paragraph 33 be made via the Bill, rather than by Order in Council as would otherwise be required.

Increasing Minimum Family Tax Credit via legislation rather than Order in Council

54 Cabinet previously agreed to:

54.1 increase the 1 April 2022 MFTC[5] threshold to reflect increases to main benefits from the same date;

54.2 change the approach to calculating the 1 April 2022 MFTC threshold so that the Winter Energy Payment component of the formula equates to five months of payments rather than 12 months of payments; and

54.3 give effect to the 1 April 2022 MFTC threshold increase (at the time forecast to be $32,760) via Order in Council by 1 December 2021 [CAB-21-MIN-0116.33 refers].

55 We propose to make the above MFTC threshold increase via the Bill as this is more efficient than making the increase using a separate Order in Council.

56 We note that the MFTC threshold that would apply from 1 April 2022 is now forecast as being $32,864, reflecting additional wage growth increases to 2022 benefit rates.

[4] This is unlike the Social Security Act 2018. The Social Security Act 2018 s453 required the CPI excluding tobacco to be used for the period 2018 to 2021 (inclusive). This provision has now expired and s453 requires to CPI (all groups) to be used.

[5] The MFTC is support providing a guaranteed minimum income for people with children who work at least 20 hours per week and no longer receive a main benefit. It “tops up” income from work, so that families have a higher income than they would receive while receiving a benefit.

Implementation

57 The following proposed changes will be implemented by Inland Revenue as part of its annual system roll-over and will go live from 1 April 2022:

57.1 the FTC increase (reflecting both the CPI indexation increase and the $5 p/w increase);

57.2 the FTC and IWTC abatement rate increase;

57.3 the BSTC CPI indexation increase; and

57.4 the MFTC threshold increase.

58 The effect of the CPI remedial amendment will be reflected in the calculation of the CPI indexation increases for FTC and BSTC included in the Bill.

59 Passing on the FTC increase to the rates of the OB, UCB, and FCA will occur from 1 April 2022 alongside the Annual General Adjustment of benefit rates.

Financial Implications

60 The fiscal implications of the policy changes proposed are **$272.485 million** over the forecast period. These are broken down as follows:

60.1 $239.690 million to increase the FTC by $5 per child and increase the abatement rate from 25% to 27%, including the flow-on impact to other MSD assistance, and

60.2 $32.794 million to increase the base rates of OB, UCB and FCA.

61 The other related technical policy changes proposed have already been factored into forecasts. No additional funding is being sought.

Legislative Implications

Legislative implications of increasing the FTC

62 The proposed $5 increase to the FTC and associated FTC and IWTC abatement rate increases, together with the other changes proposed in this paper, will require amendments to the Income Tax Act 2007 via urgent primary legislation before 1 December 2021. This is to ensure Inland Revenue has sufficient time to make the required system changes, and to implement the changes that would otherwise require Orders in Council to be made by that date.

63 We recommend that urgent legislation be introduced on 23 November 2021 and that it moves through all stages in the House under urgency by 25 November 2021.

64 Because of time constraints, we propose that the Minister of Revenue return to Cabinet to seek approval to introduce the Taxation (COVID-19 Support Payments and Working for Families Tax Credits) Bill containing the amendments agreed to by Cabinet.

Legislative implications of passing on the FTC increase to the rates of OB, UCB and FCA

65 The rates of the OB and UCB are prescribed in Schedule 4 of the Social Security Act 2018. Enacting the increase to the base rates of these payments requires an amendment to the Social Security Act 2018 via an Order in Council. Subject to Cabinet agreement to the proposal, the Minister for Social Development and Employment will report back separately to Cabinet Legislation Committee to progress this Order in Council in early 2022.

66 Increasing the base rate of the FCA can be done administratively under the Oranga Tamariki Act 1989, and therefore legislative change is not required.

Impact Analysis

Regulatory Impact Statement

67 The Regulatory Impact Statement (RIS) requirements apply to the proposals in this paper. A RIS has been prepared and is attached.

68 The Quality Assurance reviewers at Inland Revenue have reviewed Regulatory Impact Statement: April 2022 Working for Families changes and consider that the information and analysis summarised in it **partially** meets the quality assurance criteria of the Regulatory Impact Statement framework

69 This RIS has been prepared in a constrained timeframe. There was no public consultation on these proposals. However, we note that the direction of the proposals was signalled in the WEAG report and are consistent with the Government's targets for child poverty. The changes will not have any significant adverse impacts on stakeholders given the changes are to systems which are already in place.

