JULY 2018

A brief history of family support payments in New Zealand

BACKGROUND PAPER

Purpose

This document gives a brief history of the family related payments in New Zealand's tax and welfare system and how they have changed over time.[1] Knowing the history of these payments can inform our understanding of the current structure, size and design of family related payments, and the challenges in creating an enduring system.

The two appendices contain a chronological table of major changes since 1984, including key legislative references, and a basic diagram showing how main payments have changed and merged over the past 100 years.

Context

The purpose and intention behind a new or changed family payment can, in some instances, be determined from documents of the time. However, it is not always possible to know why a payment changed (particularly for earlier decades) or whether the stated purpose conveys the full story. Often payments are part of wider Budget conversations so the rates or eligibility rules may be constrained by what else is demanded of the Minister of Finance of the day and what is feasible to implement by the department(s), rather than by what evidence suggests or governments prefer.

An increase in family related payments may not mean a similar increase in the income of the family. Family payment rates may increase but this may have been to offset the price impact of other economic circumstances at the time or to offset the reduction in support from a different part of the Government. The history of payments to recognise or support families or children is therefore intertwined with broader changes in the welfare system, the tax system and the wider economy.

As with changes to other payments in the welfare system, the family related payments follow or reflect changing patterns in family formation, in employment, the economy and our communities. As such, the reason behind a change in family support may lie in these other areas, which are not fully canvassed in this document.

For much of our history, family payments have mostly referred to the European view of the nuclear family. It has also assumed, at least up until the 1970s, that women would be mothers and carers and men would have a sufficient take-home pay from employment to support the family (Belgrave, 2012).

1 This is not a full history of all changes to financial support for families or children. The paper focuses more on changes that occurred in the welfare system than in tax relief for families. Any errors or major omissions are the author's.

Family payments over the past century

Family related payments or tax deductions have existed in New Zealand for at least a century.

Pre-1938

The tax system had exemptions (or allowances) in it for specific family related circumstances. A **child tax exemption** of £25 per child was introduced in 1913/14 and a **married person's exemption** was introduced by a 1932 Act.

In 1918, there was also an **Epidemic Allowance** (or pension) that provided for widows whose husbands had died in the influenza epidemic and for the support of children of widowers through the employment of housekeepers. This latter part eventually became the **Housekeeper Tax Rebate**, which also became available to cover some private childcare costs. It was repealed in 2012.

The Old Age Pension, Widow's, War Veteran's and Miner's pensions, and payments to the blind were already in place when, in 1926, a small income-tested **Family Allowance** was introduced. The payment was 2 shillings a week for each child under 15 years for the third and subsequent children,[2] as long as the total family income from all sources did not exceed £4 per week.[3] This allowance was granted regardless of the health and employment of the parents. The Family Allowance was paid to the mother of the family but the application required the father's signature. Unmarried mothers, aliens, Asiatics and the morally disreputable were excluded.

Social Security Act 1938

The Social Security Act 1938[4] introduced a means-tested **Family Benefit** alongside other payments, including an **Orphan's Benefit**[5] and a benefit for deserted wives who had not been able to claim maintenance. Other government initiatives, such as free education, free public health and free milk for all school children, were also introduced. The Family Benefit replaced the Family Allowance. The Social Security Department was set up to administer payments.

The Social Security Act 1938 aimed to provide benefits designed to safeguard against various incapacities, such as age, sickness, orphan-hood and unemployment, and to otherwise provide benefits as may be necessary to maintain and promote the health and general welfare of the community. The rates of payment were higher if the person had a wife and/or children. It was funded, in part, by a form of payroll tax and social security contributions.

The Family Benefit increased in payment from 2 shillings to 4 shillings per week, raised the age limit to 16,[6] and the total allowable income increased to £5 a week. A writer at the time said: "these allowances must be used exclusively towards the maintenance or education of the children, and the benefit may be discontinued at any time if, in the opinion of the Commission, this stipulation is not being followed" (Rockwell, 1939, p 7).

By 1942, inflation was eroding the value of Family Benefit payments, so the Government increased the rates paid for means-tested benefits with a 5% cost of living bonus.

2 There was no payment for the first two children.

3 This was a relatively high income limit, compared with other payments of the time.

4 The Act came into effect 1 April 1939.

5 Paid until the child was 16 but could continue until the child was 18, where the child was continuing their education. This type of rule appears in a number of child-based payments and seems to reflect both the age of compulsory education changing over time and the preference to allow or encourage children to continue with 'higher learning'.

6 The grant could be extended beyond the age of 16 if the child was totally incapacitated physically or mentally and unable to earn a living.

Universal Family Benefit introduced

In 1946, women working as carers in the home were provided with support in the form of the **Universal Family Benefit**. This was paid to mothers for each dependent child under the age of 16. The benefit was usually paid directly to Post Office Savings Bank accounts or to the Inland Revenue Department to meet the tax obligations of the husband. The upper age limit of the child was later raised to 18 years. At this stage, payment was 10 shillings per week per child.[7] In comparison, the rate for an unemployed person over the age of 20 was 40 shillings per week.[8]

The Family Benefit replaced all previous means-tested allowances for dependent children (the **Widow's Benefit** remained, which had a reference to dependent children in the eligibility rules). While difficult to confirm the motivations at the time, there was an indication the changes were to encourage women back to being full-time carers after they had taken up work to support the war effort, to preserve and promote the nuclear family and to increase birth rates.

At the same time as the Universal Family Benefit, the **Mother's Allowance** was also introduced as a supplementary benefit paid to a woman receiving the Widow's Benefit with a dependent child under the age of 16 years. It was payable at a rate of £65 per year. Other sole mothers were expected to work and were provided with the Family Benefit to supplement their income.

A system of supplementary assistance was established in 1951. These were targeted at specific costs, including childcare costs.

It appears families with children were well supported, relative to other beneficiaries. Between 1945 and 1960, parents living on a mid-range wage with two children would receive about 50% of what a single old-age pensioner received, through Family Benefit payments and income tax relief.

Family Benefit continued as a universal payment until 1991. It was never indexed to prices or wages and was irregularly reviewed and increased.

Capitalisation of Family Benefit

In 1958, the 'black' budget changed the Family Benefit rules to allow families to capitalise future payments into a lump sum amount, up to a maximum of £1,000 per family, to use as a deposit on a house.[9] This was seen as a positive feature, although it did create difficulties if the child died or the principal caregiver of the child changed. The Family Benefit rate (universal at the time) was also increased by 50% from 10 shillings to 15 shillings per child per week from 1 October 1958. Capitalisation was not allowed on the first year of the life of a child or in respect of any period beyond the age of 16 years. The maximum capitalised value of benefit from the age of one year until the age of 16 was £473 16 shillings per child, up to the maximum £1,000 per family. In general, the advance was automatically cleared when the child whose benefit had been capitalised reached the age of 16 years, provided the property had continued to be used as a family home. If, however, circumstances arose whereby the benefit, if it had not been capitalised, would cease to be payable and the property ceased to be used as a family home (for example, sold or let), reimbursement of the advance was required. If the child died within one year of the date of capitalisation, the advance remained as a charge on the property until such time as reimbursement might have been required, but if the child died more than one year after the date of capitalisation, reimbursement was not required (Te Ara, 1966).

At the same time as the 1958 family benefit increases and excise tax changes, various tax exemptions were changed.

7 Social Security Amendment Act 1945.

8 An unemployed person under the age of 20 could be paid 20 shillings per week.

9 See the Family Benefits (Home Ownership) Act 1964 and the earlier 1958 version for additional eligibility rules.

Table 1: Allowances and rebates in 1958 Budget

	to 30 September 1958	*from 1 October 1958*
General exemption	£375 per annum	£300 per annum
Married person exemption	£125 per annum	£200 per annum
Child exemption	£75 per annum per child	£75 per annum per child
Insurance exemption	£25 per annum	£25 per annum
Social Security exemption	First £2 of income per week	First £2 of income per week
Rebate	25% of the tax to maximum of £75	None

The use of exemptions in the tax system to recognise dependants was common at the time. The 1967 Ross Committee noted:

> It is probably universally accepted, and it is certainly accepted in New Zealand, that a direct income tax system should be so designed as to have regard for a taxpayer's family status so that, generally speaking, an unmarried man on a certain level of income pays more income tax than a married man on the same income. This principle is applied further so that a taxpayer with other dependents, for example, children, pays less tax than another taxpayer on the same income who has no or fewer dependents. In most cases the dependents for whom tax recognition is given are a wife (or dependent husband) and children (Ross, 1967, para 244).

The *New Zealand Official Year Book* (1962, p 187) indicates that the average number of children per family in respect of whom the Family Benefit was paid was 2.39 in 1958–59, increasing to 2.45 in 1960. By the 1980s, the average number of births per woman had declined to around 2.01. Presumably, the number of children per family qualifying for family payments similarly decreased.

In 1968, the **Family Maintenance Allowance** was introduced; this was used as a temporary measure pending a major review of social security (the Royal Commission of Inquiry into Social Security). The Family Maintenance Allowance was for age, invalid, sickness and unemployment beneficiaries with dependent children. The Family Maintenance Allowance was paid alongside the Universal Family Benefit.

Royal Commission of Inquiry into Social Security

During the third Labour Government (1972–75), the final report of the Royal Commission of Inquiry into Social Security was submitted to the Governor-General. The inquiry had been established in 1969 and reported on 16 March 1972. More 'diverse' family structures were being recognised at this time, as was the need for the welfare system to change in response.

The Commission's core principle was that the state should "ensure … that everyone is able to enjoy a standard of living much like that of the rest of the community and thus is able to feel a sense of participation and belonging to the community".

