



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA



Inland Revenue
Te Tari Taake



**DEPARTMENT OF THE
PRIME MINISTER AND CABINET**
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

Report

Date: 17 September 2021 **Security Level:** BUDGET SENSITIVE

To: Rt Hon Jacinda Ardern, Prime Minister / Minister for Child Poverty Reduction
Hon Grant Robertson, Minister of Finance
Hon Kelvin Davis, Minister for Children
Hon Carmel Sepuloni, Minister for Social Development and Employment
Hon David Parker, Minister of Revenue

Working for Families Review: update and options for Budget 2022

Purpose of the report

- 1 This report:
 - provides you with an update on the Working for Families (WFF) review, and how the work programme is being sequenced following recent feedback from Income Support Ministers
 - sets out options for a package that redistributes support to low-income families alongside the planned Consumer Price Index (CPI) adjustment of WFF payments in April next year.
- 2 The paper includes some options that involve introducing a second abatement threshold for the Family Tax Credit (FTC) and In-work Tax Credit (IWTC) in April 2022. If Ministers wish to progress any of these two-tier options, Inland Revenue need to begin implementation by the end of September in order to make the necessary system changes in time. We are therefore seeking a decision now as to whether to proceed with these 'two tier' options, and draft a Cabinet paper seeking agreement to them, or rule out this kind of option for April 2022.

Executive Summary

Phasing of the WFF review work programme

- 3 Based on your feedback at the last Income Support Ministers' meeting, officials have structured the review of WFF into two phases:
 - phase one will consider modest-cost options for Budget 2022 that increase and redistribute support to low-income families alongside the planned 5% CPI adjustment in April 2022
 - phase two will consider more fundamental changes to the structure and design of WFF payments, with a particular focus on in-work support, and changes to improve administration, operations and client experience.

- 4 Ministers have agreed to defer public engagement until May 2022, which aligns with the longer development timeframe for the more substantial options in the WFF review. Alongside this, officials will continue progressing a number of related workstreams, including potential changes to the Accommodation Supplement, the Review of Childcare Assistance, s 9(2)(f)(iv)

Modelling a redistribution package focused on changes to the Family Tax Credit

- 5 Officials have undertaken further exploratory modelling of different combinations of FTC increases and abatement changes, and identified a range of options. As the table below shows, we have grouped these various options into four categories along a spectrum of cost/impact from lower to higher. Introducing changes to abatement generally reduces the cost of a flat FTC increase of the same size by around \$100m.
- 6 Within each grouping, there are further choices regarding the specific design of the abatement settings. We have primarily focused on 'two tier' abatement options to further target support to low-income families. For around the same cost, similar FTC increases (and child poverty impacts) can also be achieved working within the current single-tier abatement structure by simply increasing the abatement rate, with slightly different distributional impacts.

Table 1: Options identified

Option	FTC increase		Child poverty		Two tier abatement approach			Single tier abatement approach		
	FTC increase above CPI	FTC increase with CPI (eldest & subs. child)	BHC50	AHC50		Second abatement Threshold	Second abatement rate		Abatement threshold	Abatement rate
Lowest cost (\$60-90m)	\$5	\$11.71 and \$10.42	5,000	7,000-8,000	A	\$60,000	29%	C	\$42,700	27%
						\$65,000	31%		\$45,200	29%
					B	\$75,000	33%			
						\$75,000	35%			
Lower cost (\$130-170m)	\$7.50	\$14.21 and \$12.92	7,000-8,000	11,000-13,000	A	\$60,000	29%	C	\$42,700	27%
						\$65,000	31%		\$45,200	29%
					B	\$75,000	33%			
						\$75,000	35%			
Higher cost (\$200-240m)	\$10	\$16.71 and \$15.42	11,000-13,000	15,000-16,000	A	\$60,000	29%	C	\$42,700	27%
						\$65,000	31%		\$45,200	29%
					B	\$75,000	33%			
						\$75,000	35%			
High cost (\$360-400m)	\$15	\$21.71 and \$20.42	16,000-17,000	22,000-23,000	A	\$60,000	29%	C	\$42,700	27%
						\$65,000	31%		\$45,200	29%
					B	\$75,000	33%			
						\$75,000	35%			

- 7 Further advice on the impact of the different settings is included in the body of this paper. Different abatement settings all involve trade-offs between different objectives, and the abatement structure you ultimately progress will depend on the specific distributional impact and incentive structure you want to achieve. In summary:
- The single-tier options redistribute funding from a much broader range of middle-higher income families, and have a more modest impact on EMTRs.
 - The two-tier options redistribute funding from a smaller group of comparatively higher income families, and a significant increase in EMTRs is concentrated within this group.
- 8 Effective marginal tax rates increase under all the options. These options reflect a key trade-off between objectives frequently encountered in income support – more focused targeting of support to families on low-middle incomes at the cost of reducing incentives to work.

