

Our children, our choice: priorities for policy

Child Poverty Action Group Policy Paper Series
Part Five: Adequate incomes to address child poverty

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About Child Poverty Action Group

Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in.

If you would like to support CPAG's work, please visit our website: www.cpag.org.nz

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Each topic-based part of the series is authored by experts in the field. The series would not be possible without their contributions and we thank them on behalf of Child Poverty Action Group.

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Our children, our choice: priorities for policy

Part five: Adequate incomes to address child poverty

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Part Five: Adequate incomes to address child poverty

Overview

Brian Easton has written extensively about the growth of poverty in New Zealand. In a 1995 paper¹ he estimated that between 1989/90 and 1991/2, the number of the poor grew by between 35 and 52%, with the largest groups in the lowest decile families with children. He wrote:

Allowing that these figures may be conservative, because of the equivalence scale used, we must conclude that the situation first identified two decades ago – of children being the greatest reason for poverty – remains true to this day. ... The data seems to suggest [that] the size of the income gap seems to have gone up in the early 1990s, relative to the 1980s. Thus there are not only more poor, but the hardship of the poor has been greater. ... In policy terms we know that benefits underpin the bottom of the income distribution, that our poor are children and their parents, and that the aged are not our worst off. We knew all this two decades ago. Hopefully over the next few years policy will develop in a manner which will mean such insights need not remain research results with so little practical policy input.

Easton's hope has not been realised. While today there is now a greater appreciation of the damage low incomes can do to children, the inaction over many decades of evidence is remarkable. In 2014 Brian Easton continues to draw attention to this issue:²

The children identified as in poverty 40 years ago have become adults. Many of their children have experienced poverty and their grandchildren are probably in poverty today. It is not only a question of justice; we underinvested in them, so society as a whole suffers.

Child poverty in New Zealand may not be third world grinding poverty, but is real and costly for both individual children and society. The Children's Commissioner's Expert Advisory Group (2012) defined child poverty this way:³

Children living in poverty are those who experience deprivation of the material resources and income that is required for them to develop and thrive, leaving such children unable to enjoy their rights, achieve their full potential and participate as full and equal members of New Zealand society.

Immediate and critical considerations emerge from this definition. First, the implications of children's material deprivation for achieving a fully participatory society; and secondly, the right of children to food, shelter, education and freedom from harm, so they are enabled to reach their full potential. Central to both these components is family income. While the other dimensions of poverty, such as participation and employment, all have important links, none of these can replace the need for adequate income. Improvements to health and access to health services, or access to and provision of affordable and appropriate housing, cannot replace the need for adequate income either. It is not possible to engage effectively with a constructive and productive discussion on child poverty without building into that discussion an examination of income adequacy, income requirements and proposals to improve family incomes.

Wages matter

There are three major ways in which disposable income for low income families is determined. The first and prime way is through earning an income. The 2014 gross minimum wage rate of \$14.25 puts a floor under hourly earnings, while the total wage income of a family is related to the hours of work they can supply or are called on to supply (for example in on-call jobs). It is simplistic to argue that making both parents work is the best way to increase family income, as extra hours worked, especially by the primary caregiver, may sacrifice precious family time. When families are time-poor it is hard to maintain careful budgeting of household income, or prepare nutritious meals, let alone undertake other valuable parenting activities.

There is a case for a higher minimum wage to be part of the solution to child poverty, and raising the minimum wage while adequately protecting the real value of Working for Families tax credits for working poor families may be more satisfactory than a blanket 'living wage' that only some get, and in only some industries. Wages as part of the income adequacy equation are not further discussed in this chapter.

Taxes matter

The second major influence on family incomes is through income taxes levied on earnings. The rate of GST is also important as it affects how much a given family income will buy. New Zealand has a remarkably flat or unprogressive tax scale, with tax of 10.5% on the first \$14,000, and a top rate of only 33% for income over \$70,000. In Australia the first \$18,200 is tax free, and there is a top rate of 45% on income over \$180,000. Not only is the tax scale more progressive, but GST is levied there at only 10%, in contrast to New Zealand where it is 15%. Moreover, in Australia, basic items that affect low income people, such as healthcare, education, childcare and fresh food, are all GST-free. Reform of the tax system to make it more progressive could be an important element in tackling child poverty, but is not further discussed in this chapter.

Redistribution matters

The third way to address incomes for families with children is through redistribution of income through social welfare benefits, housing subsidies especially the Accommodation Supplement, and child-related payments such as Working for Families tax credits. As the French economist Thomas Piketty has shown, there are inexorable forces in capitalism that lead to growing inequality over time.⁴ This is why well-supported, deliberately redistributive programmes are required. In the case of New Zealand this is especially important, because of the stagnation of wages at the lower end of the distribution, the fairly flat income tax structure and the high rate of GST on nearly everything families buy. Three of the most important programmes of cash redistribution are New Zealand Superannuation for the old, Working for Families (WFF) for the young, and welfare benefits for those unable to be in the workforce.

RECOMMENDATION 1

Increase the minimum wage and address the extra needs of children in low income families through well-supported benefits and tax credits.

Incomes and child poverty

Consideration of income and income adequacy is critical in any discussion of child poverty. However, much of the public and policy debate has focused on the other dimensions, almost as if income was not important. Indeed, some of the discussion around ‘vulnerable children’, ‘dependence’ and behavioural change has effectively drawn attention away from the question of adequacy of family incomes.

Table 1 shows the percentages and numbers of all children below various poverty lines.⁵ Between 120,000 and 260,000 children in New Zealand are in poverty in 2013.

Table 1. Child poverty rates (%) and numbers in 2013 on five measures⁶

HES year	After Housing Costs (AHC)			Before Housing Costs (BHC)	
	‘fixed line’ (07) 60%	‘moving line’ 60%	‘moving line’ 50%	‘moving line’ 60%	‘moving line’ 50%
2013 rates (%)	22	24	19	20	11
2013 Numbers	230,000	260,000	205,000	215,000	120,000

Beneficiaries, particularly sole parents and their children, are over-represented among those living in poverty, irrespective of how the poverty line is measured. Using the fixed line 60% AHC measure, which gives 230,000 children in poverty, around 63% of poor children are in households reliant on benefit income.⁷ Approximately 80% of the children in households on income-tested benefits are living in poverty.⁸ Of course this means there is a problem of living standards for their parents as well, and indicates that the combined income from benefits, housing assistance and child tax credits is too low.

Certain groups are disproportionately affected. Maori and Pasifika children are twice as likely as Pakeha children to be in poverty. While overall 47% of all poor children are Maori or Pasifika, 38% are Pakeha.⁹

Equally important is recognition of the ‘working poor’, those in paid work whose low wage income, even though supplemented with WFF tax credits, is insufficient to move them and their children above the poverty line. Around 85,000 or 37% of poor children are in households whose main source of income is paid work.

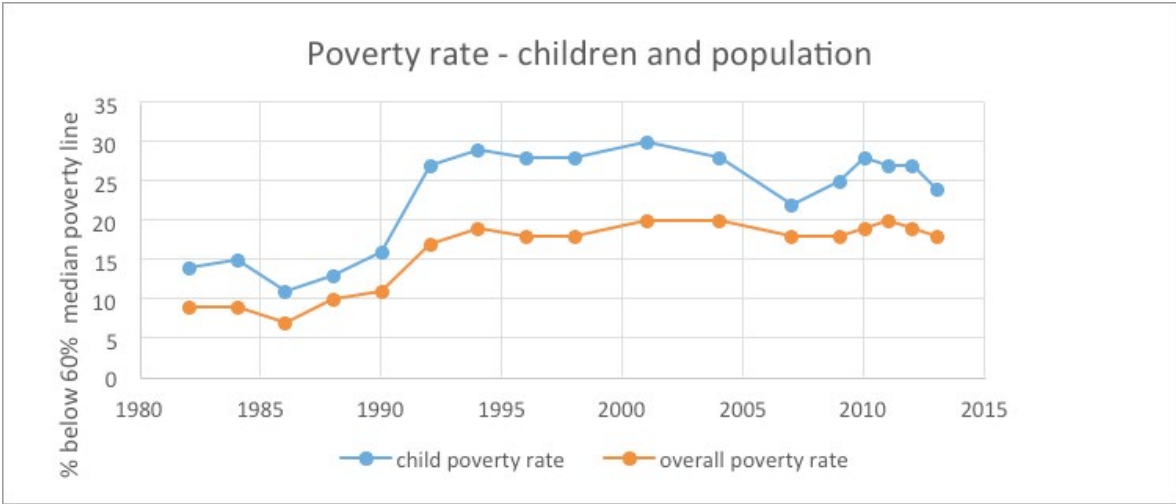
Past and present social assistance and children’s wellbeing

Figure 1 depicts changes in relative poverty, using the 60% moving line measure from Table 1, for both overall poverty and child poverty over the last 30 years. The early 1990s saw a sudden, large and sustained rise in child poverty following policies that cut social welfare benefits by up to 25% in 1991.¹⁰ These cuts have had a major impact on creating and sustaining the levels of child poverty shown in Figure 1.

