

ESCAPING THE WELFARE MESS?

by

Susan St John¹ & Keith Rankin²

POLICY DISCUSSION NO 267

This working paper updates and expands earlier working papers. It incorporates spreadsheet modelling, undertaken by Keith Rankin, of the effective marginal tax rates faced by different family types.³ The material is intended to inform public debate and is not a manual on the rules of the Department of Work and Income, nor is it to be taken as a guide to the exact entitlement of any individual applicant. The assistance of Dr M.Claire Dale (Retirement Policy & Research Centre) is gratefully acknowledged in updating this report.

¹Susan St John is an Associate Professor Economics, Co-director Retirement Policy & Research Centre, Business School, University of Auckland.

²Keith Rankin is a lecturer at Unitec's Dept. of Accounting and Finance, Auckland.

³This Working Paper and the modelling tool, which may have errors at the margin, is also available online at <http://web.auckland.ac.nz/uo/about/research/units/publicpolicygroup/publicpolicygroup.cfm>

1	Executive Summary	5
2	Introduction	6
3	Changed rhetoric: Labour-led government 1999-2008.....	7
3.1	The work first approach	8
3.2	Working for Families	9
3.2.1	Background to WFF	9
3.2.2	Extension to WFF	10
3.2.3	The In-Work-Tax Credit	10
3.2.4	Dual criteria for the IWTC.....	10
3.2.5	Creating the gap	11
3.2.6	Supplementary assistance for hardship.....	13
3.2.7	Human Rights concerns	13
3.2.8	Evaluations of the IWTC	14
3.3	NZ Super, the Cullen fund, and KiwiSaver	15
4	National's 2009-11 Personal Tax & Welfare Policies	16
4.1	Tax policy anomalies	18
4.2	Responses to the recession.....	20
5	Tax-Welfare Models:	21
5.1	October 2008.....	21
5.2	Tax-Welfare Model: 2009-11	26
6	Escaping the Welfare Mess	28
6.1	The Non-Refundable Tax Credit Option	29
6.2	The Refundable Tax Credit Option.....	30
	Appendix 1: Background to the 1990s welfare reform.....	33
7	Poverty traps and EMTRs.....	33
7.1	Welfare Changes 1990-1993.....	35
7.2	Family assistance from the early beginnings	35
7.2.1	Budget 1996	37
	Appendix 2: New Zealand's Social Welfare Mess.....	39
8	The minimum wage	39
9	Social security benefits.....	39
9.1	Social security benefit types	40
9.2	Tax treatment of benefits and other income.....	42
9.3	New Zealand Superannuation (NZS).....	42
9.4	Residential and Long Stay Care for the Elderly	44

9.4.1	Asset Test.....	44
9.4.2	Income test.....	45
9.4.3	Extra Financial Assistance for the Elderly.....	45
9.5	Social Security Benefits and Overseas Travel.....	45
10	Family Assistance	46
10.1	Working for Families	46
10.1.1	Family Tax Credit	47
10.1.2	In Work Tax Credit	47
10.1.3	Minimum Family Tax Credit	48
10.1.4	Parental Tax Credit.....	48
10.1.5	Paid Parental Leave.....	48
10.1.6	Home Help	48
10.2	Childcare Subsidy and OSCAR Subsidy	48
10.2.1	Childcare Subsidy.....	48
10.2.2	OSCAR subsidy	49
10.2.3	Trends in expenditure on Childcare and OSCAR Subsidies.....	49
10.3	Child Support.....	50
11	Students and Young People.....	52
11.1	Independent Youth Benefit	52
11.2	Student Allowances	53
11.3	Student Loans.....	55
12	Housing assistance.....	56
12.1	Accommodation Supplement.....	56
12.1.1	Income and asset tests	57
12.2	Income related rents.....	58
13	Special circumstances	58
13.1	Hardship provisions	58
13.2	Legal Aid.....	59
13.3	Disability allowance.....	59
13.4	Self Start, and Enterprise Allowance Subsidy and Grant	59
14	Health	60
14.1	Community Services Card	60
14.1.1	Prescription Subsidy Card.....	61
14.1.2	The High Use Health Card	61
15	Accident Compensation	61
	References	63

Table of Tables and Figures

Table 1. Income tax rates from 1 October 2008 (Labour)	17
Table 2. Income tax rates: 2011-12 (legislated by Labour)	17
Table 3. Income Tax Rates: 2011-12 (legislated by National)	17
Table 4. Tax cuts for period April 2009 to April 2011. Labour and National compared	18
Table 5. 'Independent Person' Tax Rates 2011-12 with IETC blended in	18
Table 6: Minimum wages as at 1 April 2008*	39
Table 7. Benefit Schedule as at 1 October 2008	41
Table 8. Benefit Abatement due to other income from 1 October 2008.....	42
Table 9. NZS & Veteran's pension weekly rates from 1 October 2008.....	43
Table 10. Exemptions under the asset test for the residential care subsidy 2008	45
Table 11. Working for Families Tax Credit Income Limits, 1 October 08 – 31 March 09.....	47
Table 12. Working for Families Weekly and Annual Tax Credit Rates.....	47
Table 13. Gross weekly income thresholds; Childcare and OSCAR Subsidy Rates.....	49
Table 14. Living allowance rates in Child Support regime in 2009	51
Table 15. Student Allowances in 2008	54
Table 16. Weekly expenses test for Accommodation Supplement, 1 October 2008.....	57
Table 17. Area 1 thresholds and cut-outs.....	58
Table 18. Income limits for Accommodation Supplement by Area 1 October 2008	58
Table 19. Cash assets for Special Needs Grants or Temporary Additional Support	59
Table 20. Community Service Card Income Thresholds as at 1 October 2008.....	60
Table 21. Typical General Practitioner Charges as at November 2008.....	60
Table 22. ACC levy rates for 2008/9 and 2009/10	61
Figure 1. One-child maximum real family weekly assistance 1986-2008 (\$2004).....	12
Figure 2. Three-child maximum real weekly family assistance 1986-2008 (\$2004).....	12

1 Executive Summary

This working paper updates the substantial changes to welfare policy during 1999-2009 and finds

- The core New Zealand welfare model serves New Zealand poorly in the 21st century.
- The tightly means-tested and conditional work-first approach to core welfare is incompatible with the concept of welfare, as enunciated by the 1972 McCarthy Commission, as a means to enable all New Zealanders to belong to and participate in society.
- Effective marginal tax rates (EMTRs) remain very high for too many people, and create a disincentive to work more hours. The use of the outdated concept of the Guaranteed Minimum Family Income (now called the Minimum Family Tax Credit) with its 100% EMTR has been extended.
- ‘Working for Families’ reduced child poverty among many of the employed poor, but entrenched the position of beneficiary families and introduced more complexity and discrimination into family assistance.
- There is no clear way out of the welfare mess signalled in the foreseeable future; only more complexity, less adequacy, increased child poverty, and less ability to cope with recessionary influences in the labour market.
- The National Government’s changes include tax cuts, a transitional redundancy package called Restart, and a new ‘Independent Earner’ Tax Credit. These compound rather than alleviate the welfare mess.
- Immediate, necessary changes to the welfare system include addressing the use of joint income testing for couples; hours-worked criteria; thresholds for abatements; adequacy of payments; overlapping income tests; and the zealous use of targeting.
- A better balance is needed between universal and targeted provision.
- A comprehensive review of the welfare state in New Zealand for the 21st century social and economic conditions is well overdue. Longer term reform may also involve the use of basic income ideas such as provided by refundable tax credits.

2 Introduction

The Welfare Mess (St John & Heynes, 1994), *The Welfare Mess Revisited* (St John, 1996), *Quantifying the Welfare Mess* (St John & Rankin, 1998), and *Entrenching the Welfare Mess* (St John & Rankin, 2002), traced the evolution of the complexities of welfare measures in New Zealand since the historic ‘mother of all budgets’ in 1991. This paper updates the substantial changes to welfare policy during the term of the fifth Labour Government (1999-2008) and identifies the direction of change at the end of 2008 with the election of a National-led government. For completeness of the historical record, a brief summary of the 1990s history of the New Zealand welfare system period is also provided in Appendix 1.

In spite of the “welfare reform” rhetoric, the core New Zealand welfare model has not evolved in any fundamental way since 1991 and is best described as “only for the poor” or “residual” to use the terminology of Esping-Anderson (1990, p. 43). The McCarthy-led Royal Commission (1972) had recommended benefits to be at levels that ensured ‘participation and belonging’, but this vision had sharply receded by the early 1990s. Many features of its design have become increasingly anachronistic in the 21st century. In a broader perspective, the tightly means-tested and conditional approach to core welfare sits oddly alongside New Zealand Superannuation, a flat-rate, unconditional, comparatively generous universal pension for those aged over 65; and Accident Compensation, a social insurance scheme for the compensation of accidents that pays more, rather than less, to higher-income earners.

Welfare reform has thus far failed to deliver a path out of the welfare mess.

This paper reviews the rhetoric and new policies adopted by the Labour-led government in the 2000s. That government made some minor improvements to the welfare system in its first term, but it was not until Budget 2004 that a major package, ‘Working for Families’ was announced, to be phased in between October 2004 and April 2007. While this package improved child poverty outcomes among the working poor (Perry, 2004, 2005, 2008), it entrenched the position of the worst off (St John & Craig, 2004; St John & Wynd, 2008). Particular attention is given here to the major changes to welfare implemented under the ‘Working for Families’ rubric, and to the social and economic implications of those changes.

One of the drivers of the Labour welfare reform programme was the desire to place paid work at the centre of policymaking. This desire was finally given a coherent form in the Working New Zealand policy announced in October 2006 (O'Brien, 2008a, 2008b). Work, rather than redistribution, was to be seen as the way out of poverty. Categorical approaches to welfare were to be abandoned in favour of a generic benefit with add-ons to recognise special circumstances (such as disability). The slow progress on this generic benefit perhaps reflected that complexities may be increased rather than reduced with such an approach.

By the end of 2008 the economy had slowed sharply, and Labour appeared to have abandoned the generic benefit policy. Still, the way was paved for a new government to extend both the work-first and punitive approaches to welfare, much as had been done in the recession of the early 1990s. The election of a National-led government in late

2008 (supported by the Act Party, United Future and the Maori Party) has, however, signalled few immediate changes in welfare. At the time of writing, National is rolling out the first 100 days "action plan" in new legislation, including tax cuts, a 90 day rule in employment,⁴ a transitional redundancy package, and a new 'Independent Earner' Tax Credit.

There has been no comprehensive review of the welfare state in New Zealand since the Royal Commission on Social Policy in 1988, and even that report was overtaken by the events of the late 1980s. Redesigning the welfare state so that it is fit for the 21st century is long overdue. Many policy changes of the 2000s continue to reflect outmoded social concepts that are now far less likely to be the norm, such as a labour market with secure 40 hour a week employment, and a family model that assumes two parents, only one of whom is in paid employment.

This paper looks at the immediate changes that are needed to make the current system work better. While acknowledging that utopian redesigns are usually impractical, this paper also begins the much-needed dialogue on how the system could be molded into something more appropriate for the uncertainties of 21st century. The casualisation of low paid work, the rise of the two-earner family, and the prevalence of more fluid family relationships are all realities. Policies founded on a sense of shared ownership of the public infrastructure may have a greater chance of actually improving work incentives for most people, while offering a level of social protection that is socially inclusive and cost effective. Implementation of this vision may also help reduce if not eliminate poverty in all its distressing forms.

3 Changed rhetoric: Labour-led government 1999-2008

New principles for the welfare state were discussed in numerous Treasury and Ministry of Social Development (MSD) documents following the election of the Labour/Alliance Government in 1999 (see, for example: Ministry of Social Policy, 2001; The New Zealand Treasury, 2001). As articulated in subsequent legislation, the spirit and reform direction stressed "social development", not redistribution:

Social development is a concept that encompasses the notions of productive investment in people, inter-sectoral co-operation, and sustainable outcomes. Social welfare, in the past, has been aligned more closely with redistribution, notions of consumption, compartmentalised assistance, and short-term employment gains. Social development attempts to harmonise social policy with economic development, so that the two arms of development work together for sustainable outcomes and economic growth. ("Social Security (Working Towards Employment) Amendment Bill," 2006)

In the 2002 election year, issues of poverty were widely acknowledged. Government's own research showed that in 1998 three out of every ten children were living below the unofficial poverty line of 60% of the after housing costs (AHC) of household-equivalised disposable income (Mowbray, 2001). In mid-2002 the government promised to eliminate child poverty (Ministry of Social Development,

⁴ The new rule ignores procedures set out in employment legislation and allows new employees to be fired within 90 days.

2002), and in pre-election speeches the Prime Minister pledged to review family tax credits. The MSD noted that: “the declining real value of family income assistance has been a key contributing factor to inadequate family incomes” (Ministry of Social Development, 2002-2004).

A 2002 Act ("Social Security (Personal Development and Employment) Amendment Act,") removed the work sanctions and the workfare of the previous National government, while retaining the strong message that paid employment is the way out of poverty. In practical terms however, despite a little more money allocated for case management, the Act offered few incentives to re-attach to the workforce. The modified abatement regime that had been introduced in 1996 for some was extended to all Domestic Purposes Beneficiaries (DPBs) regardless of the age of their youngest child. Earned income between \$80 and \$180 a week incurred an abatement of the net benefit at 30% instead of the 70% that applied for other beneficiaries for income (joint for a couple) above \$80 a week. But even the improved abatement left most with effective marginal tax rates (EMTRs)⁵ of 51%-63%. The \$80 threshold was set in 1986, and the \$80 and \$180 thresholds remain unadjusted for inflation, however the \$80 threshold is to be lifted to \$100 in April 2009.

3.1 The work first approach

‘Working for Families’ and ‘Working New Zealand’ are the two key strands of the work-focussed approach to welfare reform taken by the Labour-led government. They reflect the underlying philosophy that “work in paid employment offers the best opportunity for people to achieve social and economic well-being” (New Zealand Government, 2006, p. 17).

Together, the packages marked a watershed in thinking about the role of the state in alleviating and preventing poverty in families in New Zealand. In the ‘Third Way’⁶ rhetoric, employment was promoted as the best way, even the only way, out of family poverty; the state’s role was reduced to ‘enabling’, with selective work incentives and childcare subsidies. While jobs were plentiful in the buoyant economy of the mid-2000s, and many family incomes were improved, those same conditions allowed the erosion of the social security safety net to continue. Wages at the bottom end of the income distribution also improved, though slowly, and from very low levels.

The intellectual origins of the ‘work first’ approach as the solution to family poverty can be found in family assistance programmes pioneered in the United Kingdom and the United States (Leppik, 2006; Peck & Theodore, 2000). In contrast, in Australia, the targeting of tax credits, while similar, has been less stringent than in New Zealand and child tax credits have not been directly related to work effort (St John & Craig, 2004). Australia did not experience the rapid rise in child poverty in the 1990s seen in New Zealand, but by the mid-2000s was travelling down the same path of labour market and benefit reform to promote increased labour force participation as the solution to family poverty (McClelland & St John, 2006)

⁵ Defined as the percentage of the additional dollar earned that is paid in tax and loss of social assistance through abatement.

⁶ See Chatterjee (1999), and O’Brien (2008), for discussions of this concept .

3.2 Working for Families

The announcement of ‘Working for Families’ poverty-alleviation measures in the 2004 Budget came after years of neglect of family assistance. Yet even so, their full implementation was not until April 2007. It was a complex package in the timing of implementation, the criteria for entitlement, and the range of measures affecting families. The picture was further complicated by a significant expansion as pre-election 2005 changes were implemented in the 2006 phase.

There were improvements for families such as removing the abatement of Accommodation Supplement by 25% for the first \$80 earned by a beneficiary; and extensions to childcare subsidies.⁷ The major thrust, however, was to raise weekly financial assistance for working families with substantial new spending. The major gains were phased in between 2005 and 2007, with price indexation to most aspects to apply from 2008, but only once cumulative inflation exceeded 5%.

3.2.1 Background to WFF

Since the Family Benefit was discontinued in 1991 there has been no universal payment, as for example occurs in the UK and many other European countries. As outlined in Appendix 1, family assistance policy until 1996 had been based on the idea that all low-income children be treated the same regardless of the source of parental income. Family Support (now named the Family Tax Credit), the supplemental weekly per child family assistance, was paid to the caregiver and based on joint parental income. It abated at 18% from \$20,000 and then 30% from \$27,000. So, in the 1990s prior to the 1996 changes, family assistance was tightly targeted on the poorest families.

When an overdue inflation adjustment was made to Family Support in 1996, the National government took the opportunity to break with this tradition of treating all children the same, regardless of the parents’ income. Of the \$20 per week per child increase in Family Support, \$15 was named the Independent Family Tax Credit (IFTC) and carved off and paid only for children whose parents were not on any kind of benefit (see Appendix 1). The IFTC was later renamed the Child Tax Credit (CTC).

The 2004 Working for Families package as announced signified a real attempt to begin to redress the neglect of family assistance over the previous two decades. The full package raised Family Support for the first child from \$47 to \$82 a week,⁸ and for subsequent children from \$32 to \$57, with bigger increases for older children. The price paid by working families was high EMTRs over long income ranges. Working families earning more than \$27,500 per annum faced very long income ranges over which extra earnings made only modest differences to a family’s disposable income (Nolan, 2004). For example, if a family on an income of \$38,000 earned an extra \$1000, they could lose \$330 in tax, \$300 of Family Support including the In Work Payment, \$100 in student loan repayments (if applicable) and \$12 in Accident Compensation levies. This left only \$258 in the hand, implying an EMTR of 74.2 %. In addition, other imposts such as child support payments, and abatement of the Accommodation Supplement and

⁷ See Appendix 2.

⁸ See section 2.2.3.

childcare subsidies, added cumulatively to the EMTR. These high EMTRs could be assumed, a priori, to act as a significant disincentive to earn extra income.

3.2.2 Extension to WFF

In the meantime, as the 2005 election approached, calls for general tax reductions in light of reported budget surpluses intensified. Amid controversy, and just prior to the election, the government announced that Working for Families would be significantly extended. The extensions reflected sensitivity to the criticism that low- and middle-income working families faced disincentives to work, rather than the reward intended. The government also wanted to target 'tax relief' towards low- and middle-income families, rather than bring in a general tax cut that would give the bulk of the gains to higher-income recipients.

Pre-election changes included lifting the Family Tax Credit abatement threshold to \$35,000, and reducing the abatement rate from 30 to 20%. These changes, at a total cost of \$500m per annum, were, *prima facie*, a more economically rational approach to improving work incentives than the In-Work Tax Credit (IWTC).⁹ Importantly, this pre-election nearly 50% increase in an already expensive package would have no effect on very low-income working families (ie. families already receiving the maximum Working for Family Tax Credits), but it would create an even bigger relative income gap between 'working' and 'beneficiary' families. At the same time, its costliness precluded consideration of any extra fiscal expenditure on the worst-off families.

3.2.3 The In-Work-Tax Credit

From 1 April 2006, the more complex In Work Tax Credit (IWTC)¹⁰ replaced the CTC. It was set at \$60 a week for families of up to three children with an additional \$15 a week for the fourth and subsequent children. The impact of the IWTC was severe, driving a significant wedge between 'working' and 'beneficiary' families.

The IWTC, like its CTC predecessor, confused the policy goals of child-related income security, and workforce participation. The IWTC, supposedly a work incentive, is not paid to the worker but to the caregiver of the child, who may or may not be 'in work'. Like the CTC before it, is simply added to the Family Tax Credit and abates last. This is an important contrast to the working tax credit in the UK, which is abated first to emphasise its purpose in encouraging the transition to work; is paid to the worker; and is much more clearly related to work, not children (St John & Craig, 2004; St John & Wynd, 2008).

3.2.4 Dual criteria for the IWTC

Perhaps to reinforce the perception that the IWTC is not just the old Child Tax Credit but is a work incentive (although paid to the child's caregiver who may or may not be 'in work'), claimants must not be on an income-tested benefit, and must meet the weekly employment criteria of 30 hours for a couple and 20 hours for a sole parent.

⁹ The opportunity to abandon the IWTC was not taken, however.

¹⁰ Originally entitled the In Work Payment.

Families in financial poverty often suffer the double disadvantage of also being time poor, especially sole parent families where the one parent usually needs to do the caring work of two. Wider shifts in social expectations which stress the value of paid work weigh heavily on sole parents. A two-parent family can have one full-time caregiver at home while the other works just 30 hours out of a possible combined working week of 80 hours. This family has available a joint 50 hours care-giving, in contrast to the sole parent who has only 20 hours of care-giving with the requirement of 20 hours of paid work.¹¹ Also, the employment test is not related to the numbers or ages of children, yet 20 hours of paid work for a sole parent with three young children is likely to be far less possible than it would be for a sole parent with one older child.

Ironically for the work incentive objective, the IWTC makes it easier for the care-giving parent in a 2-parent 'working' family to stay home, while it insists that sole parents must be employed for at least 20 hours a week, no matter what their children's needs or how many children they have. The unintended but implicit signal is that sole parents should work harder at finding partners who meet the hours of work criterion.¹²

While the rules of independence from a state benefit as a prerequisite for eligibility are largely the same for the IWTC as for the CTC, there was a modest attempt to address two worst cases of exclusion. Workers on Accident Compensation may keep the IWTC but only if the accident occurred after 1 January 2006, so too may parents over 65 receiving New Zealand Superannuation or Veteran's Pension, but only if they work the required number of hours.

3.2.5 Creating the gap

In 2003 approximately 29% of children under 15 years (253,000 children) lived in families supported by a main social welfare benefit (Ministry of Social Development, 2004). As St John and Craig (2004) predicted, once Working for Families was fully implemented (year ended March 2008), the maximum Family Support for the one-child family was restored to its 1986 value, while larger families gained only slightly in real terms. Figure 1 shows that the actual gain for families supported by a main social welfare benefit was far less: the adjustment that removed the child-related component of many of the core benefits in 2005 had the effect of significantly reducing the gains from extra Family Support. As well, as discussed below (not shown in Figure 1), hardship assistance via the Special Benefit was also reduced.