9 Some of the impacts on work incentives created by the options in this paper could potentially be mitigated by further changes progressed as part of phase two of the review. s 9(2)(f)(iv)

s 9(2)(f)(iv)

10 s 9(2)(f)(iv)

11 s 9(2)(f)(iv)

s 9(2)(f)(iv)

12 s 9(2)(f)(iv)

- s 9(2)(f)(iv)

- s 9(2)(f)(iv)

13 s 9(2)(f)(iv)

Next steps

14 A summary of the key choices in this paper is outlined in table 2. To assist your decisions, as useful context we have also included information on other options you have been considering for Budget 2022: s 9(2)(f)(iv) This is attached as Appendix Three.

15 If you wish to introduce a 'two tier' option with a second abatement threshold for FTC and IWTC with an implementation date of 1 April 2022, we will prepare a paper for a Cabinet meeting before the end of September that seeks in-principle agreement to the change. Precise details can be confirmed via a subsequent paper and pre-commitment on Budget 2022 in November, followed by urgent legislation.

16 If you wish to proceed with a 'single tier' option for April, we can confirm policy details via follow-up advice and seek agreement to the final package through a single Cabinet paper in November. If you instead wish to discuss an alternative timeframe for changes in 2022 or later, such as by postponing the planned CPI indexation round, we will provide you with further advice.

Table 2: Summary of choices outlined in this paper

1. Options for cost The FTC increase largely determines the cost and the child poverty impact.				
Option	FTC increase		Child poverty	
	Increase above CPI	Increase with CPI (eldest & subs. child)	BHC50	AHC50
1. Lowest cost (\$60-90m)	\$5	\$11.71 and \$10.42	5,000	7,000-8,000
2. Lower cost (\$130-170m)	\$7.50	\$14.21 and \$12.92	7,000-8,000	11,000 -13,000
3. Higher cost (\$200-240m)	\$10	\$16.71 and \$15.42	11,000-13,000	15,000-16,000
4. High cost (\$360-400m)	\$15	\$21.71 and \$20.42	16,000-17,000	22,000-23,000
2. Approach to abatement The abatement structure influences distributional impacts and the effective marginal tax rates - primarily how much negative impacts are concentrated on "higher" income families or spread over a broader range				
Approach	Losers		EMTRs	
A: Modest two-tier structure (lower threshold) 2 nd threshold set at 60/65k and an abatement rate at 29%/31%	10-35k households lose \$0-10, mostly earning above 100k		Significant impact on work incentives for families above \$60-65k - increases EMTRs by 4-6 ppt	
B: Sharper two-tier abatement structure (higher threshold) 2 nd threshold at \$75k and an abatement rate at 33%/35%	10-30k households lose \$10-15, mostly earning above 100k		Very significant impact on work incentives for families above \$75k - increases EMTRs by 8-10 ppt	
C: One tier abatement structure Increase to the abatement rate, possibly with a small increase to the abatement threshold	Less than 10k households losing less than \$5.		Modest to significant impact on work incentives for families for larger number of families above 42-45k - increases EMTRs by 2-4 ppt	

Recommended actions

It is recommended that you:

- indicate** if you wish to proceed with a Working for Families redistribution package in April 2022, alongside the planned CPI adjustment for the Family Tax Credit and Best Start Tax Credit that is scheduled to increase the Family Tax Credit first child rate by \$6.71 and the subsequent child rate of \$5.42

Yes / No

- note** that there are two key decisions for the shape of any package: the size of the Family Tax Credit increase (which primarily determines the cost of the package and

the child poverty impact) and the approach to the abatement structure (which influences distributional impacts and the effective marginal tax rates)

- 3 **indicate** the size of any additional Family Tax Credit rate increase that you wish to base a package around:

