



## Submission to the Ministry of Social Development on *Working for Families Tax Credits*

### INTRODUCTION

1. Thank you for the opportunity to submit as part of the Working for Families (WFF) Tax Credits review. The Working for Families package provides an important income source for an increasing number of children in New Zealand whose families experience financial hardship.
2. Poverty is driven by systemic barriers, such as the current policy setting for Working for Families which prevent wellbeing for whānau. Whānau are unable to make changes and achieve their aspirations within a system which fails to acknowledge the increasing financial pressures they face. We as social workers consider ourselves fierce advocates for social justice, and thus, we strongly support this mahi to achieve a system of Working for Families tax credits which will produce more equitable outcomes for low-income whānau.
3. We support the views of the Child Poverty Action Group who have provided their support in producing our submission. Our recommendations also reinforce those already made by the Welfare Expert Advisory Group.

### DISCUSSION

#### CORRECTING INEQUITIES FOR WHĀNAU RECEIVING BENEFITS

4. We note that at present, whānau who receive an income-tested benefit cannot receive the full package of Working for Families Tax credits, as they are excluded from the minimum family tax credit and in-work tax credit, regardless of whether they are in paid employment.
5. There are two issues with this setting; firstly, it penalises whānau who are trying to maintain some level of employment when receiving a primary benefit. Harsh abatement rates are already applied at a relatively low threshold (\$160 per week) for part-time earners receiving a benefit which results in disincentives to seek employment. Excluding such workers from Working for Families tax credits further perpetuates this disincentive, and unfairly penalises whānau for maintaining any participation in the labour force. Encouraging labour market participation is agreed as a pathway for whānau to reduce the risk of childhood poverty but is only effective if whānau experience financial returns for such work<sup>1</sup>.

<sup>1</sup> Sutherland, H. (2007) *Good Housekeeping: Ensuring the basis for sustain poverty reduction*. Social Policy Journal of New Zealand. 31;Jul2007.

6. The second issue with this current setting, is that it actively embeds inequities between those receiving benefits and those who are earning from labour market participation, with no sense of compassion or understanding of the circumstances under which these groups are determined. For example, parents with a disability or health condition which prevents them from working, those studying, or those who have precarious employment and have experienced job loss. This amounts to what is described as the notion of ‘deserving’ and ‘undeserving’ of what is essentially a form of welfare support<sup>2</sup>. We argue that the focus should instead be on ensuring adequate income for all whānau, regardless of whether they receive a benefit as recommended by the Welfare Expert Advisory Group<sup>3</sup>.
7. We support the recommendations of the Welfare Expert Advisory Group, to remove In-Work Tax Credit, Minimum Family Tax Credit and the Independent Earner Tax Credit and replace these with one Earned Income Tax Credit which phases in at earnings above \$150 per week (including those working part-time while on a benefit) at 20%, with a maximum payment of \$50 per week.
8. This change would complement WEAG’s additional recommendation of increasing abatement thresholds for main benefits, which is out of scope for this consultation, but if implemented, would further ensure low-income whānau are able to pay for essential weekly costs.

## ADJUSTING ABATEMENT THRESHOLDS AND RATES

9. Current abatements rates for the Family Tax Credit are currently 27% for earnings of above \$42,700 p.a. We note this threshold was raised significantly in 2018, however so too was the accompanying abatement rate (and even more this past year). Since these changes, the pandemic and other global circumstances have severely impacted the cost of living and inflation which has eroded this abatement rate given whānau are paying more for food and housing than they ever have before<sup>4</sup>.
10. We argue that abatement thresholds need to be adjusted to reflect the true cost of living, which recent modelling has shown to be “severely incapacitating for children and their families” who are experiencing poverty and is leading to unprecedented levels of debt for beneficiaries who are simply unable to meet the essential costs of living<sup>5</sup>.
11. Creating tiered abatement thresholds and rates would better reflect the impact of essential costs in relation to median disposable incomes in the current economic climate. The WEAG proposes a tiered system of:
  - 10% abatement rate on income from \$48,000 to \$65,000
  - 15% abatement rate on income from \$65,001 to \$160,000
  - 50% abatement rate on income from \$160,000 and over

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<sup>2</sup> Chapple, S. & Fletcher, M. 2021. *A Critical Consideration of Current Social Insurance Policy Developments in New Zealand*. Policy Quarterly: 17(4). Pp 3- 11. <https://doi.org/10.26686/pg.v17i4.7311>

<sup>3</sup> WEAG. (2019). *Chapter 7: Immediate Steps Towards Adequacy*. Retrieved from: <http://www.weag.govt.nz/weag-report/whakamana-tangata/achieving-security-requires-adequate-income/immediate-steps-towards-adequacy/>

<sup>4</sup> Fairer Future Research. (2022). *What are liveable incomes in 2022? Discussion Paper and Methodology*. Retrieved from: <https://assets.ctfassets.net/e0zlx2g9ywnb/5pETKIwErAHbFq2JE2Ep3Z/5c17ef1e24d0de855be6beb22f71ad0f/FairerFutureResearchMarch2022.pdf>

<sup>5</sup> Fairer Future Research. (2022). *What are liveable incomes in 2022? Discussion Paper and Methodology*.

