



# Cabinet

## Minute of Decision

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### Initial Working for Families Changes to Support Low-income Families

**Portfolios**                      **Child Poverty Reduction / Social Development and Employment**

On 5 November 2021, Cabinet:

#### Background

- 1        **noted** that in 2019, the Cabinet Social Wellbeing Committee (SWC) agreed to a review of Working for Families as part of the Welfare Overhaul work programme [SWC-19-MIN-0168];
- 2        **noted** that on 12 May 2021, SWC noted that the review of Working for Families had been brought forward on the Welfare Overhaul work programme [SWC-21-MIN-0068];
- 3        **noted** that we are committed to fundamental changes to Working for Families **s 9(2)(f)(iv)**  
[REDACTED]
- 4        **noted** that under section MF(7)(2)(b) and MF(7)(2BA)(a) of the Income Tax Act 2007, the rates of the Family Tax Credit and Best Start Tax Credit must be adjusted once the cumulative increases in the Consumer Price Index (CPI) reach 5%, since the last adjustment;
- 5        **noted** that increases to the CPI have now reached 8.57% and under current settings, the Family Tax Credit and Best Start Tax Credit will automatically increase by 8.57% on 1 April 2022;
- 6        **noted** that there is a strong case to take immediate additional action to improve income adequacy for families on our lowest incomes as part of our review of Working for Families, as:
  - 6.1        we know that COVID-19 and the associated alert level restrictions have created additional pressures for some families;
  - 6.2        the CPI adjustment of payments scheduled for April 2022 provide an opportunity to make changes to target assistance to those on lower incomes;
  - 6.3        changes need to be implemented through Budget 2022 to have a full impact on our current three-year child poverty targets;

**Proposal to increase the Family Tax Credit combined with an increase in the abatement rate**

- 7 **agreed** to the following changes to take effect from 1 April 2022:
- 7.1 increase the Family Tax Credit rates by \$5 per child per week;
  - 7.2 increase the Family Tax Credit and In Work Tax Credit abatement rate to 27 percent;
  - 7.3 pass on the \$5 increase to the Family Tax Credit to increase the base rates of the Orphan's Benefit, Unsupported Child's Benefit, and Foster Care Allowance by \$5 per week per child;
- 8 **agreed** to increase the abatement rate, as outlined in paragraph 7.2 via an amendment to the Income Tax Act 2007;
- 9 **noted** that making these changes together ensures support is targeted to those on the lowest incomes at a reduced fiscal cost, while ensuring that no families will be worse off compared to what they currently receive;
- 10 **noted** that the changes to Working for Families are forecast to reduce child poverty by 5,000 (+/- 4,000) children on the before-housing-costs, moving line measure, and 6,000 (+/- 5,000) children on the after-housing-costs, fixed line measure;
- 11 **approved** the following changes to appropriations to give effect to the policy decision in paragraph 7 above, with a reduction in the operating balance and increase in net core Crown debt:

	\$m - increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
<b>Vote Social Development</b>					
<b>Minister for Social Development and Employment</b>					
<b>Benefits or Related Expenses:</b>					
Childcare Assistance					
Hardship Assistance	(0.621)	(2.617)	(2.639)	(2.545)	(2.545)
Orphan's/Unsupported Child's Benefit	1.478	6.215	6.593	6.923	7.293
<b>Minister of Housing</b>					
<b>Benefits or Related Expenses:</b>					
Accommodation Assistance	(0.735)	(2.853)	(3.030)	(3.618)	(3.618)
<b>Vote Housing and Urban Development</b>					
<b>Minister of Housing</b>					
<b>Non-Departmental Output Expense:</b>					
Purchase of Public Housing	(0.599)	(2.552)	(2.555)	(2.141)	(2.141)
<b>Vote Oranga Tamariki</b>					
<b>Minister for Children</b>					
<b>Investing in Children and Young people MCA:</b>					
<b>Departmental Output Expense:</b>					
Statutory Intervention and Transition (funded by revenue Crown)	0.252	1.009	1.012	1.009	1.009
<b>Vote Revenue</b>					
<b>Minister of Revenue</b>					
<b>Benefits or Related Expenses:</b>					
Family Tax Credit PLA	22.250	89.000	85.000	81.000	81.000
In-Work Tax Credit PLA	(5.000)	(20.000)	(21.000)	(21.000)	(21.000)
Independent Earner Tax Credit PLA	0.250	1.000	1.000	1.000	1.000
<b>Total Operating</b>	<b>17.275</b>	<b>69.202</b>	<b>64.381</b>	<b>60.628</b>	<b>60.998</b>

