The Treasury

Budget 2014 Information Release

Release Document

July 2014

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[12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[13] Not in scope

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Inland Revenue
Te Tari Taake
POLICY & STRATEGY

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HIKINA WHAKATUTUKI

THE TREASURY
Kaitohutohu Kaupapa Rawa

Joint Report: Additional Financial Support for Families with a Newborn - further advice

Date:	21 February 2013	**Report No:** **File No:**	T2013/3191 SH-13-5

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Indicate** which of the options you support **Refer** the paper to the Prime Minister **Refer** the paper to the Minister for Social Development	
Minister of Labour (Hon Simon Bridges)	**Indicate** which of the options you support	
Minister of Revenue (Hon Todd McClay)	**Indicate** which of the options you support	

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Andrea Black	Principal Advisor, Tax Strategy, Treasury	04 917 6156 (wk)	[3]	✓
Fiona Carter-Giddings	Manager, Labour Welfare and Markets, Treasury	04 917 7021 (wk)		
Kirstie Hewlett	General Manager, Labour Environment, Ministry of Business, Innovation and Employment	04 901 8603 (wk)		

Actions for the Minister's Office Staff (if required)

Minister of Finance's office: **Refer** the paper to the Prime Minister and the Minister for Social Development.

Enclosure: No

Joint Report: Additional Financial Support for Families with a Newborn - further advice

Executive Summary

This report contains advice on how to provide extra payments to working families with newborns.

You have asked us to consider a package of additional assistance as a potential option for Budget 2014:

- Potential extension of paid parental leave (PPL) by 2-4 weeks.
- Broaden the eligibility to non-standard workers and permanent carers (to reflect modern working arrangements and families).
- Further refinement of the PPL legislation to remove current rigidities.
- An increase in the entitlement and/or length of the Parental Tax Credit (PTC)[1], of either:
    - 8 weeks at $225 per week (up from the current rate of $150 per week for 8 weeks); or
    - 10 weeks at $225 per week.

These requests followed Ministerial consideration of advice provided in *Additional financial support for families with a new born* (T2013/2722 refers) and well as a desire to interface any changes to PPL within the same package.

[7,8]

...as providing extra support to these families will contribute to better outcomes for children and their parents.

The objective of such a package would be to increase financial assistance to working families during the first year of a child's life. This is because there is strong evidence that the existence of close early bonds between parent and child, breastfeeding in the first 6 months and the reduction in parental stress especially in the early years is good for children. This is both in the short and longer term. The evidence also highlights there are generally extra demands on the family budget in the first year of a child's life.

It is the more disadvantaged working mothers in terms of household incomes and number of children to support that are over represented amongst those missing out on PPL, due to the nature of their employment arrangements. This package includes measures to broaden the eligibility criteria for PPL to include these lower income mothers. This is important because employment is recognised as the best and most sustainable route to address poverty and increase family income.

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1 This is a payment available to some working families that do not qualify for PPL.

The package also includes enhancements to the Parental Tax Credit. Extending the entitlement and/or length of the Parental Tax Credit would be the first increase in the overall entitlement since the tax credit was introduced in 1999. This would go some way in providing extra assistance to lower income families, given that nearly 75% of families receiving PTC have a family income of less than $60,000.

We note that such a package would be targeted solely at families in paid employment. It does not provide additional assistance to beneficiaries, the children of whom are much more likely to grow up in poverty. It does, however, provide further incentives for mothers to participate in the labour market and acknowledges that, as the Child Poverty Report found, two in five children living in poverty were in families where at least one adult was in full-time employment.

We note however such a package would be targeted solely at families in paid employment. The children most at risk are those from beneficiary families and this package would not provide additional assistance to them.

[7,8]

[7,8]

Should Ministers wish to prioritise the outcomes to the more vulnerable families for money spent, officials would recommend the following ranking:

1. Refinements to PPL legislation to broaden eligibility to more workers and to remove current rigidities - approximately $8 million per year.

2. Increase of PTC for 8 or 10 weeks - $9 or $15 million per year respectively.

3. Increase in entitlement to PPL of two or four weeks - $25 or $50 million per year respectively.

[7,8]

Fiscal costs

The detailed fiscal costs are as follows:

	2014/15	2015/16	2016/17	2017/18	Total over 4 years
Cost of existing scheme (14 weeks)	$168.8	$174.2	$179.4	$184.8	$707.3
Costs of extending entitlement to 16 or 18 weeks					
16 weeks (introduced 1 October 2014)	$24.1	$24.9	$25.6	$26.4	$101.0
18 weeks (introduced 1 October 2014)	$48.2	$49.8	$51.3	$52.8	$202.1
Costs of extending eligibility to non-standard workers					
Assuming eligibility increases from 90% to 95% and half those people take up PPL (upper bound)	$4.7	$4.8	$5.0	$5.1	$19.7
[7,8]					
Costs of extending eligibility to permanent caregivers					
Providing PPL to eligible Home for Life caregivers	$0.5	$0.5	$0.5	$0.5	$2.0
Providing PPL to those holding a guardianship and/or parenting order	$1.7	$1.8	$1.8	$1.9	$7.1
Providing PPL to those with mātua whāngai arrangements, grandparents raising grandchildren, and biological fathers	$0.8	$0.9	$0.9	$0.9	$3.5
Increasing the amount of entitlement for the Parental Tax Credit					
8 weeks at $225 per week	$9.00	$9.00	$9.00	$9.00	$36.00
10 weeks at $225 per week	$15.00	$15.00	$15.00	$15.00	$60.00

Administration and implementation costs

Ministers are aware of the current stresses involving changes to Inland Revenue systems. Thus administration as well as the fiscal cost is a key aspect to this package.

As the request for consideration of a payment to fathers has been made only recently, Inland Revenue have been unable to provide an estimate of the administration costs in time for this paper.

Inland Revenue has prepared a high-level impact analysis and costings for the proposed changes to PPL and PTC, and is confident it is able to deliver these changes. These assume no major system upgrade and no changes to IR's current administrative processes for either PPL or PTC. Standard contingencies apply to these costings.