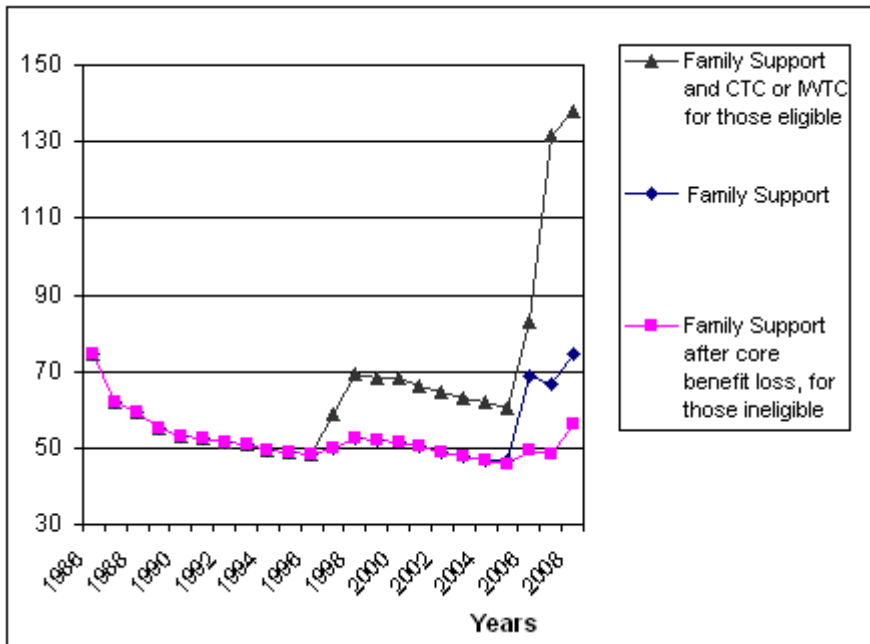
From 2006 there was significant redistribution to low- and middle-income working families who received the IWTC and who gained entitlement at much higher levels of income. While these gains have had a large impact on hardship and on the severity of child poverty among working families, they have not reduced the hardship or child poverty among families not classed as 'working' (Perry, 2008). Rather, a much bigger gap has been opened up between families 'in work' and those not 'in work' because of the IWTC and cuts to benefits introduced along with Working for Families. Figure 1

¹¹ A sole parent employed for 19 hours per week – eg. someone sharing a 37½ hour fulltime job – is classed as 'not in work'.

¹² This incentive even applies where a sole-parent's benefit is funded – through Child Support – by the parent who is not providing day-to-day care.

shows this gap for the one-child family. Figure 2 shows that, for larger families, the IWTC significantly extended the gap that had already been created by the CTC.

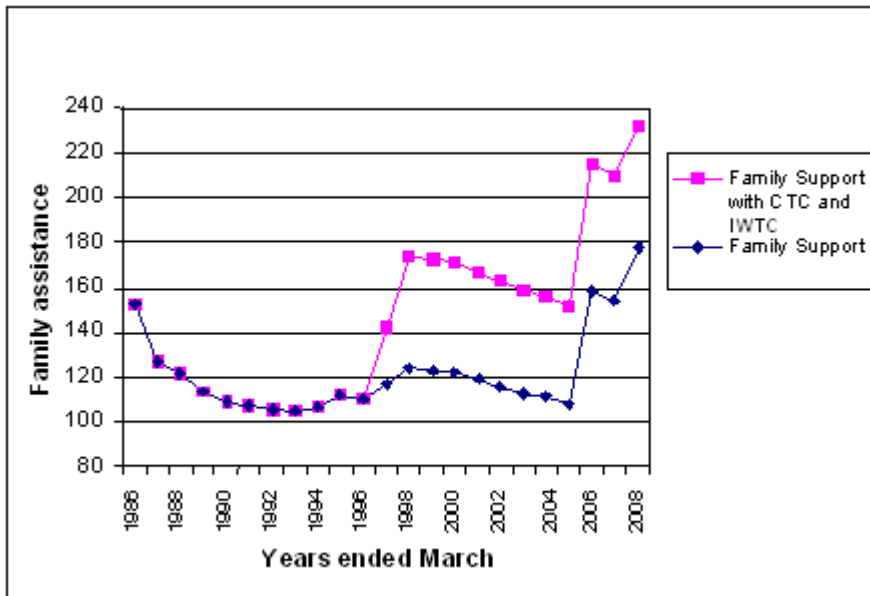
Figure 1. One-child maximum real family weekly assistance 1986-2008 (\$2004)



(Source: St John & Craig, 2004)

Note: Family Support is now called the Family Tax Credit

Figure 2. Three-child maximum real weekly family assistance 1986-2008 (\$2004)



(Source: St John, produced for Human Rights Tribunal Hearing, 2008)

The government, in defending these changes, argued that “great care was taken in developing Working for Families to ensure that nobody was worse off as a result of the changes” (Mallard, 2004).¹³ But in a time of greatly improved real redistribution to low-income working families, to be simply ‘no worse off’ in nominal terms actually increased social exclusion, and extended the relative poverty of the poorest children.

¹³ As quoted from personal communication to CPAG in St John and Craig 2004, p. 5.

3.2.6 Supplementary assistance for hardship

Working for Families also included changes to supplementary assistance, a move that especially affected the over 80% of all children supported by a benefit who live in sole-parent families. Many of these families were unable to survive on the core benefit alone, and also received a means-tested Special Benefit, to recognise essential commitments that they were unable to meet from their income. Just over 50% of Special Benefit recipients live with at least one dependent child under the age of 14, and 90% of these are sole parents.

In 2005 the Special Benefit was replaced by the less generous Temporary Additional Support, a form of non-taxable supplementary assistance available to beneficiaries and non-beneficiaries, for a maximum of 13 weeks.¹⁴ However, before the additional support can be granted, the applicant (and their partner if applicable) must meet the cash asset test, and assets which can be easily converted into cash (excluding the family home, personal effects, and KiwiSaver accounts) must be realised. Under Working for Families, Family Tax Credits were included as income in the calculation for entitlement to Special Benefit or Temporary Additional Support, thus reducing the number of families that met the strict assistance criteria.

3.2.7 Human Rights concerns

In its current design, the IWTC drives a wedge between families in work and those on benefits by treating children differently depending on the work status of their parents. In addition, it is discriminatory in outcome for families of different structure, as the hours of work criterion treats sole parents more harshly than two-parent families.¹⁵ New Zealand's Maori and Pacific Island populations are also disproportionately disadvantaged as they have a younger demographic structure and a lower socio-economic status (Wynd, 2006). Thus it can be argued that an effect of the IWTC has been to treat children of different ethnicities differently, which compounded the relative decline in living standards experienced by these ethnic groups between 2000 and 2004 (Jensen, Krishnan, Hodgson, Sathiyandra, & Templeton, 2006).

When government policy itself became subject to review under an amendment to the Human Rights Act in 2001, the discriminatory character of the Child Tax Credit¹⁶ led the Child Poverty Action Group (CPAG) to ask the Human Rights Commission to investigate its legality (Child Poverty Action Group, 2002).

In 2008, the Human Rights Tribunal dismissed the Crown's argument that the IWTC is not a payment for children as the presence of children is a condition of receipt of the IWTC. However, while the Tribunal found that the IWTC was discriminatory, they also argued that such discrimination could be justified in a fair and democratic society. Nevertheless, the Tribunal identified the harm done to the 200,000 poorest children in

¹⁴ See Appendix 2, and http://www.workandincome.govt.nz/manuals-and-procedures/income_support/extra_help/temporary_additional_support/temporary_additional_support.htm

¹⁵ However, just as there are unintended incentives for sole parents employed for fewer than 20 hours per week to find a new partner, there are unintended incentives to separate for single-income two-parent families with the one earner working between 20 and 30 hours. Both scenarios are likely to be more prevalent during an extended recession, when additional hours of paid work are harder to access.

¹⁶ When the CTC became the IWTC, the CPAG case incorporated the change.

New Zealand in the name of providing a work incentive for a few sole parents. The justification argument can be criticised in that the cost benefit analysis necessary to see if the balance was right was not conducted. The legal history of this case, and the final decision, which is to be appealed in 2009, can be viewed at www.cpag.org.nz.

Under the new National government's policy changes, as jobs are lost in 2009 as a result of the recession that began early in 2008, children whose parents need to access a main benefit may keep the IWTC for 16 weeks under a Transitional Relief Package called ReStart discussed below. This policy opens up a large degree of inequity by creating two classes of unemployed. It also fails the 'security of income' criterion as the welfare state increasingly becomes no more than a minimal subsistence backstop.

3.2.8 Evaluations of the IWTC

The IWTC has assisted in eliminating poverty among low-income working families, but its effectiveness as a work incentive is difficult to evaluate. Preliminary work from the MSD has found there to be some gains in employment from the WFF package as a whole for sole parents (Ministry of Social Development & Inland Revenue Department, 2009 forthcoming).

In principle it is hard to see that a lump-sum payment based on minimum hours worked is capable of influencing extra work effort for most families. The IWTC may increase the numbers of sole parents working 20 hours a week but may also incentivise employers to manipulate hours/wage rate to achieve the required hours. A significant number of recipients clearly require another tax credit, the Minimum Family Tax Credit (MFTC), to provide an income floor. Perversely the MFTC may operate as an incentive to *reduce* hours to only 20 a week because it abates at 100%, making extra work effort redundant.

The IWTC came in in 2006, and while associated with a drop of about 4,400 in DPB numbers (August 2006-August 2007), 2,000 already had some attachment to the labour market (Centre for Social Research and Evaluation, 2007). The numbers on the MFTC increased rapidly between 2006 and 2007, including an increase of 1,500 sole parents.¹⁷ It may be fair to conclude that the MFTC has had more to do with the shift off the DPB than the IWTC.

Even if it did provide a work incentive to some, suitable work has to be available and families have to have the capacity to take up that work (Singley, 2004). More generally, the IWTC is part of an employment-first approach to poverty alleviation, and as Peck and Theodore (2000) note, there is a tendency for such an approach to "direct participants into the lower reaches of the labour market" (Peck & Theodore, 2000, p. 127). Workfare is an extreme version in which work for the benefit is required. Their criticisms of workfare and employment-first approaches include the facts that such programmes "tend to exacerbate, rather than counteract, the phenomenon of 'churning' in the lower reaches of the labour market"; they "tend to generate a 'drag' on pay and conditions"; they do not tackle problems of inequality and discrimination; and such

¹⁷ IRD data supplied to authors January 2009.

programmes may “entrench and amplify labour market inequalities” (Peck & Theodore, 2000, pp. 127-131).

Another set of problems is around the issue of the work-first approach increasing the risk of long-run skills erosion for individual welfare recipients and for the labour market overall. Because the outcomes are predicated on local conditions, they differ in buoyant as opposed to depressed labour markets. In the New Zealand context, employment in low paid, unskilled work may improve attachment to the labour market for some, but is unlikely to lead to skills enhancements or new opportunities for advancement.

In summary, “work-first” or “workfare” are not job-creation nor skills enhancement programmes. They offer only “residualised, inferior and compensatory provision to those that fail the employability test” (Peck and Theodore 2000, pp. 127-131). Moreover, as it has been developed in the New Zealand context, the IWTC relies on discrimination against the poorest children to provide the ‘incentive’ to families reliant on state support to move off welfare benefits and student allowances.

3.3 NZ Super, the Cullen fund, and KiwiSaver

Children and the elderly are vulnerable groups of a society. In New Zealand, while the well-being of children was largely ignored in social policy until the mid-2000s, that of those over 65 has been closely monitored. While superannuation has a fraught political history in New Zealand, the basic provisions have remained stable.¹⁸

Inflation indexation of New Zealand Superannuation (NZS) had required that Consumers Price Index (CPI) adjustments were to be made unless the couple rate fell below 65% of the net average wage. When the floor was breached in 1999, the previous National administration reduced the floor to 60% of the net average wage. Labour restored the floor after the 1999 election and, in a side agreement with New Zealand First, raised the floor to 66%. Through this link to wages, NZS has achieved a low rate of pensioner hardship (Ministry of Social Development, 2006).

In 2001, the government passed the New Zealand Superannuation and Retirement Income Act that, among other things, set up the New Zealand Superannuation Fund (NZSF, known colloquially as the “Cullen Fund”) and the ‘Guardians’ to run it. With the intention of partially smoothing the cost of NZS, given the coming retirement of the post-war ‘baby boom’ generation, the Act obliges the government to contribute about \$2 billion a year to the NZSF until 2020 when withdrawals will help pay for NZS benefits.

By maintaining its two-pillar approach of a universal non-contributory pension and tax-neutral voluntary retirement savings, New Zealand’s retirement income policies stood apart from those of other countries which had introduced tax-incentivised voluntary and/or compulsory retirement savings schemes (St John, 2007) Then unilaterally in 2007, KiwiSaver, a voluntary work-focused, auto-enrolment private savings scheme was introduced, incentivised with a government-funded one-off \$1,000 kick-start, and \$40 annual contribution towards fund management fees.

¹⁸ After an acrimonious political attempt to change the state pension into a welfare benefit in 1991, stability was restored in the 1993 Accord. The gradual loss of the Accord in the 1990s resulted in further politicisation of retirement income provision, but the provision of a basic state pension was retained with voluntary, unsubsidised saving (Littlewood, 2008).

KiwiSaver extended the government's role in retirement income not only by facilitating private savings, but also by incentivising participation through tax-funded benefits, and by requiring employers to contribute... The introduction of KiwiSaver in 2007 effectively ended the tax-neutral approach to retirement saving. (St John, Littlewood, & Meehan, 2008, p. 4)

While membership is not compulsory, new employees are automatically enrolled in a KiwiSaver scheme, and have 8 weeks to opt out. As it was originally set up, if employees chose to become members, they could contribute either 4% or 8% of their gross pay to KiwiSaver, and employers were then compelled to contribute initially 2%, gradually increasing to 4% of the employee's gross salary. The further incentive of exemption to Employer Superannuation Contribution Tax (ESCT) for employer contributions of up to 4% of gross pay to KiwiSaver and complying superannuation funds was introduced immediately prior to the passing of the KiwiSaver Act in 2006. A further incentive, added later in 2007, was the introduction of tax credits of up to \$20 per week for both members and employers.

Exempting KiwiSaver and other complying funds via ESCT increases the incentive to salary sacrifice, at least until the mandatory employer contribution is reached; and it also means two people on the same salary may pay different amounts of tax. Also, a 2008 change stipulated that the employer contribution was in addition to total remuneration, not part of it. These changes offend the principle of horizontal equity (the equal treatment for tax purposes of those with equal gross incomes); and the ESCT exemption also has vertical equity concerns as it is capped in percentage not absolute terms, so those on higher incomes benefit most.

Changes to investment tax policies also impacted positively on retirement income for middle- and high-income earners. Tax rates of only 19.5% (reduced from 33%) apply for KiwiSaver schemes registered as portfolio investment entities (PIEs) if total PIE income is less than \$60,000 and income from other sources is less than \$38,000. For those earning over \$60,000 from the PIE, the tax rate is still a more favourable 30%, nine percentage points less than the marginal tax rate. Equity concerns occurred again as those on the lowest incomes with a 15% (12.5% from October 2008) income tax rate are still taxed at 19.5% on their PIE income.

The National-led government withdrew government's contribution to KiwiSaver fund management fees. More significantly, effective from 1 April 2009, they will reduce the required employee contribution and the required employer contribution to 2%. They will also remove the matching employer tax credit, while leaving the member tax credit in place. However, the ESCT exemption, capped in terms of percentage of income rather than in absolute dollar terms, remains, and remains the most unequally distributed of the incentives, with the greatest benefit going to those with the highest incomes.

4 National's 2009-11 Personal Tax & Welfare Policies

Labour reduced tax rates in October 2008 as shown in Table 1, and legislated for further changes in 2010 and 2011.

Table 1. Income tax rates from 1 October 2008 (Labour)

Income	Tax rate
\$0 - \$14,000	12.5%
\$14,001 - \$40,000	21%
\$40,001 - \$70,000	33%
\$70,000 and over	39%

However, in December 2008, the newly elected National-led government replaced the 2010 and 2011 changes with a three stage tax cut (2009, 2010, 2011) that focuses on the middle income brackets, while also making small reductions to the top rate. The Labour and National alternative April 2011 personal tax scales are shown in Tables 2 and 3 respectively. Income brackets with the most important differences are shaded.

Table 2. Income tax rates: 2011-12 (legislated by Labour)

Income	Tax rate
\$0 - \$14,000	12.5%
\$14,001 - \$20,000	12.5%
\$20,001 - \$42,500	21%
\$42,501 - \$50,000	33%
\$50,001 - \$80,000	33%

Table 3. Income Tax Rates: 2011-12 (legislated by National)

Income	Tax rate
\$0 - \$14,000	12.5%
\$14,001 - \$24,000	20%
\$24,001 - \$44,000	20%
\$44,001 - \$50,000	20%
\$50,001 - \$70,000	33%
\$70,001 and over	37%

The legislated changes to personal tax rates in December 2008 principally target persons earning at or just above the average full-time wage which "Key Facts for Taxpayers" estimated at \$47,637 gross in 2008, rising to \$49,000 in 2009 (New Zealand Government, 2008).

In addition, the new National-led government introduced an Independent Earner Tax Credit (IETC) of \$15 per week. The IETC is only payable to 'independent' persons with an annual income in excess of \$24,000. The IETC abates in the income range \$44,000 to \$50,000 at a rate of 13 cents per dollar.

Being 'independent' means being neither a beneficiary, a superannuitant, nor a recipient of Family Tax Credits (FTCs).¹⁹ Thus the IETC targets independent full-time workers receiving below-average wages; people who may be low earners without dependent children, or may not qualify for Family Tax Credits because their combined parental incomes are too high. These low earners without children and some medium-to-high

¹⁹ The irony is that the In-Work Family Tax Credit (a component of the FTC package) requires recipients to be independent and employed, but their tax credits mean they are now regarded as dependent. The same problem applies to the IETC. Can a person receiving an IETC 'handout' be classed as independent?

income households with children most conspicuously missed out when the Working For Families extension came into force in April 2006 (Rankin, 2007). Compared with other countries' tax scales and systems of tax relief, these groups have been disadvantaged.

Table 4 shows the distribution of the tax reductions comparing National's scale with the Labour one it replaced. The National cuts include the \$15 per week IETC (for persons earning between \$24,000 and \$44,000) which, as noted, will not be available to persons already receiving Family Tax Credits, NZS, or some form of main benefit.

Table 4. Tax cuts for period April 2009 to April 2011. Labour and National compared

Earnings \$pa	Labour			National' (incl IETC)'			difference'		
	\$pa	\$pw	% of earnings	\$pa	\$pw	% of earnings'	\$pa	\$pw	% of earnings
10,000	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%
20,000	510	9.81	2.5%	60	1.15	0.3%	-450	-8.65'	-2.2%
30,000	510	9.81	1.7%	940	18.08'	3.1%	430	8.27	1.4%
40,000	510	9.81	1.3%	1040	20.00'	2.6%	530	10.19'	1.3%
50,000	810	15.58	1.6%	1560	30.00'	3.1%	750	14.42'	1.5%
60,000	810	15.58	1.4%	1560	30.00'	2.6%	750	14.42'	1.3%
70,000	810	15.58	1.2%	1560	30.00'	2.2%	750	14.42'	1.1%
80,000	1410'	27.12	1.8%	1760	33.85'	2.2%	350	6.73	0.4%
90,000	1410'	27.12	1.6%	1960	37.69'	2.2%	550	10.58'	0.6%
100,000	1410'	27.12	1.4%	2160	41.54'	2.2%	750	14.42'	0.8%

4.1 Tax policy anomalies

While the IETC is a way to help many lower-earning workers, it contains built-in anomalies, especially regarding the proposed minimum earnings threshold of \$24,000 (annual earnings working 38.5 hours per week at the minimum wage of \$12 per hour).

Discriminating against part-time workers may stem from the widely-held notion that people who work part-time are just dabbling in the labour market and therefore do not need the support that full-time workers require (Rankin, 2006). For those who qualify, receiving the IETC is equivalent to applying the tax scale in Table 5.

Table 5. 'Independent Person' Tax Rates 2011-12 with IETC blended in

Gross Income	Tax rate
\$0 - \$14,000	12.375%
\$14,001 - \$24,000	12.375%
\$24,001 - \$44,000	20%
\$44,001 - \$50,000	33%
\$50,001 - \$70,000	33%
\$70,001 and over	37%

It would be simpler administratively to apply the Table 5 scale to all independent persons. Replacing the IETC with that scale would provide some tax relief to independent persons earning in the \$14,000 - \$24,000 range²⁰ – effectively allowing the IETC to blend in – while making no difference to persons earning above \$24,000.²¹The

²⁰ Contrast the “\$14,001 to \$24,000” rows in Tables 3 and 5.

²¹ For example, under the tax scale that the National-led Government plans to have in place by April 2011, persons earning \$30,000 will pay \$1,750 tax on their first \$14,000, and \$3,200 on their remaining

‘independent’ persons earning between \$14,000 and \$24,000 who could benefit from having the IETC extended to them include full-time workers reduced to part-time hours on account of the economic recession. In recessions, many workers retain their jobs, but under conditions of greatly reduced income. It is noted:

- Many but not all of these workers become technically part-time, as soon as their paid work-time falls below 30 hours per week;
- Many 'on call' workers work variable hours. With the 2008 recession anticipated to bite considerably deeper in 2009, we can expect many more workers to be on call, full-time in some weeks, part-time in others;
- Low-income self-employed people are independent. We can expect many more of these as the recession bites, including farmers facing reduced returns for their produce, and people who become unemployed looking to gain whatever income on their own account that they can;
- Persons seeking to come off benefits – seeking to change their status from 'dependent' to 'independent' – may be deterred if some of the benefits of independence are withheld from them. Such persons need to be encouraged to take on part-time or variable-income employment;
- Second income earners in households with and without children commonly earn in the \$14,000 to \$24,000 range. A household with one child and two earners each receiving \$40,000 will qualify for two IETCs, whereas an identical household with one earner on \$60,000 and the other on \$20,000 will get none;
- In uncertain economic times, many people will depend on part-time work while studying. Denial of Independent Earner Tax Credits to these people may represent a somewhat perverse incentive at a time when incentives to participate in education should be particularly strong;
- Student loan repayments will be levied on incomes above \$19,000. It's not clear why independent and recently graduated students who have only been able to secure part-time work should not have access to the IETC.