3.1 no increase above the planned adjustment in April

Yes / No

3.2 a further \$5 per child at around \$60-90m

Yes / No

3.1 a further \$7.50 per child at around \$130-170m

Yes / No

3.2 a further \$10 per child at around \$200-240m

Yes / No

3.3 a further \$15 per child at around \$360-400m

Yes / No

- 4 **indicate** the approach you wish to take to the structure of abatement for the package:

4.1 approach a: a more modest two-tier structure with a 2nd threshold set at 60/65k and an abatement rate at 29%/31%

Yes / No

4.2 approach b: a sharper two-tier structure with a 2nd threshold at \$75k and an abatement rate at 33%/35%

Yes / No

4.3 approach c: a one-tier abatement structure that increases the abatement rate, potentially accompanied by a small increase to the abatement threshold

Yes / No

4.4 approach d: no changes to abatement, noting that the cost of any FTC increase would be above those set out in this paper and in recommendation 3 above

Yes / No

- 5 **note** that, in order to make the necessary system changes by April 2022, a decision to introduce a two-tier structure with a second abatement threshold needs to be made by Cabinet by late September, and a single-tier abatement option needs to be agreed by November this year.

- 6 s 9(2)(f)(iv)

6.1 s 9(2)(f)(iv)

Yes / No

6.2 s 9(2)(f)(iv)

Yes / No

7 s 9(2)(f)(iv)

Yes / No

8 s 9(2)(f)(iv)

8.1 s 9(2)(f)(iv)

Yes / No

8.2 s 9(2)(f)(iv)

Yes / No

8.3 s 9(2)(f)(iv)

Yes / No

s 9(2)(a)

s 9(2)(a)

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s 9(2)(a)

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Minister for Social Development
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Minister for Revenue

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Update on WFF work programme and how it is being phased

- 17 The Government has announced a review of Working for Families. Ministers have agreed the review will focus on:
- targeting more support to lower income families, rather than universal support
 - increasing support for low-income working families, while maintaining support for beneficiary families
 - help make work pay and assist with the costs for people in work.
- 18 The Government has also set ten-year child poverty targets, which require baseline rates to be halved by 2027/28, and three-year targets covering the 2021/22, 2022/23 and 2023/24 years. Implementation needs to occur by mid-2022 for any changes to have a full impact on the period.
- 19 On 11 August, Income Support Ministers met to discuss the review, and considered recent advice from officials [refer DPMC-2021/22-100; REP/21/8/830; T2021/1994; IR2021/321]. Ministers indicated that
- the level of redistribution required by the fiscally neutral options had undesirable distributional impacts that meant such options would not be progressed, but that there could still be room for changes to abatement settings at the upper end
 - the planned 5% CPI adjustment of WFF payments scheduled for April 2022 provided an opportunity to make some changes which would not result in families being worse off than they were previously
 - s 9(2)(f)(iv)
 - there may be room in Budget 2022 for a modest-cost package in April 2022 that combined an FTC increase with abatement changes
 - s 9(2)(f)(iv)
 - more fundamental design changes, and improvements to the coherency of the system could be considered over a longer timeframe.
- 20 Based on your feedback, officials propose that the review of Working for Families be structured into two phases. **Phase one** will consider *options for Budget 2022 that redistribute support to low income families*, and is the focus of the remainder of this paper.
- 21 **Phase two** will consider more fundamental changes to the structure and design of WFF payments. As part of phase two, the following workstreams have been developed s 9(2)(f)(iv)
- *Workstream One: improvements to the structure and design of in-work tax credits* s 9(2)(f)(iv)
 - *Workstream Two: improvements to assist with the costs of children in the early years, particularly with childcare* s 9(2)(f)(iv)
 - *Workstream Three: administrative and operational improvements* s 9(2)(f)(iv)
- 22 Ministers have agreed to defer public engagement until May 2022, which aligns with the longer development timeframe for the more substantial options in the WFF review. Alongside this, officials have been progressing a number of related workstreams, including potential changes to the Accommodation Supplement, the Review of Childcare Assistance, s 9(2)(f)(iv)

Budget 2022 options for implementation in April next year

23 As requested by Ministers, officials have explored modest-cost options that could be implemented alongside the planned 5% CPI adjustment in April 2022, and which combine:

- increases to rates of the FTC
- abatement changes that redistribute money from comparatively higher earners (for example, families earning over 100k).
- s 9(2)(f)(iv)

The scheduled CPI adjustment provides an opportunity to change abatement settings

