The Treasury

Budget 2011 Information Release

Release Document

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Inland Revenue
Te Tari Taake

POLICY ADVICE DIVISION

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

THE TREASURY
Kaitohutohu Kaupapa Rawa

Tax policy report: Cabinet paper – Working for Families reform for Budget 2011

Date:	25 March 2011	**Priority:**	**High**
Security Level:	-	**Report No:**	T2011/548 REP/11/03/095 PAD2011/064

Action sought

	Action Sought	**Deadline**
Minister of Finance	**Sign** and **refer** the attached paper to the Cabinet Office	31 March 2011
Minister for Social Development and Employment	**Sign** and **refer** the attached paper to the Cabinet Office	31 March 2011
Minister of Revenue	**Sign** and **refer** the attached paper to the Cabinet Office	31 March 2011

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
Simon MacPherson	Manager, Workforce Attachment and Skills, The Treasury	[1]
Sue Mackwell	Deputy Chief Executive, Social Services Policy and Social Sector Strategy, Ministry of Social Development	
Chris Gillion	Senior Policy Advisor, Inland Revenue	

25 March 2011

Minister of Finance
Minister for Social Development and Employment
Minister of Revenue

Cabinet paper – Working for Families reform for Budget 2011

The attached Cabinet paper reflects the outcome of discussions between the Minister of Finance, the Minister for Social Development and Employment and the Minister of Revenue at a meeting on Tuesday 8 March 2011. The paper seeks Cabinet's approval of reforms to Working for Families (WFF) for Budget 2011.

The paper is for you to sign and refer to Cabinet to consider at its meeting on Monday 4 April 2011. The Cabinet Office deadline is 10am Thursday 31 March 2011.

Policy proposal

The WFF reform being proposed is to:

- increase the abatement rate by 1.25 percentage points every indexation round from 1 April 2012 until it reaches 25%;
- decrease the current abatement threshold of $36,827 by approximately $450 every indexation round from 1 April 2012 until it reaches $35,000; and
- remove the indexation of Family Tax Credit (FTC) amounts for children 16 and over from 1 April 2012.

The proposed WFF reform will apply from the next indexation round on 1 April 2012. Based on Treasury's Half-year Economic and Fiscal Update (HYEFU) 2010 forecasts, we expect indexation to recur in 2014, 2016, and 2018 so that the reform would be fully implemented on 1 April 2018.

The end result is for WFF tax credits to abate at the rate of 25% from a threshold of $35,000 with one single rate for a first child and two rates for subsequent children. This will be achieved by staggering the changes over time so the impact on families is gradual while still generating fiscal savings.

We estimate that the reform will result in total fiscal savings of $449 million over the 4 year budget forecast period to 2014/15.

This reform will be part of Budget 2011 and will be introduced in a Bill on Budget day.

Alignment of the Family Tax Credit amounts

By not indexing the eldest child FTC amounts, the other FTC amounts for children under 16 years old will eventually catch it up. The issue is how to give legislative effect to the alignment of rates, where possible.

For the first child amounts, the proposal is to align the eldest child to the under 16 years amount once the under 16 years amount surpasses the eldest child amount. The current first child over 16 years amount is $101.98 per week. Once indexation increases the under 16 years amount over $101.98, the eldest child amount would be increased to match it. Both amounts would continue to be indexed from that point onwards. The first child amount for under 16 years is expected to exceed the eldest child amount on 1 April 2016 based on Treasury's HYEFU 2010 forecasts.

There are three amounts of FTC for the second child: under 13 years, 13-15 years and 16 years and over. The proposal is to align the eldest child amount to the 13-15 year old amount once the 13-15 year old amount surpasses the eldest child amount. Based on current forecasts, this is not expected to occur until after 2018 at the earliest. All amounts would continue to be indexed from that point onwards. However, this means that there will still be two amounts for the second child: a 13 years and over amount, and an under 13 years amount. The Government may decide at some future date to review the structure of the second child amounts.

Consequential policy impacts

The proposed reform has a number of very minor consequential impacts for a small number of other programmes administered by the Ministry of Social Development. These are: Emergency Maintenance Allowance; Away from Home Allowance; Community Services Card; Temporary Additional Support; and Special Benefit. In addition, a few people earning over $35,000 may no longer qualify for the ring-fencing protection of the FTC.