Further problems arise when people change their status between ‘independent’ and ‘dependent’. Some persons change their status more than once during the year. The frequency of which such changes of status take place will increase as the demand for labour eases, as in the current recession.

Many tax-funded benefits, including unemployment benefits, sickness benefits, and accommodation supplements, are subject to means tests only for the period that the circumstance applies. Others, generally tax credits, are accounted for on an annual basis (based on years ending March 31). Family Tax Credits under WFF are ring-fenced while a family is supported by a benefit but otherwise are abated on annual income. The IETC will prove to be difficult to apply on anything other than an annual basis. The matter is further complicated because In-Work Family Tax Credits have an

\$16,000, less an IETC of \$780 (\$15 p.w.), totalling \$4,170. Under the Table 5 scale, those earning \$30,000 will pay \$2,970 tax on the first \$24,000 and \$1,200 on the remaining \$6,000, coming to \$4,170.

employment criterion (20 or 30 hours per week of paid work) whereas the IETC has an independence criterion.²²

4.2 Responses to the recession

As already noted, in addition to the IETC, the National-led government has legislated for a Transitional Relief Package (TRP) called ReStart. In partial offset of the tax reductions and the TRP, the ACC employee levy has been raised from 1.4% of gross earnings to 1.7%, effective from April 2009. The TRP will continue to pay the In-Work Tax Credit (IWTC) renamed ReCover to newly unemployed workers with children for their first 16 weeks of unemployment,²³ thereby softening for some the double blow of unemployment.²⁴ Unlike Labour's pre-election proposal for a "job search allowance" (APN, 2008), this policy acknowledges that the IWTC is essentially a payment to assist with the support of children, and not simply a work incentive.

RePlace, the second component of National's TRP, is a plan to raise the maximum Accommodation Supplement payable for 16 weeks. This will mainly help people who have over-extended themselves with respect to their housing, particularly people facing the prospect of losing their homes if unemployment causes them to default on their mortgages. It will not help those in rental accommodation with cash assets (eg. savings for a house deposit) who therefore do not qualify for an Accommodation Supplement.

For the housing component of the TRP to be effective, people not currently receiving an Accommodation Supplement will need to be encouraged to apply as soon as they become unemployed. These will typically be two-earner households becoming one-earner households, and many will have had no historical relationship with the Department of Work and Income (DWI) who manage Accommodation Supplements.

A number of people affected by redundancy will be couples with a mortgage who plan to have children, but have not yet done so. From society's point of view, a recession should be a good time for them to start families. However, a 16-week limit on the relief package sends the message that the priority of persons who lose their jobs is to get another job, even if there is a job drought, and even if society might benefit more if more people were contributing in ways other than through paid employment.

The new National-led Government has offered very little so far that could accurately be classed as a movement away from the complex mess that our strict welfare state has become. However, this government has proved willing to acknowledge the problems faced by unusually high levels of taxation of some categories of lower-income people, and the inequities that must arise with Working for Families when New Zealand's economy endures a period of contraction and rising unemployment.

²² Will persons who receive say \$25,000 of interest income and are otherwise independent qualify for an IETC? A fall in interest rates could cost such persons their rebates. Or will interest, dividends and rents be classed as unearned income?

²³ To qualify, they must be already receiving a Family Tax Credit or Accommodation Supplement, and have had six months of continuous employment. Also, cash assets must be below \$16,200 for couples (\$8,000 for single adult households), and redundancy pay must have been \$25,000 or less.

²⁴ This raises the question: should recipients continue to receive the IETC it for 16 extra weeks when they become unemployed? This would particularly apply to two-income couples where one loses their job.

5 Tax-Welfare Models:

5.1 October 2008

Four hypothetical 2008 households are used to illustrate the continuing welfare mess in New Zealand. These households are essentially the same as those presented in St John and Rankin (2002), but with gross incomes and rents increased by 20% in line with the CPI inflation that has occurred since 2002.

Household 1 is Cathy, a single person with tertiary education and without family ties. She has opted-out of KiwiSaver, and is repaying a student loan. Table H1 shows the Unemployment Benefit and Accommodation Supplement she is entitled to if she has no job. If she secures part-time work, she is able to keep her full benefit until her earnings reach \$80 per week. After that, her benefit abates by 70 cents in the dollar, and she faces an effective marginal tax rate (EMTR) of 85.6% (70% abatement + 12.5% income tax + 1.4% ACC levy + 1.7% as 70% abatement applies to net benefit rather than to gross benefit). A household's EMTR is calculated as: $(1 - \text{additional disposable income}) * 100\% \div \text{additional gross income}$.

Household 1: Cathy												29 year-old professional worker, no cash assets, sharing a flat, repaying a student loan. Lives in Wellington and pays rent of \$130 per week.		
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate	
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$			
0.00	0.00	210.48	-26.31	184.17	0.00	58.80	0.00	0.00	242.97	0.00	112.97			
60.00	60.00	210.48	-33.92	184.17	0.00	58.80	-0.84	0.00	294.52	0.00	164.52	-390.9%	14.1%	
120.00	120.00	178.48	-39.80	156.17	0.00	58.80	-1.68	0.00	315.80	0.00	185.80	-163.2%	64.5%	
180.00	180.00	130.48	-42.32	114.17	0.00	58.80	-2.52	0.00	324.44	0.00	194.44	-80.2%	85.6%	
240.00	240.00	82.48	-44.84	72.17	0.00	58.80	-3.36	0.00	333.08	0.00	203.08	-38.8%	85.6%	
300.00	300.00	34.48	-47.36	30.17	0.00	58.80	-4.20	0.00	341.72	0.00	211.72	-13.9%	85.6%	
360.00	360.00	0.00	-52.72	0.00	0.00	54.80	-6.14	0.00	355.94	0.00	225.94	1.1%	76.3%	
420.00	420.00	0.00	-65.32	0.00	0.00	39.80	-12.98	0.00	381.50	0.00	251.50	9.2%	57.4%	
480.00	480.00	0.00	-77.92	0.00	0.00	24.80	-19.82	0.00	407.06	0.00	277.06	15.2%	57.4%	
540.00	540.00	0.00	-90.52	0.00	0.00	9.80	-26.66	0.00	432.62	0.00	302.62	19.9%	57.4%	
600.00	600.00	0.00	-103.12	0.00	0.00	0.00	-33.50	0.00	463.38	0.00	333.38	22.8%	48.7%	
660.00	660.00	0.00	-115.72	0.00	0.00	0.00	-40.34	0.00	503.94	0.00	373.94	23.6%	32.4%	
720.00	720.00	0.00	-128.32	0.00	0.00	0.00	-47.18	0.00	544.50	0.00	414.50	24.4%	32.4%	
780.00	780.00	0.00	-142.21	0.00	0.00	0.00	-54.02	0.00	583.77	0.00	453.77	25.2%	34.6%	
840.00	840.00	0.00	-162.01	0.00	0.00	0.00	-60.86	0.00	617.13	0.00	487.13	26.5%	44.4%	
900.00	900.00	0.00	-181.81	0.00	0.00	0.00	-67.70	0.00	650.49	0.00	520.49	27.7%	44.4%	
960.00	960.00	0.00	-201.61	0.00	0.00	0.00	-74.54	0.00	683.85	0.00	553.85	28.8%	44.4%	
1,020.00	1,020.00	0.00	-221.41	0.00	0.00	0.00	-81.38	0.00	717.21	0.00	587.21	29.7%	44.4%	
1,080.00	1,080.00	0.00	-241.21	0.00	0.00	0.00	-88.22	0.00	750.57	0.00	620.57	30.5%	44.4%	
1,140.00	1,140.00	0.00	-261.01	0.00	0.00	0.00	-95.06	0.00	783.93	0.00	653.93	31.2%	44.4%	
1,200.00	1,200.00	0.00	-280.81	0.00	0.00	0.00	-101.90	0.00	817.29	0.00	687.29	31.9%	44.4%	

¹ incl. MFTC ² incl. "NZ Superannuation" ³ alias 'Working for Families' ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$130.00

Cathy becomes 'independent' of the benefit system²⁵ once she earns \$343 per week, or \$17,836 per year.²⁶ At that point, her EMTR drops to 57.4% or 57.4 cents in the dollar (marginal tax rate of 21% + Accommodation Supplement abatement of 25% + Student Loan repayment rate of 10% + ACC levy of 1.4%). When she earns too much to qualify for an Accommodation Supplement her EMTR falls to 32.4%, although that rises to 44.4% if additional income moves her up to the 33% marginal tax rate. At \$900 per

²⁵ See column 3.

²⁶ In the 2007/08 tax year, the Student Loan repayment threshold (gross) was \$17,784 p.a. or \$342 p.w.

week, close to the average full-time weekly wage, her effective average tax rate is 27.7% (income tax + student loan repayments + ACC levy).

If Cathy earns \$900 per week in 2008 (equivalent to \$750 per week earnings and \$110 rent in 2002), thanks to the October tax cuts, between 2002 and 2008 her nominal household disposable income will have increased by 19.3%, almost in line with the 20% increase in consumer prices. In 2008, at wage levels around \$500 per week and not in KiwiSaver, Cathy could spend \$4.26 of every extra \$10 of weekly earnings. If she earns \$900 per week, she would be able to spend \$5.56 out of every extra \$10 earned.

Household 2 is a sole parent, Brenda, plus her two children (Table H2).

TABLE H2: Weekly Household Income for Varying Gross Earnings											October 2008		
Household 2: Brenda			35 year-old Hamilton single mother, \$5,000 cash assets, two children aged 13 and 10. Has \$350 mortgage. The father of the children pays \$80 per week Child Support.										
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate EMTR
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$		
0.00	0.00	304.93	-41.15	263.78	145.00	120.00	0.00	0.00	528.78	0.00	178.78		
60.00	60.00	304.93	-53.75	263.78	145.00	120.00	-0.84	0.00	575.34	0.00	225.34	-858.9%	22.4%
120.00	120.00	289.74	-63.16	251.78	145.00	120.00	-1.68	0.00	609.90	0.00	259.90	-408.3%	42.4%
180.00	180.00	267.18	-71.02	233.78	145.00	120.00	-2.52	0.00	638.63	0.00	288.63	-254.8%	52.1%
240.00	240.00	219.18	-73.54	191.78	145.00	120.00	-3.36	0.00	647.27	0.00	297.27	-169.7%	85.6%
300.00	300.00	171.18	-76.06	149.78	145.00	120.00	-4.20	0.00	655.91	0.00	305.91	-118.6%	85.6%
360.00	360.00	60.38	-65.40	0.00	205.00	120.00	74.11	0.00	754.10	0.00	404.10	-109.5%	-63.6%
420.00	420.00	0.38	-65.40	0.00	205.00	120.00	74.11	0.00	754.10	0.00	404.10	-79.5%	100.0%
480.00	480.00	0.00	-77.92	0.00	205.00	114.25	73.28	0.00	794.61	0.00	444.61	-65.5%	32.5%
540.00	540.00	0.00	-90.52	0.00	205.00	99.25	72.44	0.00	826.17	0.00	476.17	-53.0%	47.4%
600.00	600.00	0.00	-103.12	0.00	205.00	84.25	71.60	0.00	857.73	0.00	507.73	-43.0%	47.4%
660.00	660.00	0.00	-115.72	0.00	198.64	69.25	70.76	0.00	882.94	0.00	532.94	-33.8%	58.0%
720.00	720.00	0.00	-128.32	0.00	186.64	54.25	69.92	0.00	902.50	0.00	552.50	-25.3%	67.4%
780.00	780.00	0.00	-142.21	0.00	174.64	39.25	69.08	0.00	920.76	0.00	570.76	-18.0%	69.6%
840.00	840.00	0.00	-162.01	0.00	162.64	24.25	68.24	0.00	933.12	0.00	583.12	-11.1%	79.4%
900.00	900.00	0.00	-181.81	0.00	150.64	9.25	67.40	0.00	945.48	0.00	595.48	-5.1%	79.4%
960.00	960.00	0.00	-201.61	0.00	138.64	0.00	66.56	0.00	963.59	0.00	613.59	-0.4%	69.8%
1,020.00	1,020.00	0.00	-221.41	0.00	126.64	0.00	65.72	0.00	990.95	0.00	640.95	2.8%	54.4%
1,080.00	1,080.00	0.00	-241.21	0.00	114.64	0.00	64.88	0.00	1,018.31	0.00	668.31	5.7%	54.4%
1,140.00	1,140.00	0.00	-261.01	0.00	102.64	0.00	64.04	0.00	1,045.67	0.00	695.67	8.3%	54.4%
1,200.00	1,200.00	0.00	-280.81	0.00	90.64	0.00	63.20	0.00	1,073.03	0.00	723.03	10.6%	54.4%

¹ incl. MFTC ² incl. "NZ Superannuation" ³ alias 'Working for Families' ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$350.00

In addition to her wages, Brenda receives regular Child Support payments from the children's father. Child Support payments are considered along with her wages when Inland Revenue assess the level of Family Tax Credits that Brenda will receive. Brenda is not repaying a student loan. If Brenda is receiving a domestic purposes benefit (DPB), she does not qualify for In Work Tax Credits (IWTC and MFTC), and her Child Support payments are held by Inland Revenue. In Brenda's case, that would mean that \$80 of her DPB was paid for by the children's father.²⁷ In some other cases, 100% of a care-giving parent's benefit might be funded by the other parent.

If Brenda depends solely on a benefit, she has less than \$180 of disposable income for food, clothing, household operation and transport. She can earn up to \$80 per week

²⁷ There is an anomaly here: Child Support is meant for the support of children, whereas the DPB has the dual role of supporting caregivers and their dependents. If Child Support is supposed to be Spousal Support, then perhaps it could be renamed accordingly. A second anomaly is that a sole parent whose "benefit" is funded by the other parent is no more a dependent on the state, and no less "in-work", than a caregiving parent in a non-beneficiary household.

without losing any of her benefit, but must pay tax (at a marginal rate of 21%) and ACC (1.4%) on those meagre earnings.²⁸ Once Brenda's earnings exceed \$180 per week,²⁹ her DPB abates at 70%, making her only \$1.44 per week better off for every \$10 of additional wages. This high rate of abatement is both a strong disincentive to work more hours, and an impediment to making a gradual transition to full time employment. Once Brenda's weekly work hours exceed 20, if she leaves the DPB, she qualifies for an In-Work Family Tax Credit of \$60 per week, and the Minimum Family Tax Credit (MFTC)³⁰ if her earnings are below \$21,860 (which they are if she earns between \$360 and \$420 per week - see Table H2). Under this option, her Child Support money (in Table H2 as a positive 'levy') is no longer withheld by Inland Revenue.

Earning between \$360 and \$420 a week, Brenda has a 100% EMTR as the MFTC abates dollar for dollar. Once Brenda's earnings exceed \$420 per week, her Accommodation Supplement abates at 25% (ie. 25 cents in the dollar). And once her earnings exceed \$600 per week, abatements to her Family Tax Credits add a further 20 cents to her EMTR, taking it to 67.4%. Brenda can only keep \$2.06 of every extra \$10 of weekly income if her earnings are in the \$770 to \$900 per week (\$40,000 to \$46,800 per year) range. She continues to pay an effective marginal tax rate above 50 cents in the dollar until her gross earnings reach \$1,600 per week (\$83,200 per year).

If Brenda earns \$180 per week, her nominal disposable income is only 5.8% higher than it would have been in 2002 (when she would have been earning \$150 per week); well below the 20% inflation rate. However, if Brenda earns \$900 per week, her nominal disposable income is 31.7% higher in real spending terms than it would have been in 2002 (when she would have been earning \$750 per week). Although Brenda in work has benefited from increased Family Tax Credits, in 2008 she faces a higher EMTR when her income is less than \$1,650 per week.

Household 3 is a 3-child family. Jan and Jim live in Auckland, and have a mortgage of \$600 per week.³¹ Jan earns the lowest legal full-time wage (\$360 per week), and the other parent (Jim) is self-employed. This scenario is common among immigrant families, and is increasingly likely in a recessionary environment. Table H3 shows varying income for Jim, the self-employed father of 3 children.

At very low levels of household income, Jan and Jim qualify for a top-up (MFTC) to Jan's wages. Indeed, Jan and Jim are highly dependent on both Family Tax Credits and Accommodation Supplements at the maximum level. As Jim's income increases from zero to \$360 per week, they gain \$200 per week, from \$262 to \$462. The Family Tax Credit and Accommodation Supplement remain at a substantial level.

Jan and Jim's problem is that if he raises his income above \$390 per week (\$20,000 per year), the family can only keep 32.6% of that additional income. As Jim's income rises from \$390 per week to \$1,200 (by \$810 per week), weekly household disposable

²⁸ Unlike many OECD countries, New Zealand does not have a tax-free income bracket.

²⁹ Despite inflation of 30% since 1998, benefit earnings' thresholds have not been raised since the 1990s.

³⁰ MFTC, a family credit that 'tops up' wages to a guaranteed minimum, abated for extra income at 100%.

³¹ For example, a \$320,000 25-year mortgage at 8.6%.

income increases by just \$248.³² If Jim was a 'liable parent' having to pay Child Support levies (somewhere between \$54 and \$90 per week) from that additional \$300, the family could become worse off as Jim's earnings rise.

Household 3: Jan and Jim												Auckland family with 3 children (aged 16,13,10), mother working 30 hours per week on the minimum wage (\$12 per hour), self-employed father. They have a weekly mortgage of \$600.		
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate EMTR	
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$			
360.00	360.00	60.38	-62.83	0.00	286.00	225.00	-5.89	0.00	724.17	138.50	262.67	-139.6%		
360.00	420.00	0.38	-60.28	0.00	286.00	225.00	-5.89	0.00	700.89	164.33	265.22	-106.0%	95.8%	
360.00	480.00	0.00	-67.72	0.00	286.00	225.00	-6.72	0.00	700.74	215.82	316.56	-91.0%	14.4%	
360.00	540.00	0.00	-75.22	0.00	286.00	219.75	-7.56	0.00	698.12	264.86	362.97	-78.3%	22.6%	
360.00	600.00	0.00	-82.72	0.00	286.00	204.75	-8.40	0.00	690.62	309.02	399.63	-66.6%	38.9%	
360.00	660.00	0.00	-92.83	0.00	286.00	189.75	-9.24	0.00	683.12	350.56	433.68	-56.6%	43.3%	
360.00	720.00	0.00	-105.43	0.00	283.64	174.75	-10.08	0.00	673.26	389.62	462.88	-47.6%	51.3%	
360.00	780.00	0.00	-118.03	0.00	271.64	159.75	-10.92	0.00	653.76	428.68	482.44	-38.8%	67.4%	
360.00	840.00	0.00	-130.63	0.00	259.64	144.75	-11.76	0.00	634.26	467.74	502.00	-31.2%	67.4%	
360.00	900.00	0.00	-143.23	0.00	247.64	129.75	-12.60	0.00	614.76	506.80	521.56	-24.6%	67.4%	
360.00	960.00	0.00	-155.83	0.00	235.64	114.75	-13.44	0.00	595.26	545.86	541.12	-18.9%	67.4%	
360.00	1,020.00	0.00	-168.43	0.00	223.64	99.75	-14.28	0.00	575.76	584.92	560.68	-13.8%	67.4%	
360.00	1,080.00	0.00	-181.03	0.00	211.64	84.75	-15.12	0.00	556.26	623.98	580.24	-9.3%	67.4%	
360.00	1,140.00	0.00	-194.92	0.00	199.64	69.75	-15.96	0.00	536.76	661.75	598.51	-5.1%	69.6%	
360.00	1,200.00	0.00	-214.72	0.00	187.64	54.75	-16.80	0.00	517.26	693.61	610.87	-0.9%	79.4%	
360.00	1,260.00	0.00	-234.52	0.00	175.64	39.75	-17.64	0.00	497.76	725.47	623.23	2.9%	79.4%	
360.00	1,320.00	0.00	-254.32	0.00	163.64	24.75	-18.48	0.00	478.26	757.33	635.59	6.4%	79.4%	
360.00	1,380.00	0.00	-274.12	0.00	151.64	9.75	-19.32	0.00	458.76	789.19	647.95	9.6%	79.4%	
360.00	1,440.00	0.00	-293.92	0.00	139.64	0.00	-20.16	0.00	441.89	823.67	665.56	12.1%	70.7%	
360.00	1,500.00	0.00	-313.72	0.00	127.64	0.00	-21.00	0.00	429.89	863.03	692.92	13.8%	54.4%	
360.00	1,560.00	0.00	-333.52	0.00	115.64	0.00	-21.84	0.00	417.89	902.39	720.28	15.4%	54.4%	

¹ incl. MFTC ² incl. "NZ Superannuation" ³ alias 'Working for Families' ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$600.00

If Jan and Jim earn \$1,200 per week, their household nominal disposable income is 49% higher than it would have been in 2002 (when they would have been earning \$1000 per week). Since 2002, they have gained from Working for Families; from the rise in the maximum Accommodation Supplement for Auckland; and from the rise in the minimum hourly wage. Their disposable incomes have significantly outpaced inflation.

Household 4, the final household, shown in Table H4, shows the possible extremes of the income trap that high EMTRs have become. Jack and Jill are a reconstituted family, with three children in their care, including Jack's older son. Jack is also the natural father of 4 other children that he has regular contact³³ with, although they are not in his day-to-day care. Jack recently achieved a higher education qualification, and is paying back his student loan. Further, he is enrolled in KiwiSaver. He believes in thrift, and is reluctant to discontinue his KiwiSaver contributions, believing that KiwiSaver is the appropriate means for him and his family to avoid poverty in retirement.