There will be additional implementation and administrative costs for MBIE and Inland Revenue from both the increase in the number of weeks PPL is paid for, and the extension of PPL to non-standard workers and to permanent caregivers. The high level cost estimate for Inland Revenue to implement the changes to PPL is $410,000, with additional on-going administrative costs estimated at $40,000 per annum. The on-going administrative cost for MBIE is estimated to be $60,000 per annum based on an additional FTE and administrative support to process the applications.

As mentioned above, the implementation of these PPL proposals will take at least four months. This means that, if the legislative changes were introduced as part of Budget legislation, the earliest possible implementation date would be 1 October 2014.

The indicative estimates to implement the proposed PTC changes are approximately $6m, with additional ongoing costs of $0.5 - $0.7m per annum.

The impacts and costs have been prepared on the basis that the PTC changes will be effective from 1 October 2014, but families who qualify for the increased PTC between 1 October 2014 and 31 March 2015 will receive the increased PTC amount as a lump sum payment from July 2015. The additional PTC would only apply to eligible families with babies born on or after 1 October 2014.

Again, this PTC change date assumes that the necessary legislative changes are introduced as part of Budget night legislation.

Summary of implementation and administration costs

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total over 5 years**
Paid parental leave (16 or 18 weeks (introduced 1 October 2014) and extension of eligibility to non-standard workers)						
Inland Revenue:	0.33	0.11	0.03	0.03	0.03	0.53
MBIE:	0	0.06	0.06	0.06	0.06	0.32
Parental tax credit (Extending the entitlement and eligibility period for PTC)						
Inland Revenue:	0.3	6.00	0.7	0.7	0.7	$8.4

Inland Revenue and MBIE will need to seek funding for implementing these changes. The quantum and timing of this funding will be confirmed for the final policy report and Cabinet papers.

Next steps

Should you wish to proceed with any of the options in this paper, please indicate which ones you support and we will provide further advice as to any human rights implications, the appropriate legislative vehicles and the administrative costs for the father's leave proposal, if relevant.

Recommended Action

We recommend that you:

a **agree** to:

	Minister of Finance	**Minister of Labour**	**Minister of Revenue**
Paid parental leave Extend paid parental leave by 2 weeks from 1 October 2014	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
OR			
Extend PPL by an additional 4 weeks from 1 October 2014	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
OR			
Extend paid parental leave by an additional 2 weeks from 1 July 2015	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
OR			
Extend PPL by an additional 4 weeks from 1 July 2015	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
Eligibility and flexibility in the paid parental leave rules A package of refinements to extend eligibility for paid parental leave	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
OR			
agree to extend entitlement to paid parental leave to permanent carers:			
• Home for Life carers (at an additional cost of $487,000 per year)	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*

• Guardianship and carers appointed under parenting orders (additional cost of $1.7m per year)	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
• Mātua whāngai arrangements, grandparents caring for grandchildren and fathers in their own right (additional cost of $840,000 per year)	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
Extension of PTC An increase of the payment to $225 per week from 1 October 2014	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*
OR			
An increase of the payment to $225 and an increase in the number of weeks paid from 8 to 10 from 1 October 2014	*Agree/Disagree*	*Agree/Disagree*	*Agree/Disagree*

b [7,8]

c **note** the following indicative administrative costs of the proposals:

	2013/14	2014/15	2015/16	2016/17	2017/18	Total over 5 years
Paid parental leave (16 or 18 weeks (introduced 1 October 2014) and extension of eligibility to non-standard workers)						
Inland Revenue:	0.33	0.11	0.03	0.03	0.03	0.53
MBIE:	0	0.06	0.06	0.06	0.06	0.32
Parental tax credit (Extending the entitlement and eligibility period for PTC)						
Inland Revenue:	0.3	6.00	0.7	0.7	0.7	$8.4

d note that we will report back to you as to the most appropriate legislative vehicle

e r**efer** the paper to the Prime Minister, and

Refer/not referred
Minister of Finance

f **refer** the paper to the Minister for Social Development.

Refer/not referred
Minister of Finance

Fiona Carter-Giddings
Manager
Labour Market and Welfare
Treasury

Kirstie Hewlett
General Manager
Labour Environment
Ministry of Business, Innovation and Employment

Chris Gillion
Policy Manager
Inland Revenue

Hon Bill English
Minister of Finance

Hon Simon Bridges
Minister of Labour

Hon Todd McClay
Minister of Revenue

Joint Policy Report: Additional Financial Support for Families with a Newborn - further advice

Purpose of Report

1. This report follows a meeting between Ministers English, Bennett, Bridges and McClay to discuss advice requested by Ministers on potential payments to families with a newborn baby [T2013/2722 refers].

2. Ministers have asked officials to explore a package of measures to such families that would include:

   - A potential extension of paid parental leave (PPL) by 2-4 weeks.
   - Broadening eligibility to include non-standard workers, workers who have changed employers or experienced a gap in employment, and permanent carers.
   - Further refinement of the PPL legislation to remove current rigidities.
   - An increase in the entitlement and/or length of the Parental Tax Credit (PTC), which is a tax credit available to some families who do not qualify for PPL. The options considered in this report are:
     - 8 weeks at $225 per week (up from the current rate of $150 per week for 8 weeks), or
     - 10 weeks at $225 per week.

3. [7,8]

4. These proposals are discussed in more detail below. Officials views on the relative impact of each proposal on vulnerable families, should Ministers wish to prioritise, are found at the end of the paper.

Towards a modern parental leave Act

5. The Parental Leave and Employment Protection Act 1987 (the Act) has provided employment protected leave on the birth/adoption of a child to eligible parents for 27 years. During this time, the nature of both the labour market and families has undergone significant change. New Zealand has an increasing number of women in paid work, and family structures and parenting arrangements have become significantly more diverse.

6. Trends in the provision of parental leave internationally are marked by the strengthening of statutory leave policies, increasing the flexibility of leave entitlements to support family transitions, and extending and encouraging fathers’ access to parental leave.