An explanation of these programmes and the consequential impacts are provided in the attached draft Cabinet paper. In all cases the impacts are very minor and officials recommend continuing current policy and allowing these impacts to occur. This is consistent with the approach taken in previous reforms to WFF and with the policy intent of these programmes. The fiscal costs are small, peaking at $125,000 per annum in 2014/15, and the number of people affected is minimal due to the limited number of people eligible for these programmes.

Recommended action

We recommend that you:

(a) **Note** that the overall objectives of Working for Families reform in the 2011 Budget are to reduce the fiscal costs of Working for Families while protecting amounts of Working for Families tax credits for lower income earners, and minimising the effects on work incentives.

Noted	Noted	Noted

(b) **Agree** to the proposed Working for Families reform, which:

- increases the abatement rate by 1.25 percentage points every indexation round from 1 April 2012 until it reaches 25%;
- decreases the current abatement threshold of $36,827 by approximately $450 every indexation round from 1 April 2012 until it reaches $35,000; and
- removes the indexation of Family Tax Credit amounts for children 16 and over from 1 April 2012.

Agreed/Not agreed	Agreed/Not agreed	Agreed/Not agreed

(c) **Agree** to align:

- the eldest child rate of the Family Tax Credit to the under 16 years amount once the under 16 years amount surpasses the eldest child amount; and
- the eldest child amount for the second child to the 13-15 year old amount once the 13-15 year old amount surpasses the eldest child amount.

Agreed/Not agreed	Agreed/Not agreed	Agreed/Not agreed

(d) **Agree** to allow the consequential impacts for Emergency Maintenance Allowance; Away from Home Allowance; Community Services Card; Temporary Additional Support; and Special Benefit because they are consistent with the policy intent of those programmes, the fiscal costs are small and the number of people affected minimal.

Agreed/Not agreed	Agreed/Not agreed	Agreed/Not agreed

(e) **Agree** to include the proposed Working for Families reform as part of Budget day legislation.

Agreed/Not agreed	Agreed/Not agreed	Agreed/Not agreed

(f) **Sign** and **refer** the attached paper to the Cabinet Office by 10am Thursday 31 March 2011.

Signed and referred	Signed and referred	Signed and referred

Simon MacPherson Manager for Secretary to the Treasury	**Sue Mackwell** Deputy Chief Executive Ministry of Social Development	**Chris Gillion** Senior Policy Advisor Inland Revenue

Hon Bill English Minister of Finance	**Hon Paula Bennett** Minister for Social Development and Employment	**Hon Peter Dunne** Minister of Revenue

Office of the Minister of Finance
Office of the Minister for Social Development and Employment
Office of the Minister of Revenue

The Chair
Cabinet

WORKING FOR FAMILIES REFORM FOR BUDGET 2011

PROPOSAL

1. We seek Cabinet's approval for Working for Families (WFF) reform to be included as part of Budget 2011. The final reform option reduces the fiscal costs of Working for Families while protecting amounts of WFF tax credits for lower income earners, and minimising the effects on work incentives.

EXECUTIVE SUMMARY

2. We recommend that Budget 2011 include the following WFF reform:

- increase the abatement rate by 1.25 percentage points every indexation round from 1 April 2012 until it reaches 25%;
- decrease the current abatement threshold of $36,827 by approximately $450 every indexation round from 1 April 2012 until it reaches $35,000; and
- remove the indexation of Family Tax Credit (FTC) amounts for children 16 and over from 1 April 2012.

3. The proposed WFF reform will apply from the next indexation round on 1 April 2012. Based on Treasury's Half-year Economic and Fiscal Update (HYEFU) 2010 forecasts, we expect indexation to recur in 2014, 2016, and 2018 so that the reform would be fully implemented on 1 April 2018.

4. The end result is for WFF tax credits to abate at the rate of 25% from a threshold of $35,000 with one single rate for a first child and two rates for subsequent children. This will be achieved by staggering the changes over time so the impact on families is gradual while still providing fiscal savings.

5. Officials have estimated that the reform will result in a total fiscal savings of $449 million over the 4 year budget forecast period to 2014/15.

BACKGROUND

6. The last time the abatement rate and threshold of WFF tax credits were changed was in 2006. The abatement rate was reduced from 30 cents per dollar to 20 cents per dollar. The abatement threshold was increased from $27,500 to $35,000. The threshold was subsequently indexed in 2008 increasing the level to $36,827. As a result of these and other changes to WFF tax credits, a family with two children, for example, does not lose their entitlement to WFF tax credits until they earn $91,227.

