

WHERE TO FOR WELFARE? RECENT AND PROPOSED WELFARE REFORMS IN NEW ZEALAND

Transitioning from welfare to work: abatements and tax credits



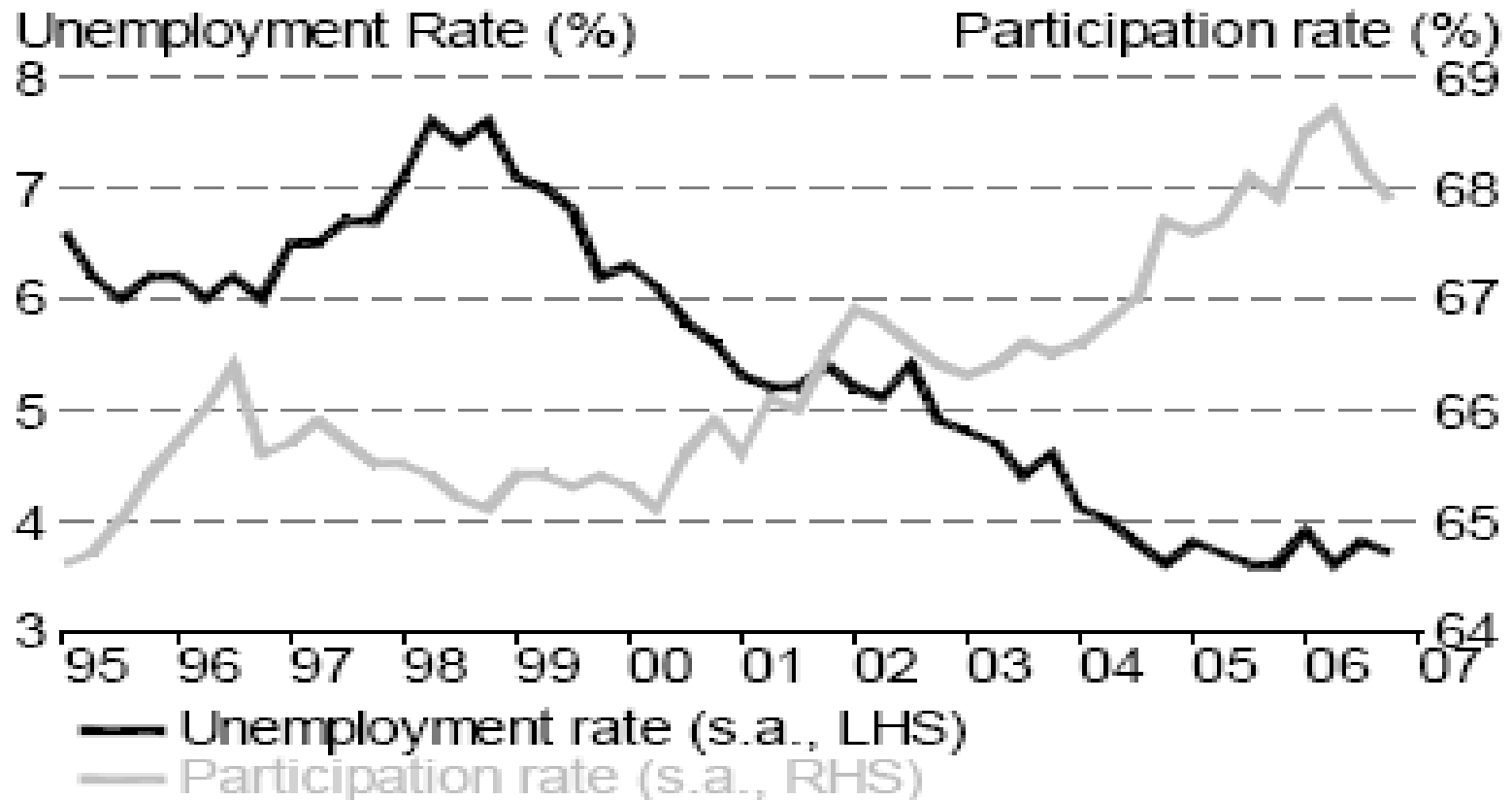
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Catch cry of the welfare reforms

