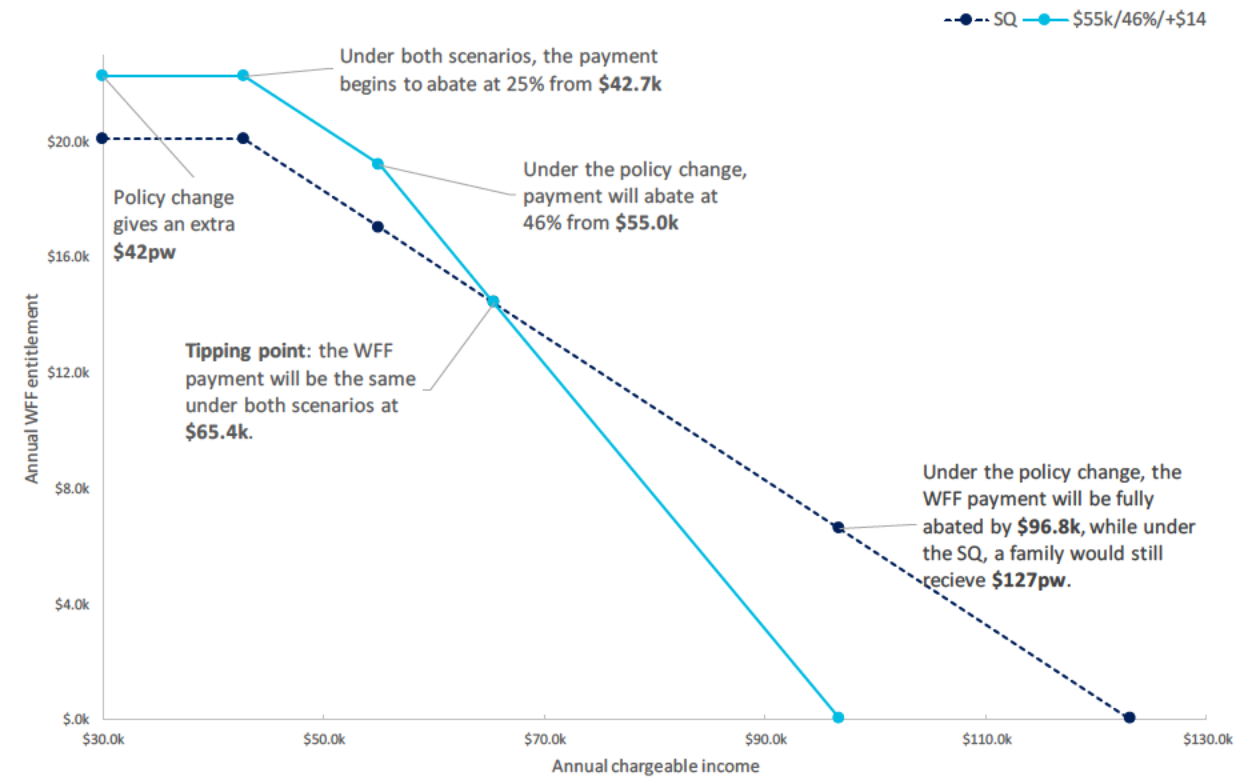


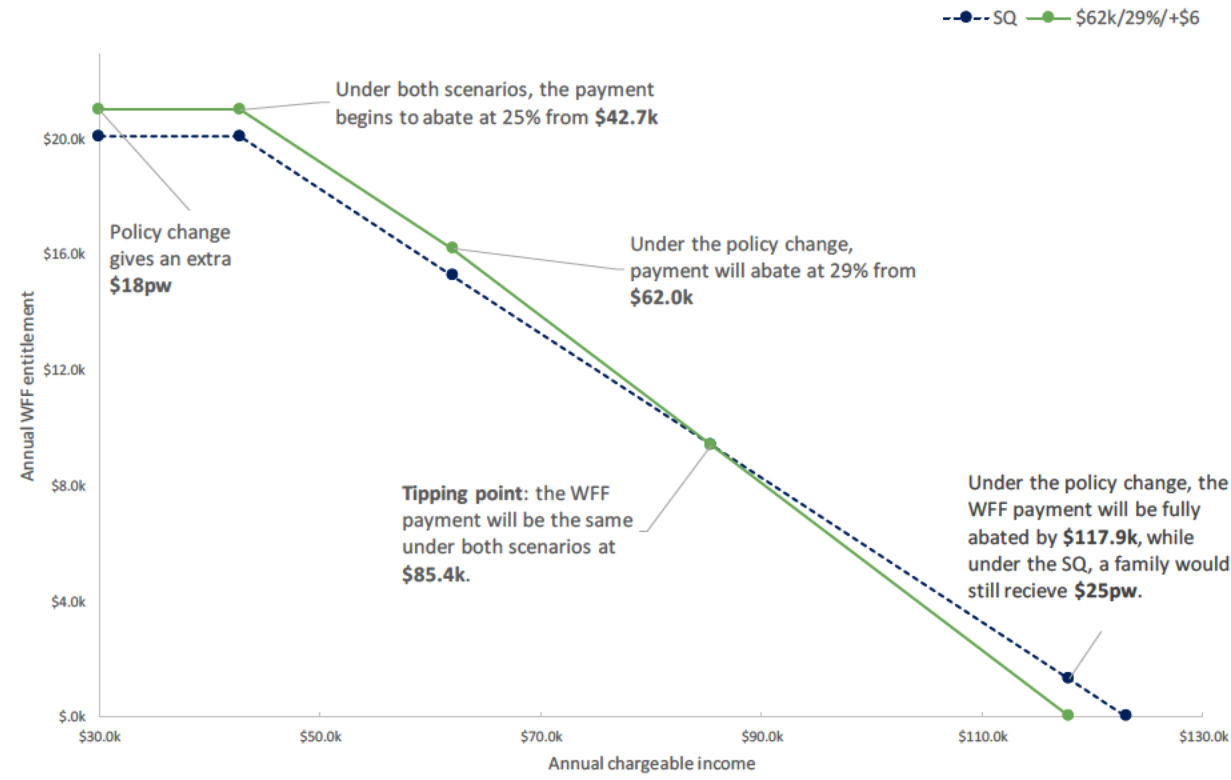
# Appendix Three: Impact of Family Tax Credit increases and abatement changes for an example family with three children

This appendix provides more detail on two of the proposed changes, in terms of what it would mean for an example family that are in work (receiving the IWTC and FTC, but not MFTC) with three children.

**Most redistributive change (\$22m)** – This option increases the FTC by \$14 per child, and introduces a two-tier abatement structure, with the payment abating at 46% for income above \$55k.



**Least redistributive change (\$106m)** – This option increases the FTC by \$6 per child, and introduces a two-tier abatement structure, with the payment abating at 29% for income above \$62k.