7. More recently Budget 2010 removed the automatic indexation of the abatement threshold for WFF tax credits to improve the targeting of WFF to lower and middle income earners. Further, the definition of income for WFF eligibility and abatement purposes will also be broadened from 1 April 2011 to improve the equity and fairness of the scheme. These two reforms are expected to generate fiscal savings of $40 million and $32 million per year respectively by 2013/14.

8. A range of options other than the one presented in this paper have been considered and they are outlined in the Regulatory Impact Statement (RIS) attached to this paper. These include options that change: the indexation of family tax credit, the abatement rate, the abatement threshold, and the tax credit payment schedules.

COMMENT

9. The final option for Budget 2011 WFF reform is expected to:

- generate fiscal savings for Budget 2011 given the current fiscal environment and the need for spending constraint;
- better target assistance to lower income families;
- protect the disposable incomes of lower income families;
- minimise the impact on work incentives;
- not make structural changes to the scheme, i.e. ensure the changes can be implemented by 1 April 2012; and
- ensure any reform is consistent with the original objectives of WFF.

Policy proposal

10. The final option for Budget 2011 WFF reform proposes to:

- increase the abatement rate by 1.25 percentage points every indexation round from 1 April 2012 until it reaches 25%;
- decrease the current abatement threshold of $36,827 by approximately $450 every indexation round from 1 April 2012 until it reaches $35,000; and

- remove the indexation of FTC amounts for children 16 and over from 1 April 2012.

11. This proposal meets the main objectives of the reform. It will generate fiscal savings while improving the targeting of assistance to those most in need – withdrawing tax credits from higher income earners while continuing to increase FTC amounts for lower income families. There are some negative impacts on work incentives for those who face a higher abatement rate but there are minimal impacts on the incentives for beneficiaries to move into work. Both impacts on work incentives are unlikely to be significant.

12. The proposed WFF reform will apply from the next indexation round on 1 April 2012.

Increasing the abatement rate

13. Currently, the WFF tax credits (excluding the minimum FTC) are abated at the rate of 20 cents in the dollar from an abatement threshold of $36,827.

14. The Income Tax Act 2007 requires that the amounts of FTC be adjusted for inflation. The adjustment ensures that the value of assistance keeps pace with inflation over time. The adjustment occurs once the cumulative increase in the Consumer Price Index (CPI) reaches 5% from the last adjustment (which was in October 2008).

15. This proposal increases the universal abatement rate from 20% by 1.25 percentage points every time FTC amounts are increased during the indexation round. This increase of 1.25% in the abatement rate will continue until the abatement rate reaches 25%. Therefore, the FTC amounts will continue to grow but the rate at which they abate will also increase, reducing the amounts for middle to high income families.

16. The proposed WFF reform will apply from the next indexation round on 1 April 2012, when amounts are forecast to increase by 5.22%. Based on Treasury's HYEFU 2010 forecasts, we expect indexation to recur in 2014, 2016, and 2018 so that the reform would be fully implemented on 1 April 2018. However, as this is based on forecasts, there is a possibility that the 25% abatement rate may not apply until after 2018.

17. Increasing the abatement rate to 25% is expected to decrease incentives to work at the margin for those families receiving abated WFF tax credits with incomes above the new abatement threshold of $35,000. However, financial work incentives are part of a wider mix of factors that influence peoples' work choices.

18. The evidence on the impact of changes in effective marginal tax rates (EMTRs) in New Zealand is limited, but broadly consistent with international results. International evidence suggests that, while individual responses vary, in aggregate higher marginal tax rates reduce work effort. Modelling commissioned by Treasury in 2004 to estimate the labour supply impact of the $1.1 billion original WFF package using the Melbourne Institute Labour Supply Model, estimated that those more significant changes would have no net impact on total labour supply for couples. Relatively small (2%) increases in labour supply were expected for sole parents. Therefore, the expected impact of a 5% increase in abatement in

increments of 1.25% staggered over time is not expected to have significant labour supply effects.

19. Note that those families on higher incomes that would no longer receive WFF tax credits would face a lower EMTR. The income level at which families are no longer eligible for WFF tax credits will vary with the number and age of the children.

Decreasing the abatement threshold

20. This proposal decreases the current abatement threshold of $36,827 by approximately $450 every indexation round from 1 April 2012 until it reaches $35,000. As per the abatement rate proposal discussed above, we expect indexation to recur in 2014, 2016, and 2018 so that the reform would be fully implemented on 1 April 2018.

