

Economic Policy Centre

Pensions and Intergenerational Equity

PIE 2024 Budget Analysis

Susan St John

PIE Commentary 2024-5¹ **20 June 2024**

The 2024 NZ budget was preceded by a raft of cost cutting changes. This commentary offers some preliminary distributional analysis of the tax package and is based on media contributions in the week following the budget.²

The government embarked on an austerity path but with a package of tax cuts ostensibly aimed at the squeezed middle. The multiplicity of spending cutbacks including many programmes that directly affect low income people will impact differentially on different age groups.³ PIE is concerned with how the young and the old fare and notes that in 6 months of coalition government cutbacks, the population over 65 has not so far been affected.

The tax package and children

The Tax Package 2024 includes tax bracket increases, Family boost, \$25 per week In Work Tax Credit (IWTC), and \$10 for the Independent Tax Credit per week. The figures in [Treasury's graph](#) below can be used to show the total tax package is \$2.9 billion per annum or around \$30 per household on average

The top 2 quintiles (40% of households) gain \$1.6 billion or 55% of the total. But they also benefit by \$750m a year from the landlords' tax reduction. When that is included, they get 64%, by far the lion's share of the total. What is so shocking is that the lowest quintile gets just 5.4% of the total. About 130,000 households get nothing at all and 8,000 are slightly worse-off.

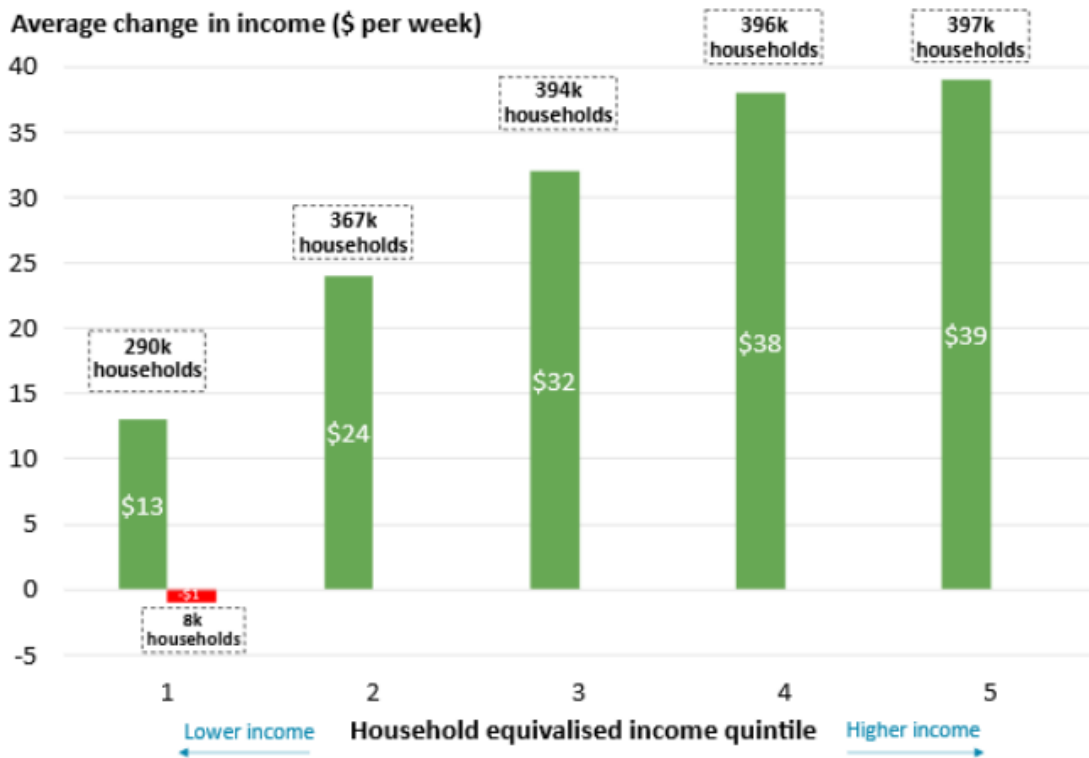
There is no official information on how all the many spending cuts are distributed, but increased transport costs, prescription charges, lower quality school lunches will hurt the poor most. We know that rents are rising along with rates and insurance. Cut-backs to budget advisory services and foodbank funding increase the misery along with changes to price indexation for benefits and an inadequately adjusted minimum wage.

¹ 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.