24 The scheduled CPI adjustment in April 2022 provides an opportunity to change abatement settings that lessen the extent to which families see payments reduce. On its own, the scheduled adjustment is estimated to increase rates of the FTC and Best Start by 5.9%. For the FTC, this translates to an increase in the first child rate of \$6.71 and the subsequent child rate of \$5.42, and for Best Start an increase of \$3.56 per child per week.ⁱ

25 The total cost of the April adjustment across all payments is estimated at \$53m for the last three months of 2021/22 and \$210m for the first full year of 2022/23, with \$175m of this for the FTC (with some flow on impacts for the IWTC), and \$18m for Best Start. This funding has already been accounted for in forecasts, which means that all costs in this paper are in addition to that.

Officials have undertaken further exploratory modelling of different FTC changes

26 Officials have undertaken further exploratory modelling of different FTC changes, which have combined increases of various sizes to FTC rates (between \$5 and \$15 per child on top of the planned adjustment), and various increases to abatement settings to reduce the cost. We have explored both:

- '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%)
- 'single tier' options that introduce a higher rate of abatement above the current threshold which aim to achieve broadly similar objectives. One option also includes a small increase to the abatement threshold, to target more income to, and improve incentives for, low-income families, particularly the 'working poor'.

27 We explicitly ruled out any options that reduced the incomes of households in poverty on the after-housing-cost measure and/or that shifted households below the AHC poverty threshold. We have generally attempted to target any financial disadvantage at higher income families (eg families earning over \$100k).

28 We have narrowed this list of options down to a smaller range of potential options for Ministers to consider, set out in the following tables. These are grouped from lower cost, smaller increases in the FTC (\$5, \$7.50) – which still have a small but meaningful impact on child poverty – through to higher cost options that have a more substantial impact (\$10, \$15). Within each group, we have also presented choices for the specific design of the abatement settings, grouped into three broad approaches:

- a more modest two-tier abatement structure with a 2nd threshold set at 60/65k and an abatement rate at 29%/31%
- a sharper two-tier abatement rate with a 2nd threshold at \$75k and an abatement rate at 33%/35%
- a one-tier abatement structure that increases the abatement rate, potentially accompanied by a small increase to the abatement threshold.

Table three: Two tier abatement options

Option	FTC increase		Child poverty		Abatement approach			Cost	Gains and Losses for Households			
	FTC increase above CPI	FTC increase with CPI included (eldest & subs. child)	BHC50	AHC50		Second abatement threshold	Second abatement rate	(\$)	Winners	Average gains	Losers	Average losses
Lowest cost (\$60-80m)	\$5	\$11.71 and \$10.42	5,000	7,000-8,000	A	\$60,000	29%	\$68m	313,000	\$17	25,000	\$4
						\$65,000	31%	\$56m	303,000	\$18	35,000	\$9
					B	\$75,000	33%	\$81m	315,000	\$18	23,000	\$11
						\$75,000	35%	\$67m	309,000	\$19	29,000	\$15
Lower cost (\$130-160m)	\$7.50	\$14.21 and \$12.92	8,000	11,000 - 13,000	A	\$60,000	29%	\$145m	328,000	\$21	10,000	\$2
						\$65,000	31%	\$132m	314,000	\$21	24,000	\$6
					B	\$75,000	33%	\$156m	323,000	\$22	15,000	\$10
						\$75,000	35%	\$141m	314,000	\$22	24,000	\$12
Higher cost (\$210-220m)	\$10	\$16.71 and \$15.42	11,000-12,000	15,000-16,000	A	\$60,000	29%	\$222m	337,000	\$24	N/A	
						\$65,000	31%	\$207m	325,000	\$25	13,000	\$5
					B	\$75,000	33%	\$232m	329,000	\$26	11,000	\$8
						\$75,000	35%	\$216m	322,000	\$26	16,000	\$13
High cost (\$360-390m)	\$15	\$21.71 and \$20.42	17,000	22,000	A	\$60,000	29%	\$376m	Impacts available on request			
						\$65,000	31%	\$360m				
					B	\$75,000	33%	\$386m				
						\$75,000	35%	\$368m				

