The case for the Earned Income Tax Credit?

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Currently

The two WFF main payments for low income children are

- The Family Tax Credit
  - Aim is child poverty
- The In Work Tax Credit
  - Aim is child poverty and
  - To incentivise paid work

Source: Budget 2019
WFF was a major package 2005-2007

• Did it incentivise paid work?
  – NO

• Did it help lock in high rates of poverty for those who missed out?
  – YES
Can we count the ways the IWTC failed as a work incentive?

- Very expensive - around $525m pa
- Paid well up income scale: do high income families need a work incentive?
- Incentivises meeting fixed hours of work
- Self employment hours hard to estimate
- Much harder for sole parents to get it
- Minor positive impact on sole parents but partnered mother reduced hours of work
- Prolongs EMTRs (work disincentives) as is abated last at 25%
- Collateral damage? Hurts the worst off children
Sadly, the WFF package

WHILE WFF reduced child poverty for working families

WFF failed the poorest children as it denied them a critical payment to alleviate their poverty— a cumulative $7-10 billion since 2006.

“WFF had little impact on the poverty rates for children in workless households”  Perry 2019 p 175

“The fall in child poverty rates from 2004 to 2007 for children in one-FT-one-workless 2P households was very large (28% to 9% using the 50% CV-07 measure), reflecting the WFF impact, especially through the In-work Tax Credit.”  Perry 2019 p 175
Our base line statistics: REL thresholds 40%, 50% and 60% of the median HH income (AHC)

Red is extreme danger-children in Poverty in NZ

(St John S & So Y. CPAG 2018)
What are the desirable characteristics of a work incentive?

- Is simple to understand
- Concentrates on transition to work/ low incomes
- Rewards an extra dollar earned
- Is based on the individual not the family
- Not related to payments to reduce child poverty
- Is not beset by disincentives ie impact of overlapping abatements
Figure 2: Effective marginal tax rate components, July 2018 – single earner family

WEAG, A brief history of family support payments in New Zealand 2019
The In Work Tax Credit?

- Is simple to understand
- Concentrates on transition to work/ low incomes
- Rewards an extra dollar earned
- Is based on the individual not the family
- Not related to payments to reduce child poverty
- Is not beset by disincentives ie impact of overlapping abatements
Labour’s Family Package 2018

• Improves FTC
  – Eldest child : $5,878; subsequent children: $4,745
  – Abates from $42,700 at 25%

• Left the IWTC untouched at $3770 + extra for larger families

[MINOR
Best Start: $3120 for new babies
Threshold set at $79,000 and 21% abatement.

Minimum Family Tax Credit goes from $23,816 to $26,156 per annum ($503 per week after tax).]
The Independent Earner Tax Credit

• Only for those not getting WFF
• Gives an extra $10 a week for incomes between $24,000 and $44,000
• Is reduced by 13% for income above this
• Disappears by $48,000

Costs around $228m
The Independent Earner Tax Credit?

- Is simple to understand
- Concentrates on transition to work/low incomes
- Rewards an extra dollar earned
- Is based on the individual not the family
- Not related to payments to reduce child poverty
- Is not too beset by disincentives ie abatement problems
WEAG proposals for work incentives

• Take the In Work Tax Credit
  – $525m

• And the Independent Earner Tax Credit
  – $280m

• Make it a larger Earned Income Tax Credit
  – Extra cost $670m
  – Total cost $1.475 billion
• New EITC is costly
  – will it be successful?

• Families on low income and benefits
  – Joint income over $150 a week (new income exemption for benefits)
  – Each extra dollar earned is subsidised by 20%
  – Maximum of $50 a week extra once income is $400.

• What’s not to like?
The Earner Income Tax Credit?

- × Is simple to understand
- ✓ Concentrates on transition to work/ low incomes
- ✓ Rewards an extra dollar earned
- × Is based on the individual not the family
- ✓ Not related to payments to reduce child poverty
- × Is not beset by disincentives ie impact of overlapping abatements
• This puts the work incentive where it is likely to be more relevant BUT
• The EITC has to abate and because it is focused on low income families it will interact with the abatement of the WFF and AS.
• Therefore WEAG change WFF to abate later at $48,000 and reduce the rate of abatement to 10% up to $65,000, then 15%.
• Problem is that makes their improved WFF twice as expensive
• Necessitates higher rates of abatement ie 50% from $160,000
Budget 2019 also failed the worst-off 174,000 children
## What can and should be done immediately

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<thead>
<tr>
<th>Action</th>
<th>Budget 2018 and 2019</th>
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<tbody>
<tr>
<td>Remove all sanctions on beneficiaries with children</td>
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<tr>
<td>Progressive universalisation of WFF - join the In Work Tax Credit of $72.50/wk to the first child payment</td>
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<tr>
<td>Increase benefits 20% - remove couple penalty</td>
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<tr>
<td>Reduce abatement rate for WFF from 25 to 20%</td>
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<tr>
<td>Increase earning cap for beneficiaries ($165/person)</td>
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<tr>
<td>Index all benefits and all parts of Working for Families (WFF) annually - as for NZ super</td>
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