Jill, with two young children, was widowed during her second pregnancy. After establishing a relationship with Jack, she contracted multiple sclerosis. While her health condition qualifies her for an Invalids benefit, she is able to provide a substantial amount of care for her children, with help from Jack and his teenage son. If Jack and Jill decide to become independent once Jack becomes a full-time worker (at least 30 hours

³² When Jim's earnings rise from \$780 to \$1080 (a rise of \$300) it adds only \$67 to the household's disposable weekly income.

³³ "Contact" means less than three nights care per week.

per week), they will qualify for the In Work Tax Credit and perhaps the Minimum Family Tax Credit. However, if Jack's wage rate is low (eg. about \$400 per week), their household disposable income will fall to the level it would have been if Jack did not work at all. A higher income for Jack (eg. \$675 per week) will lead to the family being \$120 per week better off than if he did not work.

TABLE H4: Weekly Household Income for Varying Gross Earnings											October 2008		
Household 4: Jack and Jill			Wellington reconstituted family (children 16,5,3). Partner, caregiver, has disability. Father pays Child Support for 4 children, student loan, plus Kiwisaver @ 4%. Rent is \$400 pw.										
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate EMTR
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$		
0.00	0.00	438.47	-54.81	383.66	217.00	165.00	-14.87	0.00	259.46	491.33	350.79		
135.00	135.00	419.61	-75.75	367.16	217.00	165.00	-16.76	-5.40	355.63	483.08	438.71	-521.3%	34.9%
270.00	270.00	332.18	-89.46	290.66	217.00	165.00	-27.35	-10.80	411.74	444.83	456.57	-217.2%	86.8%
405.00	405.00	15.38	-64.74	0.00	277.00	165.00	-27.12	-16.20	388.20	366.12	354.32	-86.3%	175.7%
540.00	540.00	0.00	-90.52	0.00	277.00	159.75	-41.53	-21.60	466.23	356.88	423.11	-52.4%	49.0%
675.00	675.00	0.00	-118.87	0.00	277.00	126.00	-61.28	-27.00	530.86	340.00	470.86	-29.0%	64.6%
810.00	810.00	0.00	-152.11	0.00	268.59	92.25	-117.17	-32.40	554.45	314.71	469.16	-7.3%	101.3%
945.00	945.00	0.00	-196.66	0.00	249.69	58.50	-173.06	-37.80	566.73	278.94	445.67	10.5%	117.4%
1,080.00	1,080.00	0.00	-241.21	0.00	230.79	24.75	-228.95	-43.20	579.02	243.16	422.18	23.9%	117.4%
1,215.00	1,215.00	0.00	-285.76	0.00	211.89	0.00	-284.84	-48.60	595.80	211.89	407.69	33.5%	110.7%
1,350.00	1,350.00	0.00	-330.54	0.00	192.99	0.00	-340.73	-54.00	624.73	192.99	417.72	39.4%	92.6%
1,485.00	1,485.00	0.00	-383.19	0.00	174.09	0.00	-396.62	-59.40	645.79	174.09	419.88	44.8%	98.4%
1,620.00	1,620.00	0.00	-435.84	0.00	155.19	0.00	-452.51	-64.80	666.85	155.19	422.04	49.3%	98.4%
1,755.00	1,755.00	0.00	-488.49	0.00	136.29	0.00	-508.40	-70.20	687.91	136.29	424.20	53.0%	98.4%
1,890.00	1,890.00	0.00	-541.14	0.00	117.39	0.00	-564.29	-75.60	708.97	117.39	426.36	56.3%	98.4%
2,025.00	2,025.00	0.00	-593.79	0.00	98.49	0.00	-620.18	-81.00	730.03	98.49	428.52	59.1%	98.4%
2,160.00	2,160.00	0.00	-646.44	0.00	76.54	0.00	-660.85	-86.40	766.31	76.54	442.86	61.0%	89.4%
2,295.00	2,295.00	0.00	-699.09	0.00	49.54	0.00	-676.24	-91.80	827.87	49.54	477.42	61.8%	74.4%
2,430.00	2,430.00	0.00	-751.74	0.00	22.54	0.00	-691.63	-97.20	889.43	22.54	511.98	62.5%	74.4%
2,565.00	2,565.00	0.00	-804.39	0.00	0.00	0.00	-707.02	-102.60	950.99	0.00	550.99	62.9%	71.1%
2,700.00	2,700.00	0.00	-857.04	0.00	0.00	0.00	-722.41	-108.00	1,012.55	0.00	612.55	62.5%	54.4%

¹ incl. MFTC ² incl. "NZ Superannuation" ³ alias 'Working for Families' ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$400.00

For Jack, levels of income above \$675 are a downhill experience because of EMTRs in excess of 100%. He would have to earn nearly \$2,300 per week (ie. nearly \$120,000 annually) in order to have an equivalent amount of disposable income. Once his annual income reaches \$140,000, his EMTR falls to 54.4% (or 50.4% if he was on a holiday from KiwiSaver). He would be paying Child Support at the maximum level of \$32,900, in excess of their annual disposable income of \$31,850. At an annual income of \$140,000, Jack would be repaying over \$12,000 per year of his student loan. Once that is repaid, his EMTR falls by 10 cents per dollar over \$350 per week.

In the face of these prospects, Jack's rational choice is to earn about \$200 per week. If in debt, Household 4 would be in dire trouble, whatever their income. Jack and Jill would be struggling to be able to care for Jack's younger children during weekends. They would probably return to a family strategy common in the Great Depression of the early 1930s that still occurs in many low-income families: relying on the oldest children working in paid employment to keep the family financially afloat.

Household 4 represents a family with personal circumstances that conspire to keep them poor, regardless of income, given the rules of the existing "Welfare Mess". While better off than they were in 2002, they remain stuck in a tax-welfare web from which there is

no escape. So how will such households fare under changes to taxes, supplementary benefits, and KiwiSaver, as promised by the new National-led government?

5.2 Tax-Welfare Model: 2009-11

Two of the previous four households, H1 and H4, and changes introduced by the National-led government, are represented in this section.

TABLE H1a: Weekly Household Income for Varying Gross Earnings											2009/10 provisional		
Household 1: Cathy		29 year-old professional worker, no cash assets, sharing a flat, repaying a student loan. Lives in Wellington and pays rent of \$130 per week.											
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$		EMTR
0.00	0.00	210.48	-26.31	184.17	0.00	58.80	0.00	0.00	242.97	0.00	112.97		
60.00	60.00	210.48	-33.92	184.17	0.00	58.80	-1.02	0.00	294.34	0.00	164.34	-390.6%	14.4%
120.00	120.00	178.48	-39.80	156.17	0.00	58.80	-2.04	0.00	315.44	0.00	185.44	-162.9%	64.8%
180.00	180.00	130.48	-42.32	114.17	0.00	58.80	-3.06	0.00	323.90	0.00	193.90	-79.9%	85.9%
240.00	240.00	82.48	-44.84	72.17	0.00	58.80	-4.08	0.00	332.36	0.00	202.36	-38.5%	85.9%
300.00	300.00	34.48	-47.36	30.17	0.00	58.80	-5.10	0.00	340.82	0.00	210.82	-13.6%	85.9%
360.00	360.00	0.00	-52.72	0.00	0.00	54.80	-7.22	0.00	354.86	0.00	224.86	1.4%	76.6%
420.00	420.00	0.00	-65.32	0.00	0.00	39.80	-14.24	0.00	380.24	0.00	250.24	9.5%	57.7%
480.00	480.00	0.00	-67.92	0.00	0.00	24.80	-21.26	0.00	415.62	0.00	285.62	13.4%	41.0%
540.00	540.00	0.00	-80.52	0.00	0.00	9.80	-28.28	0.00	441.00	0.00	311.00	18.3%	57.7%
600.00	600.00	0.00	-93.12	0.00	0.00	0.00	-35.30	0.00	471.58	0.00	341.58	21.4%	49.0%
660.00	660.00	0.00	-105.72	0.00	0.00	0.00	-42.32	0.00	511.96	0.00	381.96	22.4%	32.7%
720.00	720.00	0.00	-118.32	0.00	0.00	0.00	-49.34	0.00	552.34	0.00	422.34	23.3%	32.7%
780.00	780.00	0.00	-130.92	0.00	0.00	0.00	-56.36	0.00	592.72	0.00	462.72	24.0%	32.7%
840.00	840.00	0.00	-143.52	0.00	0.00	0.00	-63.38	0.00	633.10	0.00	503.10	24.6%	32.7%
900.00	900.00	0.00	-163.12	0.00	0.00	0.00	-70.40	0.00	666.48	0.00	536.48	25.9%	44.4%
960.00	960.00	0.00	-183.15	0.00	0.00	0.00	-77.42	0.00	699.43	0.00	569.43	27.1%	45.1%
1,020.00	1,020.00	0.00	-202.95	0.00	0.00	0.00	-84.44	0.00	732.61	0.00	602.61	28.2%	44.7%
1,080.00	1,080.00	0.00	-222.75	0.00	0.00	0.00	-91.46	0.00	765.79	0.00	635.79	29.1%	44.7%
1,140.00	1,140.00	0.00	-242.55	0.00	0.00	0.00	-98.48	0.00	798.97	0.00	668.97	29.9%	44.7%
1,200.00	1,200.00	0.00	-262.35	0.00	0.00	0.00	-105.50	0.00	832.15	0.00	702.15	30.7%	44.7%

incl. MFTC ² incl. "NZ Superannuation" ³ alias "Working for Families" ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$130.00

TABLE H1b: Weekly Household Income for Varying Gross Earnings											2011/12 provisional		
Household 1: Cathy		29 year-old professional worker, no cash assets, sharing a flat, repaying a student loan. Lives in Wellington and pays rent of \$130 per week.											
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$		EMTR
0.00	0.00	210.48	-26.31	184.17	0.00	58.80	0.00	0.00	242.97	0.00	112.97		
60.00	60.00	210.48	-33.90	184.17	0.00	58.80	-1.02	0.00	294.36	0.00	164.36	-390.6%	14.4%
120.00	120.00	178.48	-39.50	156.17	0.00	58.80	-2.04	0.00	315.74	0.00	185.74	-163.1%	64.4%
180.00	180.00	130.48	-41.90	114.17	0.00	58.80	-3.06	0.00	324.32	0.00	194.32	-80.2%	85.7%
240.00	240.00	82.48	-44.30	72.17	0.00	58.80	-4.08	0.00	332.90	0.00	202.90	-38.7%	85.7%
300.00	300.00	34.48	-46.70	30.17	0.00	58.80	-5.10	0.00	341.48	0.00	211.48	-13.8%	85.7%
360.00	360.00	0.00	-51.81	0.00	0.00	54.80	-7.22	0.00	355.77	0.00	225.77	1.2%	76.2%
420.00	420.00	0.00	-63.81	0.00	0.00	39.80	-14.24	0.00	381.75	0.00	251.75	9.1%	56.7%
480.00	480.00	0.00	-60.81	0.00	0.00	24.80	-21.26	0.00	422.73	0.00	292.73	11.9%	31.7%
540.00	540.00	0.00	-72.81	0.00	0.00	9.80	-28.28	0.00	448.71	0.00	318.71	16.9%	56.7%
600.00	600.00	0.00	-84.81	0.00	0.00	0.00	-35.30	0.00	479.89	0.00	349.89	20.0%	48.0%
660.00	660.00	0.00	-96.81	0.00	0.00	0.00	-42.32	0.00	520.87	0.00	390.87	21.1%	31.7%
720.00	720.00	0.00	-108.81	0.00	0.00	0.00	-49.34	0.00	561.85	0.00	431.85	22.0%	31.7%
780.00	780.00	0.00	-120.81	0.00	0.00	0.00	-56.36	0.00	602.83	0.00	472.83	22.7%	31.7%
840.00	840.00	0.00	-132.81	0.00	0.00	0.00	-63.38	0.00	643.81	0.00	513.81	23.4%	31.7%
900.00	900.00	0.00	-151.81	0.00	0.00	0.00	-70.40	0.00	677.79	0.00	547.79	24.7%	43.4%
960.00	960.00	0.00	-171.61	0.00	0.00	0.00	-77.42	0.00	710.97	0.00	580.97	25.9%	44.7%
1,020.00	1,020.00	0.00	-191.41	0.00	0.00	0.00	-84.44	0.00	744.15	0.00	614.15	27.0%	44.7%
1,080.00	1,080.00	0.00	-211.21	0.00	0.00	0.00	-91.46	0.00	777.33	0.00	647.33	28.0%	44.7%
1,140.00	1,140.00	0.00	-231.01	0.00	0.00	0.00	-98.48	0.00	810.51	0.00	680.51	28.9%	44.7%
1,200.00	1,200.00	0.00	-250.81	0.00	0.00	0.00	-105.50	0.00	843.69	0.00	713.69	29.7%	44.7%

incl. MFTC ² incl. "NZ Superannuation" ³ alias "Working for Families" ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$130.00

TABLE H4a: Weekly Household Income for Varying Gross Earnings											2009/10 provisional		
Household 4: Jack and Jill		Wellington reconstituted family (children 16,5,3). Partner, caregiver, has disability. Father pays Child Support for 4 children, student loan, plus Kiwisaver @ 2%. Rent is \$400 pw.											
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate EMTR
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$		
0.00	0.00	438.47	-54.81	383.66	217.00	165.00	-14.87	0.00	259.46	491.33	350.79		
135.00	135.00	419.61	-75.75	367.16	217.00	165.00	-17.16	-2.70	357.92	483.08	441.00	-523.0%	33.2%
270.00	270.00	332.18	-89.46	290.66	217.00	165.00	-28.16	-5.40	416.33	444.83	461.16	-218.9%	85.1%
405.00	405.00	15.38	-64.74	0.00	277.00	165.00	-28.38	-8.10	395.06	366.10	361.16	-87.9%	174.1%
540.00	540.00	0.00	-90.52	0.00	277.00	159.75	-43.15	-10.80	475.41	356.88	432.29	-54.1%	47.3%
675.00	675.00	0.00	-118.87	0.00	277.00	126.00	-63.30	-13.50	542.33	340.00	482.33	-30.7%	62.9%
810.00	810.00	0.00	-147.22	0.00	268.59	92.25	-119.60	-16.20	573.11	314.71	487.82	-9.6%	95.9%
945.00	945.00	0.00	-178.20	0.00	249.69	58.50	-175.89	-18.90	601.26	278.94	480.20	6.9%	105.6%
1,080.00	1,080.00	0.00	-222.75	0.00	230.79	24.75	-232.19	-21.60	615.84	243.16	459.00	20.5%	115.7%
1,215.00	1,215.00	0.00	-267.30	0.00	211.89	0.00	-288.48	-24.30	634.92	211.89	446.81	30.3%	109.0%
1,350.00	1,350.00	0.00	-312.04	0.00	192.99	0.00	-344.78	-27.00	666.18	192.99	459.17	36.4%	90.8%
1,485.00	1,485.00	0.00	-363.34	0.00	174.09	0.00	-401.07	-29.70	690.89	174.09	464.98	41.8%	95.7%
1,620.00	1,620.00	0.00	-414.64	0.00	155.19	0.00	-457.37	-32.40	715.59	155.19	470.78	46.2%	95.7%
1,755.00	1,755.00	0.00	-465.94	0.00	136.29	0.00	-513.66	-35.10	740.30	136.29	476.59	50.1%	95.7%
1,890.00	1,890.00	0.00	-517.24	0.00	117.39	0.00	-569.96	-37.80	765.00	117.39	482.39	53.3%	95.7%
2,025.00	2,025.00	0.00	-568.54	0.00	98.49	0.00	-626.25	-40.50	789.71	98.49	488.20	56.1%	95.7%
2,160.00	2,160.00	0.00	-619.84	0.00	76.54	0.00	-667.33	-43.20	829.63	76.54	506.18	58.0%	86.7%
2,295.00	2,295.00	0.00	-671.14	0.00	49.54	0.00	-683.12	-45.90	894.84	49.54	544.38	58.9%	71.7%
2,430.00	2,430.00	0.00	-722.44	0.00	22.54	0.00	-698.92	-48.60	960.04	22.54	582.59	59.6%	71.7%
2,565.00	2,565.00	0.00	-773.74	0.00	0.00	0.00	-714.71	-51.30	1,025.25	0.00	625.25	60.0%	68.4%
2,700.00	2,700.00	0.00	-825.04	0.00	0.00	0.00	-730.51	-54.00	1,090.45	0.00	690.45	59.6%	51.7%

incl. MFTC ² incl. "NZ Superannuation" ³ alias 'Working for Families' ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$400.00

TABLE H4b: Weekly Household Income for Varying Gross Earnings											2011/12 provisional		
Household 4: Jack and Jill		Wellington reconstituted family (children 16,5,3). Partner, caregiver, has disability. Father pays Child Support for 4 children, student loan, plus Kiwisaver @ 2%. Rent is \$400 pw.											
Person Earnings	Household Earnings	Taxable Benefits [1]	Income Tax	Work and Income [2]	Family Credits [3]	Accommodation Assistance	Levies [4]	Retirement Savings	Net Person Income	Net Partner Income	Household Disposable Income [5]	Effective Average Tax Rate	Effective Marginal Tax Rate EMTR
\$ gross	\$ gross	\$ gross	\$	\$ net	\$	\$	\$	\$	\$	\$	\$		
0.00	0.00	438.47	-54.81	383.66	217.00	165.00	-14.87	0.00	259.46	491.33	350.79		
135.00	135.00	419.61	-74.99	367.16	217.00	165.00	-17.16	-2.70	358.68	483.08	441.76	-523.5%	32.6%
270.00	270.00	332.18	-87.79	290.66	217.00	165.00	-28.16	-5.40	418.00	444.83	462.83	-219.6%	84.4%
405.00	405.00	15.38	-63.31	0.00	277.00	165.00	-28.38	-8.10	396.50	366.10	362.60	-88.3%	174.2%
540.00	540.00	0.00	-87.81	0.00	277.00	159.75	-43.15	-10.80	478.12	356.88	435.00	-54.6%	46.4%
675.00	675.00	0.00	-114.81	0.00	277.00	126.00	-63.30	-13.50	546.39	340.00	486.39	-31.3%	61.9%
810.00	810.00	0.00	-141.81	0.00	268.59	92.25	-119.60	-16.20	578.52	314.71	493.23	-10.3%	94.9%
945.00	945.00	0.00	-168.81	0.00	249.69	58.50	-175.89	-18.90	610.65	278.94	489.59	5.9%	102.7%
1,080.00	1,080.00	0.00	-211.21	0.00	230.79	24.75	-232.19	-21.60	627.38	243.16	470.54	19.4%	114.1%
1,215.00	1,215.00	0.00	-255.76	0.00	211.89	0.00	-288.48	-24.30	646.46	211.89	458.35	29.4%	109.0%
1,350.00	1,350.00	0.00	-300.46	0.00	192.99	0.00	-344.78	-27.00	677.76	192.99	470.75	35.5%	90.8%
1,485.00	1,485.00	0.00	-350.41	0.00	174.09	0.00	-401.07	-29.70	703.81	174.09	477.90	40.9%	94.7%
1,620.00	1,620.00	0.00	-400.36	0.00	155.19	0.00	-457.37	-32.40	729.87	155.19	485.06	45.4%	94.7%
1,755.00	1,755.00	0.00	-450.31	0.00	136.29	0.00	-513.66	-35.10	755.92	136.29	492.21	49.2%	94.7%
1,890.00	1,890.00	0.00	-500.26	0.00	117.39	0.00	-569.96	-37.80	781.98	117.39	499.37	52.4%	94.7%
2,025.00	2,025.00	0.00	-550.21	0.00	98.49	0.00	-626.25	-40.50	808.03	98.49	506.52	55.2%	94.7%
2,160.00	2,160.00	0.00	-600.16	0.00	76.54	0.00	-667.33	-43.20	849.31	76.54	525.85	57.1%	85.7%
2,295.00	2,295.00	0.00	-650.11	0.00	49.54	0.00	-683.12	-45.90	915.86	49.54	565.41	57.9%	70.7%
2,430.00	2,430.00	0.00	-700.06	0.00	22.54	0.00	-698.92	-48.60	982.42	22.54	604.96	58.6%	70.7%
2,565.00	2,565.00	0.00	-750.01	0.00	0.00	0.00	-714.71	-51.30	1,048.97	0.00	648.97	59.1%	67.4%
2,700.00	2,700.00	0.00	-799.96	0.00	0.00	0.00	-730.51	-54.00	1,115.53	0.00	715.53	58.7%	50.7%

incl. MFTC ² incl. "NZ Superannuation" ³ alias 'Working for Families' ⁴ ACC; Student Loans; Child Support ⁵ after housing cost of \$400.00

The new Government's changes to tax rates, ACC and KiwiSaver are built in to these tables, including the reduction in the minimum KiwiSaver contribution from 4% to 2%, and the reduction in the employer contribution to 2%. The ACC employee levy, raised in December 2008, is assumed to stay at 1.7% until 2011. Unemployment relief benefits are not included because of the many attached conditions and their short duration (16

weeks). Other assumptions include: zero inflation; and no increase in benefit levels; thresholds for student loan repayments, or Child Support.

Cathy (Household 1; Tables H1a and H1b) qualifies for the Independent Earner Tax Credit (IETC) for much of the range of incomes – \$460 to \$960 – covered by the table. Jack and Jill (Household 4, Tables H4a and H4b) are affected by the reduction in the KiwiSaver deduction rate. Of course, Households 1 and 4 are both affected by the altered tax rates and thresholds.

While the Tables (H1a, H1b, H4a, and H4b) do not reveal any dramatic changes to marginal tax rates, they do show the important reductions in effective average tax rates for households on average to high incomes. They also reinforce the problem that beneficiary households face. Since the 1980s, beneficiary households have been consistently falling behind in relative income and also in relief from high EMTRs.