Table four: Single tier abatement options

Option	FTC increase		Child poverty		Abatement approach			Cost	Gains and Losses			
	FTC increase above CPI	FTC increase with CPI included (eldest & subs. child)	BHC50	AHC50		First abatement threshold	First abatement rate	(\$)	Winners	Average gains	Losers	Average losses
Lowest cost (\$65-90m)	\$5	\$11.71 and \$10.42	5,000	7,000-8,000	C	\$42,700	27%	\$68m	330,000	\$16	8,000	\$1
						\$45,200	29%	\$86m	315,000	\$18	22,000	\$4
Lower cost (\$140-165m)	\$7.50	\$14.21 and \$12.92	7,000-8,000	11,000-13,000	C	\$42,700	27%	\$145m	337,000	\$20	N/A	
						\$45,200	29%	\$163m	330,000	\$22	8,000	\$2
Higher cost (\$220-240m)	\$10	\$16.71 and \$15.42	11,000-13,000	15,000-16,000	C	\$42,700	27%	\$223m	339,000	\$24	N/A	
						\$45,200	29%	\$240m	338,000	\$25		
High cost (\$380-395m)	\$15	\$21.71 and \$20.42	16,000-17,000	22,000-23000	C	\$42,700	27%	\$380m	Impacts available on request			
						\$45,200	29%	\$394m				

The gains and losses are when compared with a pre-indexation status quo ie they show what will happen to a family's income when the changes come into effect. Comparison to a 'post indexation' scenario can be provided if required. Child poverty reduction estimates are in addition to any currently expected through the CPI adjustment. These are estimates only, and are subject to considerable uncertainty due to sampling error, with 95% margins of error of several thousand depending on the option. These margins of error are not shown in the table above - where the child poverty impacts are expressed as a range here, it is instead because there are small differences between the midpoints for the various options grouped together. If Ministers decide to proceed with a specific option, officials will provide updated figures.

Assessing the impacts of the options

Increasing abatement reduces cost by limiting gains for relatively "higher" income families, which has drawbacks

- 29 Abatement settings can limit the extent to which Government expenditure goes to families with higher incomes, and targets funding to those who are more likely to need it. The abatement changes in this paper result in some meaningful savings: across the options, they generally reduce the cost of increases to the FTC by around \$100m, with little or no change to child poverty impacts.
- 30 Appendix two shows the families who gain or lose under the various options across the income distribution, and the chart below shows how an increase of \$10 above CPI with different settings would impact on the FTC entitlement for a family with three children. As this shows, some families will be disadvantaged by the changes. Some receive less than they would have under the CPI adjustment, and under certain options some families will see their WFF entitlement go down in nominal terms.

Chart one: FTC increase of \$10 above CPI: impact of different abatement options for a family with three children

This chart shows the how much more or less a family with three children would get each week in Working for Families payments relative to the current status quo (pre CPI indexation) under the different abatement options.



- 31 While these are generally 'higher income' families earning over 100k, the vast majority (83%) are two-earning parents, and 77% are receiving WFF at these levels due to having three or more children. Families earning over 100k make up 4% (or 12,700) of WFF families, and 6% (around 39,900) of WFF children.¹ As a reference point, previous analysis indicated the median family taxable income for a couple with children was \$100,700. Increasing abatement as proposed would impact on the incomes of families who may have higher incomes *relative to other WFF recipients*, but many of these families are in fact also below the median income for families overall

Chart Two: Receipt of Working for Families payments by family income



- 32 Consistent with this, distributional analysis from TAWA shows that, once households are adjusted for family size/composition, nearly all losing households are below the median, with most in the fourth decile of equivalised household income (see chart at right in Appendix Two).

¹ Based on 2020 tax year administrative data. These figures exclude IR's BStC-only customers because of universal eligibility which skew the data.

- 33 To give a broader sense of scale of the prevalence of Working for Families, payments go to around 350,000 families with children, out of 633,000 families with children in New Zealand each year. Half of FTC or IWTC recipients (around 155,800 families) have over \$40,000 of taxable income, which is around the point at which the FTC and IWTC begin to abate (at \$42,700). There are around 687,000 children in families receiving WFF.