All the weekly family assistance paid to the mother based on the numbers and ages of the children in her care, including the previously universal family benefit, became targeted against total family income in 1991. During the 1990s there was inadequate adjustment of this family assistance to account for inflation, and child poverty quickly reached 30%.

An adjustment of \$20 per child per week was announced in 1996, but families deemed to be dependent on the state (that is, receiving a welfare benefit) were given only \$5 of this, or \$15 less per week than other children. The discriminatory payment of \$15 (later called the Child Tax Credit) to the children of the 'deserving poor', that is, parents in paid employment, had a slight impact on child poverty, as the shallow dip shows in Figure 1. Poverty was reduced only for those children in 'working' families.

Figure 1. Children and population below 60% AHC median income, Moving line (REL) 1982-2013¹¹



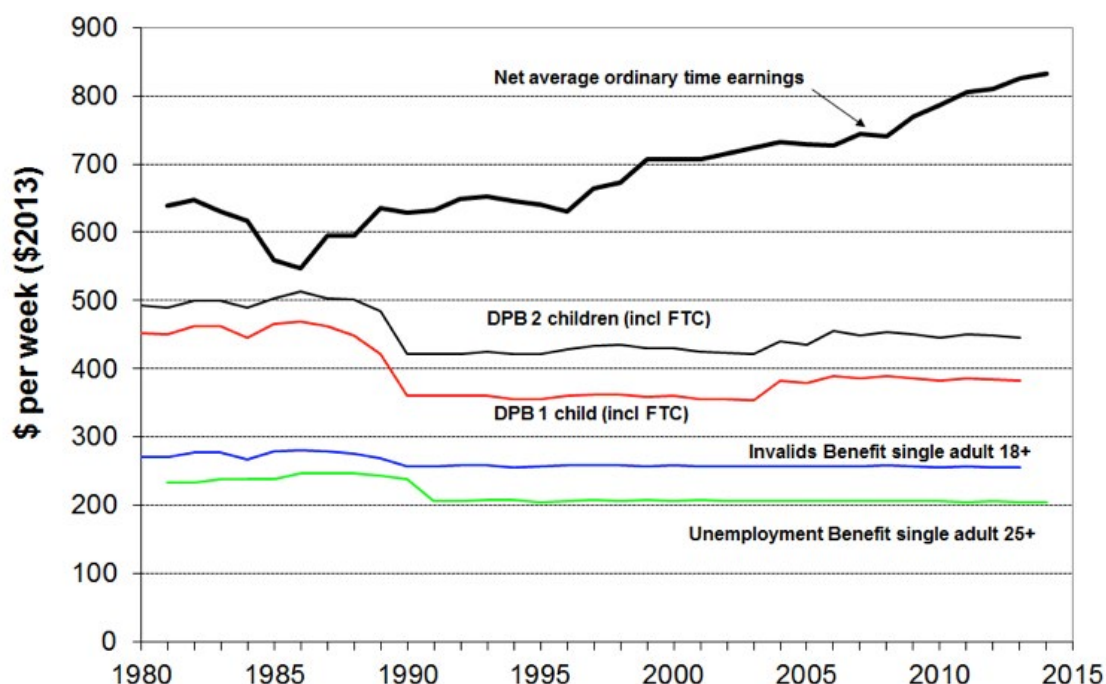
The most recent data on child poverty clearly demonstrates the importance of benefit receipt in determining the chances of a child being in poverty. Averaged over the years 2011-13, only 22% of all children live in a household in which a benefit is the main source of income, but 63% of the children in poverty live in these households.¹²

The base benefit for a sole parent, formerly called the Domestic Purposes Benefit (DPB) and now called Sole Parent Support (SPS), was cut by \$26 per week in 1991,¹³ but in real terms the cut was even greater, because there should have been an increase at that time. There was a further reduction in the rate for a sole parent with two or more children when WFF was introduced in 2005. Children in families on benefits are entitled to part of WFF, in the form of the Family Tax Credit (FTC), but not the IWTC (see Table 7).

The net rate of the SPS in 2014 is \$299 per week. This is best regarded as an adult benefit, even though it is higher than the single person rate of the jobseekers' allowance. A sole parent responsible for young children is not in the same position to supplement a benefit or live cheaply as a single unencumbered person.¹⁴ While the same arguments may apply for a couple on a sickness or other benefit, the rate for the couple is the same whether there are children or not. Thus there are reasons to be very concerned about the adequacy of income for the 50,000 poor children¹⁵ in two-parent households on benefits.

The adequacy of benefit rates has not been reviewed for more than three decades. Indeed, the terms of reference for the Welfare Working Group (WWG) in 2009 explicitly prevented the Group from reviewing benefit adequacy, and the WWG reports paid no attention to issues of poverty.¹⁶

Figure 2. Income-tested benefits (plus FTC) and average earnings in real terms selected HH types¹⁷



Welfare benefits, such as SPS, are increased annually on the basis of movement in the Consumer Price Index (CPI). The process for increasing such income support payments differs from that used to increase New Zealand Superannuation (NZS), the age pension, which by law cannot fall below 66% of the average after tax wage for a couple. Thus, when there is real wage growth or there are tax cuts that affect the average wage, NZS is increased to maintain this relationship. The gap between NZS and benefit rates has increased steadily as a consequence. This is shown, in Figure 3 below, which takes 1982 as the starting point.

Figure 3 shows that while NZS has also been subject to policy changes which have made it less generous at various times, it was not reduced in the 1991 benefit cuts and it is linked to wages. This has meant that the difference between NZS and benefits has grown markedly, and explains why the relative poverty rate among superannuitants (7%) is so much lower than the poverty rate for families with children (24%).¹⁸ If welfare benefits had also been linked to wages since the 1980s, the severity of child poverty by 2014 could be expected to be much lower. Conversely, if NZS had been linked only to prices, we would see much higher rates of poverty among the elderly.

Figure 3. Relativities between main benefit levels, NZS, average wage and median household income¹⁹

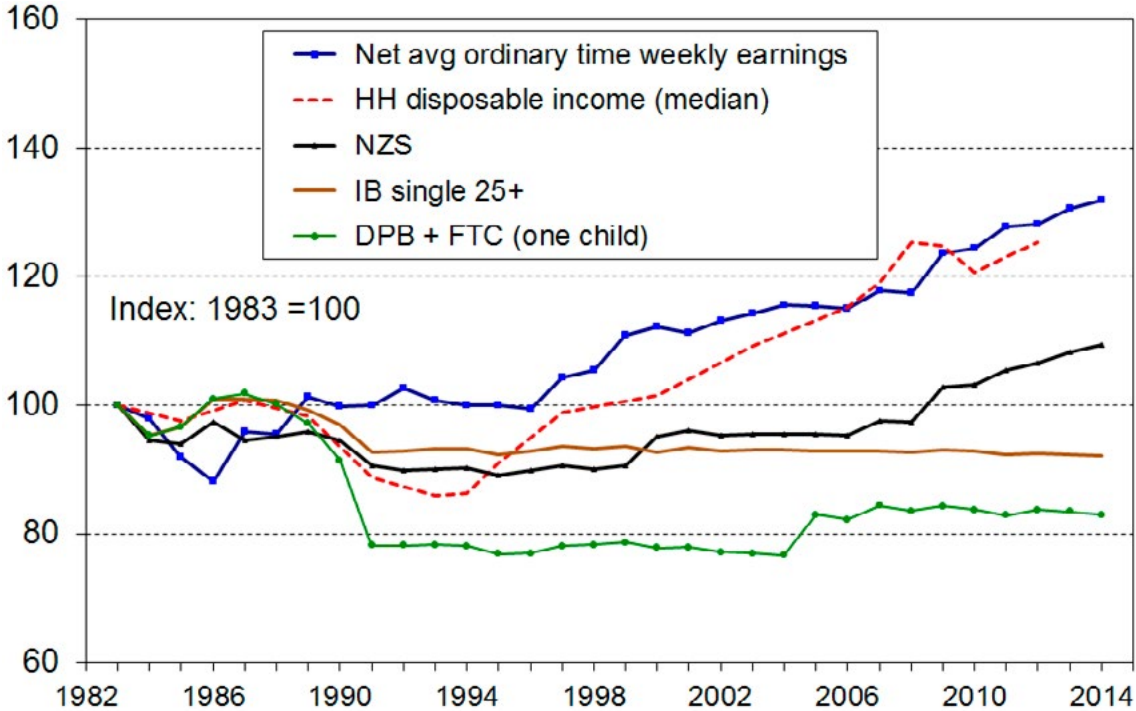


Table 2 shows that over the 30 years between 1983 and 2014, DPB (now SPS) recipients with one child had a 17% real cut in income. This was because of benefit cuts in 1991, adjustments only for prices (CPI) **and** a lack of access to the full WFF discussed below. Sole parents with two children would have lost even more, as their core benefit rate was cut in 2005. In contrast, superannuitants gained an overall 9%. If the SPS had been adjusted for wage growth as well as prices since 2007, it would be \$335 per week, or about \$36 per week higher than it is in 2014.