The Commission designed a system of benefit levels, income exemptions and benefit abatement on the basis of three criteria, which the Government accepted as general objectives:

- basic benefit levels had to provide a **reasonable standard of living** for beneficiaries who have no other source of income;
- the rules for benefit abatement had to provide a **reasonable incentive** for beneficiaries to **work and save** if they are able;
- a beneficiary's total income should not be significantly above incomes of people depending entirely on their earnings.

Following the report, the Government introduced in 1973 a **Domestic Purposes Benefit** for solo parents. The payment was aimed at protecting sole parents from poverty while allowing them to provide full-time care for their children. It remained a requirement of receiving state support that the recipients continue to seek maintenance from the other parent of the child.

Rate increases

In 1972, the income abatement free threshold[10] for the Orphan's Benefit increased from $2 to $5 per week ($260 per year) with a deduction of $3 for every $4 in excess of this amount (75% abatement rate). Other main benefit payments, such as the Widow's Benefit, had a more generous abatement, with the income abatement free threshold closer to $10 per week, a deduction of $1 for every $2 of other income (50% abatement rate) up to $25 per week and then $3 for every $4 in excess of this amount (75% abatement rate).

On 20 October 1972, the Family Maintenance Allowance and the Mother's Allowance for Widow's Benefit were withdrawn and replaced by a higher basic rate of benefit for people with children, and a **Child Supplement**. The Child Supplement was paid according to the number of children. Weekly rates were:

- first child of a sole parent — $11.00 (adjusted along with the main benefit rate)
- additional child of a sole parent — $3.00
- first child of a married parent — $3.00
- additional child of a married parent — $1.25

The Child Supplement for the first child of a sole parent was calculated using the following formula:

> married couple rate *less* single person rate *less* Family Benefit = Child Supplement for the first child of a sole parent

This followed a recommendation of the Royal Commission's report. The formula had implications for later changes. On 17 October 1979, the Family Benefit was increased from $3 to $6 per week for each child. The Child Supplement paid to beneficiaries in respect of the first child of a sole parent was accordingly reduced by $3 per week by the formula.

In October 1978, the **Handicapped Child Allowance** was introduced. The allowance was available to a person caring for a child who had a serious physical or mental disability and who needed constant care or attention. The allowance was non-taxable and did not have a means test. The amount payable was $8 per week. It was later raised to $14.50 per week.

10 The amount that could be earned before the benefit was reduced.

Tax exemptions removed or changed to rebates

The Royal Commission recommended the income tax exemption for children be withdrawn because the exemption was untargeted and favoured higher income earners. The income tax exemption for children had been in place since 1914.

The child tax exemption was removed[11] on 1 July 1972 and incorporated into the Family Benefit, which increased from $1.50 to $3 per week for each child on 5 July 1972. The Family Benefit had not increased since 1958. It was expected that the increase in Family Benefit and the removal of the child exemption would result in net increases in disposable incomes of all families but mostly low income families.

The asset limits for the capitalisation of the Family Benefit were also increased. The asset limits (cash assets plus value of section) were set at $10,000 for a one-child family and increased by $500 for each additional child. The maximum level of capitalisation was $2,000. The earnings of the wife were not taken into account in determining eligibility, unless she was the 'breadwinner'. The earnings of the spouse were taken into account when considering the applicant's ability to repay loan finance on a house. Eligibility to capitalise benefits was determined by the then Social Security Department, which was required to take into account the income and assets of the applicant as well as their need for housing.

The Government replaced the married person's and child tax exemptions with rebates, on equity grounds. Exemptions provided the greatest value to higher income taxpayers whereas the value of the rebate was independent of the level of the taxpayer's income.

From 1 April 1976, a **Young Family Tax Rebate** and a **Spouse Tax Rebate** were introduced.

The Young Family Tax Rebate was $6 per week ($312 per year) available to the principal income earner of low income families with a child under the age of 5 years. It was abated against the principal earner's income in excess of $13,710. The level of the rebate did not vary with family size. The rebate was increased to $9 per week ($468 a year) in 1977.

The Spouse Tax Rebate was also paid to the principal income earner. The maximum was $3 per week ($156 per annum). Abatement began once the secondary earner's income reached $10 per week ($520 per annum). The level of the Spouse Tax Rebate also did not vary with the number of children. This replaced the married person's/dependent spouse tax exemption.

In 1977, the Government also introduced a **Single Income Family Tax Rebate**. This was $4 per week ($208 per year) and was available to the income earner of a low income family with a child aged under 10 years. The level of the rebate did not vary with family size. A year later, in 1978, the rebate was extended to low income families with a child aged under 12 years. In 1979, the rate increased from $4 per week to $5 per week.

These rebates were eventually replaced by the **Principal Income Earner Rebate** (PIER) and the **Low Income Family Rebate**.

From 1 April 1980, a Low Income Family Rebate replaced the Single Income Family Rebate. It was $9 per week ($468 per year) paid to principal income earners and sole parents. The rebate abated against total family income exceeding $9,800 per annum. The Low Income Family Rebate only applied to taxpayers with children under 18 years who qualified for the Family Benefit.

The Low Income Family Rebate was renamed the **Family Tax Rebate** in the 1982 Budget (applying from 1 October 1982), and at this time also replaced the Young Family Tax Rebate and the Spouse Tax Rebate. It was set at $27 per week ($1,404 per year) and retained the other rules for payment. The maximum amount was increased to $1,664 in 1985, $1,924 in 1986 and $962[17]

11 Parents could still claim for a child through another tax exemption for "dependent relatives" if the child was not eligible for the family benefit.

in 1987. It abated against total family income exceeding $9,880 a year at 15 cents in the dollar and was fully abated at around $20,000 a year.[12] A taxpayer with children could claim the greater of the Family Tax Rebate or the PIER but not both.

The PIER was introduced as a 'transitional measure' from 1 October 1982.[13] It was available to single adults without children, sole parents and to the principal income earner in a married or de facto household. A person could not claim both the PIER and the Child Tax Rebate discussed below. The PIER was $312 in 1983, $381 in 1985, $520 in 1986 and $260[14] in 1987. It fully abated at around $15,000 a year.

Also in 1978, a **Child Tax Rebate** was introduced to avoid the need for children to pay tax on small amounts of income (excluding interest and dividends). The rebate was set at $78 per annum, which allowed children to earn up to $538 per annum ($10.35 per week) tax free.[15] The rebate applied to children under the age of 15, or under the age of 18 and attending secondary school or who turned 18 in the preceding income year and were still at school.[16] This rebate replaced the Personal rebate, which was abolished. The Child Tax Rebate was increased to $156 from 1 October 1982, the equivalent of a 20% rebate on $780 of income. It was later renamed a **tax credit for children** and subsequently replaced in 2012 with a "$2,340 active income exemption" for taxpayers under 18 years of age.

The 1982 Budget contained a number of tax changes that applied from 1 October 1982. Other changes to those mentioned above included an increase in the maximum amount that could be claimed through the Housekeeper Tax Rebate/Childcare Costs Rebate, from $156 to $310 a year. The rate of the rebate was reduced from 40 cents in the dollar to 31 cents. This was later changed (on 1 April 1984) to 33 cents in the dollar. The total payment amount of $310 and 33 cents rate remained unchanged until the rebate was abolished on 1 April 2012.

Liable Parent Contribution

The **Liable Parent Contribution (LPC)** Scheme was introduced from 1 April 1981 to replace earlier court-based maintenance schemes. The LPC Scheme was eventually replaced by the **Child Support** Scheme in 1991.

The scheme was administered by the Social Security Commission, with legislative provision contained in the Social Security Amendment Act 1980.

The LPC Scheme was applicable to a solo parent applying for the Domestic Purposes Benefit where the other parent had been identified in law (the liable parent for each dependent child in their care). Based on the circumstances of the liable parent, an assessment was made as to the amount that the liable parent was expected to contribute toward the cost of the Domestic Purposes Benefit and the Child Supplement. Maintenance Orders, or maintenance agreements, were suspended while a benefit was being paid and the LPC was being made.

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12 On 1 October 1983, a second abatement rate was introduced: 15% between $9,880 and $14,000 and 20% between $14,001 and $20,470.

13 Income Tax Amendment Act 1982, Public Information Bulletin, Vol 120, March 1983.

14 The amount was reduced following the introduction of Family Support in 1986.

15 Effectively a rebate of 14.5% on income up to $538.

16 Similar to the earlier rule about extending the maximum age from under 16 to under 18 but added that 18 year olds continued to qualify if they remained in school (such as finishing their final year).

A liable parent was required to contribute the lessor of:

- $20 per week in respect of each of the beneficiary's dependent children whom the liable parent was liable in law to maintain, plus a further $20 for each of those children who were under the age of five years; or
- the amount of weekly benefit payable to the beneficiary; or
- an amount of the liable parent's weekly income after the deduction of tax and living expenses and recognition of dependants; or
- an amount equal to one-third of the liable parent's weekly income after tax.

The Social Security Commission provided a liable parent with a notice of grant of the benefit setting out the name of the beneficiary, the name of each dependent child to whom the recipient of the notice was a liable parent and a statement advising the liable parent of the liability imposed by the Social Security Act 1964. Upon receipt of the notice, a liable parent had one month to provide the Commission with a statement of gross earnings and other information required to calculate the contribution.

The Social Security Commission had the power to deduct liable parent contributions from any benefit that the liable parent was receiving or to which they became entitled. It could also issue a deduction notice against the employer of a liable parent. Where an employer made a deduction from wages or salary to comply with the terms of a deduction notice, they received a transaction fee of 50 cents in respect of each occasion on which a deduction was made.