21. This aspect of the proposal reduces the disposable income for all WFF recipients whose family income is above the new threshold. On 1 April 2012, the abatement threshold will decrease to $36,350. This is a reduction of the threshold by $477. The three next reductions will be in increments of $450 such that by the fourth indexation round (expected in 2018) the threshold will reach $35,000.

22. Incentives to work will be more affected for families with a household income between the old and new thresholds, as the abatement rate for these families will increase from zero percent to the new abatement rate (between 21.5 to 25 cents per dollar). Given the relatively small number of families affected it is not expected to have a noticeable impact on aggregate labour supply, but may impact on levels of work of the families directly affected.

Removing indexation of the FTC amounts for children 16 and over

23. The FTC is the Government's main form of financial support to families with children. It is available on an income tested basis to beneficiary and working parents regardless of whether they undertake any form of paid work.

24. This aspect of the proposal removes the indexation of the FTC amounts for children 16 and over. The two eldest child rates would remain at their current levels while the other rates continue to rise with inflation. This means that over time the FTC payment schedule would consolidate to one payment for a first child and two payments for a second child (0-12, and 13 and over).

25. The alignment of the first child rate is expected to occur by April 2016 according to Treasury's HYEFU 2010 forecasts. For the first child amounts, the proposal is to align the eldest child to the under 16 years amount once the under 16 years amount surpasses the eldest child amount. The current first child amount is $101.98 per week for those 16 and over and $88.03 for children under 16. Once indexation increases the under 16 years amount over $101.98, the eldest child amount would be increased to match it. Both amounts would continue to be indexed from that point onwards.

26. There are three amounts of FTC for the second child: under 13 years, 13-15 years and 16 years and over. The proposal is to align the eldest child amount to the 13-15 year old amount once the 13-15 year old amount surpasses the eldest child amount. Based on current forecasts, this is not expected to occur until after 2018. All amounts would continue to be indexed from that point onwards. However, this means that there will still be two amounts for the second child: a 13 year and over amount and an under 13 years amount. The Government may decide at some future date to complete the process of alignment for the second child amounts.

Table 1 Current and proposed FTC payment schedule

Age/Number of Children	Current Weekly FTC	April 2012 weekly FTC	April 2014 weekly FTC (forecast)
First Child if under 16	$88.03	$92.64	$97.53
First Child if 16 or over	$101.98	$101.98	$101.98
Second child rate if under 13	$61.19	$64.38	$67.78
Second child rate if 13 to 15	$69.78	$73.43	$77.31
Second child rate if 16 or over	$91.25	$91.25	$91.25

27. Approximately 23% (92,000) of the 400,000 families receiving WFF tax credits have at least one child 16 years old or over.[1]

28. The Government discussion document *Supporting Children* estimated the cost of raising children in New Zealand.[2] Based on those estimates, the FTC covers anywhere between 45% and 75% of the costs. There does not appear to be a consistent relationship between the level of support provided by the FTC and the cost of the child.

29. In addition to reducing the fiscal costs, aligning FTC amounts would also simplify the administration of WFF tax credits. This is particularly the case when children move from one age bracket to another within the tax year, triggering a recalculation of WFF entitlements. Therefore, the proposal is to move towards alignment of the amounts gradually over time.

30. The non-indexation of the eldest child FTC amount will also see the current differentials between the FTC amounts and the rates of other benefits available for teenagers (such as the independent youth benefit) widen, increasing incentives to claim these payments. This impact would, however, be relatively small and can be managed through rigorous front-end assessments and eligibility criteria.

Impact on families

31. On 1 April 2012, 387,288 families will be affected. Overall, there are more families that receive more WFF tax credits on 1 April 2012 than families that receive less. Families receiving more are concentrated at the lower end of the income scale, with those families below the new income threshold of $36,350 receiving on average approximately $7 extra per week. Only families with incomes over the new abatement threshold of $36,350 will receive

[1] Based on Inland Revenue March 2009 income data for WFF recipients.
[2] *Supporting Children* released in September 2010 (see http://taxpolicy.ird.govt.nz/consultation/supporting-children).

less WFF tax credits on 1 April 2012 and the majority of these families (i.e. over 70%) have an income of $60,000 or more.

