20 May 2010

Fact sheet - Working for Families changes

What is changing?

- Well-off families will no longer be able to use investment losses, including losses from rental properties, to reduce their income and therefore become eligible for Working for Families (WFF) payments, from 1 April 2011.
- The Government will urgently reform other rules relating to income for the purposes of WFF, Student Allowances and the Community Services Card. These changes include ensuring trust income is counted as part of a family's total income for the purposes of WFF. Resulting changes will apply from 1 April 2011.
- The Family Tax Credit (part of WFF) will continue to be automatically adjusted for inflation, but the level of the abatement threshold will no longer be adjusted automatically and will become a policy decision for the Government.

Why?

- WFF was designed to help low and middle-income families, not people with sufficient means to artificially inflate their eligibility. These changes will make the system fairer.
- The current two-part formula that inflation-adjusts Family Tax Credit (FTC) payments gives higher-income families a larger proportional increase than lower-income families. Amending the formula moderates this over-adjustment for higher-income families, while leaving most lower income families unaffected.

Key facts

- The changes to the treatment of income for Working for Families eligibility will affect property investors, higher-income recipients of WFF and people who structure their affairs to claim higher than intended levels of WFF.
- Inland Revenue estimates about 9,700 people getting WFF currently also claim rental property losses.
- Large amounts of income, particularly in the case of trust-owned businesses, can be distributed through a trust, meaning families on a high actual income can appear to have quite a low income for the purposes of WFF.

- An issues paper will be released later this year. It will also look at whether other forms of income including income from some PIE and superannuation schemes and fringe benefits should be counted.
- It is expected stopping investment losses being counted, and counting some other forms of income such as trust distributions, will generate $5 million in 2010/11 rising to $25 million a year by 2013/14.
- The amount of the Family Tax Credit and the abatement threshold - the point after which Working for Families payments start decreasing as the family earns additional income - are inflation-adjusted when CPI growth adds up to 5 per cent since the previous adjustment.
- Under Budget 2010 changes, one part of this formula - the abatement threshold – will no longer be indexed. It will remain at the current level of $36,827, but the Government has kept the flexibility to increase the threshold in the future.
- An adjustment for inflation of 5 per cent currently gives a family with two children, earning at or below the threshold, a 5 per cent increase in Family Tax Credit payments. However, the same family earning $75,000 currently gets a 29 per cent increase in Family Tax Credit payments as a result of the same adjustment, because they benefit from both the increase in the amount and the threshold change.
- No longer automatically inflation-adjusting the abatement threshold will save $15 million in 2011/12, rising to $40 million a year by 2013/14, unless the Government elects to raise the threshold during that period.

More information

- *A special report explaining the amendments to investment losses and the abatement threshold will be available on Inland Revenue's Policy Advice Division website at www.taxpolicy.ird.govt.nz after Budget day legislation is introduced.*