Increasing abatement increases effective marginal tax rates for affected families

- 34 Another key consideration is the impact on effective marginal tax rates (EMTRs), which currently differ for families in different situations. On current settings, families lose 25c in the dollar through the withdrawal of the FTC and IWTC, on top of what they lose through personal tax (this depends on the family, but likely 30-33c). In combination, this means most families receiving WFF have EMTRs of at least 55-58%, which means they lose at least 55-58c of each additional dollar earned.
- 35 For some families, EMTRs are higher still, if they are in receipt of the Accommodation Supplement (25c in the dollar), are receiving Best Start and earn over \$79,000 (21c in the dollar), have a student loan (12c), and/or receive Childcare Assistance (tiered income thresholds). The options included in this paper would increase EMTRs further, particularly the two-tier options aimed at higher income levels that increase the abatement rate by 10 percentage points. In some cases, EMTRs could exceed 100%, making increased work hours particularly unfavourable.
- 36 In general, the single-tier options and the options that introduce a second threshold lower down the income distribution have a more modest impact on EMTRs and spread those over a much broader range of middle-higher income families. The two-tier options that place the threshold higher up (eg \$75,000) concentrate a more significant increase in EMTRs for a smaller group of higher income families.
- 37 One group of families who would be particularly impacted are those with a second earner. As a second earner works more, the family is more likely to see their various support payments abated, and this group is typically more responsive to EMTRs when deciding whether to work, or to work more/less than they already do.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

38 s 9(2)(f)(iv)

39 s 9(2)(f)(iv)

40 s 9(2)(f)(iv)

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

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

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

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

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

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

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

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

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

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

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

Next steps

53 If you still wish to progress a package alongside the CPI adjustment, then the process from here is dependent on the options and timing of implementation. There are a range of choices:

- If you wish to introduce a second threshold for implementation from 1 April 2022, we will prepare a Cabinet paper for the end of September that seeks an in-principle decision to a package of changes with a 'two tier' abatement structure, as well as to introduce urgent legislation in early December. Specific settings for the rate increase and the second abatement threshold/rate could be agreed now and included in the same paper, or confirmed via a subsequent Cabinet paper in November. When the specific parameters are confirmed, Ministers would seek Cabinet's agreement to a pre-commitment on Budget 2022.
- If you wish to proceed with a 'single tier' option for April 2022, a Cabinet paper is not required now, and there is some more time to confirm policy details over the coming weeks. We will prepare follow up advice based on any further feedback or parameters you specify, with the specific changes confirmed via a Cabinet paper in November. The paper would also seek agreement to a pre-commitment on Budget 2022 and to introduce and pass legislation in December.
- A third option would be to delay the CPI indexation change until after Budget day (eg 1 July 2021) and progress changes as part of the Budget process. This would pose several practical challenges. Legislation would have to be passed in November to postpone the change², which may be challenging to communicate in advance of budget announcements. It would also create additional operational challenges for Inland Revenue. For instance, an increase to the FTC rate part way through the year may impact on the accuracy in calculating families' entitlements, and may possibly lead to some confusion for families around how their entitlement are calculated, resulting in increased customer contacts around the time of the change. Due to these trade-offs, we do not recommend delaying the CPI increases.

54 s 9(2)(f)(iv)

This would allow more time to consider the options, but would miss the opportunity to use the CPI adjustment to minimise the impact of financial disadvantage associated with the changes, and would have less alignment with the target periods and reporting timeframes for the child poverty targets.

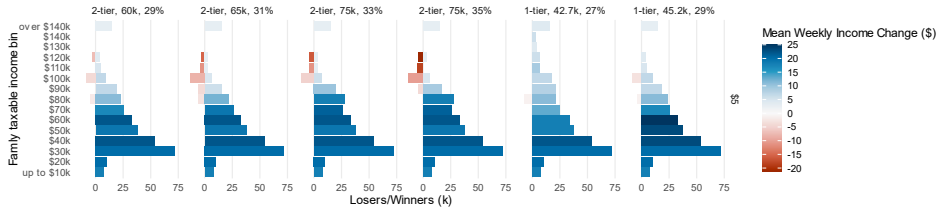
² Under current legislation, FTC and BSTC payment rates must be increased from 1 April 2022 to reflect movements in the CPI since 1 July 2018. The current legislation requires this increase to be made by Order in Council no later than 1 December 2021, with the new rates needing to apply from 1 April 2022. If Ministers wished to postpone the CPI increase of payment rates to a date later than 1 April 2022, this would need to be provided for by way of an amendment to primary legislation prior to 1 December 2021.

