No fix to the gaping hole in families' back pockets

PIE Commentary 2026-4
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PIE invited commentaries on an issue topical to this year's budget, and to inform election debates.

Dr Jeremy Beckham offers this contribution supporting PIE's argument that Budget 2026 offers no panacea to the cost of living crisis for families. He analyses the chief tool for redistribution for children: 'Working for Families', and draws attention to the little appreciated, but harsh, disincentives for paid work that are now baked in the structure.

Working for Families (WFF) is a policy headache the Government might prefer it didn't have. There are several well-known concerns that continue to be a problem. For one, there are often a high number of families who end up being overpaid and have an unexpected debt that they owe back to Inland Revenue. Another concern is the high effective marginal tax rates (EMTRs) experienced by some recipients. It is not uncommon for certain WFF populations to keep less than half of every additional dollar they earn through paid work once income tax and reductions to various entitlements are all accounted for.

A further and now pressing problem which compounds these concerns is the stubbornly low abatement threshold. This is the amount of income that a family can earn before entitlements to WFF payments start to abate at 27.5 cents for each additional dollar. The threshold currently sits at the miserly amount of $44,900. The threshold is the same regardless of the number of children and whether there are one or two parents in the household.

The abatement threshold is not indexed to wage growth or inflation, and so it can only be amended by legislation. As it is not regularly adjusted, the effect of wage growth over time has meant that more and more WFF payments to families are being lost due to abatement. The abatement threshold is now set at such a low amount that we are

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starting to see families lose some of their WFF entitlements even at very low levels of family income, including families working part time on a part benefit.

Take an example family with just one income earner working a traditional full-time work week of 40 hours and making today's minimum wage of $23.95 per hour. Assuming that the family works for 52 weeks in the current year and has no other sources of income, their annual family income will be $49,816, sitting above the abatement threshold. Accordingly, the family will lose $1,351 of their annual WFF entitlements.

To better understand the problem, it is instructive to consider what the position would look like for a comparable family 20 years ago. In 2006, a family with one income earner working a traditional full-time work week of 40 hours and making minimum wage of $10.25 per hour would have had an annual family income of $21,320. This family income sat comfortably below the abatement threshold which at the time was $35,000, meaning the family would not lose any of their annual WFF payments.

Importantly, the settings in 2006 helped to give the example family choices. For instance, the income earner in the family could pick up additional overtime without the family having their WFF entitlements reduced. Depending on the family's circumstances, a stay-at-home parent might also decide to enter the workforce on a part-time basis with no adverse impact on WFF entitlements. Compare this to our example family in 2026 which faces a hefty disincentive to take up any additional work at the current abatement rate of 27.5 cents in the dollar on which they also pay tax and ACC, repay student loans and may lose other entitlements.

It is interesting to recall that the concern around the low abatement threshold was in fact shared by the two major political parties in the run up to the 2023 general election. In a strange pre-election coalescence, both the National Party and the Labour Party campaigned on the same promise to increase the abatement threshold to $50,000. While National's Back Pocket Boost tax plan promised to implement this change from 1 April 2026, any effective plan to do so was presumably shelved in the course of forming a coalition government.

Budget 2025 instead saw only a modest increase in the abatement threshold from $42,700 to $44,900, effective from 1 April 2026. The cost of raising the threshold was largely self-funded through other changes to the settings, such as raising the abatement rate from 27.0% to 27.5% and removing the universal component of the Best Start[2] payment that applied for the first year.

Assume for a moment that the WFF abatement threshold was raised to $50,000 from 1 April 2026, as originally promised in National's Back Pocket Boost tax plan. A middle-income family that receives WFF payments and earns an amount above the $50,000 abatement threshold would be $1,402 better off each and every year compared to what they currently receive based on the abatement threshold sitting where it is at $44,900.

No further change to the abatement threshold is to be found in Budget 2026. Instead, the major new policy initiative in the Budget is the Government's move to increase WFF payments via the in-work tax credit by $50 per week in an effort to help working families

[2] Best Start payments give extra support to families over the 1st 3 years of a child's life. The full entitlement is $77 a week. For children born on or after 1 April 2026, the weekly payment of $77 is reduced when the family income exceeds $79,000. See IRD Best Start.

with increased fuel costs. The policy comes at a total cost of $373 million and it is carefully designed as a temporary measure only.

The in-work tax credit (IWTC) payments were increased from 1 April 2026, and these will continue either until 31 March 2027 or until the price of 91 octane petrol drops below $3 per litre for four consecutive weeks (whichever is earlier). Crucially, not all families will receive the $50 per week increase. Due to the eligibility criteria for the IWTC, any families that receive a main benefit or a student allowance are automatically excluded from receiving this $50 payment.

Excluding certain families from the $50 per week increase in WFF payments is not accidental. It reflects the philosophical belief of the current Government that encouraging people into work and rewarding those who work is an important principle of the overall tax and welfare system. By the same token, it will become increasingly difficult for the Government to defend leaving the abatement threshold where it is while holding to this philosophy. It presents a very mixed message for low-income families working hard to get ahead when more and more of their WFF entitlements are effectively being lost due to abatement.

As time moves on, concerns with the low abatement threshold are only likely to worsen. Even an increase in the abatement threshold to the once-promised amount of $50,000 would now seem to fall short of the mark. Returning to our example family working 40 hours per week at the minimum wage in 2026, the family will almost certainly earn an annual income of above $50,000 in 2027 when the minimum wage is again increased.

This is now a pressing problem, and it should be a priority for political parties heading into the next election.
