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To: Minister of Finance; Minister for Social Development & Employment; Minister of Revenue

AIDE MEMOIRE: INFORMATION ON BENEFICIARIES WITH VERY LOW ACCOMMODATION COSTS

The joint Treasury/ Inland Revenue/ MSD report "*Implications of changing the tax mix and possible additional support for certain groups*"¹ highlighted the fact that beneficiaries who are spending less than 8% of their income on accommodation costs may be worse off as a result of the increase to GST and compensation package, if compensation is based on a 2.02% increase in base rates of benefits. This aide memoire provides further information on the number and characteristic of beneficiaries with very low accommodation costs.

Findings

MSD's administrative data has information about income and accommodation costs for people who qualify for Accommodation Supplement (AS) – the main form of income support to support people with their accommodation costs. However, to qualify for AS, people must have accommodation costs that exceed 25% of their income if they are renting and 30% if they own their home (with or without a mortgage).

As at the end of February 2010, there were around 100,000 beneficiaries who were not receiving AS. The main reason these people will not receive AS is likely to be due to low or zero accommodation costs, but there will also be some people who fail to meet other qualifying criteria.

There are two viable data sources for looking at the characteristics of beneficiaries within this group, who have very low accommodation costs, of less than 8% of their income:

- MSD's 2008 Living Standards Survey (LSS)
- Statistics New Zealand's 2007-08 Household Economic Survey (HES)

Both are national sample surveys, but neither covers people in institutions (e.g. hospitals, residential care facilities). This aide memoire uses the LSS as the primary source as it measures the accommodation costs of individual beneficiary respondents rather than accommodation costs for the whole household. The results were tested in HES, and are robust to choice of survey.

¹ Dated 11 March 2010, TR 2010/339, REP/10/03/195, IRD 2010/042.

Benefit income varies according to a range of factors – for instance the family type, number of children and type of benefit received.² For a sole parent with one child, 8% of their income is about \$30 per week, and for the vast majority of beneficiaries, 8% of their income represents less than \$50 per week.

The following are our key findings based on the 2008 Living Standards data:

- around 25,000 beneficiaries spend less than \$60 per week on accommodation costs
- around 14,000 beneficiaries spend less than \$30 per week on accommodation costs
- MSD estimates that around 10,000 people paid less than 8% of their income on their accommodation costs

Of those with accommodation costs less than \$60 per week:

- the majority own their homes (80%)
- around 20% live in accommodation owned by a family trust (but may not be trustees themselves)
- around 80% do not have children

Conclusion

This aide memoire indicates that a relatively small group of beneficiaries (around 10,000) have accommodation costs of less than 8% of their income. The majority of this group are homeowners, and almost none are renters in the private market.

As the group affected is small, the individuals concerned are likely to be relatively well-off due to the home-ownership status, and the benefit system assumes that a portion of the main benefit rate is available to meet accommodation costs, we advise that the base compensation package will be sufficient to compensate this group for an increase in the rate of GST.

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² Income for the purposes of this report is defined as the main benefit, plus the Family Tax Credit.