“Work is the way out of poverty”
“Making work pay”

- **What are the chosen techniques?**
- **Are they sensible?**
- **Is the reward for extra work effort or “independence from benefits”**

The context of the booming economy



Ways to encourage the supply of labour

A make being on a benefit miserable

B assist the transition to work directly

C improve the returns to work

make being on a benefit miserable

Benefit cuts 1991



**Benefit cuts 2005
Working for Families**

Many left just 'no worse off'

Family Support increases but...



Core Benefit and Special Benefit cuts
saving \$237m

Improving the returns to work- the Pluses

- **Minimum wage legislation**
- **Removing abatement on the Accommodation Supplement**
- **Lowering Family Support abatements. Raising the threshold**

Improving Family Support

2005 Pre election spend-up

- Family Support threshold up from \$27,000 to \$35,000
- Abatement reduced from 30 to 20%

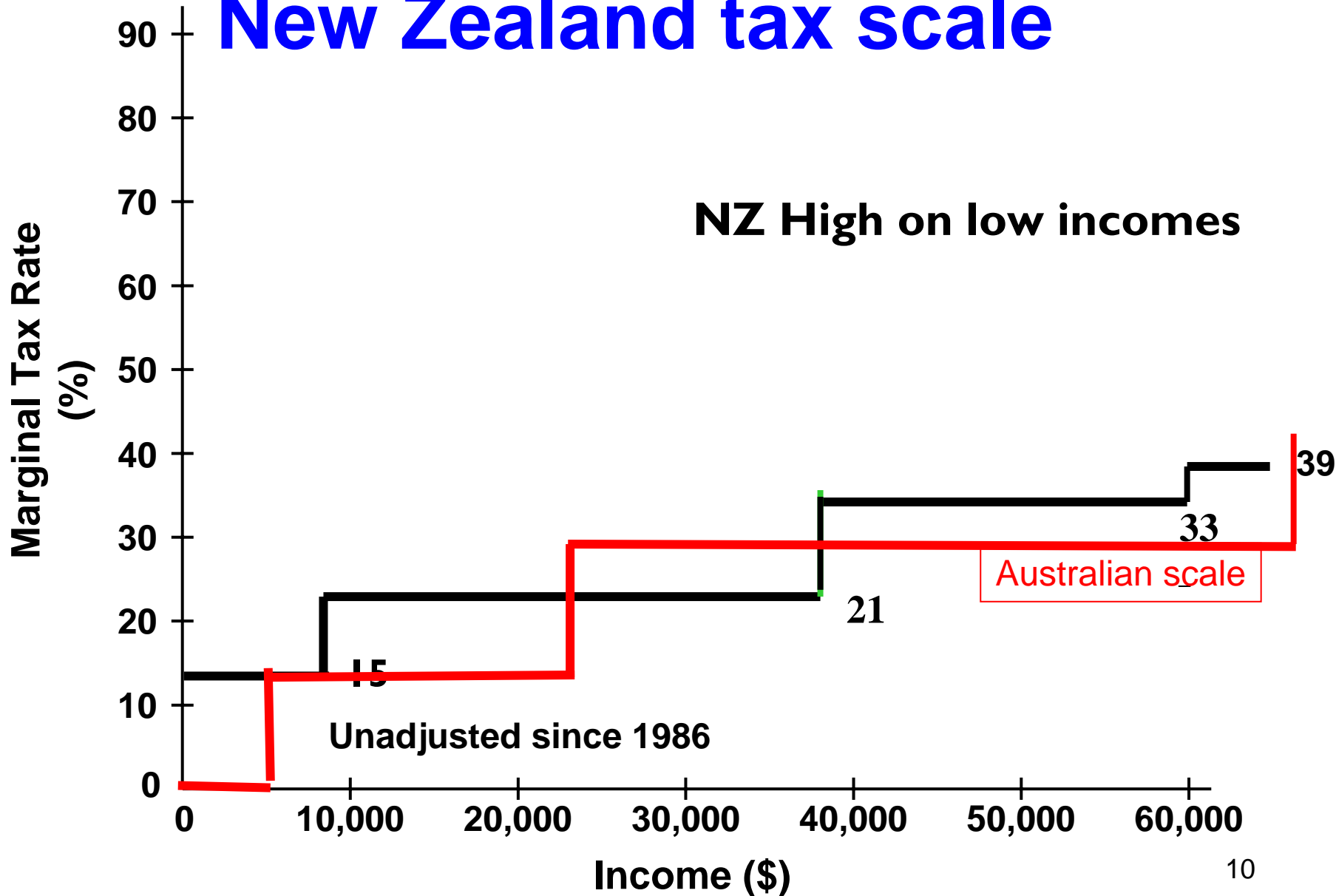
Cost \$500m



Improving the returns to work- the minuses

- Unadjusted tax and benefit abatement brackets
- Selective child-based tax credits *for working*

New Zealand tax scale



Abatement rates for benefits

Unadjusted for inflation

Earn \$0-80 0%

\$80-180 30% invalids/DPB
70% sickness/ue

\$180+ 70%

Selective child-based *working* tax credits

- **In-Work Payment**
- **Parental Tax Credit**
- **Family Tax Credit**

In Work Payment Discriminatory origins in the Child Tax Credit

It is no wonder that we do not value the work that is done in our homes, because we dismiss it and give it no economic value at all. That is disgusting. To divide children into those whose parents are good parents because they work and children who are bad because their parents do not is absolutely disgusting.

Annette King

Does the In-Work Payment reward work effort?

- Not if you don't have kids
- Lumpsum- you get it or you don't
- Married *at home* with 5 kids on \$100,000 she gets \$90 pw of *in-work* payment.
- Sole parent 5 kids on DPB she gets.. \$0

In Work Payment

UK- working tax credit

minimum hours worked

Adult based

Paid to worker

Abates from very low
level

Abates fast

In Work Payment

<u>UK- working tax credit</u>	<u>NZ- In Work Payment</u>
minimum hours worked Adult based	minimum hours worked Child based
Paid to worker	Paid to carer
Abates from very low level	Abates very high level
Abates fast	Abates slowly