The Child Support Scheme is administered by the Inland Revenue Department. From 1991 to 2015, it was mainly based on the income of the liable parent. From 1 April 2015 onwards, it is mainly based on the income of all legal parents of the child. Where the receiving carer is on a sole parent rate of benefit, any child support collected is used to offset the cost of the benefit.

On 25 September 1982, a Ministerial Welfare Programme for Special Assistance was in place. Among the different special types of assistance was a **Supportive Family Assistance Scheme** for families with a low income. Payment could be granted for financial assistance under this scheme if the children were under supervision by the Department of Social Welfare and a lack of financial assistance would cause the family to break up, with the possibility of the children having to come into the care of the state.

Family Support

In 1984, an income-tested **Family Care** grant was introduced. This payment was to provide a direct wage supplement to support parents who were working but who had low incomes as part of the wage-price freeze. While main benefits had been regularly adjusted for inflation, a wage-price freeze, instituted in 1982 and that ran until 1984, had depressed the incomes of working families. Low income working families had a similar income to those on the Unemployment Benefit. Family Care was an income-tested payment for non-beneficiary families where parents worked at least 30 hours per week.[17] This was seen as an interim response to rampant wage-price inflation of the time, pending the development of a comprehensive tax credit scheme for both beneficiaries and working families.

Family Care was set at $10 per child per week (the same amount as the Child Supplement paid to beneficiaries). It was paid in addition to the Family Benefit and abated by 25 cents in the dollar for income exceeding $394 per week. Total family income had to be less than $434 per week (for a one-child family), $474 (for a two-child family) and increased by $40 for each additional child.

17 This may be the first point at which a payment (rather than tax relief) was created that required an off benefit test and a work hours test. These rules were replicated in 2006 with the In-Work Tax Credit. It was also a clear attempt to ensure a gap between benefit levels and low waged work, or at least ensuring that full-time work paid more than a benefit.

Families who had a weekly income of less than $180 (before tax) not including Family Benefit could receive **Special Family Care**. Special Family Care provided a top-up payment for very low income working families, in addition to Family Care. It provided a guaranteed minimum income for families working 30 hours or more per week.[18]

As part of the wide range of reforms implemented by the fourth Labour Government, the Family Care payment, Family Tax Rebate, PIER and Child Supplement were soon replaced by **Family Support** (1 October 1986). The new income-tested Family Support tax credit was introduced for both working families and beneficiaries and was paid in addition to the $6 a week[19] Family Benefit. Family Support was administered by the Inland Revenue Department rather than the Social Welfare Department and so was linked with the tax system. The maximum rates for Family Support were $36 for the first child and $16 for subsequent children. Family Support was abated at 18 cents for each $1 above $14,000 gross annual family income.

Other changes at the time included a 31% increase in the Handicapped Child Allowance, in the 1985 Budget, with an increase from $14.50 per week to $19 per week (6 November 1985).

The phasing out of the PIER and Family Tax Rebate was accompanied by the introduction of a **Transitional Tax Allowance** for low income workers who worked a minimum of 20 hours a week and earned less than an income threshold of $9,880 a year. The Transitional Tax Allowance was designed as a temporary measure to allow time for low income workers to adjust to the new tax settings. The allowance became known as the **Income Under $9,880 Tax Credit** and was abolished some years later, in April 2012.

In 1986, the Government also established the Royal Commission on Social Policy. There had been demands to abolish or privatise social security, as well as calls for the replacement of all benefits by a guaranteed minimum income for all people (McKenzie, 2017).

Perhaps in light of these discussions, in 1986, assistance was created for families in work via a tax credit called the **Guaranteed Minimum Family Income**. This was in addition to the Family Benefit and Family Support. Part of its purpose was to compensate low income working families for the effects of the introduction of goods and services tax (GST),[20] as well as to increase the margin between incomes of benefit recipients (which had been increased by 5%) and full-time earners. It included the same rules as the Special Family Care payment of at least 30 hours a week of work for a two-parent family and 20 hours a week of work for a one-parent family. The objective of the scheme was later listed in a 1992 paper to the Cabinet SAR[21] Committee as "to provide an incentive for those on benefit to take up paid work, for those in paid work to increase their hours up to the minimum requirement, and for those on low incomes to remain in employment rather than move into the benefit system".[22]

When the Guaranteed Minimum Family Income was introduced in 1986 it was set at 1.0 times the married couple rate for the unemployment benefit, which was 1.1 times the benefit rate for a sole parent with one child. By 1992, the Guaranteed Minimum Family Income had increased to 1.2 and 1.4 times respectively. That was partly due to the 1991 benefit cuts. For full-time earners with dependent children, the Guaranteed Minimum Family Income was $250 net per week or $13,000 per year (including Family Support and the Family Benefit).

18 This looks to be the forerunner to the Guaranteed Minimum Family Income, later renamed the Minimum Family Tax Credit.

19 Inflation had reduced the real purchasing power of the Family Benefit. In 1945, it had been equivalent to 25% of the single unemployment benefit rate, by 1985, it was the equivalent of 7%.

20 Higher income earners were compensated with a flattened income tax structure.

21 SAR is short for "Committee on Implementation of Social Assistance Reforms".

22 SAR (92) 170: Review of the structure of the family support and GMFI programmes. Cabinet Office, Wellington, 1992.

As part of the 1986 reforms, the Family Benefit and Family Support were able to be split between spouses, when the spouses were separated. Before this, only one spouse could receive these payments. The Family Benefit was paid in proportion to the amount of time the child spent with each parent. The age of eligibility was reduced for the Family Benefit with the benefit payable for children under the age of 15 years, reduced from 16 years, if the child remained at school.

In 1989, Family Support was abated at 18% for incomes over $17,500 and at 30% for incomes over $27,000. These levels remained unchanged until the mid-1990s. (In a 1992 paper, officials noted that they had been unable to establish the original basis for setting the thresholds and abatement rates.) The Guaranteed Minimum Family Income was increased in 1989 from $250 per week to $274 per week ($14,456 a year) and the Family Benefit was made taxable as income in the hands of the recipient.

End of universal payments and the increasing work focus

The fourth National Government's first set of welfare reforms were announced in December 1990. Its programme was based on the idea of a modest safety net and assistance for those who genuinely could not afford all or some of the cost of services (McKenzie, 2017). The new benefit level was set in relation to an 'income adequacy standard', which was based on estimates of minimum requirements for food and living expenses. This departed from the principle of relativity that had guided government policy since 1972. This resulted in a reduction in some main benefit rates for parents with dependent children.

Alongside changes to benefit eligibility and cuts to rates, the Universal Family Benefit was repealed, with additional finances funnelled into the targeted Family Support benefit. At that time, the Family Benefit had eroded in real value, as a result of high inflation through the 1970s and 1980s. Also at this time, the Childcare Subsidy was refocused and targeted to low income groups.

Community Services Cards were introduced in 1990 for low income people; these entitled users (individuals and families) to higher doctor and prescription subsidies. The funding was provided through the health system but the cards and eligibility for them were administered through the Social Welfare Department.

The reviews of payments continued. Cabinet agreed that a working group should report on potential changes to Family Support and the Guaranteed Minimum Family Income payments (Cabinet Office Minute 11/16, 30 March 1992). The intention of the review was to "assess how appropriate and effective these structures are in fulfilling the principles and objectives of family assistance" (SAR (92) 170 of 4 August 1992). The Government was also exploring the option of "enhanced family support", to encourage sole parent beneficiaries into work.

The working group noted that, apart from the inclusion of the Family Benefit in 1991, the rates of Family Support had not been adjusted since 1986. It also questioned whether the relative level of payments per child was appropriate and noted that family payments "may not reflect the actual costs of supporting children or adequately recognise the increased costs of teenage children".

In 1992, Cabinet also confirmed the principles and objectives of family assistance (Cabinet Office Minute 20/35, 25 May 1992). These were grouped into four categories:

- targeting of assistance on the **basis of need**;
- **minimising employment disincentives** and providing employment incentives;
- administrative **efficiency**;
- public and cultural **acceptability**.

The second bullet point was expanded on to indicate that family assistance should generally not abate over the income range that social security benefits were abated (presumably to keep effective marginal tax rates (EMTRs) low and minimise employment disincentives).

In 1993, subsidised rental accommodation and housing loans from the Housing Corporation, and financial assistance for beneficiaries through an accommodation benefit, were replaced by the **Accommodation Supplement**. This payment was paid based on household size and abated with income, which included a portion of Family Support.

Family Plus

In 1996, the **Independent Family Tax Credit** was introduced to support parents who were 'self-sufficient'. That is, the parents were not receiving other main welfare benefits. In 1999, this was renamed as the **Child Tax Credit**. The Guaranteed Minimum Family Income was also renamed in 1999 as the **Family Tax Credit**. Around the same time, there were changes to benefit abatement rates, to increase the financial incentives to work.

In September 1998, the Handicapped Child Allowance was renamed the **Child Disability Allowance**. The allowance remained non-taxable and was paid without a means test to the principal caregiver of a dependent child with a serious disability. At this point, the rate was $32.58 per week.

Payments for newborns

In 1999, the **Parental Tax Credit** was introduced, providing a time limited payment (about 8 weeks) to working families with a newborn child and that was not available to beneficiaries. At the time, New Zealand did not have a paid parental leave scheme, only legally allowed unpaid leave.

In 2002, **Paid Parental Leave** was introduced. Working women qualified for a maximum payment of $325 gross per week for 12 weeks following the birth or adoption of a child. It was seen as a cost-effective enhancement of working conditions for New Zealanders and part of the process of bringing employment conditions in New Zealand into line with the norm for similar countries.