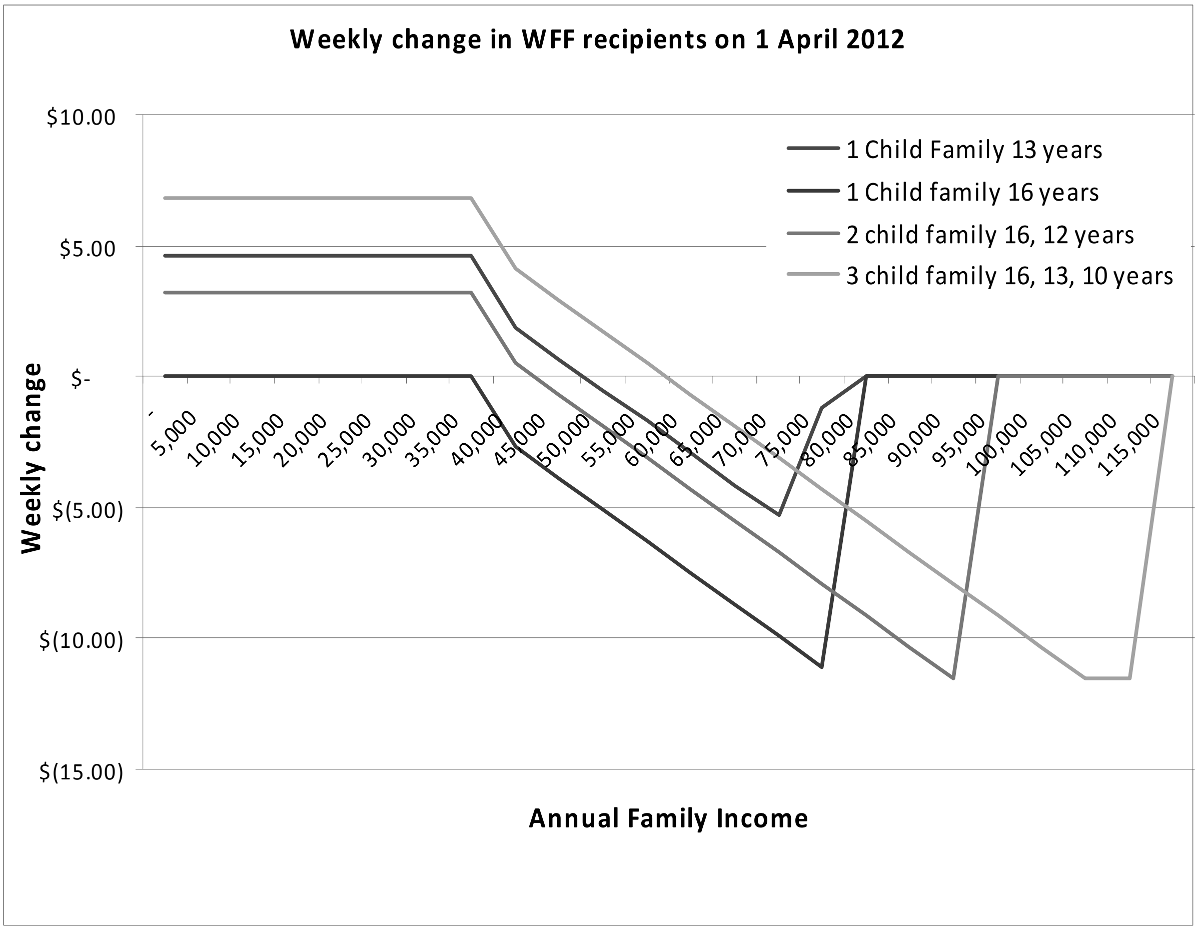
Table 2 Affect on families on 1 April 2012

Family income	**Families who receive less WFF on 1 April 2012**		**Families who receive more WFF on 1 April 2012**	
	Number	Average change $ per week	Number	Average change $ per week
Up to $10,000	–	–	16,467	7.02
$10,000 to $20,000	–	–	87,452	6.93
$20,000 to $30,000	–	–	60,177	6.56
$30,000 to $40,000	N/A	N/A	37,501	7.31
$40,000 to $50,000	11,307	-2.68	29,928	2.77
$50,000 to $60,000	11,757	-1.87	27,455	2.70
$60,000 to $70,000	23,982	-3.45	10,984	2.62
$70,000 to $80,000	29,681	-4.44	N/A	N/A
$80,000 to $90,000	20,597	-5.43	N/A	N/A
$90,000 to $100,000	4,641	-5.14	–	–
$100,000 to $110,000	N/A	N/A	–	–
Above $110,000	N/A	N/A	–	–
TOTAL	**109,120**		**278,168**	

NB: "N/A" represents sample sizes sufficiently small that they are below the margin of error and therefore cannot be reported.