# Appendix Four - Working for Families: Status Quo Example Families

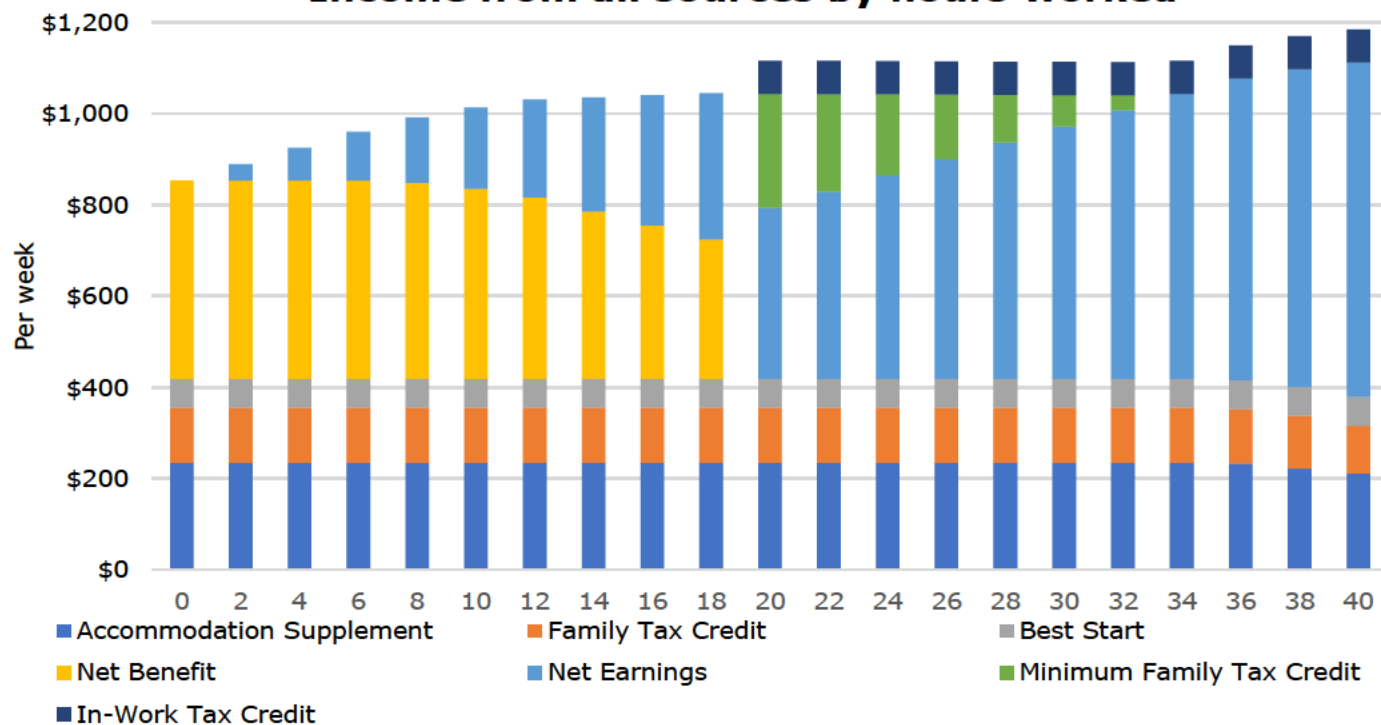
These example families represent low-income working families who are most likely to be transitioning on and off benefit. Sole parents are far more common in the benefit system than couples.

## Example Family one – 1 April 2022



Sole parent with one child (aged 2) earning \$22 per hour when working. Lives in Auckland, paying lower quartile rent and receiving the Accommodation Supplement, and relevant tax credits. All costs are after housing. This example family does not receive the Winter Energy Payment, hardship assistance or Disability Allowance.

**Income from all sources by hours worked**



Gain from 0-8 hrs (per week)	Gain from 8-20 hrs (per week)	Gain from 20-40 hrs (per week)
\$137.96*	\$124.93*	\$68.03*