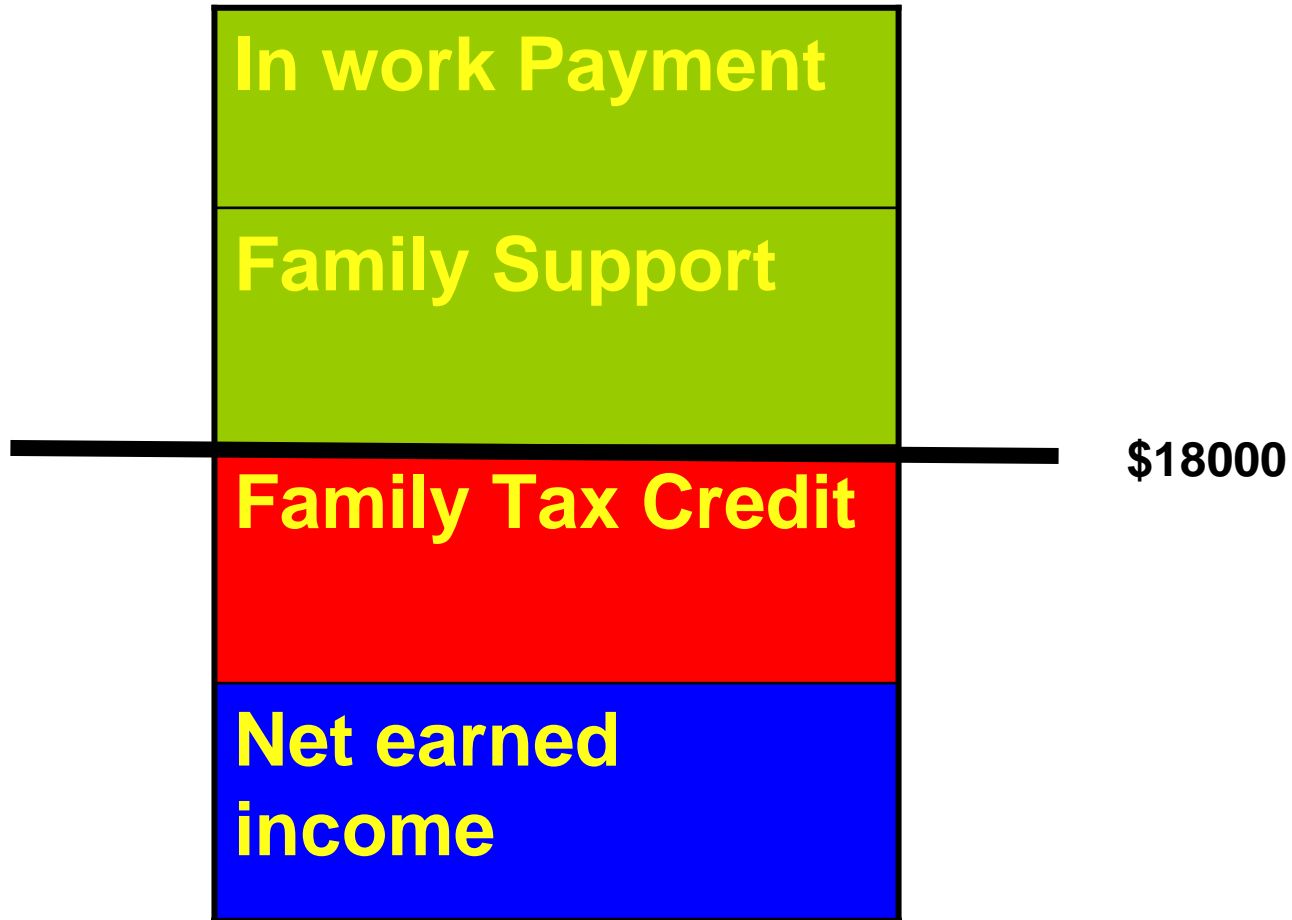
The house of tax credits

**Net earned
income**

The house of tax credits



The house of tax credits



The Family Tax Credit

More significant

100% abatement against current income

who repays?

Work hours required what happens

when jobs disappear?

**A return to the worst of Roger Douglas'
GMFI?**

The GMFI Fiasco-

Technically incompetent

Fiscally explosive

Socially reactionary

Brian Easton April 1988

Sole parent, 1-child part-time job 20 hrs min wage

Family Support \$82
Part benefit \$194
Net earned income \$175

**Total income
\$451**

EMTR = 91.3%

State provides 61%

If she becomes a ‘working family’

In work Payment 60
Family Support 82
Family Tax Credit 161
Net earned income \$186

**Total income
\$489**

EMTR = 101.3% State provides 61%

More nasty surprises in tax credit land

The Income tax Bill 2007 p 1557-9

family scheme

tax credit

child tax credit

family assistance credit

family plus

family credit abatement

in work payment

family support

family tax credit

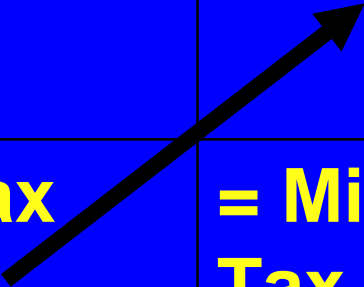
parental tax credit

social assistance payment

family scheme income.