The eligibility conditions of the Parental Tax Credit were amended to make it clear that a person could receive the Parental Tax Credit or Paid Parental Leave in relation to a child but not both. Both payments were administered by the Inland Revenue Department.

As part of introducing the Parental Tax Credit and renaming the other payments as tax credits, the Government introduced the idea that all three tax credits were part of an umbrella grouping of support for families, known as **Family Plus**.

Working for Families

In 2004, the Government's major child poverty alleviation effort came through the introduction of the Working for Families package. Working for Families was designed to assist low and middle income families with children by expanding existing tax credits, creating new tax credits, increasing housing assistance via the Accommodation Supplement, and increasing assistance for child care.[23] The increases to the Childcare Subsidy were substantial.[24]

23 Cabinet Paper, Reform of Social Assistance: Working for Families Package (31 March 2004) CAB Min (04) 13/4, 11–14.

24 Outside of the Working for Families package but around a similar time there was the introduction of 20 hours free early childhood education for 3–4 year olds.

The goals of Working for Families were to:

- **make work pay** by supporting families with dependent children, so that they were rewarded for their work effort;
- ensure **income adequacy**, with a focus on low and middle income families with dependent children to address issues of poverty, especially **child poverty**;[25]
- make sure that people got the assistance they were entitled to, through improvements to **service delivery**.

Part of the Working for Families package was a further renaming of the payments. The Family Tax Credit (former Guaranteed Minimum Family Income) was renamed the **Minimum Family Tax Credit**.

Family Support was renamed the **Family Tax Credit**.

The Child Tax Credit was replaced by the **In Work Payment** (later renamed the **In-Work Tax Credit**). A work hours test was added to the rules for the In Work Payment. This required a sole parent to normally work 20 hours a week, and a couple 30 hours a week, to qualify. There were exceptions and variations to the rules to cover paid leave, Accident Compensation Corporation levies and Paid Parental Leave.

All the tax credits were put under the umbrella term of **Working for Families Tax Credits** (replacing the term Family Plus).

The Child Tax Credit was not fully abolished, because not all of the recipients at the time would have met the new work hours test of the In Work Payment.[26] The Child Tax Credit was, however, restricted to people who were receiving the Child Tax Credit in 2006 and who continued to meet the qualifying requirements.

All families with children (including beneficiaries) could access the newly named **Family Tax Credit**, but the **Minimum Family Tax Credit** and the newly renamed **In-Work Tax Credit** were only paid to families with at least one person working above a set number of hours (and not receiving a main benefit). Beneficiaries could not receive the full range of support of the Working for Families package.

The package of changes was rolled out over a three-year period.[27]

October 2004

Announcement of the Working for Families package as part of the 2004 Budget. The first changes came into effect from October 2004. Changes included:

- Abatement of the Accommodation Supplement removed for beneficiaries.
- Accommodation Supplement entry and abatement thresholds increased for non-beneficiaries.
- Childcare and Out of School Care and Recreation (OSCAR) subsidy rates increased and aligned, and income thresholds increased.

25 Cabinet Paper, Reform of Social Assistance: Working for Families Package (31 March 2004) CAB Min (04) 13/4, 2.

26 It is possible that the Parental Tax Credit was kept when Paid Parental Leave was introduced because not all recipients of the Parental Tax Credit would have qualified for Paid Parental Leave due to the latter's requirement to be in work for a set period before the birth. There is a tendency not to fully remove a payment, even where it is being replaced by something else, if there is a chance that someone will be made financially worse off.

27 Based on a table in the 2004 Cabinet Paper on the Working for Families Implementation package. Some of the changes in the table were 'updated' over the three-year period, especially after the 2005 election, and the table has been updated to reflect those changes. Therefore, the implementation listed in the table above does not match the original 2004 implementation plan.

April 2005

Stage One of Working for Families implementation applied from 1 April 2005 (with a further implementation deliverable released in October 2005). Changes included:

- Family Tax Credit rates increased by $25 for the first child and $15 for additional children.
- The child component of main income-tested benefits moved into the Family Tax Credit amount.
- Foster Care Allowance, Unsupported Child's Benefit and Orphan's Benefit rates increased by $15 per week.
- Accommodation Supplement maximum rates increased in some areas with high housing costs, and the area boundary definitions were updated.
- Family Tax Credit became treated as income for the Special Benefit, with standard costs set at 70% of the main benefit plus Family Tax Credit for people with children.
- Childcare and OSCAR subsidy rates increased by another 10%.

April 2006

Stage Two of Working for Families implementation applied from 1 April 2006.
Changes included:

- The In-Work Tax Credit replaced the Child Tax Credit: it pays up to $60 per week for families with three children, and up to an extra $15 per week for each other child.[28]
- The Minimum Family Tax Credit threshold increased from $15,080 to $17,680.
- A single higher abatement threshold of $35,000 replaced the two Family Tax Credit abatement thresholds of $20,356 and $27,481.[29]
- The 18% abatement rate applying to the lower abatement threshold for Family Tax Credit vanished completely, and the 30% rate applying to the higher abatement threshold was reduced to 20%.[32]
- Temporary Additional Support was introduced to replace the Special Benefit.

April 2007

Stage Three involved the final components of Working for Families implementation and applied from 1 April 2007. Changes included:

- Family Tax Credit rates increased by $10 per week per child.
- The income threshold for the Minimum Family Tax Credit increased to $18,044.
- Regular inflation adjustment was put in the Income Tax Act 2007 to prevent the erosion of payments over time. Family Tax Credit amounts and the abatement-free threshold were to increase when inflation reached a cumulative 5%. The Minimum Family Tax Credit was to be reviewed annually. In-Work Tax Credit and Parental Tax Credit were to be reviewed every three years.

28 The Child Tax Credit was a standard $15 per week per child. To ensure no one was worse off in the shift to the In-Work Tax Credit, it maintains an effective $15 per child payment for larger families.

29 This threshold was lower and the abatement rate higher when originally planned. After the 2005 election, the threshold and abatement rate changed. This is reflected in the table in Appendix I.

The main benefit system at the time had rates that increased by number of dependent children. These 'child components' were removed from the main benefit rates and incorporated within the new Family Tax Credit in 2005. Because main beneficiaries could receive the Family Tax Credit, which was paid on a per child basis, main beneficiaries were no worse off by the change. However, the change significantly simplified the range of benefit rates payable and effectively made the main benefit system a means of paying for the cost of adults only. The exception is the rate of payment for sole parents, which remained higher than the rate for single adults.[30] This simplification was partly reversed in the 2015 Budget when a $25 per week payment was added back to main benefits when the recipient had dependent children; however, the $25 payment is a per family rate rather than a per child rate.

Global Financial Crisis

In 2008, unemployment increased during the Global Financial Crisis. There were concerns for families who, due to the loss of employment, were ineligible for the In-Work Tax Credit. The **ReStart** package provided additional short-term support for families affected by redundancy. It applied for two years only and provided a time-limited payment for families with children no longer eligible for the In-Work Tax Credit due to redundancy.

In September 2010, the income thresholds for Childcare Assistance payments available to low and middle income families were reduced to April 2008 levels.

In 2011, the definition of income was widened for Working for Families Tax Credits to include money in trusts, interest earned on large savings in children's bank accounts and tax-exempt income. The definition was also applied to student allowances that were parental income-tested. It more closely mirrored the definition of income used in main benefit assessments and addressed equity concerns – someone's entitlement would not be affected by the way in which they earned their income.

In 2012, changes were made to progressively tighten the targeting of payments by reducing the Working for Families abatement threshold and increasing the abatement rate. These were scheduled to occur at the same time the Family Tax Credit rates would increase by movement in the consumers price index (CPI). The Family Tax Credit rate for children aged 16 to 18 was also 'frozen' and set to eventually be merged with the 13 to 15 year rate following CPI adjustments. The aim was to progressively move to a $35,000 threshold, a 25% abatement rate and a 13–18 child rate band.

The changes over this period progressively targeted spending to lower income groups while reducing the overall cost of Working for Families Tax Credits.

In 2016, the Child Material Hardship package (Budget 2015) introduced a new higher payment rate of childcare assistance for very low income families and introduced the $25 a week increase in benefit rates for families with children. It also increased the In-Work Tax Credit rate by $12.50 per week and the Minimum Family Tax Credit by $24.50 (to maintain an incentive to work). However, the abatement rate was also increased from 21.25% to 22.5%. These changes again focused on targeted spending to lower income groups while containing costs for the Government.

30 The Widow's Benefit also had a slightly different rate.

Best Start and Families Package

In 2018, the **Best Start Tax Credit** was introduced as partly a universal and partly a targeted payment. It is paid to all families from when a child is born until the child is one year old (the universal part), then it is income-tested until the child turns three years old (the targeted part). It applies to children born on or after 1 July 2018. The Best Start Tax Credit replaced the Parental Tax Credit (which effectively became available only to children born before 1 July 2018). Parents cannot receive Best Start at the same time as Paid Parental Leave for the same child. Paid Parental Leave was also increased in length from 18 weeks to 22 weeks, with a further increase to 26 weeks in 2020.

The intention was to ensure that children had a good start in life and to reduce the increasing numbers of children in poverty, particularly for children born into low to middle income families. A new abatement threshold was set for Best Start for children aged one and two years at $79,000 with a 21% abatement rate.