The result of this history is that a welfare benefit for those with children provides a bare minimum income, but often basics such as nutritious food, warm beds, visits to the doctor, or weather-proof shoes in winter are unaffordable, let alone critical aspects of social participation such as attending another child’s birthday, taking part in sport and recreation or playing music.²⁰

Table 2. Relative disadvantage of CPI indexation for beneficiaries²¹

	% change from base year (CPI adjusted – ie ‘real’ changes)		
	1983 to 2014	1994 to 2014	2007 to 2014
Median household income (see note below)	+25	+45	+5
Net average ordinary time earnings	+32	+32	+12
NZS	+9	+21	+12
DPB (SPS) plus family assistance (one child)	-17	+6	-2
Invalids Benefit – single aged 25+	-8	-1	-1

RECOMMENDATION 2

Review social welfare benefits for adequacy then, in future, adjust on the basis of relationship to the average wage, as is done for the age pension, New Zealand Superannuation.

What does it take to close the gap?

How does the income a family on a benefit receives from all sources relate to the family's basic expenditure needs? Some international work has been undertaken on budget standards²² but there is little detailed published work for New Zealand, except for some work done for a couple with two children in connection with the living wage campaign.²³ Anecdotal information from budgeting services reveals that many beneficiaries have a serious shortfall in their budgets.

An interesting example of an invalid parent with one child was documented by Brian Easton in a recent article: *Chips with Everything: It is a fallacy to claim the poor just need financial advice to improve their lot.*²⁴ The budget for this family was based on their 2012 weekly income of \$484. Food costs for simple but nutritious meals were estimated at \$130, state house rent \$119, power \$40, medical and educational costs \$53, transport \$97, and phone \$26. These basic costs totalled \$465, leaving just \$19 a week for everything else.

*There is an uninformed view that all such people really need is financial advice...Few do-gooders' ideas for reducing poverty are relevant. The conclusion from the budget is that poor families have insufficient income to lead a decent life.*²⁵

Circumstances vary, especially around housing and transport. Increasing numbers of families do not have subsidised rent in a state house, but have to fend for themselves in a tight private rental market. Consider a sole parent with two young children living in a typical rental house in Waitakere. In 2014 the major sources of income are the SPS of \$299.45 per week (net) and the FTC of \$157: a total of \$457 (after rounding).

We have drawn on available sources to provide some indication of the budget shortfall for this family, using the limited data available. This basic estimation of expenditure cannot be interpreted to provide any indication of the adequacy of the budget to meet minimal standards. For example, the calculation of housing costs does not provide any indication of whether the homes are appropriate, warm or meet warrant of fitness standards – they are simply a measure of the cost of the housing.

We have assumed that the family rents at around the median rental (\$412)²⁵ for a three-bedroom house in Waitakere (Area 2)²⁶ and receives the maximum Accommodation Supplement of \$165 (see Part 4 in this series).²⁷ Their income remaining after housing costs, to pay for everything else, is approximately \$206.

The expenditure on food for this family is estimated using the Household Nutrition programme at the University of Otago.²⁸ The annual Food Cost Survey sets out three diet types – basic, moderate and liberal – and calculates the cost in different regions for adults and children of different ages. Dunedin and Auckland are in the middle of the range for the five locations used in their work. So a Dunedin or Auckland household of a sole parent and two children under the age of 13 (a ten year old and a four year old) would have food costs of \$141.00 for the basic diet. To this sum needs to be added an amount for other household items, which their latest report gives as \$40.71 for a one adult and two child household.

The costs for basic items such as telephone, transport, and electricity need to be added to these figures. The Otago study does not include these costs, but using the Household Economic Survey (HES) data, it is possible to make some approximate calculations of what this might be.

The figures drawn on here are for households receiving their income from ‘other government benefits’, excluding households which receive NZS. It is wider than sole parents receiving a benefit, in that it includes all households which receive a benefit. Of the average spend by a beneficiary household (\$540.40 per week), \$101.90 is for food and \$252.70 is for housing and household utilities, leaving \$185.80 for other expenditure such as health, transport, and recreation.

The HES data measures what people actually spend without any consideration of the adequacy of the expenditure, so the estimates are very conservative: actual expenditure may not reflect what people should spend, as it is restricted by their means. A second set of data is provided in the survey for sole parent households with dependent children, a group which is larger than those receiving benefits, as it includes those sole parent households which receive their income from paid work. The total expenditure of \$735.90 for this group is much higher (\$195.50 more) than for those whose source of income is a government benefit.

The estimated budget is set out in Table 3, taking into account food adequacy, housing, key household costs and other personal expenditure. The gap between necessary expenditure and income of \$159 per week is substantial and likely to be understated. It is indicative rather than definitive, given the limitations of the data on which it is based and the significance of the assumptions surrounding the data. While some families may apply for means-tested hardship grants or borrow from family or loan sharks to cover the shortfall this is not a sustainable, long-term solution.

Table 3. Budget shortfall for sole parent with two children

Income per week		Estimated expenditure per week	
SPS	\$299	Food per week \$	\$141
FTC	\$157	Other personal expenditure	\$41
AS	\$165	Other expenditure	\$186
		Rent	\$412
Total weekly budget \$	\$621		\$780
Shortfall			\$159

It is noted that in their calculations shown in Table 4, Boston and Chapple argue that in 2012, \$194 more income is needed to lift a sole parent family with two children above the 60% AHC poverty line.

Even worse is the position of a couple on a benefit with two children who require \$286 extra to meet the 60% line. As Boston²⁹ has said:

...unless the incomes of ‘workless’ households with children can be boosted significantly by one means or another, major reductions in child poverty will be extremely difficult to achieve. It is critical that policy makers grasp this fundamental point.

Table 4. Additional income needed to lift families on benefits to 4 poverty thresholds³⁰

	Before Housing Costs		After Housing Costs	
	50% of 2012 median	60% of 2012 median	50% of 2012 median	60% of 2012 median
Sole parent, one child	\$0	\$30	\$82	\$148
Sole parent, two children	\$0	\$78	\$111	\$194
Couple, one child	\$0	\$69	\$156	\$244
Couple, two children	\$0	\$110	\$184	\$286

There are clearly major issues for family budgets arising from high housing costs and the comparatively low rates of Accommodation Supplement, especially in high cost areas such as Auckland and Christchurch. It is important that any improvements in benefits and family payments are not swallowed up in higher rents.

Benefit sanctions

Over the last five years in New Zealand, changes to social security have given much less importance to the work of caring for children. Especially if you are a beneficiary, caring for your own children is treated as less important than doing paid work. Sanctions have been introduced which reduce the incomes of beneficiary families with children if they do not meet a range of requirements, such as enrolling their children in early childhood education (see Part 2 in this series).³¹ Well child health checks, meeting the work requirements, or enrolling in education if they are a teen parent.

Benefit sanctions range between a 50% reduction in the benefit payment for a grade one failure to meet obligations, and cancellation of the benefit for a grade three failure. The maximum reduction to the benefit for a family with children is supposed to be only 50%. Grade one occurs on the first occasion when a beneficiary has not met their obligations and fails to do so within five working days. A grade three arises from a third failure to meet obligations within a 12 month period. The lack of available data makes it difficult to be precise about the extent of the application of sanctions to beneficiaries with children. Table 5 below summarises the data supplied by MSD to Child Poverty Action Group in 2014 and suggests that the numbers of children affected by sanctions are significant. The effects of these cuts are particularly severe for children who are almost certainly already among the most impoverished and deprived children in New Zealand.