- 12 **agreed** that the proposed changes to appropriations above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 13 **agreed** that the expenses incurred under paragraph 11 above be charges as a pre-commitment against the Budget 2022 operating allowance;

### Changes to the measure used to index the Family Tax Credit and Best Start Tax Credit

- 14 **noted** that a technical amendment is needed to change the CPI measure used for this calculation from the New Zealand Consumers Price Index all groups excluding cigarettes and other tobacco products (CPIX) to New Zealand Consumers Price Index all groups, consistent with previous Cabinet decisions [CAB-16-MIN-0189];
- 15 **noted** that forecast cost associated with indexation have been calculated in line with the policy decision noted in paragraph 14, and to continue using CPIX going forward would have a fiscal cost of \$18 million over the forecast period, as CPIX is higher than CPI all groups;
- 16 **agreed** to update the CPI measure used to calculate the indexation of the Family Tax Credit and Best Start Tax Credit to the New Zealand Consumers Price Index all groups from the March 2021 quarter, and this be used for the Family Tax Credit and Best Start Tax Credit indexation increases required from 1 April 2022;
- 17 **agreed** to give effect to the change in CPI measure via an amendment to the Income Tax Act 2007;

### Giving effect to rates of Family Tax Credit and Best Start Tax Credit from 1 April 2022

- 18 **noted** that as a result of the 5% CPI threshold being reached, and based on the decision in paragraph 16, the Family Tax Credit and Best Start Tax Credit must be increased by 8.57% from 1 April 2022;
- 19 **noted** that the combined impact of policy changes to the FTC agreed in paragraph 7 and the CPI indexation referred to in paragraph 18 result in the following Family Tax Credit and Best Start Tax Credit rates from 1 April 2022:

Payment	Annual Amount (as set out in the Act)	Equivalent weekly rate
Family Tax Credit "eldest dependent child"	\$6,642	\$127.73
Family Tax Credit "additional dependent child"	\$5,412	\$104.08
Best Start Tax Credit	\$3,388	\$65.15

- 20 **agreed** to give effect to the new Family Tax Credit and Best Start Tax Credit rates noted in paragraph 19 via amendments to the Income Tax Act 2007 rather than by Order in Council as would otherwise be required;

### Increasing the Minimum Family Tax Credit via primary legislation

- 21 **noted** that Cabinet previously agreed to implement the adjustment to the 1 April 2022 Minimum Family Tax Credit threshold (then forecast to be to \$32,760) to align with the increase to main benefit via an Order in Council [CAB-21-MIN-0116.33];

22 **noted** that the Minimum Family Tax Credit threshold is now forecast to be \$32,864 from 1 April 2022;

23 **agreed** to give effect to the adjustment to the Minimum Family Tax Credit on 1 April 2022 via an amendment to the Income Tax Act 2007 rather than via an Order in Council as previously agreed by Cabinet;

**Legislation implications**

24 **agreed** that the legislative amendments outlined in paragraphs 8, 17, 20 and 23 be included in legislation introduced and progressed under urgency on 23 November 2021 in order to meet the 1 April 2022 implementation date;

25 **authorised** the Minister of Revenue, the Minister of Social Development and Employment, and the Minister of Finance to make any minor and technical amendments to these changes to the Working for Families settings;

26 **noted** that the Minister of Revenue will seek Cabinet’s approval to introduce the Taxation (COVID-19 Support Payments and Working for Families Tax Credits) Bill;

s 9(2)(f)(iv) [Redacted]

27 s 9(2)(f)(iv) [Redacted]

28 s 9(2)(f)(iv) [Redacted]

Michael Webster  
Secretary of the Cabinet