Some of the Family Tax Credit rates were also increased, mostly the rates for younger children to match the rate for the oldest age band, effectively removing the age band structure and simplifying the payment rates. This change in Family Tax Credit had been agreed by the previous government as part of a wider tax cuts package and was kept and extended in the Families Package. It may have reflected discussions on evidence suggesting a greater return on investment from funding child development in their early years.[31] The Working for Families abatement threshold was also increased to $42,700, and the abatement rate increased to 25%.

A new **Winter Energy Payment** was also created that pays a higher rate for people with dependent children who are receiving benefits or New Zealand Superannuation. This also resulted in a significant increase in the Minimum Family Tax Credit to ensure people with children remained better off if they moved off benefit and into work.

> There are other payments that relate to children not covered specifically in this note. They include the Unsupported Child's Benefit (related to the Orphan's Benefit) and Foster Care Allowances, parent's allowance under the Veteran's Pension Scheme, Student Allowance for children under 18 years, bursaries and scholarships, Youth Payment, Young Parent Payment and Emergency Benefit, and Special Needs Grants for child-related costs. In some cases, people who receive these payments may not be able to claim other family related payments such as Family Tax Credit.

31 For example, Heckman, JJ. (2008) "Schools, Skills and Synapses", *Economic Inquiry*, 46(3) pp 289–324.

Observations

Over the history of the family related payments there have been common themes:

- recognition of the need for payments for dependent children, especially for low income families, either to maintain equity with taxpayers without children or for long-term economic reasons;
- using the tax system and/or the benefit system to pay for or recognise costs associated with children through a range of mechanisms (cash payments, tax rebates, direct subsides) and swapping between the two systems (eg, child tax exemption merged with Family Benefit, which later became Family Tax Credit);
- a cycle of introducing limited or targeted payments and irregularly extending them, until they are replaced by more generous or widely available payments, and then creating new payments or tax credits for specific groups again;
- temporary measures are not always temporary;
- old rules or payments are grandparented or carried forward into new or renamed payments;
- when wide or universal payments became too generous or expensive, progressively reducing the payments over time or setting rates in nominal amounts and allowing their value to decline in real purchasing power terms;
- payments made per child, with some supplementary payments made per family to the main caregiver of that child or head of the family;
- specific purpose of payments being mixed or unclear, and different payments overlapping;
- continuously balancing work incentives, fiscal costs and low income support, often to reflect changes in government priorities or the state of the economy;
- lack of coordination with other payments, for example, childcare subsidies.

Needs versus participation and universal versus targeted

The 1972 Royal Commission of Inquiry into Social Security argued that, given that raising children is an investment in the future, the costs should be more equally shared amongst the community. The Royal Commission argued that everyone in the community benefits from parents having sufficient means to raise children, however, people with children bear higher costs, meaning they have lower living standards than those without such responsibilities. Payments for children therefore compensate parents for the cost of raising children. This was reflected in 1972 Parliamentary debates[32]:

> The bringing up of children is a significant financial burden for which the wage system has no direct regard. The universal family benefit is a simple and effective way of helping parents to meet these costs.

32 NZ Hansard, Parliamentary Debates, 22 June 1972, p405.

A similar sentiment was expressed in the 1967 Ross Report on the tax system (Ross, 1967).

The 1972 Royal Commission advocated a further aim when discussing the Family Benefit:

> Investment in people is an old idea relatively new in social security thinking, and in marked contrast to ideas of subsistence, or attainment of the elementary "life and health" aim. We consider it a warrantable addition to the traditional stock of humanitarian and social justice motives … which recognises the community advantages of developing, preserving, and at times rehabilitating human resources.[33]

An important rationale for child payments is that they improve the outcomes of children in society, represent an investment in children, and ensure a fairer distribution of income. The 1972 Royal Commission, for example, argued that payments for children should be seen as an investment in developing our human resources.[34] Parliamentary debates on the report noted the Commission "…saw a place for universal benefits where there is a sufficiently strong general presumption of need – as in the case of the family benefit to help with the costs of bringing up children…". More recently, the Labour Party justified targeting the Best Start payment to the first three years of a child's life due to the perceived importance of these years to a child's development.[35]

Over the past three decades, financial assistance for families has been more targeted. The argument has been that it is going to those with greater need and so increases the efficiency (and potentially the effectiveness) of the payments by not providing payments to those who do not need them. By reducing the overall cost through targeting, it potentially allows greater payments to those remaining recipients (a high rate and narrow base approach) and potentially has a greater impact on poverty and material hardship rates. There would be an increase in administrative and compliance costs from more targeting, and potentially an economic cost from higher abatement rates.

The payments have been adjusted over time to increase the range of family income they cover (2004–2007), (2018) and also to tighten the targeting (2010–2017).

Another aspect of the variance between targeted and universal approaches has been reflected in the structure of payments to children. These have ranged from a single rate for all children, to variable rates based on whether the payment is for a first or subsequent child, and the age of the child. The latter is most associated with a targeted needs-based approach that relies on information that older children tend to cost more than younger children (ignoring economic opportunity costs), and the economies of scale for larger families. The single or reduced number of different rates follows a participation and investment approach that relies more on information about the importance of early intervention in a child's development.

Targeting is more complicated to administer because it requires a measure of income and abatement of payments. This also requires additional information to be provided, increasing the compliance cost on recipients, and could affect take-up rates. It is more likely to lead to over and under payments, with overpayments needing to be repaid or collected.

33 Royal Commission on Social Security, (1972) *Social Security in New Zealand: Report of the Royal Commission of Inquiry*, Wellington: Government Printer, pages 50–51. Also see 1972 Appendix to the Journals of the House of Representatives, Vol 4, Wellington, New Zealand.

34 Royal Commission on Social Security, (1972) *Social Security in New Zealand: Report of the Royal Commission of Inquiry,* page 216.

35 Labour Party, "Families Package", accessible at: www.labour.org.nz/familiespackage.

Multivariate versus single mechanism

There has been a tendency to have multiple types of payments going towards the cost of caring for children, through direct cash payments per child, per family and targeted cash to housing, medical and childcare providers. At times, these payments have merged, split or changed from one payment system to another. For example, tax exemptions have merged into cash payments, or changed from exemptions to rebates. Cash payments through the Social Welfare Department have changed into tax credits or transfer payments managed through the Inland Revenue Department. Both agencies have also managed payments 'owned' by other departments, such as education, housing and health.

There are payments at all tiers of the welfare system (main, supplementary and hardship). Having multiple payments risks people being paid 'twice' for a child or cost needs, so there tend to be rules that either require people to choose between different payments (eg, between the Parental Tax Credit and Paid Parental Leave) or count one type of payment as income for another (eg, Family Tax Credit and Accommodation Supplement). This adds to the sense of complexity, low take-up rates and incorrect payments. Occasionally there are attempts to rationalise and simplify the range of payments such as when Family Support replaced a range of payments and tax rebates. However, these rationalisations can be undone as new additional targeted payments are created (eg, the $25 per week family payment for main benefits in 2016 after Child Supplement rates had been removed in 1986 and 2004) or old payments are 'grandparented'.

There can also be gaps in coverage. For example, benefit abatements based on dollar amounts, whereas qualifying for the In-Work Tax Credit requires people to meet an hours test.

Indexation and reviews

Whether rates or thresholds are indexed or not has changed over time. For a long period there was no indexation of rates but there was also very low or no inflationary pressure. After the 1970s, inflation increased dramatically but rates were not increased, leading to a decline in the real purchasing power of the payments. Changes to monetary policy, specifically the Reserve Bank targets, eventually led to a decline in annual inflation.

In 1991, the universal element was removed and income targeting was introduced. The settings for the abatement threshold(s) were also not indexed for a time, leading to a decline in real value as wages grew.

The 2004 Working for Families package increased rates and thresholds and introduced the requirement for regular reviews and adjustments. A minimum threshold of 5% of CPI was chosen for the Family Tax Credit rather than an annual inflation adjustment. This may have reflected a concern that an annual adjustment would have been seen as too small a change, whereas a 5% adjustment was more substantive. The CPI measure was later adjusted to exclude changes in tobacco and cigarette prices. This was a result of planned and sizable changes in tobacco excise taxes as part of Budget measures to reduce smoking rates. Adjusting family tax credits upwards to compensate for higher cigarette prices could be seen as 'self-defeating' to the intention to discourage smoking.

Working for Families Tax Credits – Timing of reviews and changes (as at 1 July 2018):

Family Tax Credit:	Increase when consumers price index (CPI) measure exceeds 5%
Best Start Tax Credit:	Increase when CPI measure exceeds 5%
In-Work Tax Credit:	Review every three years
Parental Tax Credit:	Review every three years
Minimum Family Tax Credit:	Review every year
Abatement rate:	No indexation or planned changes
Abatement threshold:	Ability to increase by an Order in Council on an ad hoc basis

However, the changes to Family Tax Credit rates were only once 'automatically adjusted' by legislation for CPI. For most of its history, the rates were adjusted through Budget decisions and amending legislation with the CPI count 'reset' each time. Between 2012 and 2017, CPI less tobacco was particularly low and the 5% threshold was not reached.

The Minimum Family Tax Credit is reviewed annually to reflect the annual adjustment to main benefit rates. This maintains the policy rationale of the Minimum Family Tax Credit – to provide an incentive to exit the main benefit into work.

The other tax credits are required to be reviewed every three years, with no requirement for any adjustment as a result but an ability to make adjustments by Order in Council if desired. However, no changes have ever been made directly following these reviews. Instead, changes to the In-Work Tax Credit and Parental Tax Credit rates occurred as part of Budget decisions and through amending legislation.

The Working for Families indexation policy seems out of step with the current and potential indexation of main benefits and also with tax rate thresholds.