Climate Implications of Policy Assessment

70 There are no climate implications arising from this paper.

Population Implications

71 Approximately 57% of all families with children receive WFF, and 35% receive the In-Work Tax Credit (using administrative and TAWA outputs).

72 The impact of the changes proposed in this paper will be modest. Those expected to benefit from the changes will be low income families with children. Sole parents, who are predominately women, make up a large proportion of low-income families. For the 2020 tax year, 52% of WFF recipients were sole parent families. For the Family Tax Credit specifically, around 58% of recipients are sole parent families.

73 As Māori people with children are overrepresented amongst low income households they are likely to benefit from the WFF changes. For example, as at November 2018, Māori made up 15% of the New Zealand population, but 36% of benefit recipients (Welfare Expert Advisory Group 2018 Welfare System: statistics). Passing on the FTC to the rates of the OB, UCB and FCA would also impact children and Māori.

Over half of children living with caregivers[6] are Māori, and a significant proportion of their caregivers are also Māori.

74 The impact of the WFF changes on other groups may be proportionate to their representation in the target group of low-income families. Pacific people with children are overrepresented amongst low income households. Children in households where someone has a disability are over-represented amongst low income families. These families will be likely to benefit from the changes.

Human Rights

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

Consultation

76 The Treasury and Inland Revenue have been consulted in the development of this paper.

Communications

77 Subject to Cabinet decisions, we intend to make a media statement introducing these changes in November 2021.

Proactive Release

78 This Cabinet paper will be proactively released, with redactions made consistent with the Official Information Act 1982. Proactive release will follow the media statement.

[6] There are around 24,000 children being cared for by around 15,000 caregivers, both inside and outside of the State care system.

Recommendations

1. **note** that in 2019, SWC agreed to a review of Working for Families as part of the Welfare Overhaul work programme [SWC-19-MIN-0168];

2. **note** that on 12 May 2021, SWC noted that the review of Working for Families had been brought forward on the Welfare Overhaul work programme [SWC-21-MIN-0068];

3. **note** that we are committed to fundamental changes to s 9(2)(f)(iv) [redacted]

4. **note** that under section MF(7)(2)(b) and MF(7)(2BA)(a) of the Income Tax Act 2007, the rates of the Family Tax Credit and Best Start Tax Credit must be adjusted once the cumulative increases in the Consumer Price Index (CPI) reach 5%, since the last adjustment;

5. **note** that increases to the CPI have now reached 8.57% and under current settings, the Family Tax Credit and Best Start Tax Credit will automatically increase by 8.57% on 1 April 2022;

6. **note** that there is a strong case to take immediate additional action to improve income adequacy for families on our lowest incomes as part of our review of Working for Families, as:

   6.1 we know that COVID-19 and the associated alert level restrictions have created additional pressures for some families,

   6.2 the CPI adjustment of payments scheduled for April 2022 provide an opportunity to make changes to target assistance to those on lower incomes,

   6.3 changes need to be implemented through Budget 2022 to have a full impact on our current three-year child poverty targets;

7. **agree** to the following changes to take effect from 1 April 2022:

   7.1 increase the Family Tax Credit rates by $5 per child per week,

   7.2 increase the Family Tax Credit and In Work Tax Credit abatement rate to 27 percent,

   7.3 pass on the $5 increase to the Family Tax Credit to increase the base rates of the Orphan's Benefit, Unsupported Child's Benefit, and Foster Care Allowance by $5 per week per child;

8. **agree** to increase the abatement rate, as outlined in rec 7.2 via an amendment to the Income Tax Act 2007;

9. **note** that making these changes together ensures support is targeted to those on the lowest incomes at a reduced fiscal cost, while ensuring that no families will be worse off compared to what they currently receive;

10. **note** that the changes to Working for Families are forecast to reduce child poverty by 5,000 (+/- 4,000) children on the before-housing-costs, moving line measure, and 6,000 (+/- 5,000) children on the after-housing-costs, fixed line measure;

11. **approve** the following changes to appropriations to give effect to the policy decision in recommendation 7 above, with a reduction in the operating balance and increase in net core Crown debt:

	$m - increase/(decrease)				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Vote Social Development					
Minister for Social Development and Employment					
Benefits or Related Expenses:					
Childcare Assistance					
Hardship Assistance	(0.621)	(2.617)	(2.639)	(2.545)	(2.545)
Orphan's/Unsupported Child's Benefit	1.478	6.215	6.593	6.923	7.293
Minister of Housing					
Benefits or Related Expenses:					
Accommodation Assistance	(0.735)	(2.853)	(3.030)	(3.618)	(3.618)
Vote Housing and Urban Development					
Minister of Housing					
Non-Departmental Output Expense:					
Purchase of Public Housing	(0.599)	(2.552)	(2.555)	(2.141)	(2.141)
Vote Oranga Tamariki					
Minister for Children					
Investing in Children and Young people MCA:					
Departmental Output Expense:					
Statutory Intervention and Transition (funded by revenue Crown)	0.252	1.009	1.012	1.009	1.009
Vote Revenue					
Minister of Revenue					
Benefits or Related Expenses:					
Family Tax Credit PLA	22.250	89.000	85.000	81.000	81.000
In-Work Tax Credit PLA	(5.000)	(20.000)	(21.000)	(21.000)	(21.000)
Independent Earner Tax Credit PLA	0.250	1.000	1.000	1.000	1.000
Total Operating	**17.275**	**69.202**	**64.381**	**60.628**	**60.998**

12. **agree** that the proposed changes to appropriations above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

13. **agree** that the expenses incurred under recommendation 11 above be charges as a pre-commitment against the Budget 2022 operating allowance;

Changes to the measure used to index the Family Tax Credit and Best Start Tax Credit

14. **note** that a technical amendment is needed to change the CPI measure used for this calculation from the New Zealand Consumers Price Index all groups *excluding cigarettes and other tobacco products* (CPIX) to New Zealand Consumers Price Index all groups, consistent with previous Cabinet decisions [CAB-16-MIN-0189 refers];

15. **note** that forecast cost associated with indexation have been calculated in line with the policy decision noted in recommendation 14, and to continue using CPIX going have a fiscal cost of $18 million over the forecast period, as CPIX is higher than CPI all groups;

16. **agree** to update the CPI measure used to calculate the indexation of the Family Tax Credit and Best Start Tax Credit to the *New Zealand Consumers Price Index all groups* from the March 2021 quarter, and this be used for the Family Tax Credit and Best Start Tax Credit indexation increases required from 1 April 2022;

17. **agree** to give effect to the change in CPI measure via an amendment to the Income Tax Act 2007;

Giving effect to rates of Family Tax Credit and Best Start Tax Credit from 1 April 2022

18. **note** that as a result of the 5% CPI threshold being reached, and based on the decision above at rec 16, the Family Tax Credit and Best Start Tax Credit must be increased by 8.57% from 1 April 2022;

19. **note** that the combined impact of policy changes to the FTC agreed in recommendation 7 and the CPI indexation noted in recommendation 18 result in the following Family Tax Credit and Best Start Tax Credit rates from 1 April 2022:

Payment	**Annual Amount (as set out in the Act)**	**Equivalent weekly rate**
Family Tax Credit “eldest dependent child”	$6,642	$127.73
Family Tax Credit “additional dependent child”	$5,412	$104.08
Best Start Tax Credit	$3,388	$65.15

20. **agree** to give effect to the new Family Tax Credit and Best Start Tax Credit rates noted above in recommendation 19 via amendments to the Income Tax Act 2007 rather than by Order in Council as would otherwise be required;

Increasing the Minimum Family Tax Credit via primary legislation

21. **note** that Cabinet previously agreed to implement the adjustment to the 1 April 2022 Minimum Family Tax Credit threshold (then forecast to be to $32,760) to align with the increase to main benefit via an Order in Council [CAB-21-MIN-0116.33 refers];

22. **note** that the Minimum Family Tax Credit threshold is now forecast to be $32,864 from 1 April 2022;

23. **agree** to give effect to the adjustment to the Minimum Family Tax Credit on 1 April 2022 via an amendment to the Income Tax Act 2007 rather than via an Order in Council as previously agreed by Cabinet;

Legislation implications

24. **agree** that the legislative amendments outlined in recommendations 8, 17, 20 and 23 be included in legislation introduced and progressed under urgency on 23 November in order to meet the 1 April 2022 implementation date;

25. **agree** to delegate authority to the Minister of Revenue, Minister of Social Development and Employment, and Minister of Finance to make any minor and technical amendments to these changes to the Working for Families settings;

26. **note** that the Minister of Revenue will seek Cabinet approval to introduce the Taxation (COVID-19 Support Payments and Working for Families Tax Credits) Bill (the Bill);

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

27. s 9(2)(f)(iv) [redacted]

28. s 9(2)(f)(iv) [redacted]

Authorised for lodgement

Rt Hon Jacinda Ardern

Minister for Child Poverty Reduction

Hon Carmel Sepuloni

Minister of Social Development and Employment