7. There is evidence that PPL has economic and social benefits, including a positive impact on child cognitive development, child health, economic growth and labour force participation, and reducing child poverty. [2] Paid leave and job security promotes economic growth as it reduces the time mothers remain outside the labour market, and helps improve women's attachment to the labour market over time. It is argued that the long-term supply side effects of higher participation by women would also be expected to increase GDP and generate additional tax revenue to a value higher than the annual costs of the scheme.[3]

8. Whilst there is widespread support for the PPL scheme from mothers, fathers and employers alike, both employers and employees have raised a number of issues on the Act's inability to respond to current family arrangements and the labour market and attachment to work. Survey findings show that the vast majority of women believe PPL should be longer, and there is a considerable mismatch between actual and ideal leave, with most women returning earlier than they would like to due to financial constraints.[4]

9. Broadening the legislation to include employees currently missing out (who are predominantly the more disadvantaged mothers in terms of household incomes and number of children to support) is important because employment is recognised as the best and most sustainable route to address poverty and increase family income. The positive impacts of employment on a range of social, educational and health outcomes for both parents and children have been increasingly researched and recognised.[5]

Potential extension of paid parental leave

10. Ministers have asked officials to estimate the cost of extending PPL by two weeks and four weeks respectively. The costs for each extension period are set out in Table 1 below based on a four year financial year basis.

11. Extending the length of PPL brings New Zealand closer to the OECD average of paid maternity leave of 19 weeks (bearing in mind overall paid leave is considerably longer given that most have paid parental leave and paternity leave over and above maternity leave).[6] Of the two options, an additional four weeks over and above the current 14 weeks would also be closer to the World Health Organisation's recommendation of exclusive breastfeeding for the first six months, and the significant health benefits for children associated with this.

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2 The Treasury (2003) *Work and Family Balance: An Economic View*; OECD (2007) *Babies and Bosses – Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries.*

3 Richardson, D., & Fletcher, T. (2009) *Long Overdue – the macroeconomic benefits of paid parental leave*. Policy Brief No.1. The Australia Institute, Manuka, ACT.

4 Department of Labour (2007) *Parental Leave in New Zealand 2005/06 Evaluation*; University of Auckland (2012) *Growing up in New Zealand.*

5 White Paper for Vulnerable Children, 2012.

6 An OECD (2009) international comparative of spending on maternity and parental leave payments per child born places New Zealand at 25th place, out of 25 OECD countries.

12. The Australian Productivity Commission found there was compelling evidence of child and maternal health and welfare benefits from a period of absence from work for the primary caregiver of around six months and a reasonable prospect that longer periods (nine to twelve months) are beneficial.[7] The OECD concurs, stating that child development suffers when an infant does not get full-time personal care for the first 6-12 months of his/her life.[8]

13. Extending the length of PPL by four weeks would give the 60% of PPL recipients earning less than $50,000 the opportunity to more easily reach the six month 'milestone' and, along with their families, gain the positive outcomes associated with longer leave.[9] The Parental Leave in New Zealand: 2005/2006 Evaluation (the parental leave evaluation) found that the majority of mothers who took PPL found that the ending of the payment had a significant impact on decisions of when to return to employment.

14. Broadening the eligibility for working women would also help address current inequities between entitlements for low income and higher income women. As it stands, the parental leave evaluation found that the majority of ineligible employed women resigned from their jobs, (thereby losing their attachment to the labour market) and, of those who returned, a third (33%) did so within a month, compared with 1% of mothers who took PPL.

Table 1: Estimated cost of extending paid parental leave to 16 weeks and 18 weeks (1 July 2014 implementation) ($M)

	2014/15	**2015/16**	**2016/17**	**2017/18**
Cost of existing scheme (14 weeks)	$169	$174	$179	$185
Cost of additional 2 weeks (introduced 1 October 2014)	$24	$25	$26	$26
Cost of additional 4 weeks (introduced 1 October2014)	$48	$50	$51	$53

Notes: Figures are before tax and estimates are based on the 2011/12 financial year.
Increase in average ordinary time weekly earnings estimated based on Treasury Budget 2013 nominal wage growth forecasts.

15. The estimated total cost of an additional two weeks over a four year period is $101 million, and $202 million for an additional four weeks over four years.

16. An additional period of paid leave would not be administratively difficult for Inland Revenue, given it is an extension of the current scheme. The impact on employers would also be minimal as the additional period of time is relatively short and many parental leave recipients currently take additional unpaid leave up to around the six month period.

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7 Australian Productivity Commission (2009) *Paid Parental Leave: Support for Parents with Newborn Children*.

8 OECD, (2007) *ibid*. (They also report that it is from the age of 2-3 that cognitive development of a child benefits from using good-quality formal care.)

9 Data from the Statistics NZ (2008) shows that 33% of PPL recipients are working five months later and 40% are working six months later.

17. The Parental Leave and Employment Protection (Six Months' Paid Leave) Amendment Bill, due to be reported back by the end of February, seeks to extend PPL from 14 weeks to 26 weeks. The bill stages the increase over three years, with the estimated total cost of the change over four years being $419 million.

18. Treasury supports the provision of a paid parental leave scheme, as there is evidence to suggest benefits across a range of outcomes, including income compensation, labour market participation, health and development outcomes from mothers and children and gender equity. However, in Treasury's view there is no evidence of an 'optimal length' of paid parental leave, so while an extension would, at the margin, assist mothers who are currently unable to afford a longer absence from paid employment, the gains of an extension are likely to be small. In addition, as PPL is paid to all eligible mothers including those who are middle to higher income earners, Treasury considers that funding would be better targeted at lower income and vulnerable families through alternative mechanisms, for example through the benefit system.

Modernising parental leave legislation to promote attachment to work and fairness

19. There are inherent problems with the Act that relate to its lack of flexibility and rigid eligibility criteria[10] that can cause employees to miss out on payments and job protection. These issues have been raised by stakeholders and employers and employees for a number of years.[11] In summary, these issues are:

    - Non-standard workers (such as seasonal or casual workers) and those who have had a change of employer are less likely to be eligible for PPL due to not meeting the requirement for six months continuous employment with one employer.

    - The Act's lack of flexibility fails to promote attachment to work, given that even small amounts of work, such as participating in handover activities, render the employee ineligible for any remaining leave.

    - Failure of the Act to reflect modern family arrangements – despite permanent guardianship arrangements having all but replaced formal adoption, permanent carers are not recognised under the Act.