32. Figure 1 below represents the impact on particular family types on 1 April 2012. Those families earning below the new abatement threshold of $36,350 will benefit from the indexation of the FTC they receive for children below 16 years old. Those families earning above the abatement threshold will also benefit from the indexation of the FTC amounts they receive for children below 16 years old, but their WFF tax credits will be abating more quickly. The overall effect is to target WFF tax credits towards lower income earners.

Figure 1: Weekly Change for WFF recipients



33. For example, a family with two children aged 12 and 16 benefits from the indexation of the under 16 years FTC amount if the family's income is below the new threshold of $36,350. Once their income exceeds $36,350, the family faces a slightly higher abatement rate of 21.25 cents per dollar, which reduces some of the gains from indexation. The gains from indexation are fully offset by the reduction caused by the higher abatement rate once the family income reaches approximately $42,000. When a two child family's income exceeds approximately $92,000, they will no longer qualify for WFF tax credits.

34. For the other three family situations in Figure 1, the level of incomes at which the benefits of indexation are fully offset by the reduction from the higher abatement rate are approximately:

- $36,000 for a family with one child aged 16 years;
- $48,000 for a family with one child aged 13 years; and
- $57,000 for a three child family with children 10, 13 and 16 years of age.

35. The proposed changes have been designed to minimise adverse impacts on beneficiary and low-income working families. As a result, the proposed changes are not expected to increase income equality, and are not expected to have significant impacts on overall child poverty rates.

36. There will be some impact over time on low income families with children aged 16 years or over, as the regular inflation adjustment of these rates ceases for a short period until other rates catch up.

Consequential policy impacts

37. The proposed changes have a number of very minor consequential impacts for a small number of other programmes administered by the Ministry of Social Development. In all cases, the impacts are minor and we recommend continuing current policy and allowing these impacts to occur. This is consistent with the approach taken in previous reforms to WFF and with the original WFF policy intent. The fiscal costs are small and the number of people affected minimal due to the limited number of people eligible for these programmes.

The consequential impacts are:

- *Ring-fencing.* If a person is receiving a main benefit and earning other income during a calendar month they are entitled to the maximum amount of FTC during that month as long as their monthly income does not exceed the abatement threshold. Reducing the abatement threshold will mean slightly fewer families will have their FTC ring-fenced in this manner. However, this affects very few families and the marginal impact is too small to accurately estimate.

- *Emergency Maintenance Allowance.* Slightly fewer people will be eligible for the Emergency Maintenance Allowance (a benefit similar to the Domestic Purposes Benefit) as the assistance uses a parental income test based on eligibility for FTC.

- *Away from Home Allowance.* This extra assistance is for people caring for 16-17 year olds who move away from home to study or train. There will be a small decrease in the number of people eligible for this assistance as eligibility is also based on receipt of the FTC.

- *Community Services Card.* A very small number of additional people may become eligible for the Community Services Card.

- *Temporary Additional Support and Special Benefit.* People receiving the Temporary Additional Support and the Special Benefit, will see an increase in these payments partially or fully offsetting any reduction in their FTC entitlement.

FINANCIAL IMPLICATIONS

38. To provide some context to the financial implications to the proposed changes, table 3 below provides the total operating cost for WFF tax credits under existing policy, which assumes next two rounds of FTC indexation to occur on 1 April 2012 and 1 April 2014:

Table 3	Forecast fiscal cost of Working for Families ($ million)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Family Tax Credit	2,210	2,183	2,197	2,158	2,226
In-Work Tax Credit	588	572	578	568	561
Parental Tax Credit	19	18	18	17	16
Minimum Family Tax Credit	9	10	10	11	11
Child Tax Credit	3	2	2	1	1
Total WFF Tax Credits	2,829	2,785	2,805	2,755	2,815

NB: The Child Tax Credit was replaced by the In-Work Tax Credit when WFF was introduced in 2005. There are still a small number of families receiving it.

39. The proposed WFF reform will apply from the next indexation round on 1 April 2012. Based on Treasury's HYEFU 2010 forecasts, we expect indexation to recur in 2014, 2016, and 2018 so that the reform would be fully implemented on 1 April 2018.