6 Escaping the Welfare Mess

Although it could be argued that growing income disparities and the rise of social exclusion are an inevitable consequence of economic reforms designed to enhance international competitiveness, this does not explain the disparate treatment of the young and the old. The treatment of children in the New Zealand welfare system is in stark contrast to the treatment of the old who are entitled to universal, wage-linked pensions at age 65 regardless of employment status, income or wealth (St John, 2005). Other benefit levels are adjusted annually in line with the CPI, but New Zealand Superannuation is adjusted in line with net average wages, allowing superannuitants to benefit from the lowered tax rates from 2008. By such means the relative living standards of the elderly have been protected and enhanced, suggesting that there is nothing inevitable about the growth in poverty.

Likewise Accident Compensation is paid without an income test or joint aggregation of any kind to those individuals who cannot earn because of accident. The generosity of ACC payments to higher income earners (see Appendix 2) is in sharp contrast to the level of the income tested sickness and invalids benefits. The treatment of the old and accident victims suggest that there are real choices about distribution to be made and these have been made in arbitrary ways leaving those principally reliant on welfare benefits severely disadvantaged.

We can see from the above analysis that policies of the new government have barely touched the underlying problems of the welfare mess, and in some cases have aggravated them.³⁴ High effective marginal tax rates still prevail for households eligible for social welfare benefits and the growing array of tax credits and income levies.

The aims of this paper are, first, to suggest ways to simplify benefits and personal taxes so that low-income households are no worse off and are more fairly treated. And,

³⁴ As discussed in section 3.1, the Independent Earner Tax Credit, adds another component to the benefit cocktail, along with a set of definitions and conditions that do not relate well to the components of the cocktail that preceded it.

second, to suggest ways to reduce inequality by raising disposable incomes for, in particular, families and individuals in some degree of poverty.

The personal income tax scales in Table 3 ('dependent' tax-payers) are a realistic place to start the reform process. It should be possible, before the 2011 general election, to subsume the IETC into the 'independent' scale (Table 5), thus addressing the anomalous treatment applied to many people earning between \$14,000 and \$24,000 per year.

Anachronistic requirements to meet hours worked or to force couples to aggregate their income for benefit purposes need to be progressively removed. Prior to the 2008 election, Labour suggested it would not require a joint income test for newly redundant workers. All primary benefits could be moved onto an individual basis. This would begin to reduce the anomalies between NZS, ACC and benefits. Rest home subsidy thresholds that currently treat the couple as if it was an individual, and the threshold for abatement of benefits (the same for a couple as for an individual) need to change.

An easily implemented, immediate and obvious change to Working for Families Tax Credits is to remove all references to the number of hours parents work. To achieve the real redistribution that is required to alleviate family poverty, payments for children must not be conditional on being off benefit. Thus, the In-Work Tax Credit (IWTC) would return to being a child tax credit (ie. part of the Family Tax Credit).

Instead of (as now) paying a \$60 IWTC per week for the first child and nothing for the other children, tax credits might be \$20 per week per child. With the average independent family with children having two children, this would provide some fiscal savings to offset the cost of removing the 'work' or 'independence' tests. The next step would be to convert the income-tested \$20 per child tax credit into a universal payment that would represent a return to the universal family benefit, thereby acknowledging the needs of beneficiary families' children, and the opportunity costs faced by higher income families with children, as well as the need to support working families on below-average incomes. The MFTC would be abolished, and any gap between income from work and income from a benefit would be closed by either a part benefit or an increase in after-tax minimum wage rates.

An additional bonus would be that administration costs would fall with each simplification. Fewer complexities and anomalies would mean fewer staff would have to be employed to administer and monitor the system.

Now for some futurist thinking.

6.1 The Non-Refundable Tax Credit Option

A "Non-Refundable Tax Credit" pays a tax rebate to all taxpayers. It lowers average tax rates, and raises marginal taxes for persons currently on lower marginal tax rates. While the rebate is a fixed amount for most taxpayers, it is limited by the amount of tax payable at the prevailing rate. The tax credit never exceeds tax payable, thus: a non-refundable tax credit is a means to create a tax-free income bracket while also

flattening and simplifying the tax scale (Rankin, 2006).³⁵ It is a way of delivering lower taxes to lower income recipients without having to raise top tax marginal tax rates.³⁶

There are many options regarding changes to the tax rates. One of the simplest is: after replacing the IECT with the tax scale in Table 5, replace the bottom tax rate (12.375%) with an annual non-refundable tax credit of \$2,888 (\$55.54 p.w.). This would, in effect, make the first \$14,440 of annual income tax-free. All of the tax reductions would go to persons earning under \$24,000. All those earning between \$24,000 and \$44,000 would be assessed at 20%, minus the \$2,888 credit. The tax credit would be indexed to changes to either the CPI; the Labour Cost Index (an index of wage rates); or Gross National Income (GNI) per capita.

This measure would provide significant gains to the many persons whose annual incomes fall below \$24,000, and whose incomes play a critical role in the support of the most financially stressed households. It would provide a hand-up for persons in various forms of casual employment; with variable incomes; on reduced hours; students; persons supporting other household members whose incomes might be insufficient to pay the bills; persons legally supplementing their benefits; and persons seeking to come off benefits. Such a personal tax rebate would also help those on low wages without raising the costs of employing them. It would create a level of tax-free income that is normal in many other developed countries.

6.2 The Refundable Tax Credit Option

A “Refundable Tax Credit” is a fixed amount payable to all adult tax-residents regardless of how much income tax they are liable for. A refundable tax credit of \$2,888 per year would provide additional help for persons earning less than \$14,400 per year by paying a net tax credit to them, rather than a rebate. It is a negative income tax option. Everyone earning under \$44,000 would have a marginal tax rate of 20%.

However, the adoption of a higher amount than \$2,888 is recommended. One of the holy grails of fiscal economics is to achieve a proportionate tax rate without imposing hardship on low-income recipients. A tax rate of 33% for incomes up to \$70,000 (or more) makes it possible to pay a personal tax credit of \$8,000 per year (\$154 per week).

Payment of an indexed tax credit of \$8,000 enables the elimination of the bottom two tax rates (eg 12.375% and 20% as in Table 5). Everyone earning under \$44,000 would become better off, and persons earning over \$44,000 would be no worse off. If this was a non-refundable annual tax credit, it would create a tax-free income zone of \$24,242, very close to the \$25,000 advocated by the Maori Party, part of the present government.

With a refundable tax credit of \$8,000, adult tax-residents earning under \$24,242 would pay income tax at negative average rates. All adult tax-residents earning between \$0 and \$70,000 would pay an effective marginal tax rate of 33 cents per dollar.

³⁵ Ireland and Canada use non-refundable tax credits as means to make their tax scales more equitable and more simple than they otherwise would be (Rankin, 2006).

³⁶ Note that the recent change to tax rates in the United Kingdom did require an increase in the top marginal rate in order to achieve the desired redistribution in favour of low income recipients.

Although this fiscal option may sound both radical and expensive, it would be a means of simplifying the welfare mess. Most adult tax-residents earning under \$24,000 already receive benefits, family tax credits, or accommodation supplements that would exceed the value of their refundable tax credits. Tables H1 to H4 show negative average tax rates to be normal at or below this income level (\$460 per week).

In the context of a fiscal environment that pays every adult tax-resident, by right, an indexed credit of \$154 per week, benefits might initially be reformed by merging the two benefit-paying agencies: Inland Revenue and the Department of Work and Income, into a single revenue-management agency.

Refundable tax credits address the horizontal equity implicit in citizenship. Benefit add-ons, on the other hand, address the issue of vertical equity. People in different circumstances need different disposable incomes to confer equitable life opportunities. The current trend is to treat both Accommodation Supplements and Family Tax Credits as benefit add-ons. These add-ons are not subject to abatement so long as the recipient is receiving a primary benefit. They could be treated as a part of a benefit that takes family size and accommodation costs into account.

Using Household 2, Brenda, as the example: total benefits payable when earnings are zero are \$529 per week. In a refundable tax credit environment, that \$529 would be split into a personal tax credit of \$154 and a benefit of \$375.³⁷ The next step would be to abate the benefit at 27 cents in each dollar of her part-time earnings. In addition, Brenda would receive a \$20 per child universal family benefit. This mother of two children, even without part-time earnings, would be \$40 per week better off than in October 2008. Equally importantly, she would face an EMTR of no more than 60 cents³⁸ per dollar earned for so long as she remains a beneficiary.

For non-beneficiaries, a secondary benefit (SB) could be available that would ensure that persons on low-medium incomes would receive support comparable to the difference between current add-on benefits and their additional tax credits. An abatement rate of 17% would complement a Student Loan repayment rate of 10%, leading once again to an EMTR of 60 cents per dollar.

In the absence of any reform of substance to the Child Support scheme, liable parent contributions could be assessed against disposable rather than gross incomes, and would never lead to a person paying an EMTR in excess of 75 cents in the dollar. There is no sound argument for Child Support payments being withheld from beneficiary parents, as primary benefits are principally for the support of adults, not children. There may however be an argument that, when benefit levels are assessed, income from a parent who does not have day-to-day care might be taken into account.

In summary, for a more comprehensive solution to the welfare mess, it is time to consider a new approach. This will need wide political support, and is likely to require the wisdom of a Royal Commission. This paper attempts to signal the possible reform direction. Preliminary thinking outlined here suggests a refundable tax credit of \$8,000

³⁷ A person receiving such a benefit could be called a beneficiary (or superannuitant if aged over 65). The term 'beneficiary' should have no pejorative overtones.

³⁸ Strictly, 61.7%, allowing for ACC levies.

per year can combine with assessed benefits to ensure that everyone faces marginal tax rates in the 33%-37% range, and that effective marginal tax rates for beneficiaries are set at a standard moderate rate, such as 60 cents in the dollar of additional earnings.

Alternatively, a non-refundable tax credit can deliver significant gains to low-income recipients without the fiscal cost of cutting taxes for everyone else as well, and without raising employers' labour costs. This provision of incentives for beneficiaries to become employed is simpler than the complex and costly current approach of IWTCs and IETCs.

Rather than an impractical, utopian solution, what is recommended here is equitable, achievable, and less administratively complex and costly than the current welfare mess.

Appendix 1: Background to the 1990s welfare reform³⁹

7 Poverty traps and EMTRs

In several papers throughout the 1980s Treasury economists expressed concern about fragmentation and inefficiency in the delivery and administration of welfare payments. They also stressed the problems of overlapping income tests, and the work disincentives of the high effective marginal tax rates that are implicit in such tests. In some ranges of income, EMTRs could approach 100%.⁴⁰ The Treasury's 1990 briefing papers stated:

As a general rule, the more people facing higher effective marginal tax rates over longer ranges of potential income, the greater the costs to society and the greater the probable loss of output...An indication of the effect of such scales is the fact that very few people are in jobs with an income at the level where the maximum rate of benefit abatement applies; instead they tend to have no job at all, rather than work for little gain. This is worrying since it discourages part-time work, which may be the most appropriate employment for some beneficiaries. (The New Zealand Treasury, 1990, p. 110)

Treasury identified high levels of benefits as a major factor preventing a more gradual abatement system. Late in December 1990, it was announced that benefits would be cut significantly and the Change Team on Targeting Social Assistance was established to design a new system of targeted social assistance. The policy document that emerged was the background paper for wide-ranging reforms foreshadowed in the 1991 Budget.

The 1991 Budget document *Welfare that Works* claimed to provide an "integrated approach to social security and social assistance" (Shipley, 1991, p. 18) that would solve the problem of high EMTRs that compound as social assistance becomes increasingly targeted:

Although any targeting system involves a reduction of total support as family income rises, the system will be designed in such a way that people are better off earning additional income and moving from dependence to independence.

The reduction in assistance will not be in sudden steps because that would mean some people might be discouraged from earning more if the final result is a drop in the total of earnings and income assistance. (This is sometimes known as a "poverty trap".) Instead, assistance will be phased out over a range of income so the effects of the drop in assistance on total earnings will be less severe. Support for different services will be phased out service by service. (Shipley, 1991, p. 18)

Welfare that Works put forward a vision of a seamless, global system of abatement of all social assistance. The mechanisms were described in detail with the aid of 3-dimensional diagrams that showed that a single-family income test and a single phase-out rate were to apply across all forms of social assistance (Shipley, 1991, p. 43).

An integrated approach was necessary and would be facilitated by the development of 'family accounts':

It would be difficult to institute a system that is sensitive to family needs by merely looking at each service individually. For example, the ability to pay for health care depends on what the family must pay for other social services. It is impossible to gauge

³⁹ This draws on St John and Rankin (2002).

⁴⁰ If a family's EMTR is more than 100%, their disposable income falls when their earnings increase.

the impact each service has on a family's total circumstances without taking an integrated approach. (Shipley, 1991, p. 44)

Full integration was to proceed slowly as it was recognised that all existing provisions could not be placed on this new basis overnight. Nevertheless, with respect to Family Support and Student Allowances, the Budget indicated that the decision had already been taken to proceed:

...those two schemes now operate in isolation to one another. They cut in and out and abate at different rates. As a result, the impact of one or both schemes on the resources of some families may be contrary to what was intended in assisting those families with access to social services....The Government has decided the administrative rules of the global arrangement will apply to Family Support and tertiary allowances. (Shipley, 1991, p. 46)

Later, child subsidies and health subsidies were to be included. The phase-out was to be in a well-defined order:

An important issue is the order in which state support for targeted social services is phased out, or abated. The order is intended to be benefits first, followed by Family Support, assistance with the health premium, any other services to be included at a later date (such as early childhood education if targeting is introduced there) and, finally, the (tertiary) student allowance scheme. (Shipley, 1991, p. 47)

The phasing out of assistance with access to social services as individual circumstances improve encourages people to move quickly from state dependence to independence, and so contribute to building opportunities for people. (Shipley, 1991, p. 52)

There was little emphasis on the fact that the more that is included for abatement, the longer the income range over which abatement applies, and the more people are affected. It seems likely that the rate of abatement would have needed to be as high as 50%. Lower rates were considered but these would prolong the abatement range unrealistically. Unfortunately, a clawback of 50% coupled with marginal tax rates of 21% or 33% gives effective marginal tax rates of 71% or 83%. And, even with a 50% abatement rate, a couple or an individual might be affected over a long range of income.

Although many aspects of *Welfare that Works* proved unworkable,⁴¹ the move toward a more tightly targeted welfare state proceeded. Section 6.1 sets out the major reforms of the 1990-1993 period. In sharp contrast to the stated highly integrative view, many of these policies were implemented in isolation, and their overall impact was obscured.

After *Welfare that Works*, work on family accounts proceeded with minimal consultation, first in the Department of Social Welfare, and later in the Department of Health. During this process, when questioned about the crudeness and inequities of the Community Services Card, the response was that it was 'only an interim measure. But 'global abatement' could not be made to work. Reports of the Prime Ministerial Review Committee on the Reform of Social Assistance (1991) obtained under the Official Information Act show how impractical the idea of family accounts really was. Eventually, in a brief, barely-reported announcement, the family accounts project was abandoned in 1993.

⁴¹ Family accounts were abandoned, part user charges for hospitals were abolished, superannuation changes were abandoned.

7.1 Welfare Changes 1990-1993

The welfare changes from 1990 to 1993 were harsh. Most benefits, such as the Sickness, DPB and Unemployment Benefit were cut by between 5% and 27% from April 1991. The age for youth rates for the unemployment benefit was extended to the age of 25. Stand down periods were lengthened and generally the eligibility rules, especially for the unemployment benefit, were tightened. The rates of abatement of benefits for other income were not changed, and the level of exempt income was held at levels last adjusted in 1986. This meant a significant decline in living standards for beneficiaries earning small amounts of extra income.

Low income families were also affected by the lack of adjustment for inflation to Family Support. The universal family benefit, a non-taxable per child universal benefit of \$6 a week, was amalgamated from 1991 with Family Support and from that time all family assistance became targeted using the test of combined parental income.

Allowances for tertiary students under 25 became fully conditional on lack of parental income. In cases when parents were divorced or refused to contribute to their child's support, the parental income test still applied. Only on marriage were adult children considered independent of their parents. In addition, students who borrowed from the state for fees and living costs had to repay this assistance plus interest, at the rate of 10 cents in each extra dollar earned above a low minimum.

Certain health subsidies, formerly universal, were restricted to those in low income families through the introduction of the Community Services Card.

Housing reforms that took effect from 1 July 1993 brought about a rationalisation of all former assistance into an income and assets-tested accommodation supplement.

New Zealand Superannuation (NZS) was to become a tightly targeted social welfare benefit to be applied for only by the poor. However the legislation, which was passed on Budget night 1991, was subsequently overturned in response to public pressure. It was announced in late 1991 that the income testing provisions provided by the surcharge on superannuitants' other income would remain. Nevertheless superannuitants were given only a partial reprieve, as pensions remained frozen for three years. It was also announced that the rate of surcharge would increase to 25% and the level of income exempt from the surcharge would sharply reduce from 1 April 1992.

The age of eligibility for NZS was raised from 60 to 65, to be fully phased in by the year 2001. Those caught by the higher age of eligibility who could not find work might qualify for the new 55+ benefit, a tightly income-tested unemployment benefit set at subsistence level. Later, in 1993, a transitional retirement benefit at the level of the invalids benefit was introduced but this could only be received for a maximum of three years prior to eligibility for the state pension. It was phased out completely by 2004.

7.2 Family assistance from the early beginnings

The first government family assistance programme in New Zealand, introduced in 1926, provided a small allowance to large families on a low income. Over the next two decades, these allowances were extended to include smaller families. The Social

Security Act of 1938 replaced Family Allowances with the Family Benefit, which became fully universal in 1946. This was a significant part of a family incomes and under legislation brought in later, it could be capitalised to assist parents saving for the deposit on a house (McClure, 1998)

In the post-war period, the Family Benefit lost purchasing power as it was infrequently adjusted for inflation and growth in wages. From 1979 until it was abolished, its value was a fixed \$6 per child per week. Family Support, a targeted payment, had been introduced on 1 October 1986, in place of a range of complex family rebates (Easton, 1981). This refundable tax credit was based on joint parental income and the number of children (Nolan P, 2002; St John, 1994).

Along with general tax rate reductions and benefit increases, Family Support was also intended to cushion the effects of the 1986 Goods and Services Tax (GST) on poor families. But once the regressive GST was accepted at 10%, compensation for it soon faded away as a policy motivation. Its effect on poor people, however, did not. When GST was lifted to 12.5% in 1989 there was no direct compensation, and later in 1991, the initial compensation to beneficiaries was undone by severe cuts to basic benefits.

Family Support treated all children from low income families the same, regardless of whether the source of parental income was low wages or a benefit. From 1990, rather than being equally divided, Family Support was all paid to the primary caregiver. This could be paid weekly, on the basis of estimated joint income, or as an end of year adjustment lump sum once all annual income was known. If a family's actual joint income level was higher than estimated, their overpayment of Family Support was recovered.

Other complexities surrounded the treatment of separated families. The income calculation for Family Support included any privately arranged child maintenance received by the caregiver along with Child Support payments received via IRD. Any similar contributions made by the caregiver for children in other families could be deducted. The income of a parent not living with the caregiver and child(ren) was not taken into consideration when Family Support was calculated, but the time looking after the child(ren) in a shared care situation affected the amount.⁴²

In 1990, the Labour government initiated a wide-ranging review of the social security system. The Budget of that year proposed some comprehensive changes for families and for the benefit system, to be introduced following the 1990 election. As National was elected into power that year, the changes were abandoned. But this new approach would have incorporated the important principle that the standard unit for a range of benefits should be the individual. Thus the benefit of a couple would be twice the benefit of an individual, who would have an add-on if he or she lived alone.

Also announced but never implemented because of the election result, was a new Family Benefit, which would have been an amalgam of the old universal Family Benefit and the Family Support tax credit. It was designed to abate in much the same way as Family Support had done, but only down to the value of the Family Benefit, which

⁴² Family Support is not to be confused with the calculation of Child Support, which is based on the income of the paying parent.

retained a universal tier. Critically, the new Family Benefit was linked to a given fraction of the standard Universal Benefit level which, in turn, was to be linked to the level of wages. Whether these reforms would have improved the situation for poor children is not assessed here. Nevertheless it is interesting to note that the idea of a generic benefit for adults, with add-ons where there are children, appears to be the basis of the core benefits reforms signalled by the Labour-led government in the mid 2000s.

The election of the National government in November 1990 saw the concept of the Universal Benefit and the new Family Benefit abandoned. The Family Benefit was amalgamated with Family Support and the entire amount became subject to abatement. The threshold and abatement rates for Family Support were not adjusted and remained at low levels.

In April 1991 families with children on benefits such as the Domestic Purposes Benefit and the Unemployment Benefit faced a decrease of up to \$27 a week representing a severe decline in their disposable income. The impact of this was even worse than the dollar value of the cuts suggests, as the benefits had been due for an adjustment for the cost of living, and stand down periods were increased.

7.2.1 Budget 1996

A range of small ad hoc changes were made to Family Support during the early 1990s, but only in 1996 was there a serious attempt to compensate families for the erosion of inflation. The changes to tax rates and abatement rates announced in *The Tax Reduction and Social Policy Programme* (Birch, 1996) were expected to ease the inherent disincentives in the welfare system. The critical policy changes concerned were:

- lower statutory rates of tax
- the introduction of the Independent Family Tax Credit (IFTC);
- increases in Family Support, especially for older children;
- increased earning allowances for some beneficiaries.

The new tax rates and the IFTC, rechristened the child tax credit (CTC), were fully phased in by 1 July 1998. Some of these changes further muddied the welfare waters by lacking a consistent basis of agreed principle. Thus, in contrast to the previous policy that treated all children of low-income families the same for weekly income support, the CTC discriminated against the children of parents regarded as dependent on the state. And, while the claimed intent was to strengthen families, the new claw back procedures for those on benefits discriminated against intact marriages with or without children.