[10] To be eligible for PPL (up to 14 weeks of employment protected paid leave), employees must have worked continuously with the same employer for an average of at least 10 hours a week in the **six months** prior to the baby's due date. To be eligible for **extended unpaid leave** (up to 52 weeks of employment protected unpaid leave, less any PPL taken) employees must have worked continuously for the same employer for **12 months** (for an average of at least 10 hours a week prior to the baby's due date).

[11] Issues raised and potential options have been informed in part by the 2005/06 evaluation of the parental leave scheme, comparative reviews of other jurisdictions, the National Advisory Council on the Employment of Women 'Priority Improvements to Parental Leave', research from the Families Commission, submissions on earlier changes to the Act, and submissions on the recent Member's bill to extend PPL.

Non-standard workers

20. Non-standard workers such as seasonal and casual employees, workers who have more than one employer, and/or workers who have experienced a gap in employment or changed employers, are less likely to be eligible for parental leave, despite often having had a long work history. This has a negative impact on economic growth as employed women who are ineligible for PPL (who are more likely to be in lower paid employment) have lower rates for returning to work compared with women who take PPL, and are more likely to leave the labour market.[12] The requirement for continuous employment with one employer prior to qualifying for leave also discourages labour mobility.

Improving flexibility in working arrangements

21. The scheme fails to promote attachment to work or encourage employees to maintain skills, given that any work undertaken (such as participating in training opportunities or handover activities) results in the employee forfeiting their remaining paid or unpaid leave. Enabling mothers to choose to maintain an attachment to work during the leave period, or take the extended unpaid leave part-time or flexibly, can assist employees to maintain skills and experience, especially in fast-changing environments.

Permanent carers

22. The Act covers only eligible biological mothers and parents who adopt under the Adoption Act 1955. Family structures and parenting arrangements have become significantly more diverse since the Act's inception, with a third of New Zealand families now being single-parent families, and permanent guardianship arrangements being more prevalent, and preferred by the state, over formal adoption. The Act's provisions around adoption are also difficult to interpret and can lead to inconsistent treatment of applications. It would be useful to update the Act to reflect these changes in family arrangements, particularly by extending the eligibility to include permanent carers.

Comment

23. Many other jurisdictions have made adjustments to their regulatory regimes to address these various issues. For example, Australia's 2011 scheme includes non-standard workers and the notion of "primary carers", and nearly all the OECD countries allow leave to be taken part-time or flexibly.

24. Widening the eligibility and improving the flexibility of PPL would address issues raised by stakeholders, support labour market attachment and economic growth, and impact positively on families with lower incomes.

25. An initial assessment suggests that the following options to address the eligibility and flexibility issues are all feasible and are either no cost or low cost. The cost estimates for the low cost options to extend eligibility for PPL to non-standard workers and 'primary carers' are detailed below.

[12] Department of Labour (2007) 'Parental Leave in New Zealand: 2005/2006 Evaluation'.

Options to improve flexibility and fairness of parental leave provisions

Broad options – no cost	**Likely fiscal impact**	**Administrative simplicity**	**Likely impact on employers**
Keeping in Touch days • Employees could work limited hours or days during their paid or unpaid parental leave	None	Simple	Minimal
Extended unpaid leave to be taken flexibly • Employees could take unpaid leave over a period of time agreed with the employer, rather than taking leave in one block or forfeiting the balance	None	Simple	Moderate (but would need to consult)
Extended unpaid leave to employees with at least 6 months' but less than 12 months' tenure • Could provide a *pro rata* amount of unpaid leave according to length of service; or • Could provide a set leave entitlement (e.g. 6 months) for all employees in this group)	None	Simple	Moderate (but would need to consult)
Entitlements put into regulations • Current provisions are in primary statutes. Regulations would provide for greater flexibility to adapt to suit changing circumstances[13]	None	Simple	None
Broad options – low cost			
Extending parental leave entitlement to those who have recently changed jobs and to non-standard workers: • Casual, seasonal and employees with more than one employer would become eligible, and some Parental Tax Credit (PTC) employee recipients would move to PPL, promoting long-term labour market attachment[14]	$10M (but some offset by lower Parental Tax Credit costs) (see para x below)	Moderate	Minimal
Extending parental leave to permanent caregivers: • Those fulfilling the role of parent (in addition to biological mothers and formal adoptive parents) could be included in the eligibility criteria • Broad scope: include permanent guardians, parenting orders, grandparents, fathers) • Narrower scope: eligibility could be narrowed to those providing Home for Life[15] care only	Broad scope – less than $3M Narrower scope (Home for Life only - $690,000 (see para x below)	Moderate	Same as existing scheme

13 Further analysis of the feasibility of this option will be required.

14 Currently PPL is worth six times the amount of PTC, and provides job protection. Higher earning women in the core labour market are more likely to be fully eligible for PPL, whereas over 75% of families receiving the PTC have a household income of less than $60,000.

15 Caregivers taking on children requiring care in permanent fostering arrangements – the 'Home for Life' scheme uses the Care of Children Act to award guardianship rather than the Adoption Act.

Cost estimates of options

Costs of extending paid parental leave to non-standard workers

26. The additional costs associated with extending parental leave payments to this group are estimated to be an additional $4.7 million in 2014/15 and a total of $19.7 million over four years, as set out in Table 2 below. The Appendix provides the assumptions behind these estimates.

Table 2: Estimated cost of extending paid parental leave to non-standard workers ($M)

	2014/15	2015/16	2016/17	2017/18	Total over 4 years
Costs of existing scheme (14 weeks)	$168.8	$174.2	$179.4	$184.8	$707.3
Additional cost assuming eligibility increases from 90% to 95% and half those people take up PPL[16]	$4.69	$4.84	$4.98	$5.13	$19.7

27. The benefits would be significant in terms of addressing current inequities in the scheme and enhancing attachment to the labour market as a result of qualifying for PPL rather than PTC. Workers who currently miss out on PPL, who are more likely to be on a low income, may instead qualify for the PTC, which is a much reduced entitlement without job protection.

Costs of extending paid parental leave to permanent carers

28. This option would be low cost as the majority of carers in these arrangements would not have the working history to qualify for PPL, but it would significantly enhance the equity aspects of the legislation and respond to stakeholder concerns.