Impact on child poverty

The changes in family payments, alongside other income and changes in family composition, will have an impact on child poverty rates over time.

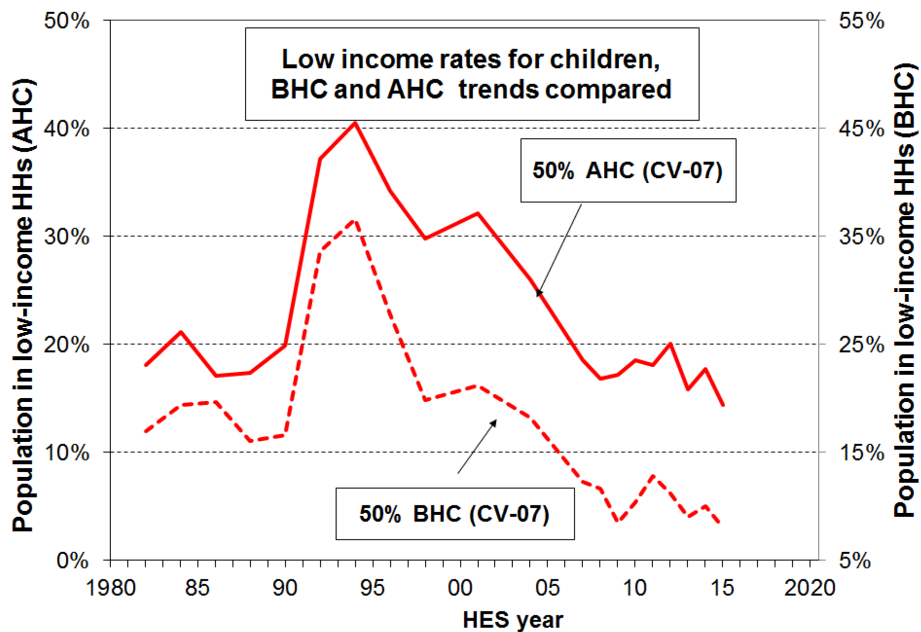
There are three main factors that impact on child poverty rates:

- the economy and the labour market (impacting for example on employment and unemployment rates, wage rates, benefit numbers (including numbers of sole-parent families), and inflation and interest rates)
- demographic shifts and changing cultural norms (eg the number of sole-parent families, whether sole-parent families live in households on their own or with other adults, the proportion of dual-earner two-parent households)
- policy changes that have a direct impact on income (eg policy changes around benefit rates, income-related rent subsidies, the Accommodation Supplement and Working for Families settings all have clear impacts on the child poverty rates for children from both working and workless households, and on the relativities between the two groups). (Perry, 2018).

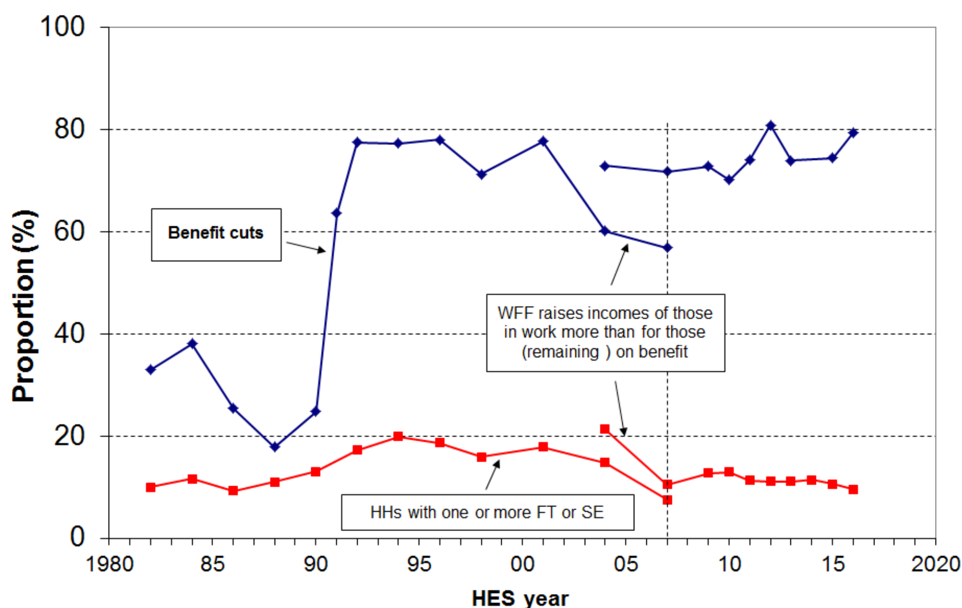
In the more recent history of child poverty figures, the following have been noted:

- child poverty rates (after housing costs) in 2011 were about half their current levels in the mid-1980s. They increased dramatically during the early 1990s as a result of much higher levels of unemployment and cuts in the real value of most welfare benefits (Expert Advisory Group on Poverty, 2012, p4)
- the fall in child poverty rates, especially between 2004 and 2007, reflects a stronger economy and the impact of the Working for Families package lifting the disposable incomes of low-income families (Expert Advisory Group on Poverty, 2012, p4),
- the WFF package had little impact on the poverty rates for children in workless households
- for children in 'working' households (self-employed or at least one fulltime worker) the child poverty rate from 1992 to 2004 was reasonably steady at around 18-20% and the WFF impact was significant for this group, with the rate in 2007 (11%) half what it was in 2004 (Perry, 2018, p161)
- on average from 2007 to 2016, around two in five (40%) poor children still came from working families – down from just over one in two (52%) in 2004 before WFF (Perry, 2018, p161)
- from 1982 to 2015, poverty rates for younger children (0 to 11 years) were higher than the rates for older children (12 to 17 years) (Perry, 2018, p152).

The graph below shows the different poverty rate trends for children for Before Housing Cost and After Housing Cost using anchored line measures. It shows the impact of changes in the early 1990s on child poverty.



This next graph shows the impact on poverty rates for children in 'workless' and 'working' households (using After Housing Cost 60% of median, fixed line measure CV-98).



Note: The discontinuity at 2007 arises because of the change of reference year from 1998 to 2007. The 2004 to 2007 changes are shown using both reference years.

Source: Perry (2018)

Effective marginal tax rates

Income targeting of payments results in an increase in the EMTR that a person receiving a family related payment faces. This does not necessarily mean lower EMTRs existed pre-1990 when the Family Benefit was universal. Over the years, there were significantly high personal income tax rates for some income bands and abatement of benefit payments with child-related components.

The abatement rate of payments has varied over the years, as has the income level at which the abatement applies. In some periods, there was a single abatement rate, in other years there were multiple abatement rates at different income ranges. It is unclear if the abatement rates and levels were aligned with personal tax rates and bands or other abatement regimes, or not. Any attempts to address the high EMTR rates tend to shift the EMTRs to a different group of people, or increase overall fiscal cost. "Efforts to improve incentives to work at one point … can worsen the incentives elsewhere … Lowering EMTRs at one point of the income distribution would imply that this abatement now takes place at another part of the income distribution" (Nolan, 2018). Also, if the abatement thresholds are not adjusted over time then, even if they were targeted at a particular income group when introduced, they will end up affecting a different group over time.

Where there has been a low income 'top-up' payment, like the Minimum Family Tax Credit, there are EMTRs at 100% or more. These tend to occur at low income levels. The result is a progressive system of average tax rates or net tax payments (with low income groups a net receiver at various points in time and higher income groups a net payer – see figures 1 and 2). Looking at EMTRs, however, it is not as clearly progressive, with some low income working people facing higher EMTRs than higher income people.[36]

36 This can vary, depending over what period it is measured (a point in time or over a lifetime) and whether it looks at the individual or the family income.

