

24 May 2012

Fact sheet – Tax credit changes

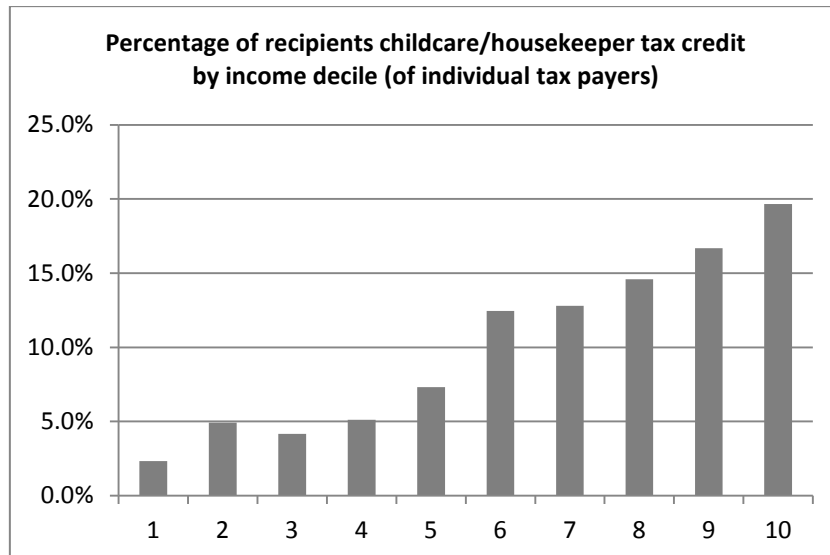
What is changing?

- Three tax credits – the income-under-\$9,880 tax credit, the tax credit for childcare and housekeeper expenditure, and the tax credit for the active income of children – are being changed for the 2012/13 and later tax years.
- The tax credit for children is being replaced by a limited tax exemption. This credit ensures that children will not need to file a tax return if they have small amounts of income not taxed at source (for example, from mowing their neighbour's lawn). This new exemption will not allow a child to claim a refund of tax that has already been paid, such as PAYE and Resident Withholding Tax.
- The income-under-\$9,880 tax credit and the tax credit for childcare and housekeeper expenditure are being repealed. Taxpayers will not be able to claim these credits if they file a tax return at the end of the tax year.
- Transitional rules have been developed for people who are claiming one of these tax credits in the current year through the PAYE system.

Why are these changes being made?

- These tax credits are all outdated and no longer serve their original policy intent.
 - The income-under-\$9,880 tax credit was introduced as part of a 1986 tax reform package to ensure that low-paid, fulltime workers were not made worse off due to the tax reforms.
 - The tax credit for childcare and housekeepers expenses has existed in some form since 1933. The amount of the credit was last updated for the 1984-85 tax year. It has largely been superseded by other policies, such as early childhood education, which the Government now spends \$1.4 billion a year on, and the \$2.7 billion support provided through Working for Families.

The credit is also poorly targeted. Wealthy families who may not need any help meeting the costs of childcare are just as able to claim the credit as poorer ones. Only 11 per cent of the claimants of the credit come from the bottom 30 per cent of households.



- The tax credit for the active income of children was introduced in 1978 and was designed to reduce the compliance costs of employing children on a part-time basis. The credit meant that employers of children with low annual salaries did not need to withhold tax (PAYE).

The credit now serves this purpose very rarely. Most employers prefer to apply their normal payroll systems, including deducting PAYE, to all their employees. As a result, the credit is now mostly claimed via a child filing a tax return at the end of the year. This means the credit, originally designed to reduce compliance costs, increases paperwork.

Where can I find more information?

Information about the transitional rules for individuals who are claiming the income-under-\$9,880 tax credit or the tax credit for children through the PAYE system is available on Inland Revenue's website: www.ird.govt.nz.