Table 5. Sanctions applied to clients with children, April 2013 – December 2013³²

	Sanction Grade 1	Sanction Grade 2			Sanction Grade 3		
	Sanction Type	Sanction Type		% Suspended/Cancelled	Sanction Type		% Suspended/Cancelled
Year: 2013	Graduated	Graduated	Suspended/Cancelled		Graduated	Suspended/Cancelled	
April 2013-15 July 2013	3226	841	165	19.6	342	90	26.3
16 July 2013-30 Sept 2013	2469	760	8	1.1	271	1	0.4
1 Oct 2013-31 Dec 2013	3012	1159	7	0.6	388	2	0.5

RECOMMENDATION 3

Abolish sanctions which reduce the income of beneficiary families with dependent children.

RECOMMENDATION 4

Undertake and publish independent research on the extent of sanctions and their effects on children.

Working for Families

The structure of WFF is very complex, with different rules of eligibility for different parts. It was built on the existing framework of weekly family assistance paid to the caregiver. When fully implemented in 2007, it made a significant difference for families that gained the full amount. Without this improvement in weekly child payments, child poverty would have been very much higher.

The MSD notes, however, that children in workless households were helped little by WFF:

From 1992 to 2004, children in workless households generally had poverty rates around four times higher than for those in households where at least one adult was in full-time work. From 2007 to 2012, the difference was even greater – around six to seven times higher for children in workless households. This to a large degree reflects the greater WFF assistance for working families than for beneficiary families...The fall in child poverty rates from 2004 to 2007 for children in one-full-time-one-workless 2 parent households was very large (28% to 9%), reflecting the WFF impact, especially through the In-work Tax Credit.³³

The biggest problem is that the design of WFF does not put the needs of the child at the centre of policy design.³⁴ It excludes the poorest children for a good part of it, and its critical purpose has become lost in a morass of arguments over entitlements, overpayments, abatements and work tests.

In the aftermath of the Global Financial Crisis, child poverty rates began to rise in the OECD generally. At the release of a 2011 OECD report on family well-being, *Doing Better for Families*, Secretary-General Angel Gurría warned that:³⁵

Family benefits need to be well designed to maintain work incentives, but they need to be effective in protecting the most vulnerable, otherwise we risk creating high, long-term social costs for future generations.

CPAG New Zealand has long argued that the work incentive aspect of WFF is very badly designed and has been ineffective in protecting vulnerable children whose parents, for whatever reason, cannot work. The slight impact, if indeed any, on work incentives for a handful of sole parents does not justify the harm to 230,000 children whose families have been left out and left behind.³⁶

The two major WFF tax credits are set out in Table 6. The Family Tax Credit (FTC) goes to all low income children on the same basis; but to qualify for the In Work Tax Credit (IWTC), families must work a minimum number of hours and not be on any welfare benefit or student allowance. These two tax credits are added together, paid to the caregiver and reduced at a rate of 21.5% for each dollar of family income earned over the threshold. The FTC abates first, followed by the IWTC.

Table 6. WFF main weekly child payments from 1 April 2014 for children under 15*

	Weekly Support*
Family Tax Credit, first child (FTC)	\$92
Family Tax Credit, each additional child	\$64
In Work Tax Credit, one to three children (IWTC)	\$60
Plus \$15 for each additional child	
Threshold, joint income	\$36,350
Rate of abatement	21.5 %

*Higher rates apply for older children. In 2014, the rates for a first child if 16 or over is \$101, a subsequent child if 13-15 is \$73 and a subsequent child if 16 or over is \$91. See www.ird.govt.nz.

Indexation and abatement

Inflation (CPI) adjustments to WFF occur only when cumulative inflation is greater than 5% and the last adjustment was 1 April 2012.³⁷ In the 2010 budget, National froze the threshold for abatement at \$36,827 and the 2011 budget introduced further cost saving, with particular impact on low wage working families.³⁸

Until 2012, WFF tax credits abated at the rate of 20 cents in the dollar. The rate of abatement increased to 21.5% on 1 April 2012 and will increase by a further 1.25 percentage points every time the FTC amounts are increased for inflation, until the abatement rate reaches 25%.

In addition, the income threshold at which WFF tax credits begin to abate was decreased from \$36,827 to \$36,350 on 1 April 2012. The threshold will continue to decrease by \$450 each time there is an inflation adjustment until the threshold reaches \$35,000.

Cumulative inflation since September 2011 has not yet exceeded 5%, so there was no adjustment in 2014 for any part of WFF. The IWTC has never been adjusted for inflation and the 2011 changes mean that the FTC is the only part to be adjusted in the future.

Policy issues concerning indexation

As the discussion around Table 2 above indicated, indexation is a vitally important issue. If the living standards of low income families are to be protected, all parts of family assistance must be regularly and automatically adjusted for inflation.

The Australians do this far better than New Zealand. The family assistance programme in Australia is briefly discussed in the Appendix, but it is noted here that the threshold income, from which reduction to Family Tax Benefit A applies, has risen from \$A32,485 in 2004 to \$A50,151 in 2014 because of annual adjustments. By 2018, projections suggest this will rise to \$A54,000, while in New Zealand the threshold will remain only at its 2005 level of NZ\$35,000.³⁹

Table 7 shows how the full WFF would look if it had been adjusted fully by prices (CPI) since it was introduced. It also illustrates how the various parts would look today, if, like NZS, there had also been a wage link. This is illustrative only, but needs to be seen in the context of the overall direction of policy that will see nominal expenditure on WFF actually fall over time, as shown in Table 8.

Table 7. Effects of full indexation on Working for Families

	Nominal original values WFF 2005-7	Fully adjusted for CPI to Q2 2014	Further adjusted by increase in real net wages to 2014	Actual 2014 values
Family Tax Credit, first child (FTC) \$per week 2007	\$82	\$97	\$108.50	\$92
Family Tax Credit, each additional child 2007	\$57	\$67	\$75	\$64
In Work Tax Credit, one to three children(IWTC) 2007	\$60	\$71	\$79.52	\$60
Plus \$15 for each additional child	\$15	\$17.5	\$19.6	\$15
Threshold, joint income 2005	\$35,000	\$44,000	\$49,280	\$36,350

The 2011 budget, indicating that savings would be made from changes to the indexation and the threshold, gave the impression that the changes were small and would have little impact. The Minister of Finance claimed that:

*These changes are expected to generate \$448 million of savings over the four years to 2014/15. As a result, the total cost of WFF will reduce from \$2.8 billion in 2011/12 to \$2.6 billion in 2014/15.*⁴⁰

The true savings are actually much higher, and the pain of this policy change for working families is very significant. Table 8 gives a rough estimate of what WFF would look like if fully inflation-adjusted over this period. The cumulative saving from 2011/12 to 2014/15 from less than full CPI indexation and threshold reduction is actually around \$1.1 billion, as shown. Compared to full indexation, the savings will grow rapidly as the projections show. Compared with linking with wage growth to reflect the growth in living standards of the rest of society, the saving from current policy on WFF is even more pronounced.

Table 8. Expenditure on Working for Families tax credits⁴¹

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Family tax credit	2,063	2,159	2,130	2,071	2,018	1,976	1,934	1,912	1,982	1,951
Other WFF tax credits	620	629	616	599	575	556	527	527	522	515
Total nominal WFF	2,683	2,788	2,746	2,670	2,593	2,532	2,461	2,439	2,504	2,466
Inflation projections					0.9	1.5	1.8	2.5	2.3	2
WFF inflation adjusted	2,683	2,728	2,872	2,899	2,919	2,966	3,019	3,095	3,166	3,229
Saving	0	60	-126	-229	-326	-434	-558	-656	-662	-763

The impact of the inflation/wage adjustment can be illustrated for a family of two children on a household income of \$50,000 in 2014. This might be a family with one and half earners (60 hours) on \$16 an hour. Their total WFF is given under the three scenarios in Table 9. The first column gives the actual figures in 2014. The second shows what these figures would look like had there been full price indexation of WFF from the time of its implementation, and the third if the indexation had been to wage growth (see Table 2).

With real time CPI adjustment of WFF, the threshold would be much higher in 2014 at \$44,000 of joint income, and the IWTC would be \$71 per week. The effect would be to give this family another \$50 a week. Using information in Table 2, a wage adjustment would see the threshold at around \$49,300 and this family would get another \$100 a week, compared to actual payments in 2014.