Appendix one: work incentives and distributional impacts of selected options			\$11.71 increase to FTC first child rate \$5 per child above CPI	\$14.21 increase to FTC first child rate \$7.50 per child above CPI	\$16.71 increase to FTC first child rate \$10 per child above CPI
	Abatement change	Impact on work incentives	Fiscal cost and distributional impacts of abatement change combined with FTC increase.		
Two Tier – modest abatement Decision needed by September 2021	2 nd threshold at \$60k , abates at 29%	Increases EMTRs by 4%, will not impact families earning below \$60k (approx. 58hrs on minimum wage).	\$68m AHC50: 7k BHC50: 5k ■ ■ ■ 25k households worse off by \$4pw compared with pre-indexation. Average gain is \$17pw.	\$145m AHC50: 12k BHC50: 8k ■ ■ ■ 10k households worse off by \$2pw compared with pre-indexation. Average gain is \$21pw.	\$222m AHC50: 16k BHC50: 12k □ □ □ No households worse off compared with pre-indexation. Average gain is \$24pw.
	2 nd threshold at \$65k , abates at 31%	Increases EMTRs by 6%, will not impact families earning below \$65k (approx. 63hrs on minimum wage).	\$56m AHC50: 7k BHC50: 5k ■ ■ ■ 35k households worse off by \$9pw compared with pre-indexation. Average gain is \$18pw.	\$132m AHC50: 11k BHC50: 8k ■ ■ ■ 24k households worse off by \$6pw compared with pre-indexation. Average gain is \$21pw.	\$207m AHC50: 15k BHC50: 12k ■ ■ ■ 13k households worse off by \$5pw compared with pre-indexation. Average gain is \$25pw.
Two Tier – sharp abatement Decision needed by September 2021	2 nd threshold at \$75k , abates at 33%	Increases EMTRs by 8%, will not impact families earning below \$75k (approx. 72hrs on minimum wage).	\$81m AHC50: 8k BHC50: 5k ■ ■ ■ 23k households worse off by \$11pw compared with pre-indexation. Average gain is \$18pw.	\$156m AHC50: 12k BHC50: 8k ■ ■ ■ 15k households worse off by \$10pw compared with pre-indexation. Average gain is \$22pw.	\$232m AHC50: 16k BHC50: 11k ■ ■ ■ 11k households worse off by \$8pw compared with pre-indexation. Average gain is \$26pw.
	2 nd threshold at \$75k , abates at 35%	Increases EMTRs by 10%, will not impact families earning below \$75k (approx. 72hrs on minimum wage).	\$67m AHC50: 8k BHC50: 5k ■ ■ ■ 29k households worse off by \$15pw compared with pre-indexation. Average gain is \$19pw.	\$141m AHC50: 12k BHC50: 8k ■ ■ ■ 24k households worse off by \$12pw compared with pre-indexation. Average gain is \$22pw.	\$216m AHC50: 15k BHC50: 11k ■ ■ ■ 16k households worse off by \$13pw compared with pre-indexation. Average gain is \$26pw.
One Tier Decision needed by November 2021	Threshold stays at \$42.7k , abates at 27%	Increases EMTRs by 2%, will not impact families earning below \$42.7k (approx. 41hrs on minimum wage).	\$68m AHC50: 8k BHC50: 5k ■ ■ ■ 8k households worse off by \$1pw compared with pre-indexation. Average gain is \$16pw.	\$145m AHC50: 11k BHC50: 7k □ □ □ No households worse off compared with pre-indexation. Average gain is \$20pw.	\$223m AHC50: 15k BHC50: 11k □ □ □ No households worse off compared with pre-indexation. Average gain is \$24pw.
	Threshold lifts to \$45.2k , abates at 29%	Increases EMTRs by 4%, for all families earning above \$45.2k (approx. 43hrs on mw). Reduces EMTRs by 25%, for families earning between \$42.7 and \$45.2k. <i>Families earning below \$60k will gain by up to \$12pw from lifting the first threshold.</i>	\$86m AHC50: 7k BHC50: 5k ■ ■ ■ 22k households worse off by \$4pw compared with pre-indexation. Average gain is \$18pw.	\$163m AHC50: 12k BHC50: 8k ■ ■ ■ 8k households worse off by \$2pw compared with pre-indexation. Average gain is \$22pw.	\$240m AHC50: 16k BHC50: 13k □ □ □ No households worse off compared with pre-indexation. Average gain is \$25pw.
<p>These TAWA modelling results use data from the IDI, which was provided by Stats NZ under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results are the work of the author, not Stats NZ or individual data suppliers.</p> <p>The 95% confidence margins of error due to sampling for these child poverty reduction estimates are in the range 5,000 - 7,000 for AHC50, and 3,000 - 6,000 for BHC50.*.</p>				KEY	<p>Number of losers</p> <p>■ ■ ■ less than 17k</p> <p>■ ■ ■ less than 26k</p> <p>■ ■ ■ over 26k</p> <p>Average loss</p> <p>■ \$1-\$5</p> <p>■ \$6-\$10</p> <p>■ \$11-\$15</p>