We support this recommendation which better reflects the current pressure on low and median incomes, whilst recognising the need for high abatement rates on high income earners for which Working for Families tax credits are unlikely to materially impact.

12. Furthermore, we recommend that abatement thresholds are indexed to either CPI on an annual basis or to movements in minimum wage as recommended by CPAG<sup>6</sup>, to avoid further 'erosion' of these rates as both wages and the cost-of-living increase over time.

## ANNUAL INDEXATION

13. The Government has through recent changes acknowledged the inadequacies in indexing to CPI rather than wages and inflation. As a result, primary benefits are now annually indexed against wages and the cost of living, in line with NZ superannuation, which ensures these benefits maintain their value going forward. Working for Families tax credits have not been included in this change however and remains indexed to a cumulative CPI increase of 5%.
14. As a result, current tax credit rates have been eroded, CPAG estimates that changes made in 2018 were equivalent to a 10-11 year catch-up on wage movements<sup>7</sup>. Despite these increases, whānau have missed out, and will continue to miss out if indexing is not corrected. Such a change would produce a negligible fiscal cost of \$51million yet would be a significant investment in reducing child poverty rates<sup>8</sup>.
15. We recommend that current rates of the Family Tax credit are lifted to reflect the erosion which has occurred. As per WEAG's recommendations this would mean \$170 per week for one child and \$120 per week for subsequent children<sup>9</sup>. We then recommend indexing the Family Tax Credit against annual wage and inflation like primary benefits and NZ superannuation to ensure that they retain their value going forward.

## CONCLUSION

16. We strongly support this important mahi to improve Working for Families Tax credits which provide such a vital lifeline for whānau in need.
17. We would like to see a more equitable system which better serves low-income whānau who are feeling the financial pressure in our current economic climate the most. Working for Families is a crucial tool in addressing child poverty rates in Aotearoa New Zealand, therefore we want to see a system which is free from systemic inequalities and makes a meaningful difference to improving the wellbeing of our tamariki.
18. We would be happy to discuss our submission with you further if necessary and can be contacted via details attached.

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<sup>6</sup>Neuwelt-Kearns & St John, S. (2021). *Ensuring Adequate Indexation of Working for Families*. Child Poverty Action Group. Retrieved from:

<https://www.cpag.org.nz/assets/WFFSeries1EnsuringAdequateIndexationofWorkingforFamilies5May2021.pdf>

<sup>7</sup>Neuwelt-Kearns & St John, S. (2021).

<sup>8</sup>Neuwelt-Kearns & St John, S. (2021).

<sup>9</sup>WEAG. (2019). *Chapter 7: Immediate Steps Towards Adequacy*. Retrieved from: <http://www.weag.govt.nz/weag-report/whakamana-tangata/achieving-security-requires-adequate-income/immediate-steps-towards-adequacy/>

## ABOUT ANZASW

The Aotearoa New Zealand Association of Social Workers (ANZASW) is the professional association for social work in Aotearoa New Zealand. We have over 3,600 members who work throughout the community in both statutory social work and community social work settings. We advocate on behalf of members for social change and justice.

### **Definition of social work**

Social work is a practice-based profession and an academic discipline that promotes social change and development, social cohesion, and the empowerment and liberation of people. Principles of social justice, human rights, collective responsibility and respect for diversities are central to social work. Underpinned by theories of social work, social sciences, humanities and indigenous knowledges, social work engages people and structures to address life challenges and enhance wellbeing.<sup>10</sup>

### **Social work in Aotearoa New Zealand**

Social workers in Aotearoa are required to be registered with the Social Workers Registration Board. Social workers are registered under the Social Workers Registration Act 2003 and are not included in the Health Practitioners Competence Assurance Act 2003.

### **Contact details**

If you have any questions or require any clarification about this submission, please contact:

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<sup>10</sup> Global Definition of Social Work - International Federation of Social Workers and International Association of Schools of Social Work