Table 9. WFF for Family of two children on \$50,000

Family 2 children, \$50,000 in 2014	2014 WFF \$per week	If all CPI adjusted to Q2 2014	Adjusted by net wages to 2014
Family Tax Credit, first child (FTC) 2007	92	97	109
Family Tax Credit, each additional child 2007	64	67	75
In Work Tax Credit, one to three children (IWTC) introduced 2006	60	71	80
Plus \$15 for each additional child (2006)	15	18	20
Threshold, joint income introduced 2005	36,350	44,000	49,280
total WFF max for this family per week	216	235	263
Loss WFF due to abatement	56	25	3
Total WFF for this family per week	160	210	260

Implications

The proper indexation of WFF has profound implications for working and non-working families. The failure to adjust WFF has contributed to growth in family poverty since 2007 and is part of the reason there is a living wage campaign. Thus the family on \$16 an hour for 60 hours a week, an annual income of \$50,000, would have been entitled to another \$2,600 had indexation to the CPI been complete to date, or \$5,200 if wage indexation had occurred. Another \$100 a week is equivalent to \$1.70 after tax on the hourly wage rate, or another \$2.10 gross per hour for this family.

Thus the pressure for a living wage of \$18.80 per hour arises in good part because of the lack of the appropriate indexation of WFF. If the threshold for abatement is also adjusted for the second child, as happens in Australia for the second threshold for the Family Tax Benefit A (see appendix), this family could be another \$800 per year better off.

Perversely, the impact of lack of indexation of WFF for low wage working families undermines the very work incentives it is supposed to encourage. The poor indexation of WFF also has serious implications for families on benefits. While they may not be affected by the threshold issues discussed above they do not get the timely adjustments to their meagre budget they desperately need.

RECOMMENDATION 5

Adjust all parts of Working for Families annually for inflation, and introduced a link to wages. Immediately reverse policies to reduce the threshold and increase the rate of abatement.

Other Working for Families tax credits

So far the focus has been on two major tax credits: the FTC and the IWTC. In addition, families may also be entitled to the Parental Tax Credit (PTC) and the Minimum Family Tax Credit (MFTC). The overall costs of these schemes are set in the context of overall spending in Table 10.

The key child-related minor tax credits, and Paid Parental Leave (PPL), are summarised in Table 11. Both the PTC and MFTC are highly work-focused and problematic as a result. For those without PPL, the PTC provides up to \$150 a week for up to eight weeks when a new baby is born. This is added to other WFF tax credits and abated after the FTC and the IWTC against joint income. Like the IWTC, the PTC has not been adjusted for inflation. Just as the IWTC leaves out the poorest children, those babies whose parents do not satisfy the off-benefit rule are not eligible for the PTC.

If it had been adjusted for inflation since 2007, the PTC would be about \$1,420 pa in 2014. If it had been adjusted for net real wage growth it would be about \$1,600 pa.

Table 10. Spending on tax credits and other subsidies⁴²

	2011 – 2012	2012 – 2013	2012 – 2013 Revised	2012 – 2013 Actual	2013 – 2014
	Actual \$000	Budget* \$000	Budget* \$000	Actual \$000	Forecast* \$000
Benefits & Other Unrequited expenses					
Child tax credit	1,998	1,600	1,700	1,711	1,400
Family tax credit	2,071,040	2,113,000	2,047,000	2,017,841	2,026,000
In-work tax credit	567,046	565,000	541,000	544,474	511,000
KiwiSaver: Fee subsidy	(18)	-	-	(12)	-
KiwiSaver: Interest	5,848	7,000	7,000	5,060	8,000
KiwiSaver: Kick-start payment	212,566	177,000	220,000	223,762	165,000
KiwiSaver: Tax credit	469,819	504,000	511,000	494,152	575,000
Minimum family tax credit	11,091	11,000	12,000	12,077	12,000
Paid parental leave payments	157,615	163,000	167,000	165,101	176,000
Parental tax credit	18,385	17,000	17,000	17,109	15,000
Payroll subsidy	1,947	3,000	2,600	2,503	3,000
Research and development tax credit	(68,475)	-	-	-	-
Total benefits and other unrequited expenses	3,448,862	3,561,600	3,526,300	3,483,778	3,492,400

Table 11. Other minor tax credits and tax funded payments⁴³

	Cost 2013/14	Value
Minimum Family income (MFTC) with work requirement	\$12 m	Up to a net \$22,766 pa top-up with 100 per cent abatement
Parental Tax Credit (PTC)	\$15m	NZ\$150 a week for 8 weeks for new child No receipt of benefit No paid parental leave
Paid Parental Leave (PPL)	\$176m	\$504.10 a week before tax maximum for 14 weeks. Cannot also receive the PTC

The MFTC is not child-related, but is paid only to families with children. It is designed to provide a guaranteed minimum family income for those working the required number of hours per week (20 for a sole parent and 30 for a couple). From 1 April 2014, the MFTC is net \$22,776 regardless of the composition of the family, with FTC and the IWTC paid on top. The MFTC is reduced by one dollar for each additional dollar of disposable income earned. Thus it resembles a welfare benefit, but with an even more severe abatement rate. The severe abatement of the MFTC is of concern, as families may find at the end of year that they have to repay, dollar for dollar, any unanticipated income they may have earned. The irony here is of course that for all the emphasis on incentivising work, it would be hard to design a more effective disincentive.

Data obtained from IRD under the Official Information Act shows that few families are receiving this payment at any point in time, but the numbers at a point in time have increased steadily, and almost doubled between 2011 and 2014. As at June 2014 there are about 3,080 families receiving the MFTC, and of these about 87% are sole parents. Information in Table 12 shows that of the 7,919 families entitled to the MFTC in 2013, 67% have been on it a year or less, few have been on it more than a year, and only 13% for 3 or 4 years.

Table 12. Length of time on the MFTC by families who received it in 2013⁴⁴

	Number of years entitled to MFTC				Total families entitled to MFTC to 2013
	1	2	3	4	
Number of families	5,331	1,568	616	404	7,919
% Of total families entitled to MFTC to 2013	67%	20%	8%	5%	100%

The house of tax credits is illustrated in Figure 4. The tax credits above the MFTC are the means by which additional children are recognised. It is difficult for families receiving family assistance to understand the impact of earning more income, because, rather than an itemised report, they are given a total WFF tax credit amount on their tax reconciliations, even though different credits are treated differently for abatement purposes.

Figure 4: House of tax credits

Parental tax credit	
In-Work tax credit	
Family tax credit	
Minimum family tax credit	Income floor \$22,776 net guaranteed
Earned income	

Table 13 shows the outcome for a sole parent with one child: not working at all; working 20 hours at the minimum wage on Sole Parent Support (SPS); or working 20 hours and getting the MFTC and the IWTC. The government's concern has always been that the gap between being on a benefit and income from working is too small, and hence a payment like the IWTC is required. But it can be seen quite clearly from Table 13 that the gap for a SPS where there are no extra hours worked (\$390) and either being in full time work at the minimum wage (\$631) or on the MFTC (\$590) is substantial.

Thus if the IWTC was paid to those on benefits not working at all (\$450), there would still be a significant gap between them and those off-benefit and in paid employment.

Table 13. Sole parent, 1 child, not working, or working 20 hours on SPS or MFTC*

	Not working SPS	20 hours+ SPS	Working 40 hours	20 hours plus MFTC
Wage income 20 hours	0	\$285.	\$570	\$285
annual gross	0	\$14,820.	\$29,640	\$14,820
tax and ACC	0	\$2,845	\$4711	\$2,845
net earnings per week	0	\$230	\$479	\$249
DPB net max 2014	\$299	\$299		MFTC max \$438
net DPB after loss benefit \$100-285	\$299	\$210		Net MFTC \$189
IWTC			\$60	\$60
FTC- 1 child 2014	\$92	\$92	\$92	\$92
disposable income	\$391.00	\$532	\$631	\$590
Total government cost	\$391.00	\$302		\$341
less tax paid on earnings	\$0.00	-\$55		-\$36
Net Government cost	\$391.00	\$247		\$305

For those working 20 hours, the gain in disposable income from moving off the SPS and onto the MFTC is around \$60 a week. If the IWTC was paid while on a part benefit, this gap would disappear. It is hard to see why this matters.

It is very important to understand that while the move from a) being employed for 20 hours a week or fewer with receipt of a part-benefit to b) being employed for 20 hours and not receiving a benefit as such is technically defined as a move off welfare to 'independence', in reality, this move is no such thing. A large amount of assistance is provided by the state in both cases. In the Table 13 example, the Government actually pays more (\$305) when the sole parent is on the MFTC rather than the SPS working 20 hours (\$247). The main difference is that the official name for the state assistance has changed.

Note too that there is no incentive for the sole parent to work any more than 20 hours a week until they can work around 35 hours a week, because the MFTC abates at 100 cents for each additional dollar of net income, resulting in no increase in income for the additional hours worked. Arguably from a 'work incentive' or 'making work pay' perspective, the MFTC is less 'fit for purpose' than allowing sole parents to remain on a part-benefit. Moreover the MFTC may act as a wage subsidy to employers, given the dollar for dollar offset in any wage rise, and encourage a gaming of the system to make the hours up to the minimum required.