29. If the option was narrowly defined to extend PPL to (eligible) **Home for Life** carers (permanent foster carers) only, the cost to government would be an estimated **$487,000 a year** based on current average parental leave payments.

30. The option could be defined more broadly in line with a 'principal caregiver' definition. For example, the scope could include permanent carers taking on children in the custody of Child, Youth and Family or persons who have assumed responsibility for a child following a court order (such as a parenting order and guardianship).

31. Other additional informal arrangements where a nominated permanent caregiver fits the definition under the Act (subject to meeting the eligibility criteria) could be consideredsuch as grandparents caring for grandchildren, mātua whāngai arrangements, and biological fathers.

32. Costs of extending paid parental leave to **guardianship and parenting orders** is estimated to be $1.7 million, again based on current average payments. However, as some Home for Life carers are appointed under a Parenting Order, there is likely to be some duplication of costs assessed above.

33. The cost of extending PPL to **grandparents** caring for grandchildren, **mātua whāngai arrangements** and **biological fathers** in their own right is estimated to be approximately **$840,000 a year**. Further detail on the cost estimates is provided in the Appendix.

[16] According to the parental leave evaluation, approximately 10% of women in paid work are currently ineligible for PPL (following the inclusion of the self-employed in the scheme in 2006).

34. The impact of this option on employers is likely to be minimal.

Administrative and implementation costs

35. There will be additional implementation and administrative costs for MBIE and IR from both the increase in the number of weeks PPL is paid for, and the extension of PPL to non-standard workers and to permanent caregivers.

36. Inland Revenue has prepared a high-level costing for proposed changes to PPL of a 2 or 4 week extension (introduced 1 October 2014) and extension of eligibility to non-standard workers. These assume no changes to IR's current administrative processes. The high level cost estimate for implementing the changes is approximately $410,000, with additional on-going administrative costs estimated at $40,000 per annum.

37. The on-going administrative cost for MBIE is estimated to be $60,000 based on an additional FTE and administrative support to process the applications.

38. To reflect the inherent uncertainty associated with these proposals and impacts on existing systems and processes, standard contingencies have been applied to Inland Revenue's costings.

Cost type	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Inland Revenue						
Implementation	331,060	72,898				**403,958**
On-going		36,858	35,970	35,970	35,970	**144,768**
Sub-total	**331,060**	**109,756**	**35,970**	**35,970**	**35,970**	**548,726**
MBIE						
On-going		60,000	60,000	60,000	60,000	**240,000**
Grand total	**331,060**	**169,756**	**95,970**	**95,970**	**95,970**	**788,726**

39. Inland Revenue will need to seek funding for implementing these changes. The quantum and timing of this funding will be confirmed for the final policy report and Cabinet papers.

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Extending the Parental Tax Credit

41. Another proposal for your consideration is an increase in the entitlement and/or length of the Parental Tax Credit (PTC). The PTC was introduced in 1999 to provide additional financial support to working families for an eight-week period following the birth of a child. The maximum amount payable is $1,200 a year for each newborn child, representing payment for the first 56 days following the birth of a new child ($150 per week for 8 weeks), PTC is currently abated at 21.25 cents per dollar after all the amounts of family tax credit and in-work tax credit (IWTC) have been fully abated away. The PTC is not available for families receiving an income-tested benefit, student allowance, New Zealand Superannuation or veteran's pension, or paid parental leave.

42. Since 1 July 2002, working parents who qualify have had the option of choosing to receive paid parental leave (PPL) instead of the PTC. The PTC is an alternative and most often less generous option for people who do not meet the employment-related criteria of PPL. Most recipients of PTC are likely to have two or three children, suggesting that the eligibility criteria for PPL are more likely to be met for the first child, than for subsequent children, because the mother may not have returned to work for a sufficient period to re-qualify for paid leave.

Increases to PTC

43. The PTC amount has not been changed since its introduction. However, since 2004 it has been a statutory requirement under the Income Tax Act 2007 for the Minister of Revenue and the Minister for Social Development and Employment to review the amount of the parental tax credit (PTC) every three years. The last statutory review was completed in June 2011 (T2011/1440, REP/11/06/247 and PAD 2011/153 refers) and the next review would have been due in June 2014, although that has now been superseded by this current work for Budget 2014.

44. The 2011 report noted that there was a *prima facie* case to increase the amount of PTC, to match inflation and that there were a range of options for doing so, including an update for inflation from introduction of the PTC in October 1999, or from the introduction of the Working for Families package on 1 April 2004, or from the date of the statutory reviews (2008 or 2011).

45. If PTC were to be increased based on inflation up to 31 December 2013, each of these possible start dates would lead to amounts as follows:

CPI since	Increase up to 2013 Q4	Adjusted full amount	per week
1999 Q4	41.9%	$1,703	$213
2004 Q2	27.0%	$1,525	$191
2008 Q2	12.0%	$1,344	$168
2011 Q2	2.7%	$1,232	$154

46. Officials would recommend that any annual amount be rounded, to provide a whole dollar amount for the weekly payment. This makes it easier for potential receipients to understand their entitlements and payments.

47. There are arguments to increase rates further than just for the CPI changes. These reasons are similar to the justifications for the proposed increase in payments of PPL, and include better reflection of the increase in family expenditure in the period immediately after child is born; this period is often coupled with a decrease in family income. Officials note that, as with PPL, there is no single optimum level of payment, as the costs of a new born will vary between families.

48. The rest of this section concentrates on two possible options for increasing PTC, as requested by Ministers.

- Option A is a straight increase in the amount of PTC, to pay $225 per week
- Option B increases both the amount and the length of payment time, to pay $225 per week over 10 weeks.

49. No other changes to the existing PTC eligibility criteria are considered in the following analysis; in particular we note that no extension of PTC to beneficiaries has been factored in.