Figure 1: Average tax rate – single earner family

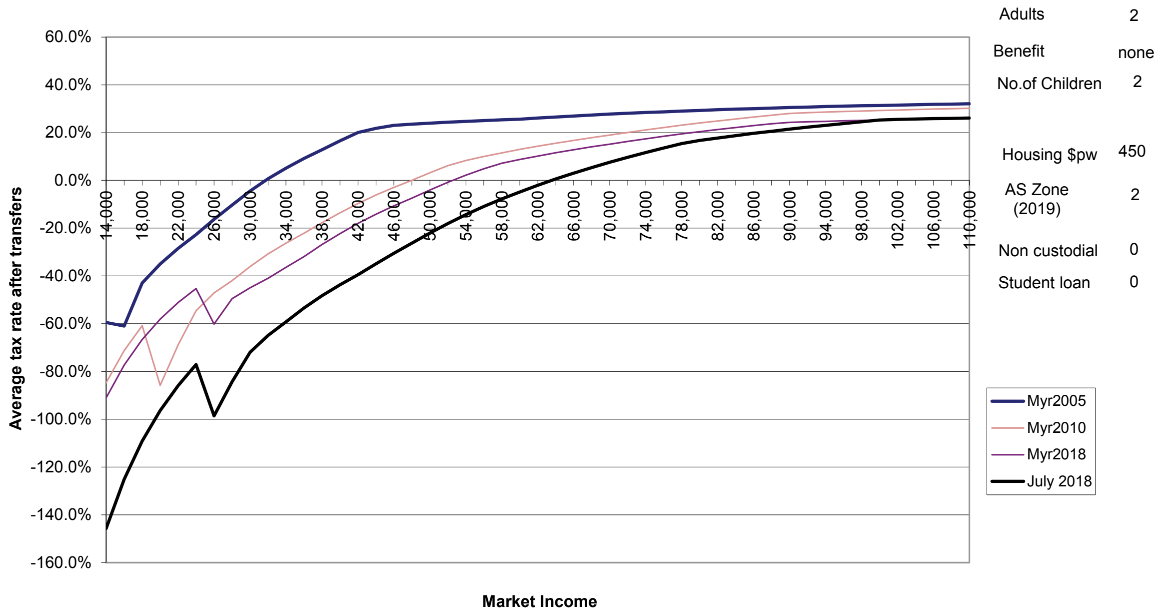
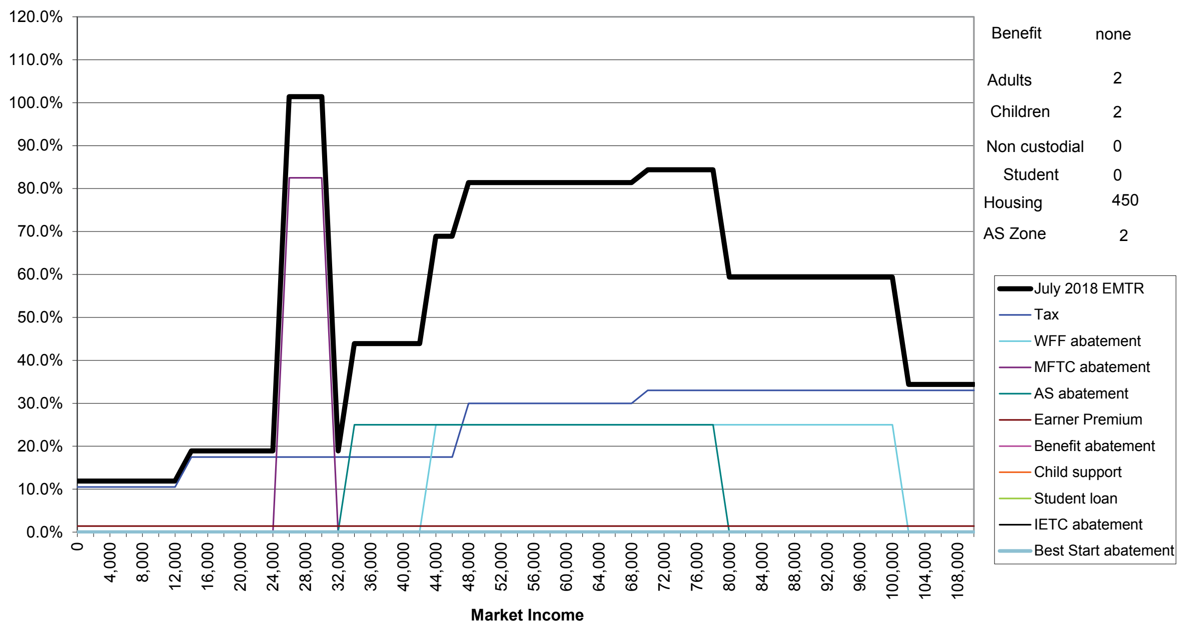


Figure 2: Effective marginal tax rate components, July 2018 – single earner family



Appendix I: **Main policy changes in family assistance since 1984**

Date	Policy change
	Legislation reference Note: the table does not include remedial corrections.
1 October 1986	Family Support introduced to replace Family Rebates, paid alongside Family Benefit. *Income Tax Amendment Act No 2 1986*
1 April 1987	Family Support abatement threshold increased from $14,000 to $15,000 per annum. Abated at 18%.
1 April 1988	Family Support abatement threshold $15,000 per annum. $15,001 to $16,000 abated at 9%. $16,001 to $27,000 abated at 18%. Over $27,000 abated at 24%.
1 April 1989	Family Support abatement threshold increased to $16,750 per annum. $16,751 to $27,000 abated at 18%. Over $27,000 abated at 30%. Entitlement increased to rate for subsequent children over 16.
1 April 1990	Family Support abatement threshold increased to $17,500 per annum.
1 April 1991	Universal Family Benefit of $6 per week per child abolished. Family Support payments increased by $6 per week for each dependent child.
1 October 1993	Family Support rates altered (reduced for older children, increased for younger ones).
1 October 1994	Family Support rate for second and subsequent children aged 0–12 increased from $24 per week to $27 per week (composite $25.50 per week), and first abatement threshold increased from $17,500 to $20,000 (composite rate of $18,750 per annum). Second abatement threshold remained at $27,500 per annum. Family Support for children over 16 increased. *Income Tax Amendment Act (No. 2) 1994 No. 84 of 1994* Announced in 1994 Budget.
1 July 1996	Independent Family Tax Credit (later renamed Child Tax Credit) introduced at $7.50 per week per child, with the composite rate for the 1996–97 income year set at $292.50 a year. Family Support rates increased by $2.50 per child per week. The composite rates applying for the 1996–97 income year were: • $2,281.50 for the eldest dependent child; • $1,501.50 for each further child under 13 years of age; • $1,917.50 if the child is 13 years of age or older. *Income Tax Act 1994 Amendment Act 1996*

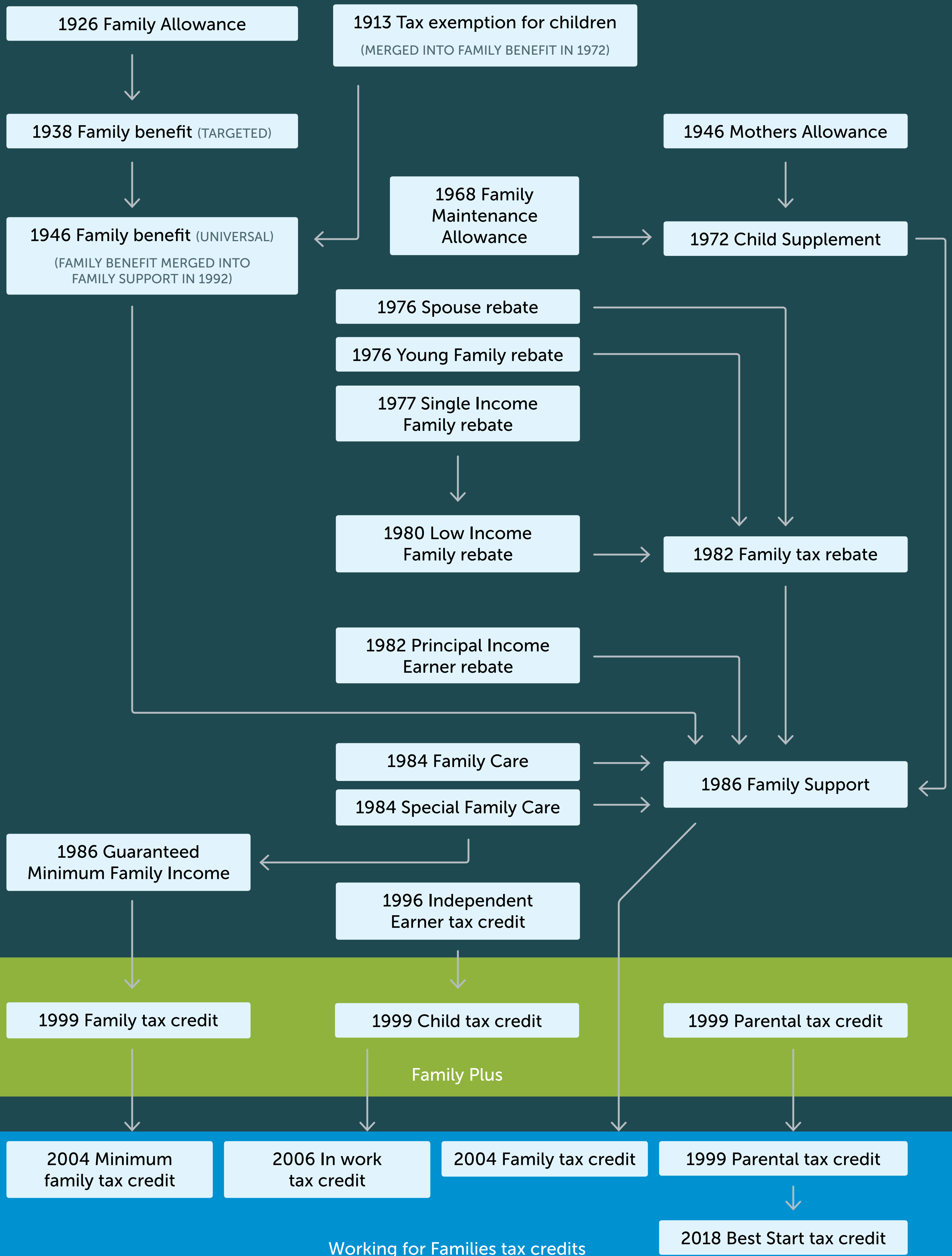
Date	Policy change
1 July 1997	Independent Family Tax Credit increased from $7.50 to $15 per child per week, with the composite rate for the 1997–98 income year set at $682.50. Family Support rates increased by a further $2.50 per child per week. The composite rates for the 1997–98 income year were: • $2,411.50 for the eldest dependent child; • $1,631.50 for each further child under 13 years of age; • $2,047.50 if the child is 13 years of age or older. *Income Tax Act 1994 Amendment Act 1996*
1 January 1998	A new rate of Family Support introduced for children aged 16–18.
1 October 1999	Introduced the Parental Tax Credit, and renamed the Independent Family Tax Credit and Guaranteed Minimum Family Income as the Child Tax Credit and the Family Tax Credit respectively; and introduced Family Plus, which comprised the Child Tax Credit, the Parental Tax Credit and the Family Tax Credit. *Taxation (Parental Tax Credit) Act 1999 (No. 62 of 1999)*
27 May 2004	Working for Families package announced – Budget 2004. Future Directions (Working for Families) Bill 2004 divided into two bills at third reading. *Social Security (Working for Families) Amendment Act 2004 (No. 51 of 2004)* *Taxation (Working for Families) Act 2004 (No. 52 of 2004)*
October 2004	Family Assistance abatement thresholds increased. Renamed Working for Families Tax Credits. *Taxation (Working for Families) Act 2004 (No. 52 of 2004)* Childcare and Out of School Care and Recreation (OSCAR) subsidies increased and aligned. *Social Security (Childcare Assistance) Regulations 2004 (SR 2004/268)*
1 April 2005	Family Support rates increased by $25 per week for first child and $15 per week for each subsequent child. Child component of main benefits removed. Foster Care Allowance, Unsupported Child's Benefit and Orphan's Benefit rates increased by $15 per week. Family Tax Credit became treated as income for Special Benefit, with standard costs set at 70% of main benefit plus Family Tax Credit for people with children. *Taxation (Working for Families) Act 2004 (No. 52 of 2004)* *Social Security (Working for Families) Amendment Act 2004 (No. 51 of 2004)* Ring-fencing of maximum family support entitlement for periods spent on a benefit if a family's annualised monthly income (calculated on a month-by-month basis while on a benefit) is below the abatement threshold. *Taxation (Savings Investment and Miscellaneous Provisions) Act 2006 (No. 81 of 2006)*
October 2005	Childcare and OSCAR subsidy rates increased by another 10%. *Social Security (Working for Families) Amendment Act 2004 (No. 51 of 2004)*