In both cases, the cost of the SPS and the MFTC respectively are offset by any Child Support paid by the liable parent. The total cost of the SPS in the Crown accounts, in particular, is given gross of these recovered payments, and so overstates the expenditure by the state. The difference is that when on the SPS, the child support paid by the non-custodial parent is taken by Work & Income to offset the costs of the SPS, while the same child support payment is received directly by the MFTC recipient. The average MFTC payment is small, around \$3,060 annually.⁴⁵

It is pointless to argue about a 'gap problem', because the gap problem currently, if there is one, is between those on the MFTC (\$590) and those in 40 hours work (\$631). Both of them get the IWTC now. This issue of poor returns to those working full time at low wages is a matter for wages and tax policy.

Currently any earned weekly income of over \$200 (around 14 hours at the minimum wage) is not only taxed, but also results in a 70% offset of net benefit. If the sole parent has the opportunity to go off the benefit, s/he may be exposed to the insecurity of losing work and with it entitlement to the MFTC and IWTC. If there were no stigma or loss of IWTC attached to being on SPS while working part-time, the MFTC could be abolished. There is no moral superiority in getting an income from the state in one way rather than the other. This simplification would be a step in the right direction and offer greater stability to sole parents working part-time.

Couples

As noted above, about 50,000 children in beneficiary families are found in two parent households and their poverty situation is likely to be worse than for sole parents on a benefit (Table 4). Total disposable income for a couple on a benefit with one child is \$440 a week, while off the benefit in 30 hours of work, on the MFTC and IWTC, it is \$590. Thus even if the couple on the benefit were paid the IWTC there would still be a gap. However, there is much further work to be done on how couples are treated. The benefit level itself makes no allowance for any dependents and the loss of net benefit for extra earnings is treated very punitively in a joint income test that takes back 70% of the net benefit for combined incomes over \$80 a week.

RECOMMENDATION 6

Abolish the Minimum Family Tax Credit and establish an adequate sole parent payment with better abatement provisions.

RECOMMENDATION 7

Overhaul the treatment of couples on benefits so that their children have a better chance to enjoy adequate income.

A way forward

The current system for WFF is far too complex and convoluted. The MFTC and the IWTC are very badly designed. Both pose dangers when someone moves off a benefit into insecure work. Neither payment is made for the weeks in which the rigid hours of work requirement are not met. Some of the absurdities of this can be seen from examples on the IRD website.⁴⁶

If the IWTC was paid to families on benefits, whether in paid work or not, the unfair discrimination against one class of poor children would be resolved. In paying the IWTC, a payment for children, to all benefit households with children, we would be more aligned with Australia where there is no separate child-focused IWTC or MFTC.

Paying the IWTC to all families who currently miss out (150,000 families @\$3,120) would cost about \$450m. If the fourth and subsequent children also get the current increment of an extra \$15 per child, assuming 10,000 families have an average of five children, another \$15m is needed. This will have a substantial impact on the worst child poverty, but it will not be enough, as Table 4 shows. Neither would it compensate for the cumulative losses to low income families from years of exclusion. This would however be the most cost-effective way to reduce child poverty and should be done first.

If the IWTC had been price indexed, the existing IWTC cost of round \$500m would rise to about \$591m. Extending the IWTC to beneficiary families would cost around \$554m (150,000 families at \$3,692). The overall increase in costs would be around \$645m.

There may be some offsetting saving in supplementary hardship assistance, as many of those on SPS currently need this additional money.⁴⁷ There would also be saving in administration and in time spent by families at foodbanks and budgeting services and in health costs arising from stress and poverty.

It is sometimes argued that the IWTC is justified because there are extra costs of working. When there are very young children, for example, the costs of child care may be very high. A major source of extra costs arises because the formerly unpaid work of child rearing is crystallised as a real cost once it is outsourced to the private sector. The IWTC, however, is ill-suited to meeting the child care needs of families in different circumstances.

Currently child care subsidies are determined on the basis of household income, and paid to the provider based on actual attendance. This is the appropriate way to help with these costs, as every family's needs are different. Dealing directly with the provider gives the provider funding security. Childcare needs can change during the year and it is very difficult to subsidise child care with a flat IWTC payment.

The transport cost issue is also best addressed directly. A family with 2 children, say aged 10 and 11, require transport to work and sport and school and other activities. When a parent loses hours of work those costs do not necessarily fall. Employment based travel costs can vary considerably for different families in different locations and are best met with other policy tools, such as improved and subsidised public transport.

If the state meets all the costs of a sole parent working, the populist view that paid work alone is the way out of poverty is further undermined. It needs to be acknowledged that when children are small, their care is inevitably expensive. The cost is either explicit if the care is outsourced, or implicit

when a parent forgoes paid work to do it. This suggests that our policies need to better recognise the unpaid work of caregiving. If the IWTC is given to all caregivers who are not themselves in paid work (such as happens now with women whose partners work), it can be used to help pay for any outside child care if needed.

In a protracted legal case⁴⁸ taken by CPAG between 2002 and 2013, it was established in the Courts that the IWTC constitutes discrimination. This means that the current policy of exclusion from a tax-funded child payment causes material harm to 230,000 of New Zealand's poorest children. Restoring the human right of equal treatment for these children is now the task of the political and policy process.

RECOMMENDATION 8

Restore the principle of equal treatment for all low income children: add the In Work Tax Credit to the first child Family Tax Credit and make adjustments for larger families.

Age related tax credits and newborns

The New Zealand population is given in Table 14. Of the 309,000 children under 5 years, approximately 60,000 are under 1 year. New Zealand is particularly ungenerous to newborns; for example, Paid Parental Leave (PPL) (see Table 11 above) is available only under rigid work criteria and benefits only about 50% of newborns. Thus improvements to PPL are unlikely to impact on child poverty. For those that do not qualify for PPL, there is the income-tested PTC of \$1,200. About 15,000 newborns whose parents are on benefits do not qualify for the PTC.

Table 14. Population age structure⁴⁹

	2014P*
Total population	4,509,900
Under 5 yrs	309,000
Under 15 yrs	911,290
Under 20 yrs.	1,224,870
20-64 yrs	2,634,650
65 and over	624,190

Given that PPL is not income-tested, but is tax funded for all parents in paid work who qualify, a payment for all those who miss out is justified. Preferably, the PTC and PPL would be amalgamated to give around \$200m to distribute as a universal \$60 a week for each new born for the first year of life. But, unfortunately, given the current political support to extend PPL, there is unlikely to be any rationalisation of what happens for newborns.

It seems inevitable that any other payment for a newborn is not paid in addition to PPL. If it is decided to give a targeted payment through WFF, the simplest way is to have a newborn supplement such as the PTC. The annual maximum of the PPL payment is \$7,056, the annual maximum for the current PTC is \$1,200. A larger annual payment for those who get no PPL is justified. In addition there can be no justification for paying the IWTC only to those on PPL, as is currently the case, and not to others on the PTC.

RECOMMENDATION 9

Increase the Parental Tax Credit and extend it to all low-income families with newborns who do not benefit from Paid Parental Leave.

The Australian 2014 budget further reduced assistance for children, but not in the discriminatory direction that New Zealand has taken. The assistance for young children and newborns remains far superior to that in New Zealand (see Appendix).

Is a universal payment for children the answer?

Almost all developed countries offer generous tax relief related to family size, and often a universal child benefit is also provided. New Zealand has a complex but flimsy 'house of tax credits', with far too much child-related assistance conditional on meeting a fixed 'hours of paid work' requirement that is no longer appropriate in the modern labour market. In fact, the reality for many families is 'just in time' employment with uncertain hours, low wages, short-term contracts and long hours spent travelling to and from child care and multiple workplaces. If children are sick, uncertain employment arrangements add to the stress faced by many parents. Families with uncertain incomes also face the possibility of an end of year tax liability if they take the complicated WFF tax credits.

It is sometimes suggested that a universal child benefit might solve the poverty problem in New Zealand. While in principle a universal child benefit of some form is attractive, it is expensive and does not sufficiently contribute to the urgent need of reducing child poverty, as the following discussion explains.

In Table 4 above, Boston and Chapple show how much income is required to lift families of given size out of poverty. To lift the incomes of those on a sole parent benefit with one child after housing costs to the lowest poverty line of 50% would require at least another \$82 a week, and \$148 to get to the 60% line. Suppose a universal payment of \$100 per child per week is suggested over and above existing Working for Families payments. For over a million children this would cost over \$5 billion and treble the cost of the existing family assistance payments to \$7.5billion.