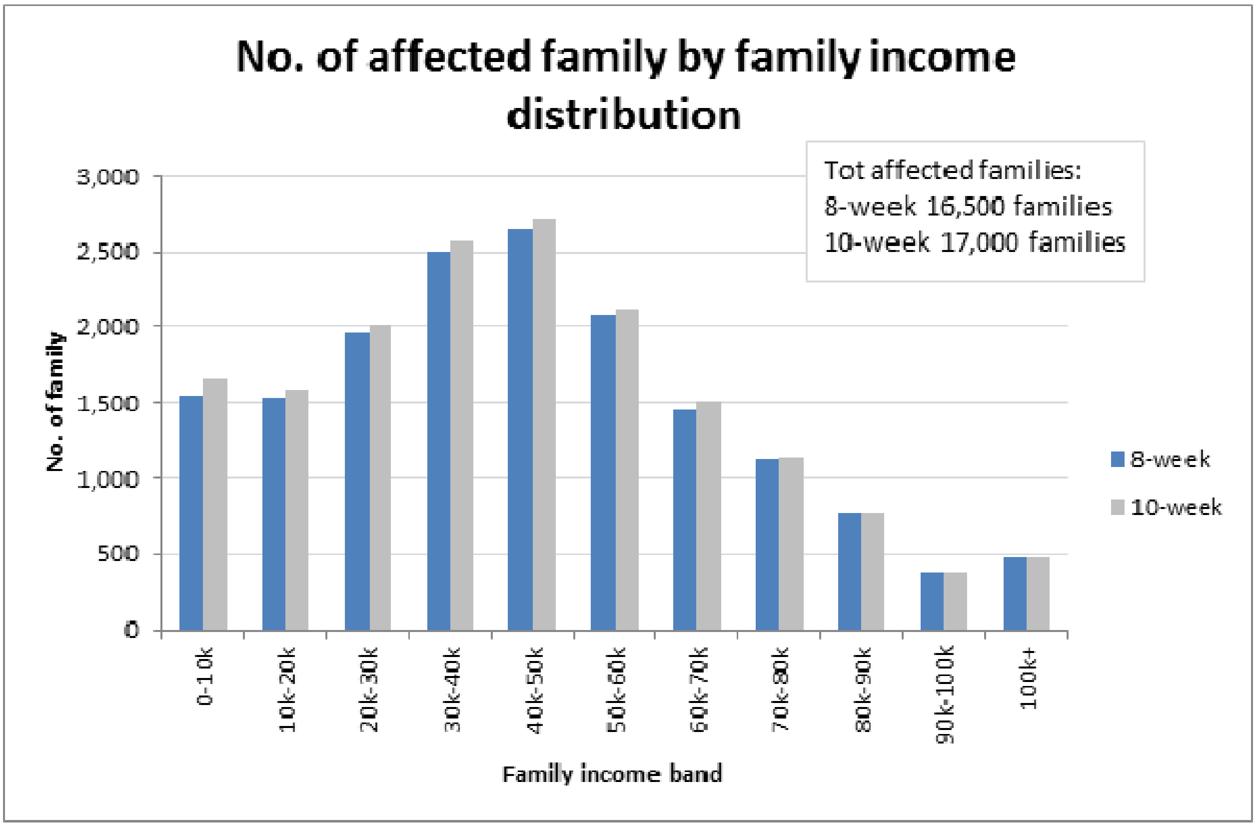
Fiscal cost and distribution

50. The fiscal cost of changing the entitlement and eligibility period for these options is:

$M	2014/15	2015/16	2016/17	2017/18	Total over 4 years
Parental Tax Credit					
Option A: 8 weeks at $225	$9	$9	$9	$9	$36
Option B: 10 weeks at $225	$15	$15	$15	$15	$60

51. Under option A, the increased PTC is paid over 8 weeks which will lead to higher payments for 16,500 families.

52. If paid over 10 weeks under option B, then 17,000 additional families will benefit because the full abatement income threshold is higher. The numbers of families who will be affected by the changes, for income bands up to $100,000 is shown in the graph below.



Comment

53. PTC is available to families earning up to $110,530 and with one child. If they have six children, they can earn up to $189, 378 and still receive PTC. In this sense, the tax credit is available to a wide range of families. Compared to PPL, however, it is likely to be more targeted towards more lower and middle income-earning families. However

because PTC is not paid to beneficiaries, the proposed changes will not impact on these families at the lower end of the income distribution range.

54. Another aspect to consider in extending the PTC is the impact on work incentives and efficiency, and the effect on recipients' effective marginal tax rates (EMTR). The EMTR is the percentage of an extra unit of income that the recipient loses from the combined effect on of income tax and the abatement of the WFF tax credits.

55. PTC is the last of the WFF tax credits to be abated; at the boundary, certain middle and high income families could face a high EMTR of up to 54% (33% due to tax and 21.25 due to the abatement of WFF). The evidence about the impacts of changes in EMTRs on work incentives in New Zealand is limited, but broadly consistent with international results. International evidence suggests that, while individual responses vary, in aggregate higher EMTRs reduce work effort. This suggests that increases in the PTC may cause a disincentive to work. On the other hand, because PTC spending is focused around the birth of a child (unlike other elements of the WFF package) the increased EMTR is less likely to have an impact on parents' employment decisions. Parents of newborns have a relatively inelastic labour supply.

56. Officials also note that PTC is not linked to employment in the same way as PPL, so there are less labour market incentives and less economic impact than PPL. The increase in PTC may mean that parents of newborns may be inclined to stay out of work longer than they would otherwise.

49. The interaction of PTC and PPL is also important. The maintenance of some margin between PTC to PPL is preferred, as this maintains incentives for women to remain attached to the workforce through PPL. The current PTC extension proposals would continue to maintain this differential between PTC and PPL for women receiving the full rate of PPL ($488.17 per week before tax) on a weekly and annual basis.

57. However, women who earn less than the full rate of PPL receive their equivalent wage. For example, a pregnant woman who works 10 hours a week at minimum wage would receive approximately $137.5 per week in PPL before tax. This will generally be less than the proposed weekly amount of PTC if the full 14 weeks of PPL are taken, which may lead to some women opting for PTC instead. The picture is finely balanced though, and may change again if the PPL pay period is extended as discussed previously.