IRD plays “lets confuse everyone”

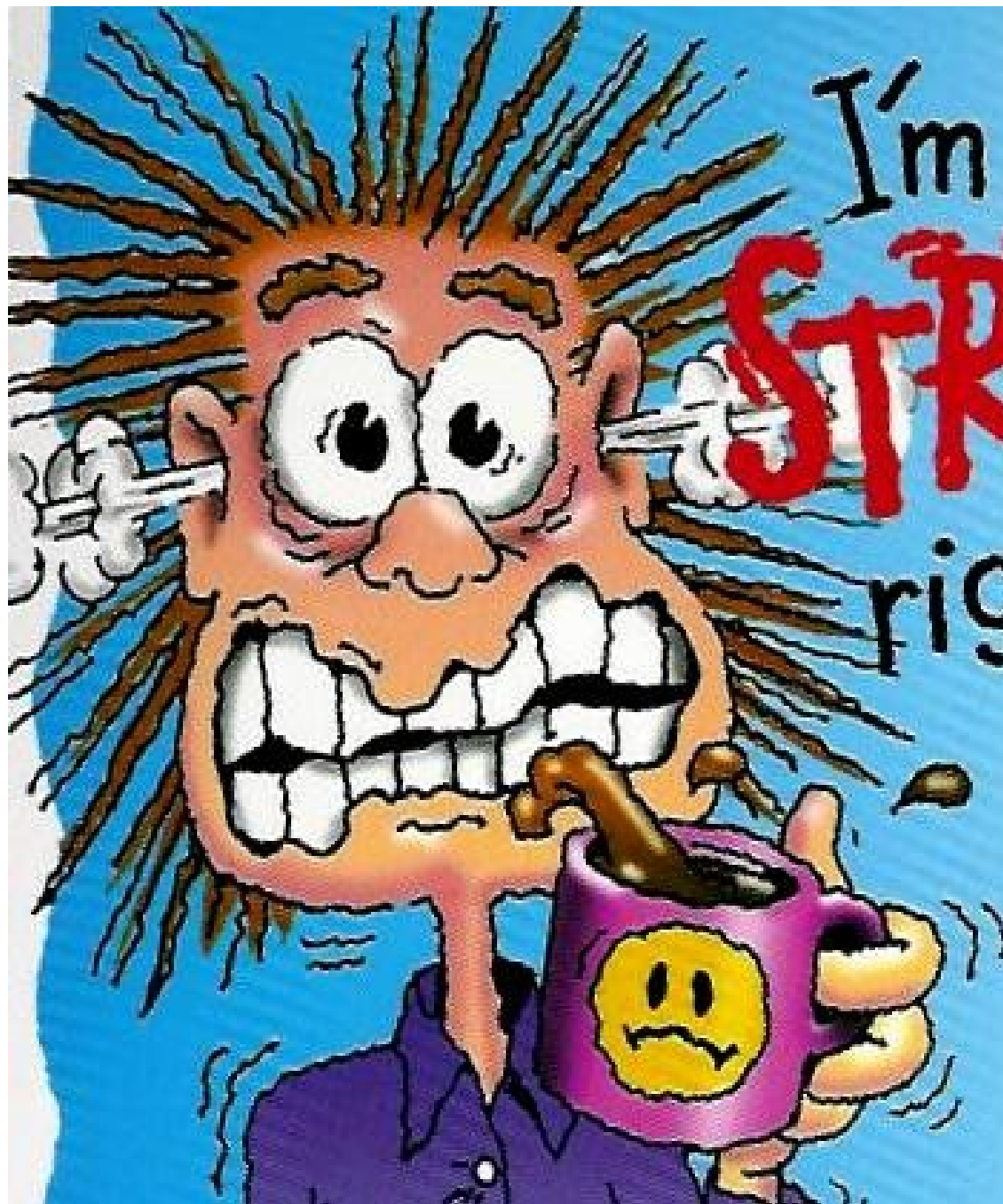
Old	New
In-Work Payment	= In-Work Tax Credit
Family Support	= Family Tax Credit
Family Tax Credit	= Min Family Tax Credit



Working for Families Tax Credits

Working for Families Tax Credits

- Families get one WFTC from IRD “in order to make it simpler”



I'm a little
STRESSED
right now...

(just turn
around and
leave
quietly
and no one
gets hurt.)