Date	Policy change
1 April 2006	In work payment introduced to replace Child Tax Credit, with rate set at $60 per family per week and $15 per week for fourth and subsequent children. A single higher abatement threshold of $27,500 replaces the two Family Tax Credit abatement thresholds of $20,356 and $27,481; abatement rate of 30% to 20% (lower 18% abatement rate disappears). *Taxation (Working for Families) Act 2004 (No. 52 of 2004)* The Family Tax Credit abatement threshold goes from $27,500 to $35,000 per annum and the abatement rate is reduced from 30% to 20%. *Taxation (Urgent Measure) Act 2005 (No. 121 of 2005)* Family Tax Credit (later renamed the Minimum Family Tax Credit) threshold increased from $15,080 to $17,680 per annum. *Income Tax (Family Tax Credit) Order 2005 (SR 2005/264)*
1 April 2007	Family Support rates increased again by $10 per week and regular adjustment of rates and thresholds introduced. The income threshold for the Minimum Family Tax Credit increased to $18,044 per annum. *Income Tax (Family Tax Credit) Order 2006 (SR 2006/344)* In work payment renamed the In-Work Tax Credit. Family Tax Credit renamed the Minimum Family Tax Credit. Family Support Credit renamed Family Tax Credit. *Taxation (Business Taxation and Remedial Matters) Act 2007 (No. 109 of 2007)*
1 April 2008	Minimum Family Tax Credit rate increased to $18,460 per annum ($355 per week after tax). *Income Tax (Family Tax Credit) Order 2007 (SR 2007/349)* In-Work Tax Credit and Parental Tax Credit reviewed (according to statutory requirement) with no change made.
1 October 2008	Increased the rates of the Family Tax Credit and the abatement-free threshold by an anticipated movement in consumers price index (CPI) of 5.22%. Abatement threshold increased to $36,827 per annum (composite rate of $35,914 per annum). *Taxation (Personal Tax Cuts, Annual Rates, and Remedial Matters) Act 2008 (No. 36 of 2008) – 2008 Budget*
1 April 2009	Minimum Family Tax Credit rate increased to $20,540 per annum ($395 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2008 (SR 2008/384)*
1 April 2010	Minimum Family Tax Credit rate increased to $20,800 per annum ($400 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2009 (SR 2009/367)*
1 October 2010	The Family Tax Credit rates increased 2.02% (related to the goods and services tax (GST) rate increase from 12.5% to 15%). Minimum Family Tax Credit increases to $21,216 per annum ($408 per week after tax). Indexation of abatement threshold removed. CPI adjustment to Family Tax Credit changed to exclude tobacco and cigarettes from 28 April 2010, as a result of tobacco excise tax changes, but only for period of planned excise increases (subsequently extended in later Budgets). *Taxation (Budget Measures) Act 2010 (No. 27) – Budget 2010*

Date	Policy change
1 April 2011	New definitions of 'family scheme income' come into effect, types of income increased in range and coverage. *Taxation (GST and Remedial Matters) Act 2010 (No 130 of 2010)* Minimum Family Tax Credit goes from $21,216 to $22,204 ($427 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2010 (SR 2010/418)* In-Work Tax Credit and Parental Tax Credit reviewed (according to statutory requirement) with no change made. Remedial changes to section MB 13(2), to clarify that educational bursaries are not included as income for Working for Families purposes. *Taxation (Annual Rates for 2015–16, Research and Development, and Remedial Matters) Act 2016 (No. 1 of 2016)*
1 April 2012	Family Tax Credit rates increased for CPI exceeding 5%, but the rate for over 16 year olds was frozen and removed from future indexation to allow them to eventually align with other age bands. Increase in abatement rate to 21.25% and decrease in abatement threshold to $36,350 per annum. *Taxation (Annual Rates and Budget Measures) Act 2011 (No. 23 of 2011) – Budget 2011* Minimum Family Tax Credit goes from $22,204 to $22,568 ($434 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2011 (SR 2011/404)*
1 April 2013	Minimum Family Tax Credit goes from $22,568 to $22,724 per annum ($437 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2012 (SR 2012/325)*
1 April 2014	In-Work Tax Credit and Parental Tax Credit reviewed (according to statutory requirement) with no change made to the In-Work Tax Credit. A change to the Parental Tax Credit in Budget 2014 was proposed – effective 1 April 2015, prior to the statutory review of Parental Tax Credit concluding. Minimum Family Tax Credit goes from $22,724 to $22,776 per annum ($438 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2013 (SR 2013/ 438)*
31 March 2015	Veteran Support consequential changes to section MA 7(3) ensuring the surviving spouse or partner of a deceased veteran can continue to claim the deceased veteran's full-time earner-related Working for Families Tax Credits. *Taxation (KiwiSaver HomeStart and Remedial Matters) Act 2015 (No 40 of 2015)*
1 April 2015	Exemptions from section MB 13 for drawings and other withdrawals. *Taxation (Annual Rates, Employee Allowances and Remedial Matters) Act 2014 (No. 39 of 2014)* Minimum Family Tax Credit goes from $22,776 to $23,036 per annum ($443 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2014 (LI 2014/350)* Parental Tax Credit gets extended from eight to 10 weeks, rate increases from $150 per week to $220 per week. The way Parental Tax Credit is abated increases from 3.26 cents to 21.25 cents for each additional dollar of family income (consistent with abatement of the Family Tax Credit). *Taxation (Parental Tax Credit) Act 2014 (No. 28 of 2014) – Budget 2014*

Date	Policy change
1 April 2016	In-Work Tax Credit goes up $12.50 per week (from $3,120 to $3,770 per annum). Benefit payments go up $25 per week for those with children. Working for Families abatement rate goes from 21.25% to 22.5% (and later planned rate increases are brought forward one cycle). *Taxation (Support for Children in Hardship) Act 2015 (No 118 of 2015) – Budget 2015* Minimum Family Tax Credit goes from $23,036 to $23,764 per annum ($457 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2015 (LI 2015/294)*
1 April 2017	Minimum Family Tax Credit goes from $23,764 to $23,816 per annum ($458 per week after tax). *Income Tax (Minimum Family Tax Credit) Order 2016 (LI 2016/282)* In-Work Tax Credit and Parental Tax Credit reviewed (according to statutory requirement) with no changes made.
1 April 2018 (repealed)	Family Tax Credit increases to: • eldest: $5,303; • subsequent: $4,745. Working for Families abatement rate goes from 22.5% to 25%. Working for Families abatement threshold goes from $36,350 to $35,000 per annum. Schedule 31 updated. Legislation amended to say that indexation is CPI less tobacco and cigarettes. *Taxation (Budget Measures: Family Incomes Package) Act 2017 (No. 22 of 2017) – Budget 2017 (Subsequently repealed)*
1 April 2018	Minimum Family Tax Credit goes from $23,816 to $26,156 per annum ($503 per week after tax). *Families Package (Income Tax and Benefits) Act 2017 (No 51 of 2017)*
1 July 2018	Family Tax Credit increases to: • eldest: $5,878; • subsequent: $4,745. Best Start Tax Credit introduced for children born on or after 1 July 2018: • $3,120 per child. Best Start abatement in the child's second and third years – threshold set at $79,000 and 21%. Parental Tax Credit no longer available for children born on or after 1 July 2018. Working for Families abatement rate goes from 22.5% to 25%. Working for Families abatement threshold goes from $36,350 to $42,700 per annum. Indexation reconfirmed as CPI less tobacco and cigarettes. *Families Package (Income Tax and Benefits) Act 2017 (No 51 of 2017)* Paid Parental Leave is increased from 18 weeks to 22 weeks. *Parental Leave and Employment Protection Amendment Act 2017 (No. 45 of 2017)* Schedule 31 on fortnightly payments updated. *Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Act 2018 (No. 5 of 2018)*
1 April 2020	Tobacco excise changes planned to finish – review indexation setting.
1 July 2020	Paid Parental Leave increases from 22 weeks to 26 weeks. *Parental Leave and Employment Protection Amendment Act 2017 (No. 45 of 2017)*

Appendix II: **Diagram of how tax exemptions, rebates, credits and family payments have changed over time**



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