If the \$100 per child per week is given *instead* of Working for Families, Table 15 shows that the very poorest small families on benefits would be only slightly better off. The 3-child family would fare better at an extra \$80 a week. But working low-income families are worse off until they have three children, when they gain slightly. The very top income families gain the most, with high income three-child families gaining over \$15,000 tax-free. This policy would cost twice as much as today's WFF. It hardly helps the poorest on benefits at all, and it makes low income working families *worse off*. It has to be judged a very cost-ineffective way to tackle child poverty in today's environment.

Table 15. Gains and losses from a universal child benefit (\$100 per child per week) that replaces WFF

	Current			Universal \$100 per child per week			Gain from shift to universal		
	1	2	3	1	2	3	1	2	3
Number of children	1	2	3	1	2	3	1	2	3
Low income benefit	92	156	220	100	200	300	8	44	80
Low income working	152	216	280	100	200	300	-52	-16	20
High income	0	0	0	100	200	300	100	200	300

Unintended consequences of bad policy

WFF is far too complicated. Navigating the maze of benefits, supplementary payments, family tax credits, abatements, shared care rules, hours of paid work requirements, reassessments, demands for payments, and penalties, is hugely demanding even for the most expert. Without understanding how the various tax credits work, a sole parent is supposed to respond by getting a job, any job. The IWTC, the FTC, the PTC and the MFTC have different criteria and abatements. The required fixed weekly hours of work are far too difficult to police and monitor consistently in a modern, casualised labour market.

It is possible for a sole parent to receive demands for reassessed WFF tax credits for previous tax years. While the IRD will write off such assessments in cases where she has no money, this is a very scary time for her. Furthermore, under the newly adopted definitions of 'family scheme income',⁵⁰ payments from grandparents trying to assist their struggling children and grandchildren may also be treated as family income for abatement purposes.

Work & Income wants to know about every single extra dollar that comes the way of the sole parent, including any helpful payments from the other parent or from the whanau or extended family. The IRD and Work & Income definitions of what constitutes a relationship are inconsistent, with Work & Income keen to say there is a relationship if there is evidence of financial support. Work & Income peers into the bedrooms of the poor to see if the sole parent is co-habiting and therefore not entitled to a benefit. On the other hand, the IRD, even less qualified in social matters, peers into the bedrooms of the poor to see if she is *not* co-habiting, so that she can be denied the IWTC for her children. Families can receive a torrent of letters from different parts of the IRD and Work & Income and become confused and anxious, especially when overpayments of WFF are alleged, accompanied by demands for interest payments on debts accrued.

In contrast, the IWTC can be paid to a mother while she is in a relationship even if she is not in paid work, providing her partner works 30 or more hours. However, note that any overpayment becomes her debt even when it is caused by an increase in his income. If they split up, and even if they remain independent from the benefit system and he continues as before to support her in a full-time care-giving role, she loses entitlement to the IWTC and is thus liable for repaying any so-defined 'overpayment'. The work-based logic appears to be that because she is living on her own, she should now be expected to work 20 hours a week outside the home. There is no regard for the needs of the young child, nor respect for the considerable unpaid work of fulfilling her primary duty of care. The interests of the child have completely vanished from the policy.

Shared care has emerged as another issue. If a couple is separated, the WFF is apportioned provided the other parent provides care for 5/14ths of the time in each fortnight. This might be every second weekend and some overnight stays. It is therefore possible for a sole parent to get a reduced WFF of only \$56.37, even though s/he has the child all of the days of the entire working week and cannot work, while the other parent gets \$91 because the IWTC is not apportioned for shared care, and only the parent in paid work is entitled to it. If the couple were not separated, the at-home parent would be paid all of the WFF money.

The Human Rights Tribunal decision clearly states that, the IWTC is a payment for children.

The Crown's argument that the challenged tax credits cannot be described as 'child-related' has no basis whatsoever in the evidence we heard.⁵¹

It is also noted that the criteria for shared care are different for WFF and Child Support. This causes an enormous amount of confusion. If the tax credits were associated solely with the child rather than work status of the parent/s, they could be left un-apportioned and paid to the primary caregiver, with only Child Support adjusted, and then, only if genuine shared care of a significant nature was in place.

RECOMMENDATION 10

Act with urgency to gain cross party support for an overhaul of all parts of the welfare and tax credit system that affect families with children.

Conclusion

Current benefit policy is entirely focused on moving people from a benefit into paid work, without any consideration of income adequacy, or the short- and long- term health and well-being of children. It is acknowledged that paid work is part of a poverty reduction and elimination strategy, but it is only a part. Beneficiaries with children often cannot undertake paid work because of personal needs and circumstances. Others cannot find work that allows them to meet their parenting obligations satisfactorily. It is unacceptable that these families live in poverty because of the currently inadequate levels of social assistance, originally introduced to keep families out of poverty.

In addition, as the data on the distribution of child poverty indicates, paid work in itself does not guarantee that children will move above the poverty line: 37% of the children living in poverty are in households reliant on market income.⁵² 'Paid work' does not in and of itself guarantee that children will be moved above the poverty line. Nor does it suggest that WFF payments for children are overly generous. Moreover, current policy is cutting WFF over time for low wage earners with perverse effects.

We are at a critical tipping point. The proposed recommendations may appear expensive, but can be regarded as an investment in the future of our children and our communities. The alternative of inaction to address the problems outlined here is far more costly to individual children, and to all New Zealanders.

Recommendations

1. Increase the minimum wage and address the extra needs of children in low income families through well-supported benefits and tax credits.
2. Review social welfare benefits for adequacy then, in future, adjust on the basis of relationship to the average wage, as is done for the age pension, New Zealand Superannuation.
3. Abolish sanctions which reduce the income of beneficiary families with dependent children.
4. Undertake and publish independent research on the extent of sanctions and their effects on children.
5. Adjust all parts of Working for Families annually for inflation, and introduce a link to wages. Immediately reverse policies that reduce the threshold and increase the rate of abatement.
6. Abolish the Minimum Family Tax Credit and establish an adequate sole parent payment with better abatement provisions.
7. Overhaul the treatment of couples on benefits so that their children have a better chance to enjoy adequate income.
8. Restore the principle of equal treatment for all low income children: add the In Work Tax Credit to the first child Family Tax Credit and make adjustments for larger families.
9. Increase the Parental Tax Credit and extend it to all low-income families with newborns that do not benefit from Paid Parental Leave.
10. Act with urgency to gain cross party support for an overhaul of all parts of the welfare and tax credit system that affect families with children.

Audiovisual resources

Catriona MacLennan (May 14, 2014) Child Poverty in Aotearoa 2014 Episode 1: *The Big Picture*. An overview of child poverty in New Zealand in the lead up to the 2014 budget featuring interviews with Dr Nikki Turner; Nadia Shanab and Associate Professor Mike O'Brien, at https://www.youtube.com/watch?v=9t_HDffwU9A, FACETV.

Catriona MacLennan (Jun 18, 2014) **Child Poverty in Aotearoa 2014. Episode 6. *Providing adequate family incomes***. Associate Professors Susan St John and Gail Pacheco and Professor Jonathan Boston; putting child poverty on the map in election year, at <https://www.youtube.com/watch?v=TYqlopesVlo>, FACETV.

Appendix: Australia

The Australian system is complex. Family Tax Benefit Part A is paid for each child with a supplement of up to \$726.35 for each child paid at the end of the year, and a per child energy supplement. The income test is generous and the thresholds for abatement (from \$50,151 in 2014) is fully indexed each year. Abatement is at 20% until the payment reaches the base rate then abatement recommences at 30% from \$94,316 (plus \$3,796 for each Family Tax Benefit child).

Family Tax Benefit Part B gives extra help to single parents and families with one main income. A single parent can have this in full up to \$150,000pa. In a two-parent family if primary earner has an annual adjusted taxable income of more than \$150,000 no Family Tax Benefit Part B is paid. The Family Tax Benefit Part B is reduced against the second earner's income at a rate of 20% on incomes over \$5,329 pa.

The combined max weekly tax credits for the 1 child family are: \$187.73 if child is under 5; \$164.56 if aged 5-12 and \$191.66 if aged 16+. In addition there is a newborn supplement for those not getting PPL. This is in the form of a maximum increase to Family Tax Benefit Part A of \$2,056.45 for the first child or \$1,028.15 for other children.

Families on benefits have much more generous child tax credits because Australians have not been captured by the idea that you can use part of these as a work incentive. Table 11 shows that not only is the sole parent payment more generous, the tax credits for the first child if under 5 are twice as high in Australia. All newborns also get significant extra help. There is a \$2056 per annum bonus (\$39.50 per week) for the first child, and \$1056 for subsequent newborns.