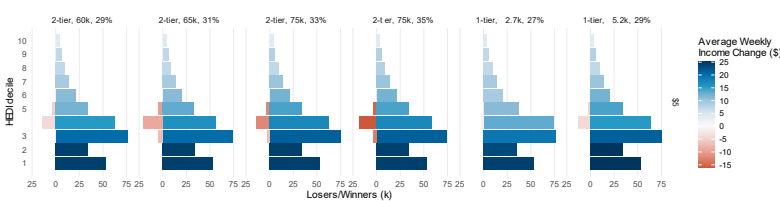
Appendix two: gains and losses by income deciles and bands – for a \$5 increase

The chart at left shows the winners and losers for different abatement approaches by family income – as can be seen, the losses largely occur for families earning over 100k. The chart at right shows how the gains and losses when adjusted for family size and composition (equivalised). Once family structure is taken into account, the losses are below the median.

Different abatement approaches: gains / losses by taxable family income



Different abatement approaches: gains / losses by equivalised household income deciles



	APPROACH A: TWO TIER (MORE MODEST IMPACT)				APPROACH B: TWO TIER (SHARPER IMPACT)				APPROACH C: ONE TIER			
	Second threshold: 60k, 29% abatement				Second threshold: 75k, 33% abatement				First threshold: 42k, 27% abatement			
	Winners		Losers		Winners		Losers		Winners		Losers	
	Families	Average gain	Families	Average loss	Families	Average gain	Families	Average loss	Families	Average gain	Families	Average loss
< \$10k	8,000	\$18			8,000	\$18			8,000	\$18		
\$10-20k	10,000	\$20			10,000	\$20			10,000	\$20		
\$20-30k	72,000	\$20			72,000	\$20			72,000	\$20		
\$30-40k	54,000	\$22			54,000	\$22			54,000	\$22		
\$40-50k	38,000	\$19			38,000	\$19			38,000	\$18		
\$50-60k	33,000	\$22			33,000	\$22			34,000	\$18		
\$60-70k	26,000	\$17			26,000	\$21			25,000	\$13		
\$70-80k	23,000	\$11	5,000	-\$2	28,000	\$18			21,000	\$11	7,000	-\$1
\$80-90k	19,000	\$7			20,000	\$10			21,000	\$8		
\$90-100k	9,000	\$7	9,000	-\$4	7,000	\$6	11,000	-\$5	18,000	\$7		
\$100-110k	5,000	\$5			3,000	\$3	4,000	-\$11	7,000	\$9		
\$110-120k	4,000	\$4	3,000	-\$7	3,000	\$3	4,000	-\$16	7,000	\$6		
\$120-130k									4,000	\$4		
\$130-140k									3,000	\$6		
>=\$140k	15,000	\$3			15,000	\$3			16,000	\$4		

The table below shows gains and losses above and below \$100k of taxable family income. The tables total differently as numbers below 3,000 are suppressed for privacy reasons

	Winners		Losers		Winners		Losers		Winners		Losers	
< \$100k	293,000	\$18	17,000	-\$3	297,000	\$19	14,000	-\$5	302,000	\$17	8,000	-\$1
>=\$100k	29,000	\$3	8,000	-\$7	27,000	\$3	10,000	-\$19	36,000	\$5	S*	S*
All	321,000	\$17	25,000	-\$4	324,000	\$18	24,000	-\$11	338,000	\$16	9,000	-\$1

Appendix three: s 9(2)(f)(iv)

s 9(2)(f)(iv)

55 s 9(2)(f)(iv)

- s 9(2)(f)(iv)
- s 9(2)(f)(iv)

56 s 9(2)(f)(iv)

s 9(2)(f)(iv)

s 9(2)(f)(iv)

57 s 9(2)(f)(iv)

- s 9(2)(f)(iv)
- s 9(2)(f)(iv)

58 s 9(2)(f)(iv)

59 s 9(2)(f)(iv)

60 s 9(2)(f)(iv)