For beneficiaries on Sickness, Invalids and Unemployment Benefits, a ceiling on joint earnings of \$80, last set in 1986, remained in place. After this the net benefit abated by 70 cents in the dollar giving a 92.4% EMTR. This income test, unaltered by 2008, treats a couple as one unit with no greater allowed earnings limit than a single person.

The 1990s was a difficult time for family assistance policy. The idea behind the 1991 budget was to encourage self reliance and reduce the 'churning' inherent in universal measures such as the family benefit. In the aftermath of the 1991 benefit cuts and housing reforms, rates of child poverty soared (Perry, 2007).

The beginning of a new philosophy was apparent in the Family Plus package announced by the National-led Government in the 1996 budget. The major component of this package gave a long overdue Family Support inflation catch-up of \$20 per child per week, but only to those children whose parents were considered ‘deserving’ by being fully ‘independent from the state’.⁴³ The undeserving others got a mere \$5 which did not compensate in any significant way for the years of erosion due to inflation. The \$15 selective payment was carved off and called the Child Tax Credit, but in every respect, aside from the single new eligibility criterion, it was just like an addition to Family Support. Thus it added to the base Family Support and bled out against family income at the same rate after all the other Family Support had gone. Using the one-child low income family to illustrate, Figure 1 showed how the changes in 1996 affected the real spending power of family assistance for those families who qualified for the Child Tax Credit and those that did not.

⁴³ See section 6.1.

Appendix 2: New Zealand's Social Welfare Mess

Information in these Appendices does not constitute advice. Wherever possible, source websites are provided.

8 The minimum wage ⁴⁴

Between the years 2000 and 2008, in the space of 8 years, the minimum wage increased from \$7.55 to \$12.00 (Department of Labour, 2008). There is still no statutory minimum wage for employees under 16 years, but on 1 April 2008, the minimum youth wage was abolished. There are now a “new entrants minimum wage”, and a “minimum training wage” which can apply to workers aged 16-17, unless they have worked for 3 months or 200 hours (whichever is shorter); or they supervise or train other employees.

By law, unless the employee holds an exemption permit, employers must pay employees at least the minimum wage, even when paying by piece rate or by commission to home workers, casuals, temporary and part-time workers. Holiday pay must be paid in addition to the minimum wage. If an employee receives “pay-as-you-go” holiday pay, this payment must be a separate and identifiable part of their pay. Unless they agree, a change in the minimum wage will not affect an employee's other conditions of employment.

Table 6: Minimum wages as at 1 April 2008*

Category	Per Week (40 hours)		Per hour
	Gross	Net	Gross
New Entrants Minimum wage	\$384	\$326 (M)	\$9.60
Minimum Training wage	\$384	\$326 (M)	\$9.60
Minimum Wage	\$480	\$402 (M)	\$12.00

* the minimum wage rate rises to \$12.50 on 1 April 2009

9 Social security benefits

Table 6 lists the social security benefits administered by the Department of Work and Income New Zealand as at 1 October 2008, apart from New Zealand Superannuation (NZS) which is shown in Table 6. Prior to 1991, benefits were adjusted in line with the CPI with any adjustments being made in April of the relevant year. A legislative change replaced indexing with discretionary adjustments by government and allowed the April 1991 benefit cuts and the March 1993 announcement that an adjustment in line with the CPI would be made on 1 April 1994 to net income tested benefits. Adjustment since then has been made regularly on an annual basis.

Social security benefits are normally paid only after a minimum period of residence. For example, unemployment benefit is available only after living in New Zealand for two years, and NZS usually requires a ten-year residence period. Reciprocal agreements with Australia, Canada, Denmark, Greece, Guernsey, Ireland, Jersey, the Netherlands and the UK, mean permanent immigrants from these countries can apply for New

⁴⁴ For more information, see: <http://ers.govt.nz/pay/minimum.html>

Zealand social security benefits as soon as they arrive.⁴⁵ Not all residents are eligible for all benefits, as various ‘tests’ (e.g. income) may be used to determine entitlement.⁴⁶

In October 1995 the Government announced that it would replace the prevailing single benefit abatement system with a dual abatement system in order to encourage certain groups of beneficiaries to move into part-time work. Some new work-related requirements announced in the tax benefit package (Birch, 1996), and imposed progressively from April 1997, were aimed at DPB recipients, spouses of the unemployed, and widows, all of whom are expected to move towards self support as their children grow older.

If there were no children, or for spouses of the unemployed, if the youngest child was 14 years and over, full-time work search was required. A mandatory annual interview occurred when the youngest child was 7-13 years. For sole parents the requirements were slightly less onerous as part-time work search, education or training could be substituted for full-time work search. These conditions were initially repealed in 1999 by the new Labour/Alliance government, and the names of benefits – ie. Unemployment Benefit, Sickness Benefit, etc – were restored.

By April 2008, extra amounts for one, two or more children had been removed and offset by increases to the Family Tax Credit in the “Working for Families” package. Net payments for NZS and Veteran’s Pension increased because the net rates are related to net average wages which increased. Other net benefits other than NZS or Veteran’s Pension did not change on 1 October. Less tax was payable on Accident Compensation payments, which increased net ACC payments. Claimants may have this increase in the net ACC payment deducted from any social security benefit.

9.1 Social security benefit types

Most Domestic Purposes Benefits (DPBs) are paid to sole parents, while the DPB “Care of Sick or Infirm” provides income support for those who are caring full-time at home for a person (other than their spouse or partner) who would otherwise need either hospital care; rest home care; residential disability care; or extended care services provided for severely disabled children and young persons.

While the DPB is reviewed on the basis of annual income, the Unemployment and Sickness Benefits are reviewed/assessed on the basis of weekly income. To be eligible for the married rate of Unemployment Benefit, one of the couple (married or de facto) must be registered with the New Zealand Employment Service and available for work. Benefits paid at the married couple rate are paid in equal shares to each partner; and calculated according to joint income. If one partner earns extra income, the couple rate is reduced by the relevant amount, as shown in Table 8.

⁴⁵ A reciprocal agreement entitles a person to apply for benefits, but payment depends on multiple criteria.

⁴⁶ Further information is available from www.workandincome.govt.nz.

Table 7. Benefit Schedule as at 1 October 2008

Benefit Type	Net Rate (tax at "M")	Gross rate
<i>Unemployment Benefit and Sickness Benefit</i>		
Single 18-19 years - at home	\$122.77	\$140.31
- away from home	\$153.46	\$175.38
Single 20-24 years	\$153.46	\$175.38
Single 25 years and over	\$184.17	\$210.48
Married/ Civil Union/de facto couple, with/without children	\$306.92	\$350.76
[each]	\$153.46	\$175.38
Sole Parent	\$263.78	\$304.93
Hospital Rate	\$33.73	\$38.55
<i>Independent Youth Benefit – Social Rehabilitation</i>		
16-17, single or married attending rehabilitation programme	\$153.46	\$180.54
16-17, pregnant, single, living at home	\$122.77	\$144.44
16-17, pregnant, single, living away from home	\$153.46	\$180.54
19-19, living at home	80% of single < 25	
Hospital rate ⁴⁷	\$33.73	\$38.55
<i>Orphan's Benefit and Unsupported Child's Benefit⁴⁸</i>		
	Non-taxable	
Under 5 years	121.50	
5-9 years	\$139.73	
10-13 years	\$148.83	
14+ years	\$157.92	
<i>Invalids</i>		
Single 16-17 years	\$186.28	\$212.89
Single 18 years and over	\$230.19	\$263.07
Married/Civil Union/de facto couple (with/without children)	\$383.66	\$438.46
[total]		
[each]	\$191.83	\$219.23
Sole Parent	\$302.40	\$353.82
<i>Domestic Purposes Benefit – Sole Parent</i>		
	\$263.78	\$304.93
<i>Domestic Purposes Benefit – Care for Sick and Infirm</i>		
Single, 16-17 years	\$186.28	\$212.89
Single, 18+ years	\$230.19	\$263.07
Sole parent	\$302.40	\$353.82
<i>Domestic Purposes Benefit-Women alone</i>		
	\$191.83	\$219.23
<i>Widows Benefits</i> Single		
Sole parent	\$191.83	\$219.23
	\$263.78	\$304.93
<i>Emergency Maintenance Allowance</i>		
16-17 years at home	\$122.77	\$140.31
Sole parent	\$263.78	\$304.93

Emergency Benefit is an income and asset tested benefit payable to people who are in hardship and who are unable to earn enough income for themselves (and any dependent

⁴⁷ Hospital rate for all benefits is \$33.73net and \$38.55 before tax.

⁴⁸ In addition, a non-taxable weekly Care Supplement payment can be paid to former foster parents in receipt of an Orphan's Benefit or Unsupported Child's Benefit. The rate is the difference between Orphan's or Unsupported Child's Benefit and Foster Care Board Payment paid by Child, Youth and Family, ie: Child 0-4 years \$6.49; 5-9 years \$8.80; 10-13 years \$15.08; 14+ years \$21.27.

family), and cannot receive another benefit. Generally, Emergency Benefits are paid at the maximum rate of the analogous benefit with the appropriate income test; however, there is discretion to pay a lower rate of payment where it is justified. The analogous benefit is the benefit that best fits the client's reason(s) that prevents them from earning a sufficient livelihood. The conditions of an Emergency Benefit vary, and may include: job search, personal development and employment requirements, Medical assessments, any other appropriate conditions, Benefit paid for a specific period (while not all these conditions will apply to every client, at least one condition must be imposed).

Emergency Maintenance Allowance is an Emergency Benefit that provides income support for sole parents with one or more dependent children if they do not meet specific criteria for Domestic Purposes Benefit or Widows Benefit⁴⁹ and cannot receive any other benefit. There are different rates of payment for 16 and 17 year old clients and other clients.

9.2 Tax treatment of benefits and other income

In New Zealand, social security benefits are paid at a flat rate, irrespective of previous income. A person must be registered for tax with the Inland Revenue Department (IRD) before they receive a benefit for the first time. Benefits are taxable, and the Department of Work and Income (DWI) deducts the tax due before paying benefits. Those with no income other than a benefit receive an 'M' tax code (see Table 7).

Table 8. Benefit Abatement due to other income from 1 October 2008⁵⁰

Benefit Type	Gross Earnings p.w.	Abatement Rate
Domestic Purposes Benefit, or Invalids Benefit (On DPB, may earn up to \$20 p.w. more if paying for childcare)	\$0 - \$80	0%
	\$81 - \$180	30%
	\$181+	70%
Unemployment Benefit or Sickness Benefit	\$0 - \$80	0%
	\$80+	70%

As Table 8 shows, income benefits are subject to partial abatement rates as other income is earned. Income from overseas pensions is treated as a direct deduction from the benefit rate, and requires a separate calculation.

9.3 New Zealand Superannuation (NZS)

Since 1999, NZS has been paid as a universal benefit, taxable but not otherwise reduced for those who qualify on age and residency status. Unlike many other countries, the age of eligibility for NZS is the same for both men and women at 65 years. Qualification for NZS also requires an applicant to be a New Zealand citizen or permanent resident; living in New Zealand at the time of application; to have lived in New Zealand for at least 10 years since turning 20; with 5 of those years since turning 50. However, time

⁴⁹ Now Domestic Purposes Benefit, Women Alone. Not eligible if still supporting children.

⁵⁰ See: <http://www.workandincome.govt.nz/manuals-and-procedures/>

spent overseas in certain countries for certain reasons may be counted for NZS. A “SuperGold” discount and concessions Card is also granted to all NZS recipients.

Changes that may affect NZS include a change of living situation such as: starting or ending a de facto relationship; getting married or separating; entering or ending a civil union; ceasing to live alone; changes in the children being supported; overseas travel; admission or discharge from a hospital or rest home; granting of an overseas pension or benefit; or imprisonment or being held in custody on remand.

The amount of NZS depends on whether the person is single, married or in a relationship; whether or not they live alone; whether a partner is included; any overseas benefit or pension; and any payments from accident insurance. If one partner of a couple does not qualify for NZS (eg. is younger than the qualifying age) the eligible partner can choose between receiving half the married couple rate, or the spouse-included couple rate, subject to the standard benefit income test. Those receiving NZS who have dependent children can receive the Family Tax Credit but not In Work Tax Credit unless they meet the hours of work required.

Receiving other income does not affect NZS unless the spouse or partner doesn't themselves qualify and is included in the payments. In such cases, the couple can earn up to \$80 (before tax) a week between them before NZS is affected. As for other non-DPB beneficiaries in Table 8, payments are reduced by 70 cents for every dollar of income earned above \$80 a week.

Table 9. NZS & Veteran's pension weekly rates from 1 October 2008⁵¹

NZ Superannuation/Veteran's Pension	Net Rate p.w. (Tax at 'M')*	Net Rate p.w. (Tax at 'S')**	Gross p.w.	Gross per annum***
<i>(Standard Rates)</i>				
Single Living Alone	\$297.79	\$274.90	\$347.77	\$18,084
Single Sharing	\$275.80	\$252.91	\$320.11	\$16,646
Married Person	\$231.37	\$208.93	\$264.37	\$13,747
Married Couple (both qualify) [total]	\$462.74	\$417.86	\$528.74	\$27,494
Married Couple (NQS**** inc) [total]	\$440.10	\$397.42	\$502.84	\$26,148
Married Person (NQS) [each partner]	\$231.37	\$208.93	\$264.37	\$13,074
<i>(Non Standard Rates)</i>				
Married Couple (NQS inc. pre 1/10/91)	\$462.74	\$417.86	\$528.74	\$27,494
[each partner]	\$231.37	\$208.93	\$264.37	\$13,747
Partner in Rest Home [NQS*]	\$230.19	\$207.83	\$263.06	\$13,679
Hospital Rate	\$33.73	\$30.50	\$38.48	\$2,001

Notes: *Net 'M' rates of tax derived by deducting income tax as set out in Appendix A to Schedule 19 of the Income Tax Act, and thus do not include ACC levy.

** Tax at S: The secondary tax rate 'S' is derived by taking 21% of whole dollars as tax and deducting it from the full weekly gross amount (dollars plus cents).

*** Rounded to nearest \$

**** NQS: Non-Qualified Spouse

⁵¹ For previous NZS and Veterans Pension rates, see: http://www.workandincome.govt.nz/manuals-and-procedures/deskfile/main_benefits_rates/new_zealand_superannuation_tables.htm

9.4 Residential and Long Stay Care for the Elderly

Those who need long-term residential care in a rest home or hospital may qualify for the Residential Care Subsidy from the Ministry of Health, which provides financial assistance towards the costs associated with long-term residential care in a rest home or hospital. DWI is responsible for assessing the assets and income of those who apply for the Residential Care Subsidy. The Ministry of Health assesses all other aspects of eligibility, including the start date of the subsidy payments to the rest home or hospital.

From 3 March 1994 a maximum personal contribution per week has applied for care in all long stay institutions including private and public hospitals as long as that care is appropriate to the needs of the person concerned. “Appropriateness” is determined according to a Support Needs Assessment Protocol (SNAP).

If the resident’s assets are above the threshold, but cash or other assets (excluding the home) are limited, an interest-free loan may be accessed. The asset limits for a loan are \$15,000 (single) or \$30,000 (couple both in care). The loan is repayable on the sale of the home, or 6 months after death, whichever is the earliest.

9.4.1 Asset Test

Eligibility for the rest home/hospital care subsidy is determined first by an asset test. Those eligible for a subsidy contribute their NZS, less a weekly allowance. As shown in Table 10, asset thresholds were increased considerably in 2005. In 2008, the threshold for married couples with one spouse in long stay care is \$180,000 with house, car, personal effects and prepaid funerals (up to \$10,000) remaining exempt.

A married couple, both in care, are treated as two single people with a joint exemption of \$180,000. A single person without dependents can choose to retain either \$85,000 excluding the value of their house and car, or \$180,000 including the value of their house and car. These amounts increase by \$10,000 a year.

In response to concerns about people caring for or living with an elderly person who was neither relative nor dependent child, two changes were made in 1995: older people may recognise past care-giving by gifting up to \$5,000 per year for up to five years retrospectively; and interest free loans can be made to non-core family members so they can stay in the home after the older person has died. There will be no income or asset test for that person receiving the loan, however in order to qualify the person must have lived in the home or jointly owned the home with the older person for at least five years.

Assets included in the means assessment for single residents in care include: cash or savings; investments or shares; loans made to other people (including family trusts); boats, caravans and campervans; investment properties; and (if the other partner is not in care and the \$180,000 threshold is chosen) the family home and personal vehicle.

Pre-paid funeral expenses for an elderly person and their partner of up to \$10,000 each; personal belongings such as clothing and jewelry; and household furniture and effects are not included as assets.

Table 10. Exemptions under the asset test for the residential care subsidy 2008

Years	Single person	Married couple, one in care	Married couple, both in care
1994 - 1998	\$6,500	\$40,000 + house and car	\$13,000
1998 - 2005	\$15,000	\$45,000 + house and car	\$30,000
April 2008	\$180,000	\$85,000* + house and car <i>or if chosen</i> \$180,000* of total assets	\$180,000*

9.4.2 Income test

Once the asset test has been met, income is assessed to determine the contribution towards the cost of care. The maximum weekly cost of care for each region is set by the Director-General of Health. Apart from a personal allowance of \$33.73 a week, NZS, the Veteran's Pension or any other benefit contributes to the cost of care. Each person can also apply for a clothing allowance of \$238.84 a year. Income includes:

- New Zealand Superannuation, Veteran's Pension or any other benefit;
- 50% of private superannuation payments;
- 50% of life insurance annuities; overseas government pensions;
- contributions from relatives;
- earnings from interest and bank accounts, investments, business or employment;
- income from a family trust, trust or estate.

Income does not include any money that the partner has earned through employment; income from assets that is less than \$854 a year for single people; \$1,707 a year for a couple when both have been assessed as requiring care; or \$2,560 a year for a couple where one partner has been assessed as requiring care. Also, a War Disablement Pension from New Zealand or any Commonwealth country is not included as income.

If the partner of the person going into residential care is not currently receiving any payments from DWI they may qualify for income support after their partner goes into care. They may also get the Special Disability Allowance of \$33.73 a week to help with extra costs. If their partner receives a benefit or pension they will also receive an increase in their payments. If their partner receives NZS or the Veteran's Pension, they may also qualify for the Living Alone rate (see Table 9).

9.4.3 Extra Financial Assistance for the Elderly

The Living Alone Payment may be available to a person whose partner has moved into residential care, and extra financial assistance may be available from DWI, including a Community Services Card, Special Needs Grants and Advance Payment of Benefit for essential items for example dentures, glasses or hearing aids, and a Funeral Grant.

9.5 Social Security Benefits and Overseas Travel

In all cases, to maintain entitlement and payment, a person must contact DWI four to six weeks before they leave New Zealand. DPB, and Widow's, Orphan's, Unsupported Child's, Independent Youth, and Emergency Benefit, will continue to be paid as usual for absences of less than 28 days. For longer absences, entitlement ceases the day after departure.

Those on Invalid's Benefit may be able to get their usual payments for up to six weeks; and may be able to be paid for longer if they travel overseas to have medical treatment, attend a specific vocational training course, or get disability assistance dog training.

For most other benefits and supplementary benefits (eg. Accommodation Supplement), entitlement ceases the day after departure, and subsequent payments are classed as overpayments and must be repaid. For example, Unemployment Benefit entitlement stops on the day of departure. Those beneficiaries should be actively seeking and available for full-time work and such requirements cannot be fulfilled from overseas. However, those travelling overseas in pursuit of full-time work can continue to receive the Unemployment Benefit during their absence on showing proof to that effect.

Most war pensions, allowance and grants are not affected by where the recipient lives. For those receiving NZS, if the absence is for less than 26 weeks full entitlement continues. Extra financial help such as Disability Allowance may be continued for 28 days after leaving New Zealand. For those intending to return within 26 weeks but delayed up to a total of 30 weeks absence by unforeseen/unavoidable circumstances (such as sickness) full entitlement continues. A person going overseas temporarily to do full-time voluntary or unpaid humanitarian work may be able to get their NZS or Veteran's Pension for up to 156 weeks.

10 Family Assistance

10.1 Working for Families

Prior to 2004, Family Assistance administered by Inland Revenue consisted of four types of assistance: Family Support, Family Tax Credit, Child Tax Credit, and Parental Tax Credit. In addition, the Parental Leave and Employment Protection (Paid Parental Leave) Act 2002, administered by the Department of Labour, entitled women (working for at least ten hours per week for the same employer for at least 12 months) to up to \$325 p.w. for 12 weeks following the birth or adoption of a child. For social welfare beneficiaries Family Support was paid by the DWI as part of the benefit. For those on low incomes not receiving a benefit, Family Support was administered by the Department of Inland Revenue (IRD).

In 2004, Family Assistance underwent significant change with the introduction of the "Working for Families" (WFF) package.⁵² Confusingly the names of the various tax credits were also changed in 2007. The old Family Support payment was renamed the Family Tax Credit and the old Family Tax Credit was renamed the Minimum Family Tax Credit.

The current Working for Families Tax Credits programme consists of four different types of payments available for eligible families: Family Tax Credit (FTC), In-Work Tax Credit (IWTC), Minimum Family Tax Credit (MFTC) and Parental Tax Credit (PTC). In April 2006, the Child Tax Credit (CTC) was replaced by the IWTC for eligible working families.

⁵² More information at <http://www.workingforfamilies.govt.nz> or <http://www.ird.govt.nz/wff-tax-credits/>.

The government pledged that future rates of family tax credits and abatement thresholds for WFF Tax Credits would be regularly adjusted for inflation (the first inflation adjustment would occur once there was at least a 5% movement in the CPI from 1 April 2007); and Periodic reviews of the IWTC and PTC would occur from 30 June 2008.

Table 11. Working for Families Tax Credit Income Limits, 1 October 08 – 31 March 09

Number of children	Annual Income (before tax)		
	Family tax credit	In-Work tax credit	Parental tax credit
1	\$59,262	\$74,862	\$113,969
2	\$74,857	\$90,457	\$129,564
3	\$90,452	\$106,052	\$145,159
4	\$106,047	\$125,547	\$164,654
5	\$121,642	\$145,042	\$184,149
6	\$137,237	\$164,537	\$203,644

Table 11 shows the income limits that apply from 1 October 2008. The amounts are based on all children being under 13 years old. For children aged 13 years or over higher income levels apply.

