



## Economic Policy Centre

### Pensions and Intergenerational Equity

# The Labour-National consensus on Working for Families means the election won't change much for NZ's poorest households Susan St John

## **PIE Commentary 2023-11<sup>1</sup>**

PIE highlights intergenerational equity issues. In contrast to the universal, poverty preventative and unconditional basic income (NZ super) everyone gets at age 65 our protection of children's income is highly conditional, tightly targeted and does not prevent the worst child poverty<sup>2</sup>. In large part this is because the Working for Families weekly child-related payment to prevent or reduce child poverty is not paid in full to all low income families. The worst-off families (about 200,000 children) do not receive the part called the In Work Tax Credit, yet it is this discriminatory aspect both main political parties promise to enhance in 2024.

We republish this opinion piece by Susan St John Hon Associate Professor of Economics, University of Auckland with acknowledgement to the Conversation.<sup>3</sup>

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Casual observers could be forgiven for thinking the National Party's recently released Working for Families tax policy had been cut and pasted from the Labour Party's own policy. The similarities are certainly striking.

Both parties pledge to increase the "in-work tax credit" (IWTC) by NZ\$25, to \$97.50 a week from April next year. They also promise to raise the Working for

<sup>1</sup> PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.

<sup>2</sup> see St John, S (2022) [Basic Income for the old and the young in New Zealand](#). PIE Briefing 2022-2:

<sup>3</sup> St John, S (2023) [The Labour-National consensus on family support means the election won't change much for NZ's poorest households](#). The Conversation, 12<sup>th</sup> September

Families (WFF) household income abatement threshold (above which payments start reducing at 27%) from \$42,700 to \$50,000 in 2026.

In this strange pre-election coalescence, there is no longer even a pretence of delivering on Labour's stalled Working for Families review that promised "fundamental" changes to the system.

The major WFF tax credit remains the Family Tax Credit. It costs \$2.3 billion a year, and is worth \$137 weekly for the first child, and \$111.60 for each extra child. This payment goes to all low-income children, whether or not parents are on welfare benefits, and is the major income tool to address child poverty.

But nearly one fifth of the two main WFF tax credits are made up by the IWTC, costing \$500 million annually. Only children in families with some paid work (and not on any benefit) are eligible. Thus around 200,000 of the poorest children are excluded, disproportionately affecting Māori, Pacific and disabled children.

### **Poverty and paid work**

The current IWTC is a flat \$72.50 a week for families with one to three children, with an extra \$15 added for each additional child. Parents or caregivers (if eligible) receive both child-related tax credits in one weekly payment.

But the IWTC can quickly disappear if their employment status changes due to illness, redundancy or some other cause. Unless they struggle on without a welfare benefit and have "some" paid work, they can keep the IWTC for only two weeks.

The problem lies in the way the IWTC conflates two different things: an incentive to seek and find paid work, and a mechanism for reducing child poverty. By withholding a payment that reduces poverty – when a household loses paid work or is on a benefit – child poverty is perpetuated.

Until now, the IWTC has tended to be an issue within obscure tax debates. But with both major parties effectively proposing the same policy, the political origins of the IWTC and the worrying implications of the current consensus are out in the open.

## **A brief history of tax credits**

In 1996, the then-National government could not ignore the rapid increase in child poverty that followed its "mother of all budgets" in 1991, and increased weekly "family support" payments by \$20 per child.

Of that increase, \$15 comprised what became known as the Child Tax Credit. It was only available for children whose parents were "independent from the state". The poorest children received only the remaining \$5 from the increase, not nearly enough to match inflation.

The opposition Labour Party vowed to remove what it saw as discrimination. Finance spokesperson Michael Cullen spoke in parliament of National's "simplistic tangle of bigotry and ignorance":

*Children are children are children, no matter who their parents are. To draw distinctions between what the state says should go to low-income families on the basis of the source of that income, rather than on the level of that income, is obscene.*

But when Labour returned to power in 1999 it changed nothing for five years, until 2005 when it turned the old family support payment into the Family Tax Credit. Then in 2006, it transformed the Child Tax Credit of \$15 per child into the IWTC.

## **Debt and distress**

The IWTC became a flat \$60 per week for a family with one to three children, and \$15 for each additional child. But to qualify, sole parents had to perform at least 20 hours of paid work each week, and a couple 30 hours.

In 2016, the National government left the Family Tax Credit unchanged and instead favoured those in paid work by raising the IWTC to \$72.50 per week, where it sits today.

The current Labour government removed the fixed hours of paid work requirement in 2020 due to COVID's employment effects. But "some" paid work is still required, and a family cannot be on any benefit.

Furthermore, any alleged "overpayment" of WFF (due to unexpected extra income, or when the vague rules around paid work, benefits or relationship status are not met) must be repaid to Inland Revenue.

For families already struggling with other debt, this only adds to their distress. Inland Revenue reported a 26% increase in WFF debt for the year to June 2022.

And yet, due to the way the Family Tax Credit is calculated, the IWTC may be paid in full well up the income scale. Under the proposed election policies, for example, the weekly \$25 increase to the IWTC will mean a five-child family can earn nearly \$160,000 before their IWTC of \$127.50 starts to reduce.

Those families would not appear to need any work incentive. But the worst-off children in struggling families who do not qualify will fall even further behind.

### **A fairer system**

Better strategies to reduce child poverty and help low-wage families are needed. Why not simply give the full WFF package to families that currently miss out on the \$72.50 (more for larger families), regardless of their household's employment status?

This would meaningfully reduce child poverty in a cost-effective way. After all, both parties have signed up to the Child Poverty Reduction Act, but their election policies do little to address these issues.

All of the new spending would go to the worst-off, and none of it to higher-income families. Yes, it would be expensive at \$500 million. But the policy to retain and enlarge the IWTC is expensive already.

Finally, many low-income families find they are hardly better off if they earn over the \$42,700 abatement threshold. Each extra dollar earned may end up as only a few cents in the hand after 17.5 cents in tax, 27 cents in WFF, and often 25 cents in housing assistance and 12 cents in student loan repayments, are all taken out.

The Labour-National proposed increase to only \$50,000 by 2026 is too little, too late. Today it should be \$53,000 just to match inflation.

As it stands, both Labour and National will preside over deepening family poverty among beneficiaries, while ignoring the huge work disincentives faced by the working poor.

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