40. We estimate that the reform will result in a total fiscal savings of $449 million over the 4 year budget forecast period to 2014/15. While the costings below are divided into the three different WFF tax credits, table 4 below represents the overall impact on the net operating balance of the final WFF option for reform:

Table 4	$ million increase / (decrease) to net operating balance			
Vote Revenue Minister of Revenue	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Benefits and Other Unrequited Expenses:				
Family Tax Credit	(16.000)	(65.000)	(82.000)	(133.000)
In-Work Tax Credit	(9.000)	(35.000)	(42.000)	(61.000)
Parental Tax Credit	-	(1.000)	(2.000)	(3.000)
Total	(25.000)	(101.000)	(125.000)	(197.000)

41. The reform will have consequential impacts on the Temporary Additional Support and the Special Benefit. The additional fiscal costs of the marginal increase in payments are represented in table 5 below:

Table 5	$ million increase / (decrease) to net operating balance			
Vote Social Development Minister for Social Development and Employment	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Benefits and Other Unrequited Expenses:				
Temporary Additional Support	0.010	0.035	0.042	0.068
Special Benefit	0.009	0.030	0.035	0.057
Total	0.019	0.065	0.077	0.125

COMPLIANCE IMPLICATIONS

42. The proposed reform is not expected to increase the compliance costs for WFF applicants. Each year families applying for WFF tax credits are required to confirm their income and family circumstances with Inland Revenue who in turn provides the family with an estimate of their WFF entitlements. This process will not change as a result of these reforms.

ADMINISTRATIVE IMPLICATIONS

43. To implement the proposed WFF reform from 1 April 2012, operating costs of $100,000 will be incurred in 2010/11 and a further $500,000 in the 2011/12 fiscal year. Inland Revenue has assessed the ability to fund smaller self contained initiatives within the context of overall affordability of Budget 2011 and other proposed legislative changes and at this stage has capacity to absorb the above costs from within its existing baseline appropriation.

44. Changes to the abatement rate, threshold and the non-indexation of the eldest child rate of FTC will be built into the annual application and end-of-year square-up cycle that already exists for WFF tax credits. WFF recipients will be informed of the changes coming into effect from 1 April 2012 as part of the annual application process. At the end of the income year after March 2013 Inland Revenue calculates families' exact entitlements, reconciles this against the WFF they were paid and either pays the family an additional amount or creates a debt. The WFF reform will impact on both the application and square-up processes.

45. In addition, there are a number of minor impacts on the Ministry of Social Development. These include minor changes to forms and brochures, and the websites (including the online calculator). These impacts will be met within existing Ministry of Social Development baselines.

HUMAN RIGHTS IMPLICATIONS

46. The removal of indexation of the FTC for children aged 16 to 18 raises possible Human Rights and Bill of Rights issues around age discrimination. However, the Government is facing significant fiscal pressure on current and future spending and must carefully consider where any additional spending is prioritised. Studies on the well being of children indicate that the greatest gains in child outcomes come from investing in children at younger ages.

47. The proposal would continue to invest additional money into families of younger children and have the effect of reducing the difference in payment between the 16-18 age band and the younger age bands, by about $5 per week every two or three years until rates are aligned.

48. The change to the abatement rate and the abatement threshold does not raise concerns over discrimination.

49. The policy will be vetted by the Ministry of Justice prior to Cabinet consideration of the legislation.

CONSULTATION

50. The Treasury, the Ministry of Social Development and Inland Revenue were consulted and agree with the proposals.

LEGISLATIVE IMPLICATIONS

51. The WFF tax reform will be part of Budget 2011 and legislation will be introduced on Budget day.

REGULATORY IMPACT ANALYSIS

Regulatory impact analysis requirements

52. The Regulatory Impact Analysis (RIA) requirements apply to the proposal in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.

Quality of impact analysis

53. The Regulatory Impact Analysis Team (RIAT) has reviewed the RIS prepared by Treasury, Inland Revenue and the Ministry of Social Development and associated supporting material, and considers that, given the agreed parameters for the Budget 2011 policy process, the information and analysis summarised in the RIS meets the quality assurance criteria.

54. The RIS provides a summary of the analysis undertaken by officials on the impacts of changes to the WFF scheme. More detailed analysis and discussion of the major implications of changes to the WFF scheme is provided in a series of policy reports referred to in the RIS, which will be released in the post-budget information release.