² St John, S (2024) [The rich get richer while child poverty just increases](#). St John quoted in Susan Edmunds (16th June) [Warning as Working For Families debt increases by more than \\$42m | RNZ News](#). St John quoted in Susan Edmunds (17th June) ['We don't cope': 55,000 people have Working for Families debt | Stuff](#). Daily Blog 4th June 2024. Also see: [Christopher Luxon says low- and middle-income Kiwis get 'emphasis' of tax package, Treasury figures say the opposite - NZ Herald](#)

³ See for example, the impact on those with disability. [A Thousand Cuts 28 May final.pdf - Google Drive](#)

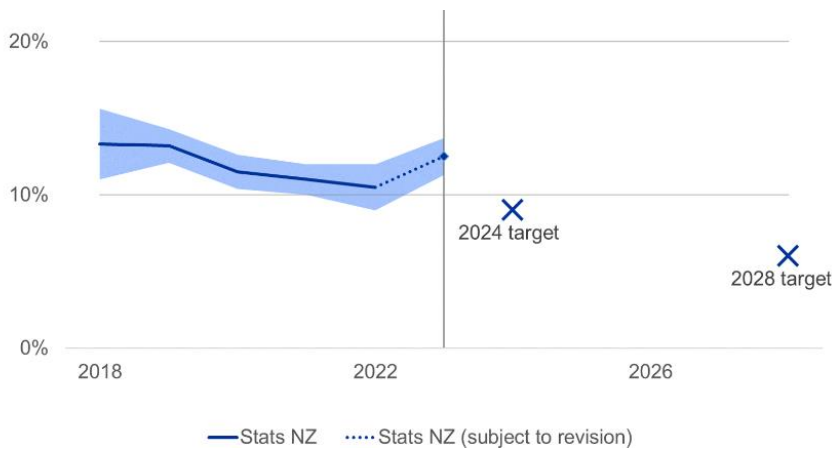
Figure 1: Impact on household incomes by equivalised income quintile



Remember, the worst-off families get **no tax relief in this budget and miss out on the IWTC because they are on benefits**. The IWTC payment (which assist with the costs of raising children) is now nearly \$100 per week for 1-3 children with an extra \$15 a week per additional child. In this recession, as low-income families lose work, as they will, they also lose \$100 per week (more for larger families) **for their children**.

We can infer from the [Child Poverty Report](#) that the coalition government is abandoning any pretence to reduce child poverty. On the absolute measure of material hardship Figure 2 shows the expectation that poverty has worsened. There are no policy actions in the budget to achieve 2024 and 2028 targets.

Figure 2 Percentage of children in households experiencing material hardship



The report outlines government’s approach to child poverty, showing that paid work is the way to address child poverty, ignoring and devaluing the demanding work of parenting.

:

The Government's focus is on changing the circumstances that trap people in poverty, by providing them with real opportunities to make changes and choices. It therefore aims to address the long-term drivers of child poverty to achieve reductions in poverty rates, particularly material hardship.

A key driver of child poverty is living in a benefit-dependent home. The Government is committed to supporting parents who are receiving a benefit into work, including as part of the target to reduce the number of Jobseeker Support recipients by 50,000 over the next six years. An important element of this is making work pay, which is why Budget 2024 includes FamilyBoost and a significant increase in the In-Work Tax Credit for working families. Other longer-term drivers and consequences of child poverty the Government will continue to focus on include school attendance and achievement, food insecurity, avoidable hospitalisations, and housing quality and affordability. (Child Poverty report, Budget 2024).

The ideology of the government clearly is to view all benefits, and even a part benefit as bad and paid work always better and more valued than unpaid work.

Some few sole mothers will get the [Minimum Family Tax Credit \(MFTC\) to top up their earnings](#) but only if they get completely off a benefit. That is, the state rewards getting off a benefit, with another costly tax credit that somehow is deemed morally superior to a part benefit

But the MFTC is just a state funded replacement of their part benefit and is the worst designed benefit imaginable (reduces dollar for dollar for any extra dollar earned!) But hey-- being off benefit even if in ill-paid, dangerous, unsuitable and low skilled work must be the key to a better life. Looking after your own children is clearly viewed as inferior and unworthy work.

Working for Families (WFF) is supposed to reduce child poverty, but the poorest children are denied a poverty reducing payment in order to provide a 'work incentive'. National have a history of promoting the work-conditional aspects of WFF as they have done in the latest budget. The price is that families denied the IWTC fall into deeper poverty.

Despite their names, neither the IWTC, nor the weird MFTC are effective work incentives. The IWTC rewards being entirely off a benefit, not the extra hour of work, while the MFTC has huge work disincentives with its 100% abatement for extra earnings.

Until we get a proper review of WFF that puts poor children at the centre instead of paid work (as it is now), child poverty in New Zealand will continue to get worse.

Comments or questions to:

Honorary Associate Professor Susan St John s.stjohn@auckland.ac.nz