While there are many strengths in the Australian system, sole parents are forced onto a jobseeker benefit when the youngest child is aged 8. New Zealand is heading in that direction with parents being moved onto Jobseeker Support when the age of the youngest child is 14. The Australian 2014 budget further reduced the assistance for children, but not in the discriminatory direction that New Zealand has taken. Table 12 contrasts the 1 child under 5 treatment in both countries.

Table 1. Sole parent on benefit with 1 child under 5: New Zealand and Australia 2014

2014	Net Sole parent benefit	Weekly Child tax credits-1 child	Total weekly Sole parent+ 1 child
Australia \$A	\$357	\$188 (1 child under 5) (\$228 if child under 1)	\$545 (\$585 if child under 1 year)
New Zealand \$NZ	\$299	\$92 (no extra for first year)	\$391 (no extra for first year)

Compounding this gap is the lower tax payable on low incomes including the effect of GST. The Australian income tax system is far more generous to families and GST is still only 10% and exempts basic items. Even recent budget changes in Australia have only impacted minimally, focusing on freezing the upper income threshold of A\$150,000 as the cut out point for some payments. Nevertheless current policy directions under the Abbott government suggest that future generosity is in doubt.

Endnotes

- 1 Easton, B. (1995) Poverty in New Zealand – 1981 to 1993, *New Zealand Sociology* November 1995, 10 (2), pp.182-214.
- 2 Easton, B. (2014) Poor Show, at <http://www.eastonbh.ac.nz/2014/01/poor-show/>
- 3 Expert Advisory Group (2012) *Solutions to child poverty in New Zealand. Evidence for Action*. Office of the Children's Commissioner, p. 2, at <http://www.occ.org.nz/assets/Uploads/EAG/Final-report/Final-report-Solutions-to-child-poverty-evidence-for-action.pdf>.
- 4 Piketty, T. (2014). *Capital in the 21st Century*, Belknap Harvard UK.
- 5 The poverty lines are based on 50% or 60% of the equivalised median household income, before and after housing costs, based on a fixed median (base 2007), i.e. constant value poverty line, or the contemporary median, i.e. relative poverty line.
- 6 Perry, B. (2014), Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2013. Ministry of Social Development. Wellington, at <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/p135>, Table F5
- 7 Perry, B. (2014). p159, Table H5 averaged for 2011-2013
- 8 Ibid, p157.
- 9 Ibid.
- 10 Ministry of Social Development (2005) *A Social Services Primer*, www.nzherald.co.nz/documents. January 2005, at <http://media.nzherald.co.nz/webcontent/document/pdf/msdprimer.pdf>, p. 3: While Invalids Benefit recipients and New Zealand Superannuitants had their benefit rates frozen for 1991 (i.e. no annual indexation), all other recipients faced a fall in their benefit income. The reductions ranged from 8.9% for a sole parent with two children, to 25% for a 20 year old single unemployment beneficiary.
- 11 Source: Based on Perry, B. (2014). p.133, Table F.4 and p. 137, Table F.7
- 12 Perry (2014) p. 159, Table H.5.
- 13 Cheyne, C., O'Brien, M., Belgrave, M. (1997) *Social Policy in Aotearoa New Zealand*. Oxford University Press, Auckland. (1st ed.)
- 14 The SPS is not comparable to Paid Parental Leave, nor can it be argued that it effectively includes the IWTC. It is a benefit that recognises a fundamental lack of ability for the sole parent to support themselves in paid work.
- 15 Craig E, Reddington A, Wicken A, Oben G, & Simpson J. (2013) Child Poverty Monitor 2013 Technical Report (Updated 2014). Dunedin. NZ Child & Youth Epidemiology Service, University of Otago, p. 56.
- 16 Welfare Working Group (2011) *Reducing Long-term Benefit Dependency: Recommendations*, Ministry of Social Development, at: <http://igps.victoria.ac.nz/WelfareWorkingGroup/Downloads/Final%20Report/WWG-Final-Recommendations-Report-22-February-2011.pdf>.
- 17 Perry, B. (2014), p 82 Figure C.7.
- 18 Ibid, p144 Table G2.
- 19 Ibid, p. 82 Figure C.8A.
- 20 For a detailed discussion of the structure of living standards in New Zealand, see Perry, B. (2009) Non-income measures of material wellbeing and hardship: first results from the 2008 New Zealand Living Standards Survey, with international comparisons. Wellington, Ministry of Social Development. Working Paper 01/09.
- 21 Perry (2014), p 83 Table C2, using different title.

- 22 For example, Bradshaw (1993) used detailed calculations of the various components of household and family lives in order to calculate either what is possible on a given income level, or what is required to meet minimum standards across a range of dimensions. Bradshaw's work in the United Kingdom incorporated housing, fuel food, clothing, goods and services, personal care, transport and leisure and included a discussion on the cost of a child and the costs of lone parents Bradshaw, J. (ed.) (1993). *Budget Standards for the United Kingdom*. Avebury, Aldershot.
- 23 King and Waldegrave (2012) Report of an investigation into defining a living wage for New Zealand, Family Centre Social Policy Research Unit. Commissioned For The Living Wage Campaign.
- 24 Easton, B. (2014) Listener: 10 April, 2014.
- 25 The median rent for a three bedroom household in Manukau is \$415 per week, while in Waitakere the median rent for a similar house is \$412 per week. The lowest rent for such a house in a suburb in the Manukau region was listed as \$380 per week and for a suburb in Waitakere it was \$395. As a typical low income rental, the median in Waitakere is used.
- 26 Area 2 covers a wide area and has the highest number of beneficiaries with dependent children. Any additional housing costs have to be met out of the benefit and family tax credit income.
- 27 Johnson, A. (2014) *Part 4: Housing market changes and their impact on children*, Child Poverty Action Group, at <http://www.cpag.org.nz/assets/Publications/140812%20CPAG%20OurChildrenOurChoice-Part4Housing%202014.pdf>.
- 28 Department of Human Nutrition, University of Otago, New Zealand Estimated Food Costs, 2014
- 29 Boston, J. (2014). Child poverty in New Zealand: Why it matters and how it can be reduced. Educational Philosophy and Theory. doi: 10.1080/00131857.2014.931002.
- 30 Boston, J., Chapple, S. (2014) *Child Poverty in New Zealand*. Bridget Williams Books, Wellington.
- 31 Richie, J., Harvey, N., Kayes, M. Smith, C. (2014) *Part 2: Early childhood care and education, and child poverty*, Child Poverty Action Group, at: <http://www.cpag.org.nz/assets/Publications/1-0%20Our%20Children%20Our%20Choice%20Part%202.pdf>.
- 32 Wynd, D (2014) *Benefit sanctions*, see <http://www.cpag.org.nz/resources/publications/>
- 33 Perry (2014) p. 156.
- 34 St John, S. (2014): Putting Children at the Centre: Making policy as if children mattered, Educational Philosophy and Theory, DOI: 10.1080/00131857.2014.931005.
- 35 OECD (2011) Doing Better for Families at <http://www.oecd.org/els/family/doingbetterforfamilies.htm>.
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- 37 <http://www.ird.govt.nz/technical-tax/legislation/2011/2011-23/2011-23-wfftc/>.
- 38 <http://www.ird.govt.nz/technical-tax/legislation/2011/2011-23/2011-23-wfftc/>.
- 39 St John, S. (2011). Working for Families. *Left Further Behind*. M. Dale, M. O'Brien and S. St John. Auckland, Child Poverty Action Group Inc.
- 40 English, B. (2011) Budget Economic and Fiscal Update.
- 41 Ibid.
- 42 IRD annual report 2013.
- 43 Table 11 and IRD website.
- 44 OIA, request from CPAG IRD July 2014.
- 45 Ibid.

46 discussed in CPAG <http://www.cpag.org.nz/in-focus/cpag-in-the-court-of-appeal/the-in-work-tax-credit-in-practice-a-reality/>

47 Boston, J. and S. Chapple (2014). *Child Poverty in New Zealand*, Bridget Williams Books

48 See cpag <http://www.cpag.org.nz/in-focus/cpag-in-the-court-of-appeal/>.

49 Statistics New Zealand *National Population Estimates: At 30 June 2014*, http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/NationalPopulationEstimates_HOTPA30Jun14.aspx.

50 Legislation designed to reduce the ability of higher-income families to reorder their affairs and use vehicles such as trusts and PIEs to limit their income and maximise their WFF.

51 Human Rights Tribunal, 2008, p. 63.

52 Perry, B. (2014). Table H.5.