Consistency with Government Statement on Regulation

55. We have carefully considered the analysis and advice of our officials, as summarised in the attached RIS. We are satisfied that this WFF reform is necessary and desirable in the long-term public interest, and that regulation is necessary to enable this reform.

56. We are satisfied that the detailed design options recommended in the paper will deliver the highest net benefits of the practical options available and are consistent with our commitments in the Government Statement “Better Regulation, Less Regulation”.

OTHER IMPLICATIONS

57. There are no gender or disability implications.

PUBLICITY

58. Budget day is 19 May 2011. The Offices of the Minister of Finance, the Minister for Social Development and Employment and the Minister of Revenue will co-ordinate all communications relating to the WFF reform for Budget 2011. After Budget day, Inland Revenue and the Ministry of Social Development will provide more detailed public information on the changes to advise affected WFF recipients.

RECOMMENDATIONS

59. We recommend that Cabinet:

Policy approvals

1. **Note** that the overall objectives of the Working for Families reform in the 2011 Budget are to reduce the fiscal costs of Working for Families while protecting amounts of Working for Families tax credits for lower income earners, and minimise the effects on work incentives.

2. **Agree** that in order to achieve those objectives, Working for Families reform would:

    - increase the abatement rate by 1.25 percentage points every indexation round from 1 April 2012 until it reaches 25%;

    - decrease the current abatement threshold of $36,827 by approximately $450 every indexation round from 1 April 2012 until it reaches $35,000; and

    - remove the indexation of Family Tax Credit amounts for children 16 and over from 1 April 2012.

3. **Agree** to align:

    - the eldest child rate of the Family Tax Credit to the under 16 years amount once the under 16 years amount surpasses the eldest child amount; and

    - the eldest child amount for the second child to the 13-15 year old amount once the 13-15 year old amount surpasses the eldest child amount.

Consequential impacts

4. **Agree** to allow the consequential impacts for Emergency Maintenance Allowance; Away from Home Allowance; Community Services Card; Temporary Additional Support; and Special Benefit because they are consistent with the original Working for Families policy intent, the fiscal costs are small and the number of people affected minimal.

Financial implications

5. **Approve** the following changes to appropriations, to implement recommendation 2 above, with a corresponding fiscal savings and impact on the operating balance:

$ million	$ million increase / (decrease) to net operating balance			
Vote Revenue **Minister of Revenue**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Benefits and Other Unrequited Expenses:				
Family Tax Credit	(16.000)	(65.000)	(82.000)	(133.000)
In-Work Tax Credit	(9.000)	(35.000)	(42.000)	(61.000)
Parental Tax Credit	-	(1.000)	(2.000)	(3.000)
Total	(25.000)	(101.000)	(125.000)	(197.000)

6. **Approve** the changes to Temporary Additional Support & Special Benefit within the Hardship Assistance appropriation to implement recommendation 2 above, with a corresponding fiscal cost and impact on the operating balance:

$ million	$ million increase / (decrease) to net operating balance			
Vote Social Development **Minister for Social Development and Employment**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Benefits and Other Unrequited Expenses:				
Hardship Assistance	0.019	0.065	0.077	0.125
Total	0.019	0.065	0.077	0.125

Administrative implications

7. **Note** that recommendation 2 has an operating cost of $100,000 for the 2010/11 and $500,000 for the 2011/12 fiscal year and that this cost will be met within Inland Revenue's existing baselines.

8. **Note** that recommendation 2 has minor impacts on the Ministry of Social Development and that this cost will be met within the Ministry of Social Development's existing baselines.

Legislative implications

9. **Note** that the removal of the indexation of Family Tax Credit amounts for children 16 and over may result in discrimination on the grounds of age that is inconsistent with section 19(1) of the New Zealand Bill of Rights Act 1990 and section 21(1)(i) of the Human Rights Act 1993.

10. **Agree** to include the proposed Working for Families reform in recommendation 2 as part of legislation to be introduced on Budget day.

11. **Direct** Inland Revenue officials to draft the necessary amendments for introduction on 19 May 2011.

12. **Authorise** the Minister of Finance, the Minister for Social Development and Employment and the Minister of Revenue to propose any technical drafting changes required to implement the Working for Families reform.

Hon Bill English Minister of Finance	**Hon Paula Bennett** Minister for Social Development and Employment	**Hon Peter Dunne** Minister of Revenue
/ /	/ /	/ /
Date	Date	Date