58. If women in this position were working only to receive the PPL, then their incentive to work will be removed. However, women will still be able to choose between the PPL and the PTC based on what is more advantageous for them, so the incentive of additional income prior to childbirth may hold firm. The number of families who are eligible for PPL but are likely to be financially better off opting for PTC is estimated to be around 1,500; this estimate is based purely on the financial outcome, and does not account for the other benefits of PPL such as employment protection and workforce attachment.

Administrative and Implementation Matters

59. Inland Revenue has prepared a high-level impact analysis and costings for the proposed changes to PTC, and is confident it is able to deliver these changes as set out under options A or B. This assumes no major system upgrade or change in the current process is required.

60. The impacts and costs have been prepared on the basis that the PTC changes will be effective from 1 October 2014, and only apply to eligible families with babies born on or after that date. This assumes that the necessary legislative changes are introduced as part of Budget night legislation.

61. Officials note that the mid-year change to PTC can only be paid out as an end of year lump sum. Broadly, this means that families who qualify for the increased PTC between 1 October 2014 and 31 March 2015 will receive the increased PTC amount as a lump sum payment ($600 or $1,050) as part of the Working for Families end-of-year square up. This is generally paid out from July, following the end of the tax year. Regular payments at the new rate, and over the new period will occur from 1 April 2015.

62. To ensure delivery of these changes and manage any risks, the development work will be progressed alongside Inland Revenue's Annual Returns cycle which includes Working for Families events.

63. The indicative administrative estimates to implement the proposed PTC changes are approximately $6m, with additional ongoing costs of $0.5 - $0.7m per annum. Standard contingencies apply to these costings.

Cost type	2013/14	2014/15	2015/16	2016/17	2017/18	**Total**
Implementation	$299,822	$5,653,364				**$5,953,186**
On-going		$558,808	$683,418	$683,418	$683,418	**$2,609,062**
Total	**$299,822**	**$6,212,172**	**$683,418**	**$683,418**	**$683,418**	**$8,562,248**

64. Inland Revenue will need to seek funding for implementing these changes. The quantum and timing of this funding will be confirmed for the final policy report and Cabinet papers.

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Application to vulnerable families

72. Officials note that the package discussed in this report would be targeted solely at families in paid employment. As the children most at risk are those from beneficiary families, we note that this package would not provide additional assistance to them.

73. Should you wish to prioritise the items in this package on their relative impact on low income families in paid employment we would suggest the following ranking as having the greatest impact:

    1) Broadening the eligibility criteria of PPL. This has a relatively low fiscal cost of approximately $5 million/year and this extra funding would go directly to low income families who undertake casual and seasonal work.

    2) Improving the fairness of PPL. This also has a low fiscal cost of approximately $3 million/year and would go directly to caregivers taking on the permanent care of children, many of whom are vulnerable.

    3) Extension of the PTC. While this has a higher fiscal cost of up to $16 million/year, it is supporting households in a targeted manner with the amount given dependent on both income and number of children.

    4) General extension of PPL either by 2 or 4 weeks. This has the highest fiscal cost of up to $50 million and is untargeted. While it will enable more mothers than currently to stay out of the work force for a period closer to 6 months, which will be good for child outcomes, it will also provide the same benefit to mothers who currently have less of a financial impediment.

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Next steps

74. Should you wish to proceed with any of the options in this paper, please indicate what your preference is with respect to announcements for Budget day.

75. If you would like to proceed with any of the legislative proposals, officials will report back on the options for doing this.

APPENDIX – PAID PARENTAL LEAVE COST ESTIMATES

Table 1: Estimated cost of all options to expand paid parental leave entitlements ($M)

	2014/15	**2015/16**	**2016/17**	**2017/18**	**Total over 4 years**
Cost of existing scheme (14 weeks)	$168.8	$174.2	$179.4	$184.8	$707.3
Costs of extending entitlement to 16 or 18 weeks					
16 weeks (introduced 1 October 2014)	$24.1	$24.9	$25.6	$26.4	$101.0
18 weeks (introduced 1 October 2014)	$48.2	$49.8	$51.3	$52.8	$202.1
Costs of extending eligibility to non-standard workers					
Assuming eligibility increases from 90% to 95% and half those people take up PPL	$4.7	$4.8	$5.0	$5.1	$19.7
[7,8]					
Costs of extending eligibility to permanent caregivers					
Providing PPL to eligible Home for Life caregivers	$0.5	$0.5	$0.5	$0.5	$2.0
Providing PPL to those holding a guardianship and/or parenting order	$1.7	$1.8	$1.8	$1.9	$7.1
Providing PPL to those with mātua whāngai arrangements, grandparents raising grandchildren, and biological fathers	$0.8	$0.9	$0.9	$0.9	$3.5

Notes: Figures are before tax and estimates are based on the 2011/12 financial year.

Increase in average ordinary time weekly earnings estimated based on Treasury Budget 2013 nominal wage growth forecasts.

Extending paid parental leave to non-standard workers

76. Information collected as part of the parental leave evaluation provides some information about the relative size of groups ineligible for parental leave and casual employees' work patterns that contribute to ineligibility. The Ministry's experience applying the current provisions is also a useful informant in understanding determinants of ineligibility.

<u>Design</u>

77. The eligibility criteria would be broadened and based on *workforce* attachment, rather than the current requirement for attachment to one *workplace*. The criteria would still determine eligibility for payment and job protected leave, but there would also be an entitlement to payment only.

78. To access payment only, employees and the self-employed will need to have worked an average of at least 10 hours per week over any 26 out of the 52 weeks immediately preceding the expected date of delivery/adoption. (This differs from the current criteria for employment protected paid leave, whereby employees need to have worked an average of at least 10 hours per week over six months service with the same employer immediately prior to the expected date of delivery/adoption.) The current requirement for employees to have also worked one hour in every week or 40 hours in every month would be dropped.

79. Entitlement to payment only would be consistent with current provisions for self-employed. It would also mean that employers would not have to held open a job for an employee who had only been in their employment for a short period. Employees may be able to negotiate leave from their employer.

80. Employees entitled to payment only would be required to take a break from work while they are receiving payments.

<u>Cost</u>

81. The parental leave evaluation found that of the 20% of women in paid work who were ineligible for PPL, 14% were ineligible because they did not meet the tenure requirements under the Act.[20] Self-employed women accounted for just over a third of the group of working women who were ineligible. Following the inclusion of self-employed in the scheme in 2006, the group of women eligible for paid parental leave is estimated to be around 90%.