\*excludes childcare

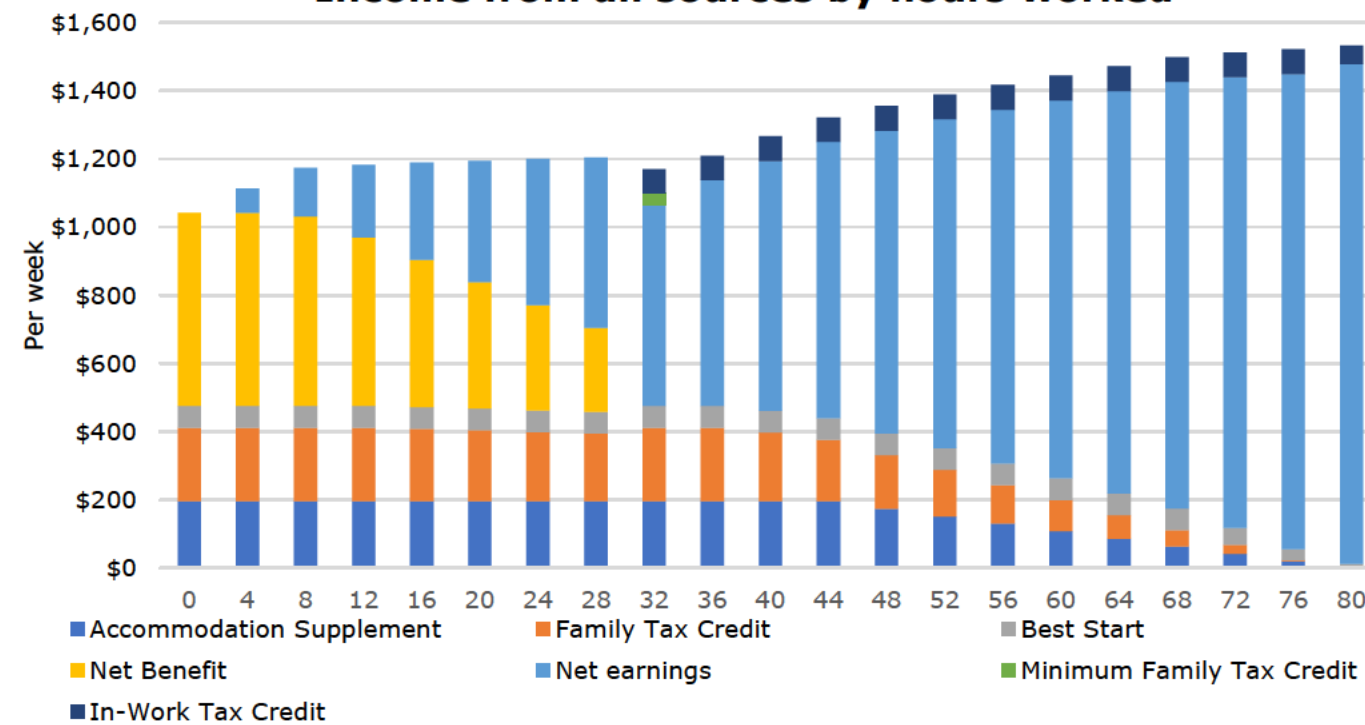
- Under current settings, there are strong financial incentives for a sole parent to enter into a small number of hours of work due to the abatement-free threshold.
- Once a sole parent works at least 20 hours per week they are incentivised to move 'off benefit', becoming eligible for the Minimum Family Tax Credit and the In-Work Tax Credit.
- This provides a financial incentive to work the minimum required hours to qualify for the Minimum Family Tax Credit (20 hours) but poor financial incentives to increase hours because of the 100% abatement of the Minimum Family Tax Credit.
- The Minimum Family Tax Credit fully abates by 34 hours, at which point their income increases from additional hours worked.
- They would be **better off** by **\$68.03** per week by increasing their hours from 20 to 40 hours of work.
- This example family shows the ideal situation for a client. It assumes the client has no debt and does not include other costs of work, such as transport and formal childcare.
- When childcare costs are included, they would be **worse off** by **\$2.57** per week by moving from 20 hours of work to 40 hours, due to the cost of formal childcare (net of subsidies).
- Work incentives for both this sole parent and the example couple family are weaker when the Winter Energy Payment is included, which is only available to people receiving a main benefit.

## Example Family two - 1 April 2022



A couple with two children (aged 2 and 4) earning \$22 per hour when working. Lives in Auckland, paying lower quartile rent and receiving the Accommodation Supplement, and relevant tax credits. All costs are after housing. This example family does not receive the Winter Energy Payment, hardship assistance or Disability Allowance.

**Income from all sources by hours worked**



Gain from 0-8 hrs (per week)	Gain from 8-40 hrs (per week)	Gain from 40-80 hrs (per week)
\$131.56*	\$92.85*	\$266.06*

\*excludes childcare

- This example family shows on one partner working up to 40 hours per week (while the other partner cares for the children) and then shows the other partner entering work and working up to 40 hours.
- As with the sole parent, there are strong financial incentives for one partner to enter into a small number of hours of work due to the abatement-free threshold.
- They gain limited additional income from increasing work hours between 8 and 29 hours, due to benefit abatement.
- At 30 hours of work, people are no longer eligible for a benefit as this is defined as full-time employment. This means that couples are now worse off when they work more than 29 hours at low wages. It takes 9 additional hours worked (39 hours total) before their income returns to the same amount they received at 29 hours.
- They would be **worse off** by **\$34.71** per week by increasing their hours from 29 to 30. This reduction is greater during the winter months, where people receiving a main benefit receive the Winter Energy Payment.
- Increasing their work hours from 29 hours to 40 hours would not result in any increase to their overall income.
- When the non-working partner enters work, income increases relatively consistently with each additional hour worked.
- This example family shows the ideal situation for a client. It assumes the client has no debt and does not include other costs of work, such as transport or formal childcare. If childcare costs are included when the other partner starts to work, the incentives to work for that person are weaker.
- If the cost of formal childcare is included, once the other partner enters work, they would be **worse off** by **\$188.94** per week by increasing their combined hours of work from 40 to 80 hours.