10.1.1 Family Tax Credit

Family Tax Credit is available for any family with children under the age of 18. The amount the family can receive depends on the combined annual income of the family, the number of dependent children and their age.

Table 12. Working for Families Weekly and Annual Tax Credit Rates

Weekly payments: Age and number of children		Current 1 April 2008	New Rate 1 October 08	
First child if under 16		\$82.00	\$86.29	
First child if 16, 17 or 18		\$95.00	\$99.96	
Subsequent rate if child under 13		\$57.00	\$59.98	
Subsequent rate if child 13 to 15		\$65.00	\$68.40	
Subsequent rate if child 16 or over		\$85.00	\$89.44	
Lump sum, annual end of the year payments: Age and number of children		Current 1 April 2008	New Rate 1 October 2008	Annual rate for 2008/09
First child if under 16		\$4,264	\$4,487	\$4,376
First child if 16 or over		\$4,940	\$5,198	\$5,069
Subsequent rate if child under 13		\$2,964	\$3,119	\$3,042
Subsequent rate if child 13 to 15		\$3,380	\$3,557	\$3,469
Subsequent rate if child 16 or over		\$4,420	\$4,651	\$4,536
Abatement Threshold		\$35,000	\$36,827	\$35,914

10.1.2 In Work Tax Credit

The In-work Tax Credit is also available to families with children under the age of 18. The maximum weekly payment for 1, 2, and 3 child families is \$60, with an additional \$15 per child above that. To qualify, a couple must be employed for a minimum combined total of 30 hours per week, and single parents must work at least 20 hours per week. It is abated after the Minimum Family Tax Credit.

10.1.3 Minimum Family Tax Credit

Minimum Family Tax Credit (was Family Tax Credit) is a payment for families earning up to \$21,860 gross a year to ensure they have a minimum post-tax weekly income of \$355. To be eligible for the Minimum family credit, couples have to be in paid employment for a minimum of 30 hours a week, and sole parents for at least 20 hours.⁵³

10.1.4 Parental Tax Credit

Parental Tax Credit, which was not changed under the Working for Families package, is paid for a newborn for the first 8 weeks or 56 days after the baby is born. The amount paid depends on the combined income of the family before tax, the number of the dependent children, their age and the number of the number of newborn children per year. The family can be eligible for a maximum of \$150 dollars a week for 8 weeks after the baby is born, and they can either be paid weekly or receive the \$1,200 in a lump sum at the end of the year.⁵⁴

10.1.5 Paid Parental Leave

It is not possible to claim both the Parental Tax Credit and Paid Parental Leave. Paid Parental Leave usually provides greater benefit for working parents, with a rate determined by normal earnings. Provided they meet the minimum hours test, either parent of a newborn child or an adopted child can be entitled to up to 10 days special leave; and 14 weeks paid parental leave; and 52 weeks unpaid extended leave (including the 14 paid weeks). The mother can transfer up to 14 weeks paid parental leave to the father/partner, who is entitled to two weeks additional unpaid paternity leave. To meet the minimum hours test, an employee must work for the same employer for an average of 10 hours a week *and* no less than one hour in every week or 40 hours in every month.

10.1.6 Home Help

In the case of a multiple birth, adoption of three or more children, a domestic emergency, or the need for domestic help with laundry, housework, cooking or childcare, it may be possible to get Home Help to assist with costs. Except for a multiple birth, income must be under a certain limit to be eligible. The applicant must also not have anyone living with them who is able to help; and they must have a current Community Services Card. Home Help maximum gross rate per hour (excluding holiday pay) at 1 April 2008 is \$12.63.⁵⁵

10.2 Childcare Subsidy and OSCAR Subsidy

10.2.1 Childcare Subsidy

Childcare subsidy aims to assist low and middle income families, with children under the age of 5, by providing assistance with the costs of any licensed childcare, family day care, home-based care and chartered Te Kohanga Reo. Childcare subsidy is paid

⁵³ For more information, contact WINZ at: www.workingforfamilies.govt.nz

⁵⁴ For more information, contact Inland Revenue Department at: www.ird.govt.nz

⁵⁵ For more information, contact WINZ at: www.workandincome.govt.nz

directly to the childcare provider. Childcare subsidy is usually paid for 9 hours of childcare per week.

As well as earning less than a certain limit, in order to qualify for up to 50 hours of paid childcare per week, the main carer of the eligible child must be either in paid employment, training, job seeking activity, attending a course of study in a tertiary or secondary institution or be involved in a rehabilitation programme. It is also available if the person applying for it or the child that would be covered by the subsidy is disabled or seriously injured. The amount paid depends on the weekly income of the parent, and the number of children that are eligible for the childcare subsidy. In October 2004 and again in October 2005 the income limits entitling families to receive Childcare subsidy were raised under the Working for Families package.

10.2.2 OSCAR subsidy

An Out of School Care and Recreation (OSCAR) Subsidy pays for out of school care for children between ages 5 and 13. It is non-taxable, and aims to assist low and middle income families with the costs of approved before- and after-school care, and holiday programmes. Parents who work or study, or who have a disability or serious illness, or have a child with a disability or serious illness, are eligible to receive an OSCAR subsidy for 20 hours a week in term time, and up to 50 hours a week during school holidays. OSCAR programmes that have Child, Youth and Family approval meet certain safety and quality standards.

Table 13. Gross weekly income thresholds; Childcare and OSCAR Subsidy Rates

No. of Children	Income per week			
	Less than \$1,200	\$1,200 to \$1,299.99	\$1,300 to \$1,399.99	\$1,400.00 +
1 Child	Less than \$1,200	\$1,200 to \$1,299.99	\$1,300 to \$1,399.99	\$1,400.00 +
2 Children	Less than \$1,380	\$1,380 to \$1,489.99	\$1,490 to \$1,599.99	\$1,600.00 +
3+ Children	Less than \$1,540	\$1,540 to \$1,669.99	\$1,670 to 1,799.99	\$1,800.00 +
Rate Applicable	Rate 1: \$3.51	Rate 2: \$2.44	Rate 3: \$1.35	Nil
Max. weekly rate: 50 hours per child	\$175.50	\$122.00	\$67.50	Nil

In 2004, the income limits entitling families to receive OSCAR subsidy were raised under the Working for Families package. The hourly subsidy rates were also increased from October 2004 to equal Childcare Subsidy rates, as well as being raised in line with inflation from April 2005. Hourly rates were raised again from October 2005.

10.2.3 Trends in expenditure on Childcare and OSCAR Subsidies

There has been a significant increase in expenditure on Childcare and OSCAR subsidies since 2003/2004. This increase is largely attributed to the impact of Working for Families. Among the elements affected by Working for Families are:

- Widening of eligibility for these two subsidies since October 2004;
- Increase in the hourly rate for both subsidies in October 2004, in addition to the regular CPI adjustment;

- Increase in the hourly rate of OSCAR subsidies since 2004, which made these rates equivalent to those for Childcare Subsidies;
- Increase in the hourly rates for both subsidies in 2005, in addition to CPI adjustment;
- Increase in income thresholds in October 2006 and increase in the income abatement thresholds in April 2007 (the first was to make 60% of couples with children eligible based on Census 2001 data, and the second was based on Census 2006 data).

10.3 Child Support

Child Support, established by the Child Support Act 1991, is administered by the Child Support Agency of the Department of Inland Revenue, and affects any person who:

- is living apart from their children;
- is a sole parent;
- is a caregiver bringing up others' children;
- shares custody of their children with the other parent;
- has spousal maintenance order or maintenance agreement registered in the Family Court, or has a child maintenance Court order or Court registered agreement.

A Task Force was established to review the provisions of the Child Support Act and reported in late 1994, but in 2002, the government appeared no closer to fixing anomalies. Then, under the Child Support Amendment Act 2001, the minimum payment, that had not been adjusted since it was set in 1990, was raised from \$10 a week to \$12.75 a week or \$663 a year from 1 April 2002. It was stated: "In the future the real value of the minimum payment will be automatically maintained." (Ministerial announcement 22 June 2001) Also, the ceiling level of income on which child support is assessed was raised by 25%.

Child Support must be paid until the child turns 19 unless the child marries; is in full employment; receiving student or an independent circumstances grant; or in receipt of a welfare or training benefit. The level of liability is calculated as shown in below in the four-step calculation. The Child Support Agency of the IRD collects the Child Support from the liable person to help offset the cost of the custodial parent's benefit if they are a beneficiary. If the amount collected is more than the benefit the excess is paid to the custodian. If the custodian is not a beneficiary the full amount collected is paid to them.

Under split custody – where a parent has two or more qualifying children and has ongoing daily care for at least one of them with the other parent caring for the other(s) – if neither parent is a beneficiary, liability is assessed for both parents with the smaller liability being subtracted from the larger and the difference being payable by the parent with the larger liability. Where each parent consistently has day to day care of one or more of their children for at least 40% of the year, both parents are treated as a custodian and a liable person and the child support percentage (in the formula below) is reduced. Each child in shared custody is counted as 0.5 of a child for the purposes of the percentage.

Whether or not liable parents are on a benefit, Child Support payments cannot exceed 40% of their net income. If they have more than one source of income, more than 40%

of their benefit can be deducted at their request. Child support deductions take preference over all other deductions; and other deductions must be amended where the balance of a liable parent's benefit will not cover their Child Support payment.

Four-step calculation of child support as at 1 Feb 2009

- The paying parent's taxable income is determined;
- a living allowance is deducted;
- the result is multiplied by a percentage rate;
- the annual amount is divided in 12 equal amounts and is to be paid by the 20th of each month.

The maximum taxable income of the paying-parent is \$109,682. A paying parent with an income solely from salary, wages and/or a benefit (thus not required to file an income tax return) is assessed on the taxable income from their employer's wage records from the previous year. For example, the Child Support assessment for the year 1 April 2008 to 31 March 2009 will be based on taxable income earned in the year 1 April 2007 to 31 March 2008. Because paying parents in this category are assessed annually in March, the full income earned over the year will not be known so the assessment will be based on ten months of income earned from April to January, and two months approximated earnings. In July the IRD compares the income amount used in the initial assessment with the income actually earned over twelve months. A new assessment, backdated to 1 April, is issued in July if the income has changed by more than \$500.

A paying parent earning other income (for example, rental or self-employed) and/or who must file an income tax return, is assessed on their income from the two years prior to the current year, adjusted to account for inflation. Child support assessments for paying parents in this category are assessed each year in February. Importantly, if the paying parent's income has fallen by 15% or more from the income that will be assessed, they can choose to estimate their current income. A paying parent living outside New Zealand is assessed each year in February, based on their overseas income plus any income earned in New Zealand.

Table 14. Living allowance rates in Child Support regime in 2009

Single person with no dependents	\$13,964.00
Married or with a civil union or de facto partner, with no dependent children	\$18,858.00
Single, married or with a civil union or de facto partner, with one child living with the paying parent	\$26,425.00
Single, married or with a civil union or de facto partner, with two children living with the paying parent	\$29,096.00
Single, married or with a civil union or de facto partner, with three children living with the paying parent	\$31,767.00
Single, married or with a civil union or de facto partner, with four or more children living with the paying parent	\$34,438.00

The amount IRD deducts as the living allowance depends on the personal circumstances of the paying parent. The living allowance is based mainly on gross benefits from Work and Income.

The percentage rate used depends on the number of children for whom the paying parent must pay child support. The percentages where the paying parent is **not** in a shared care arrangement for child support purposes are:

- one child 18%;
- two children 24%;
- three children 27%;
- four or more children 30%.

When a shared care arrangement⁵⁶ exists for child support purposes, IRD counts each child in the arrangement as 0.5 of a child, and the following percentage rates apply:

- 0.5 child 12%;
- 1 child 18%;
- 1.5 children 21%;
- 2 children 24%;
- 2.5 children 25.5%;
- 3 children 27%;
- 3.5 children 28.5%;
- 4 children 30%.

A liable person can apply for exemption from liability if they are in prison or hospital, or under 16 years. Other factors which may change the way child support assessment is calculated include Court orders, administrative reviews, and shared care. There is a minimum amount to pay, even if a parent has no income. In the 1 April 2008 - 31 March 2009 year, if child support liability is less than \$773, assessment will be \$773 per year.

A liable person and a custodian can at any time make a voluntary agreement about their children and how much the liable person will pay the custodian. If the custodian is a beneficiary the amount of support in this voluntary agreement must be at least as much as the liable person would have been liable for under assessment using the formula. In this case payments are collected by the Child Support Agency who passes on to the custodian the difference between what would have been due under the formula and the actual amount collected. The balance is used by the government to offset the cost of the benefit. The agreement can be changed or withdrawn altogether at any time and either party can apply for a formula-based assessment at any time. If a beneficiary custodian withdraws from a voluntary agreement, Child Support will be automatically reassessed using the formula. A voluntary agreement may also be drawn up for the support of a former partner where there are no children involved. If the liable person is a beneficiary the Child Support payment will be deducted from their benefit.

11 Students and Young People

11.1 Independent Youth Benefit

Independent Youth Benefit rates at 1 October 2008 are shown in Table 7. The Independent Youth Benefit is available to 16 and 17 year olds who are unemployed or

⁵⁶ More information on shared care is in IRD's booklet: *Helping you understand shared care (IR156)* at: <http://www.ird.govt.nz/forms-guides/keyword/childsupport/paying-parents/ir156-guide-cs-shared-care.html>

training full-time in an approved course; unable to live at home or obtain financial support from parents/guardians; or pregnant, without any dependent children. For 20-24 year olds, the Independent Youth Benefit is paid at the same rate as the unemployment benefit.

To qualify a young person must be not working but are actively looking for work and ready to start a job or training course; or are working less hours because of sickness, injury, disability or pregnancy; or are a full-time trainee on an approved work-related course (usually less than 12 weeks); or are enrolled in, and regularly attending, secondary school. To qualify, training courses must be 12 weeks or less, and run by approved providers like a university, polytechnic, approved private education provider or an organisation like Skill New Zealand (also administering modern apprenticeships) or a Ministry of Youth Affairs programme. Applicants must also be a New Zealand citizen or permanent resident; or have lived in New Zealand for at least 2 years at any one time since becoming a New Zealand citizen or resident (unless they are a refugee). They should also live in (and intend to stay in) New Zealand.

Employment subsidies are also available for young people working in approved employment like Task Force Green and Work Start. Taskforce Green⁵⁷ subsidises participation in project-based work and thus the development of work habits and on-the-job skills to assist in progression towards unsubsidised, sustainable employment. It benefits the community by providing workers for community and environmental projects that could not otherwise be done.

DWI subsidises wages and/or training for people involved in the projects which must be fixed term community or environmental projects that would otherwise not be done; must not displace existing employees; and must provide full-time work for one or more people.⁵⁸ All employers can take part, including community organisations, service groups, education/ local authorities, government departments, farmers or other private sector employers, so long as the criteria are met.

The employer has to organise the project; provide the materials; pay any difference between the subsidy and the wage for the job; pay GST, PAYE, ACC levies and holiday pay; and provide a safe and healthy work environment. DWI stays in contact to provide on-going support to the people involved who may face a range of barriers to entering or re-entering the workforce and need support as they move closer to employment. The expected outcome for Taskforce Green is movement into unsubsidised work within eight weeks of completing the subsidised job; or a significant increase in the client's willingness and capacity to work.

11.2 Student Allowances

In general, to get the Student Allowance, the person needs to be 18 or over (some 16-17 year olds can also get it); study full-time (or limited full-time with WINZ's approval); or be at secondary school or on a tertiary course approved by the Tertiary Education Commission; and be a New Zealand citizen, permanent resident or refugee. Usually a person can get the Student Allowance for up to 200 weeks in total, but they may be able

⁵⁷ See: <http://www.workandincome.govt.nz/community/a-z-grants-and-other-help/taskforce-green.html>

⁵⁸ A person can work on a project for a maximum of six months.

to get it for longer in some situations (full time study courses would usually last for 40 weeks or less per year). Although it is renewable for each year of study, the student needs to pass more than half the course to get the allowance renewed.

Table 15. Student Allowances in 2008

Student Allowances Weekly Rates	Net Weekly Payment*
Single Students	
16-17 (special circumstances only: **General Unemployment Benefit Student Hardship)	\$153.46
Single (18-19 living at home)	\$122.77
Single (18-19 living away from home)	\$153.46
Single (20-24 years)	\$153.46
25 year old and over at home	147.32
25 year old and over away from home	184.17
Couple Allowance	
Student with earning spouse, combined income more than \$371.46 but less than \$773.85 a week before tax, living with partner	\$66.53
Student with earning spouse, combined income is more than \$371.46 but less than \$773.85 a week, living away from partner	\$99.11
Combined income is \$371.46 or less a week before tax	\$306.92
Both students, but only one is eligible for Student Allowance	\$184.17
Both eligible students (each)	\$153.46
With Dependents	
Single Student (one or more children)	\$263.78
Married or civil union couple (each)	\$153.46

Notes: * net payment after Allowance is taxed at “M” rate.

**To be eligible for General Unemployment Benefit Student Hardship, the student must be eligible for or have been receiving a Student Allowance; and be registered for work with Student Job Search (or Work and Income if there's not a Student Job Search in the region); be actively looking for full-time work; and plan to study full-time after your study break. If the student is 16/17 years old and getting a Student Allowance or has not previously been in full-time study, their Unemployment Benefit Student Hardship application may be processed as an Emergency Benefit at the same as the rate they would have received under Unemployment Benefit Student Hardship. If a student in hardship doesn't qualify for the Student Allowance they can still apply for the Unemployment Benefit Student Hardship, Additional Hardship section. If someone with a partner or a child is in hardship because the Student Allowance has stopped (and they're waiting for Unemployment Benefit Student Hardship to start) they may be able to get the Student Allowance Transfer Grant.

To get the Student Allowance, the student's parents' combined annual income (2008) must be less than: \$75,855.32 before tax if they live in a parental home to study; and \$82,237.80 before tax if they live away from a parental home to study. These income thresholds change each April. How much of the parents' income DWI tests depends on whether the student lives in a parental home or away from a parental home while studying; if the parents live together or in separate households; and if the parents support other dependent students aged 16-23 years. The threshold for abatement of the allowance is raised for each additional 18 to 24 year old studying. Nevertheless if more than one child aged 18 to 24 years in a family receives a targeted allowance, cumulative abatement according to parental income levels applies. For two students, allowances are both reduced by 25% for each extra dollar of parental income contributing 50% to the effective marginal tax rate.

Very few students are eligible for the Independent Circumstances Allowance.⁵⁹ They must be aged 16-23 years (reduced from 25 years from 1 January 2009), and if 16-17 years must be studying at a tertiary education provider; without children; living away from home for 2 years; and self supporting. Also, a third party must prove either:

- They can't live with or be supported by their parents because of a family breakdown;
- They have been or are a ward of the state or court, and haven't lived with someone acting as parent for at least two years;
- They are orphaned and haven't lived with a parent-equivalent for at least two years;
- One parent is in a prison or psychiatric hospital and other parent can't be responsible;
- Other exceptional circumstances.

As part of Student Allowance, if they live away from the parental home, or have a partner and their combined income is less than \$360 p.w., students may be able to get an Accommodation Benefit of up to \$60 a week. Accommodation Benefit rates, set at amounts which are non-taxable, are based on the region of the education provider (if classes are attended), or the region the student lives in (if studying extramurally). If living in a hostel, how much they get may depend on the hostel they live in. They do not qualify for an Accommodation Benefit if they (or their partner) rent a property owned or managed by Housing New Zealand Corporation, but may qualify for income-related rent.⁶⁰ Accommodation Benefit rates are reviewed on 1 January each year.

11.3 Student Loans⁶¹

The Student Loan Scheme, established in 1992, is now administered by DWI. Four government agencies are involved. The Ministry of Education is responsible for strategic policies for the Student Loan Scheme. StudyLink (Ministry of Social Development) is responsible for the administration and delivery of student loans to students during the year of study. After the end of each academic year StudyLink transfers those loans to Inland Revenue for collection. New Zealand Customs Service (Customs) and Inland Revenue have a data matching programme to determine if a borrower is eligible for an interest-free student loan. Inland Revenue is responsible for collecting student loan repayments from the year after the money is borrowed and administering interest write-offs.

The Student Loan Scheme Amendment Act 2007, came into effect on 1 April 2007 introducing new rules for student loan borrowers who are overseas and simplifying the administration of the student loan scheme. Key changes for borrowers who are overseas include: a repayment holiday of up to three years; new repayment obligations; extension of the amnesty for those who have fallen into arrears with their payments; extension of interest-free student loans to borrowers studying full-time at under-graduate level. Other key changes include: a reduction in the late payment penalty rate from 2% to 1.5% for all student loan borrowers; information matching between Inland Revenue and the New Zealand Customs Service; and simplification of the rules determining which repayment regime – New Zealand or overseas – applies to student loan borrowers.

⁵⁹ See: <http://www.studylink.govt.nz/docs/forms/independent-circumstances-allowance-application.pdf>

⁶⁰ For details, go to local Housing New Zealand Corporation Neighbourhood Unit.

⁶¹ See: <http://www.ird.govt.nz/resources/a/8/a893fb804bbe5713ab2bfbbc87554a30/sl5.pdf> for IRD information pack: *How to get a student loan and how to pay it back.*

Student loans for borrowers living in New Zealand for 183 or more consecutive days (about 6 months) are interest free. A student is eligible as long as they meet the 183-day requirement. This applies if they already have a student loan or are getting one; and whether or not they are currently studying. During the 183-day qualifying period, they can go overseas for up to 31 days in total and still be eligible for an interest free student loan. Once they meet the 183-day requirement, interest charged from the first day of their qualifying period will be written off after the end of the tax year.