82. Assuming that 10% of women in paid work are currently ineligible for PPL, if one half of this 10% (i.e. 5%) became eligible under the policy change then the cost would increase by a factor of 5/90 or 5.6%. [21]

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[20] This was either, because they didn't meet the six months tenure requirement (7%); did not meet the 10 hours per week requirement (5%); or did not meet both criteria (2%).

[21] It can be assumed that the costs are higher also, because these are modelled off the existing scheme costs (whereby 91% of current recipient receive the maximum rate of PPL). With lower income employees coming into the scheme, it would be reasonable to assume that the maximum rate would decrease.

83. The additional costs associated with extending parental leave payments to this group are therefore estimated to be an additional $4.7 million in 2014/15, and a total of $19.7 million over four years, as set out in Table 2 below.

Table 2: Estimated cost of extending paid parental leave to non-standard workers ($M)

	2014/15	2015/16	2016/17	2017/18	Total over 4 years
Costs of existing scheme (14 weeks)	$168.81	$174.21	$179.43	$184.82	$707.3
Additional cost assuming eligibility increases from 90% to 95% (i.e. 50% of ineligible people become eligible) and half those people take up PPL[22]	$4.69	$4.84	$4.98	$5.13	$19.7

84. Numbers of additional people that would be covered by the scheme, on the basis of this estimate, would be an extra approximately 700-800 people per year. It would be reasonable to assume that 50% of these people would otherwise have received PTC, thus approximately 350-400 people could shift from receipt of PTC to PPL.

85. Assumptions made in these calculations include:

a. A small group of employees would remain ineligible for the scheme. This is appropriate because, despite the new eligibility criteria being significantly broader and more flexible, there will still be workers with a very tenuous connection to the labour market who will not qualify and, for whom, the PTC would be a better option in any case.

b. The parental leave evaluation found that take up of PPL was around 80%. It is assumed that there would be a considerably lower take up with these groups of workers (i.e. 50%) because the evaluation showed that mothers ineligible for PPL were more likely to be sole parents, have lower qualifications, lower personal incomes, and have more children. They may therefore :

i be less likely to access the provisions, particularly given that administratively it will be more difficult as an employee to verify hours and tenure with non-standard working arrangements and potentially more than one employer, and

ii be better off receiving the PTC, particularly if the rate is increased, as PPL is paid at the employee's gross weekly pay rate or the maximum rate (currently $488.17), whichever is lower. i.e. if an employee is working 10 hours a week on the minimum wage, they would only qualify for a weekly payment of $137.50.

22 According to the parental leave evaluation, approximately 10% of women in paid work are currently ineligible for PPL (following the inclusion of the self-employed in the scheme in 2006).

Extending paid parental leave to permanent carers

Design

86. Currently, eligibility for parental leave is determined through the birth mother or the parent intending to adopt. Entitlement to PPL and job protection could be extended to 'principal caregivers' to be defined under the Act i.e. anyone that has the primary responsibility for the day-to-day care of the child on an ongoing or permanent basis. A similar definition is used in the Income Tax Act 2007.

87. Verification issues would be more straightforward for children in the custody of Child, Youth and Family – they could provide a 'statutory declaration' when the child receives a permanent placement. This could be in the form of a letter provided to Inland Revenue where a child is under the age of six years at the time of placement, and the agreed plan is permanent care through Home for Life or some other permanent guardianship arrangement.

88. Careful consideration would be required to resolve verification issues with the broader caregiving options, and there could be a risk of people claiming to seek permanency in order to gain access to PPL. However, IR currently assesses eligibility for PTC on the basis of the 'principal caregiver' definition.

Cost

89. MSD has estimated that about 182 'Home for Life' caregivers (from a total pool of 350) begin care of children under six years annually. About 30% of these (66) are known to be receiving a core benefit. They are therefore not in employment and would not be eligible for PPL.

90. The estimated cost to government of providing PPL to around 100 eligible Home for Life caregivers is $487,000 a year (based on the average payment of 91% of the maximum rate).[23]

91. The Ministry of Justice has advised that in 2012, 3,461 new Guardianship Orders, Parenting Orders or combined Guardianship and Parenting Orders were issued in respect of at least one child aged under six years. However, some 67% of Parenting or combined Guardianship and Parenting Orders are issued to either the mother, or the mother and father jointly. This reduces the number of people who would potentially gain eligibility for PPL to 1,213 each year.

92. This number would further reduce because the Ministry of Justice has advised that:

    a. An unknown number of 'Home for Life' carers are appointed under a Parenting Order, and are therefore already costed separately in the Appendix.

    b. About 60% of people accessing the Family Courts for care of children are eligible for civil legal aid, which suggests that they are on low incomes. A number in this group are therefore unlikely to be in employment and not eligible for PPL.

    c. A significant group of those in work who might be eligible would not wish to take PPL, given the comparatively low rate of payment and the requirement to be on leave.

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23 MSD's initial estimate was $690,000 a year, which was based on the maximum rate of PPL.

93. As with non-standard workers, the evidence of lower incomes and difficulty in accessing the provisions would apply here.

94. Assuming a 30% uptake (364 people) from the pool of 1,213 who potentially gain eligibility for PPL through holding a guardianship and/or parenting order, the additional cost to government of providing PPL is estimated at $1.7 million (based on the average PPL payment).

95. Due to a lack of data on mātua whāngai arrangements, it cannot be determined at this time how many additional people would become eligible for PPL. Earlier research by the former Department of Labour indicates that there are likely to be very few people in a whāngai relationship who meet the eligibility criteria for PPL. Likewise, there is a lack of data on numbers of grandparents caring for children who would also qualify for PPL, and numbers of fathers who would opt to take PPL in their own right. We do know that it is very rare for PPL to be transferred to a partner/spouse, and the parental leave evaluation found that most men would prefer to take parental leave consecutively with the mother.

96. Therefore, it is not expected that this would exceed a one-half percent increase (approximately 130 applications) in applications. Based on current expenditure a one-half percent increase in applications would increase the cost of the scheme by approximately $840,000 a year.

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