Student Loans may be taken out to cover: compulsory course fees charged by the provider, or the relevant fee maximum under the Fee and Course Costs Maxima policy; the course related costs of up to \$1,000 per year; and living expenses of up to \$150 dollars per week for the duration of study. If, however, the student receives Student Allowance of say \$50 per week, they can only borrow up to \$100 per week from living costs. An annual \$50 administration fee is payable.

Loan repayments are now due when income exceeds \$18,148 (threshold will rise in April 2009 to \$19,084 to reflect the changes in the CPI) and is at a rate of 10 cents for every dollar earned above that amount. Once earnings reach the repayment threshold appropriate deductions are made by the employer. Any loan remaining at death is written off. A person who has a student loan and declares bankruptcy still has full obligation to pay the loan once he or she starts earning over the minimum threshold. People who choose to live overseas are also obligated to repay the loan. The IRD has double taxation arrangements with most major countries including the US, UK, Ireland and Canada. Failure to fulfil the requirement for quarterly overseas repayments can result in a 10% penalty fee added to the principal outstanding on the loan.

Since 1999 there has been an interest write-off for full-time students who are studying. For those borrowers earning over the repayment threshold, 50% of their compulsory repayments is applied to the principal, and 50% to the base interest charges. If the base interest charged is more than 50% of the compulsory repayment obligation the excess is written off. From 2006, all student loan borrowers resident in New Zealand have been exempted interest on their student loans.⁶²

12 Housing assistance

12.1 Accommodation Supplement

Accommodation Benefit was replaced by a non-taxable supplementary benefit: Accommodation Supplement, from 1 July 1993. As Table 16 shows, it is available to beneficiaries or superannuitants paying more than 25% of the net rate of their benefit for accommodation. With dependent children, maximum Family Support payment for the first child is added to the net benefit rate before determining the entry threshold. Home-owners' threshold is 30% of the adult net rate plus Family Support for the first child.

The Accommodation Supplement is also available to non beneficiaries who spend more than 30% of the after-tax rate of Invalids Benefit on accommodation costs.⁶³

⁶² Changes from 1992-2007 at: <http://www.educationcounts.govt.nz/publications/series/2555>

⁶³ See: <http://www.workandincome.govt.nz/documents/help-when-youre-working-jobs0012.pdf>

Table 16. Weekly expenses test for Accommodation Supplement, 1 October 2008

Personal situation*	Rent or 62% of boarding costs	Mortgage costs exceed
Single, no children	\$46	\$55
Married, civil union, de facto, no children	\$77	\$92
Sole parent	\$88	\$105
Married/ civil union/ de facto + children	\$98	\$118

* Figures apply for Unemployment Beneficiaries. Rates and thresholds vary for different benefit types.

The Working for Families Package implemented on the 1st of October 2004 included changes to the Accommodation Supplement eligibility criteria: entry thresholds were decreased; abatement thresholds were increased for non-beneficiaries; and beneficiaries would not have their Accommodation Supplement abated against other income. In 2005, in some areas, the maximum payment rates of the Supplement were increased.

The maximum rate of Accommodation Supplement is determined by the weekly rent or mortgage cost, and the area, and whether or not the applicant has a partner, or children. For a single person without children, with weekly rent of at least \$48 or mortgage of \$58, the weekly rate ranges from \$45 in Area 4 to \$145 in Area 1. For a sole parent on the DPB with 2 children and weekly rent of \$88 or a mortgage of \$105, the weekly rate ranges from \$75 in Area 4 to \$225 in Area 1.

12.1.1 Income and asset tests

For the purposes of the income and asset tests regarding entitlement to Accommodation Supplement *income* is gross earnings plus any business income, and *cash assets* are cash in hand or in the bank, shares or loans made to others and land or buildings owned but not lived in. Table 17 shows the income limits.

To receive Accommodation Supplement, a beneficiary applicant (and any partner) must have cash assets less than \$8,100 if they are single; and less than \$16,200 if a married, civil union or de facto couple, or a sole parent. A non-beneficiary may be able to receive Accommodation Supplement without abatement if their assets are less than \$2,700 for a single person, or \$5,400 for a couple or a sole parent. For every \$100 that a non-beneficiary has over these limits, \$1 is added to their income amount for Accommodation Supplement purposes.

Cash assets include cash in hand, bank and savings accounts, shares, debentures, bonds, loans made by beneficiary, mortgages owed to beneficiary or partner, and land and buildings owned but not lived in by beneficiary. Cash assets do not include beneficiary's home, personal effects, car, caravan used for accommodation and/or less than \$2000. Cash assets from the sale of a matrimonial home are exempt for one year.

A non-beneficiary can access the Accommodation Supplement if income is less than the threshold. The thresholds are as set out in Table 17 for Area 1.

Table 17. Area 1 thresholds and cut-outs

Category	Income threshold	Cut-out Per week	Cut-out Per year	Maximum
Single, 16 - 17 years	\$344	\$924	\$48,048	\$145
Single, 18+ years	\$344	\$924	\$48,048	\$145
Married/civil union/ de facto couple, no children	\$519	\$1,159	\$60,268	\$160
Married/civil union/ de facto couple with children	\$519	\$1,419	\$73,788	\$225
Sole parent, 1 child	\$457	\$1,097	\$57,044	\$160
Sole parent, 2+ children	\$457	\$1,357	\$70,564	\$225

A person can only receive full entitlement if their income is below the threshold. For example, a single person earning \$400 a week with rent of \$120 a week in Area 1 would be entitled to the Accommodation Supplement of \$38 per week:

Rent \$120 - entry threshold \$46 = \$74.

Full entitlement = 70% of \$74 = \$51.80

Abatement = (\$400-\$344)* 0.25 = \$14

Payment of Accommodation Supplement = \$38

Table 18. Income limits for Accommodation Supplement by Area 1 October 2008

Weekly pre-tax income and resident in...	Area* 1	Area 2	Area 3	Area 4
Single, no children	\$924	\$744	\$604	\$524
Couple, married/ civil union/ de facto, no children	\$1,159	\$1,019	\$819	\$739
Sole parent, one child	\$1,097	\$957	\$757	\$677
Sole parent, more than one child	\$1,357	\$1,117	\$937	\$757
Couple, married/ civil union/ de facto, with children	\$1,419	\$1,179	\$999	\$819

*Areas:⁶⁴ 1. North/Central Auckland. 2. West/South Auckland, Tauranga, Wellington, Nelson, Queenstown. 3. Whangarei, Hamilton, New Plymouth, Napier, Hastings, Palmerston North, Porirua, Upper/Lower Hutt, Christchurch, Dunedin. 4. All areas not covered in 1 – 3.

12.2 Income related rents

Income related rents (IRR) were effective from December 2000. They are available to Housing New Zealand tenants and replace the accommodation supplement for those tenants who meet the income test. Eligible tenants pay no more than 25% of their assessable income in rent. For a single person without dependent children, an income less than the single living alone rate of NZS (after tax) is considered low. Other tenants have low income if it is less than the married couple rate of NZS (after tax). NZS amounts are re-set each year on 1 April. The government pays the difference between the 25% of income and the market rent (rent for a similar house in a similar area if renting from a private landlord).

13 Special circumstances

13.1 Hardship provisions

The Special Needs Grant is a one-off payment to meet food, bedding, and emergency dental or medical treatment. Under WFF, Temporary Additional Support replaced the Special Benefit, a weekly payment to help meet essential costs for a short period. To qualify, one must be a citizen or permanent resident who normally lives here, and:

⁶⁴ This is not a complete list. For more details visit www.workingforfamilies.govt.nz

- cash assets must be less than a certain amount (see table on previous page) *and*
- costs must be essential and higher than income *and*
- there must be no other way to meet these costs.

Table 19. Cash assets for Special Needs Grants or Temporary Additional Support

If you are...	Cash assets must be less than:
Single	\$921.08
Married, civil union or de facto couple with or without dependent children	\$1,534.76
Sole parent with 1 dependent child	\$1,209.40
Any other sole parent	\$1,299.16

Rates at 1 October 2008

Under the new WFF regime, Family Tax Credits were included as income, thus excluding many families from access to Temporary Additional Support.

13.2 Legal Aid

Legal aid, administered by the Legal Services Board out of an annual budget, is available on a discretionary basis to those with gross income of less than approximately \$20,000, including easily liquefied assets such as bank accounts but excluding property. Evidence of earnings is required and for those receiving a benefit a certificate is required from DWI. Legal Aid is a loan and contributions are sought for repayment when the legal process is concluded. If repayment is not forthcoming the amount owing is written off, except in the case of civil legal aid: if a property is owned, a charge is placed on the property so that the amount owing is repaid on the sale of the property. No charge is placed on the owned property in the case of criminal legal aid.

13.3 Disability allowance

The Disability Allowance (DA) is paid to those who have regular expenses because of a mental or physical disability. Expenses include special travel costs, medicines or foods, and the costs of regular visits to the doctor or hospital. To be eligible, a person must be on the Domestic Purposes, Widow's, Invalid's, Unemployment, Training, or Sickness Benefit or related Emergency Benefit; or on an income low enough to qualify. If their income is above the level at which the Invalid's Benefit is fully abated, he/she is no longer entitled to the DA. They are also eligible if they are paying boarding fees while living in a home for people with disabilities or similar accommodation.

13.4 Self Start, and Enterprise Allowance Subsidy and Grant

Workbridge is contracted to administer the Self Start grants to help disabled people or people with ill health become self-employed. The maximum Self Start grant is \$5,200 (including GST) per person per project. The grants help meet extra costs such as workplace modifications; physical support including on the job physiotherapy or attendant care; mentoring; special equipment needed because of the person's disability or ill health; and/or additional costs of transport or parking.

Self Start eligibility criteria include having a disability or suffering from ill health that is likely to last for more than six months; being a New Zealand citizen or permanent resident; and also normally living in New Zealand and intending to stay here. A person

can't get Self Start if they are getting weekly compensation under the Injury Prevention, Rehabilitation and Compensation Act 2001. A self-employed client may receive this grant in addition to the Enterprise Allowance subsidy.

14 Health

14.1 Community Services Card

The Community Services Card (CSC)⁶⁵ is administered by DWI on behalf of the Ministry of Health, for those on low to middle incomes. It entitles the holder to assistance towards the costs of health services, including: prescription fees; fees for after hours doctor visits; visits to a doctor who is not your regular doctor; glasses for children under 16; emergency dental care provided by hospitals and approved dental contractors; travel and accommodation for referred treatment at a public hospital (at least 80km away for adults and 25km for children); and home help. A parent can use their card for dependent children aged under 18 years.

Income for purposes of application for the card is expected income over the next 12 months and includes CTC plus Family Support. If you are working and getting Working for Families Tax Credits from Inland Revenue, you may qualify for the Community Services Card depending on your income. Check the income table on page 2. You will be sent an application automatically. Those receiving an income-tested benefit automatically qualify for a card.

Table 20. Community Service Card Income Thresholds as at 1 October 2008

You may be able to get a card if you are...	And your yearly pre-tax income is...
Single – living with others	\$22,366.00 or less
Single – living alone	\$23,712.00 or less
Married, civil union or de facto couple – no children	\$35,420.00 or less
Family* of 2	\$42,765.00 or less
Family of 3	\$51,788.00 or less
Family of 4	\$58,965.00 or less
Family of 5	\$65,994.00 or less
Family of 6	\$73,849.00 or less
<i>For families of more than 6, the limit goes up another \$6,920.00 for each extra person.</i>	

Note: * A family is defined as 1 or more parents and 1 or more children living together. Once a child is aged 18 years, they can apply for their own card.

The card gives a subsidy per GP visit for an Adult of \$15; Child 6 and over of: \$20; and Child under 6 of \$35.00.

Table 21. Typical General Practitioner Charges as at November 2008

Fee per GP visit (plus Govt's PHO subsidy)	Child 0-5	Child 6+	Adult
with card: medical	-	\$10-20	\$20-30
accident	-	\$10	\$15
without card: medical	-	\$15-20	\$35-45
accident	-	\$15	\$20

⁶⁵ See: <http://www.workandincome.govt.nz/individuals/a-z-benefits/community-services-card.html>

14.1.1 Prescription Subsidy Card

The Prescription Subsidy Card (replaced the Pharmaceutical Subsidy Card) is obtained from the pharmacist if a person or family pay the Government prescription charge on 20 subsidised prescription items in a year. Prescriptions for children aged under 6 years are excluded. The Government prescription charge was limited to \$3 each item, but that has been reduced to \$2 per item. A person who also has the CSC has to pay any premium, but won't pay any more Government prescription charges that year. To get the Prescription Subsidy Card, a person must keep a record of their prescriptions, or get the pharmacist to keep a record for them.

14.1.2 The High Use Health Card

The High Use Health Card administered by HealthPac is available to patients who visit their doctor frequently for ongoing illnesses. It gives the same subsidies on doctors' visits and prescriptions as the CSC, but is not a family card and is specific to the user. While the CSC is income based, the High Use Health Card is based on GP visits so income is not considered.

15 Accident Compensation

The Accident Compensation Corporation (ACC)⁶⁶ administers the scheme which provides personal injury cover for all New Zealand citizens, nationals, permanent residents, foreign workers temporarily employed, and temporary visitors to New Zealand. Although social security is largely non-contributory in New Zealand, employers, employees, and the self-employed must contribute to the Accident Compensation scheme, which provides earnings-related compensation in the event of an accident, whether at work or elsewhere.⁶⁷ In return people do not have the right to sue for personal injury, other than for exemplary damages.

Table 22. ACC levy rates for 2008/9 and 2009/10

Who pays	Levy Component	Current 2008/09	New 2009/10
Self-employed* and employers (invoiced directly by ACC)	Levy rate for work claims in 2009/10	\$0.72	\$0.75
	Levy rate for claims prior to 1999	\$0.54	\$0.56
	Combined average levy rate per \$100 liable earnings	\$1.26	\$1.31
Employees (through PAYE)	Levy rate for non-work claims in 2009/10 per \$100 liable earnings Including GST	1.4%	1.7%

* Average rates shown as individual rates for industry groups increase or decrease based on recent experience.

Employers pay a levy based on their industrial classification. ACC contributions for non-work accidents are deducted from salaries usually via the pay-as-you-earn (PAYE)

⁶⁶ The principal Act under which ACC operates is the Injury Prevention, Rehabilitation, and Compensation Act, 2001. For more information, go to www.acc.co.nz

⁶⁷ See: <http://www.acc.co.nz/about-acc/WCM001469>

system up to a maximum compensation of 80% or \$102,922 (2008/9). The figures and rates are usually reviewed annually.⁶⁸ The levy rates for 2009/10 are shown in Table 22.

The scheme provides cover for injuries, no matter who is at fault and eliminates the slow, costly and wasteful process of using the courts for each injury. It reduces personal, physical and emotional suffering by providing timely care and rehabilitation that gets people back to work or independence as soon as possible. It minimises personal financial loss by paying weekly earnings compensation to injured people who are off work; and it focuses on reducing the causes of these problems – the circumstances that lead to accidents at work, at home, on the road and elsewhere.

⁶⁸ For more information, go to http://www.acc.co.nz/levies-and-cover/news/PRD_CTRB095705

References

- APN. (2008, 30 October). Labour to give redundant workers 'job search allowance. *New Zealand Herald*.
- Birch, B. (1996). *Tax Reduction and Social Policy Programme Details*. Retrieved from Centre for Social Research and Evaluation. (2007). *Receipt of the Working for Families Package: 2007 Update*. Retrieved from <http://www.ird.govt.nz/aboutir/reports/research/report-wfftc-update/>.
- Chatterjee, S., Conway, P., Dalziel, P., Eichbaum, C., Harris, P., Philipott, B., et al. (1999). *The new politics: a third way for New Zealand*. Palmerston North, New Zealand Dunmore Press.
- Department of Labour. (2008). Previous Minimum wages. Retrieved 08/12, 2008, from <http://www.ers.dol.govt.nz/pay/previous.html>
- Easton, B. (1981). *Pragmatism and Progress. Social Security in the Seventies*. Christchurch: University of Canterbury.
- Esping-Anderson, G. (1990). *The Three Worlds of Welfare Capitalism*. New Jersey: Princeton University Press.
- Jensen, J., Krishnan, V., Hodgson, R., Sathiyandra, S., & Templeton, R. (2006). *New Zealand Living Standards 2004*. Wellington: Ministry of Social Development.
- Leppik, L. (2006). *In-work benefits: literature review*. Tallinn, Estonia: Praxis Centre for Policy Studies.
- McClelland, A., & St John, S. (2006). Social policy responses to globalisation in Australia and New Zealand 1980-2005. *Australian Journal of Political Science, Special Issue Jennifer Curtin, Francis G. Castles and Jack Vowles (Guest editors), Globalising the Antipodes? Policy and Politics in Australia and New Zealand, 41(2)*.
- McClure, M. (1998). *A civilised community: a history of Social Security in New Zealand 1898-1998*. Auckland: Auckland University Press.
- Ministry of Social Development. (2002). *New Zealand's agenda for children*. Wellington: Ministry of Social Development.
- Ministry of Social Development. (2002-2004). The Working for Families cabinet papers. from www.msd.govt.nz/work-areas/working-age-people/future-directions.html
- Ministry of Social Development. (2006). *New Zealand Living Standards 2004*. Wellington.
- Ministry of Social Development, & Inland Revenue Department. (2009 forthcoming). *Sole Parents Impact of WFF on Labour Market Participation*. Wellington: Ministry of Social Development, & Inland Revenue Department.
- Ministry of Social Policy. (2001). *The social report 2001. Indicators of social well-being in New Zealand*. Wellington: Ministry of Social Policy.
- Mowbray, M. (2001). *Distributions and disparity. New Zealand household incomes*. Wellington: Ministry of Social Policy.
- New Zealand Government. (2006). Social Security Amendment Bill Commentary. from <http://www.parliament.nz/en-NZ/PB/Legislation/Bills/6/9/0/690ac9b1868d4770bd3c3db5d0f8cde8.htm>
- New Zealand Government. (2008). *Budget 2008*. Retrieved 16 January 2009. from <http://www.treasury.govt.nz/budget/2008>
- Nolan, P. (2004). *When work does not pay: family structures and poverty traps in New Zealand's social security system*. Paper presented at the New Zealand Association of Economists Conference, Wellington.
- Nolan P. (2002). *New Zealand's family assistance tax credits: evolution and operation* (No. 16). Wellington: New Zealand Treasury.
- O'Brien, M. (2008a). *Poverty, policy and the state. The changing face of social security*. Bristol: The Policy Press, University of Bristol.

- O'Brien, M. (2008b). Work-first and active labour markets. In N. Lunt, O'Brien, M., & Stephens, R. (Ed.), *New Zealand, new welfare* (pp. 51 - 59). Melbourne: Cengage Learning Australia Pty Ltd.
- Peck, J., & Theodore, N. (2000). 'Work first': workfare and the regulation of contingent labour markets. *Cambridge Journal of Economics*, 24, 19.
- Perry, B. (2004). Working for families: the impact on child poverty. *Journal of social policy, Ministry of Social Development*(22), 19-54.
- Perry, B. (2005). Social Report Indicators for Low Incomes and Inequality: Update from the 2004 Household Economic Survey. from <http://www.msd.govt.nz/work-areas/cross-sectoral-work/indicators-for-low-incomes-and-inequality.html>
- Perry, B. (2007). *Household incomes in New Zealand: trends in indicators of equality and hardship 1982-2004*. Wellington: Ministry of Social Development
- Perry, B. (2008). *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982-2007* Wellington: Ministry of Social Development
- Rankin, K. (2006). New Zealand Income Tax Policy 1973-1982 and its Legacy. *New Zealand Journal of Taxation Law and Policy*, 12(1), 10 -18.
- Rankin, K. (2007). An Income Tax Proposal for New Zealand. *New Zealand Journal of Taxation Law and Policy*, 13(1), 10-19.
- Royal Commission of Inquiry on Social Security in New Zealand. (1972). *Social Security in New Zealand*. Wellington: Government Printer.
- Shipley, J. (1991). *Social assistance: welfare that works*. Wellington: Government Printer.
- Singley, S. G. (2004). *Barriers to Employment among Long-term Beneficiaries: A review of recent international evidence* Wellington: Centre for Social Research and Evaluation Te Pokapū Rangahau Arotaki Hapori, Ministry of Social Development.
- Social Security (Personal Development and Employment) Amendment Act, 28 (2002).
- Social Security (Working Towards Employment) Amendment Bill, 101-3 (2006).
- St John, S. (1994). *Delivering financial assistance to families: an analysis of New Zealand's policies and the case for reform* (Policy Discussion paper No 18). Auckland: University of Auckland.
- St John, S. (1996). *The welfare mess revisited* (Policy discussion paper). Auckland: Department of Economics: University of Auckland.
- St John, S. (2005). Retirement income policy in New Zealand. *The Economic and Labour Relations Review*, 15(2), 217-239.
- St John, S. (2007). New Zealand's experiment in tax neutrality for retirement saving *The Geneva Papers*, 32, 532-552.
- St John, S., & Craig, D. (2004). *Cut price kids: Does the 2004 'Working for Families' budget work for children?* Auckland: Child Poverty Action Group.
- St John, S., & Heynes, A. (1994). *The welfare mess* (Policy Discussion Paper No. 15): Department of Economics: University of Auckland.
- St John, S., Littlewood, M., & Meehan, L. (2008). The distributional impact of recent changes to retirement income policy: a preliminary analysis [Electronic Version]. *Working Paper No 2008-2*.
- St John, S., & Rankin, K. (1998). *Quantifying the Welfare Mess* (Policy Discussion Paper No. 22). Auckland: Department of Economics, University of Auckland.
- St John, S., & Rankin, K. (2002). *Entrenching the welfare mess* (Policy Discussion Paper: No. 24): Economics Department: Auckland University.
- St John, S., & Wynd, D. (Eds.). (2008). *Left Behind*. Auckland Child Poverty Action Group
- The New Zealand Treasury. (1990). *Briefing to the incoming government*. Wellington: The New Zealand Treasury.
- The New Zealand Treasury. (2001). *Towards an inclusive economy*. Wellington: The New Zealand Treasury.