

In Confidence

Office of the Minister of Revenue

Chair, Social Wellbeing Committee

Order in Council: Increase in Working for Families Tax Credit rates

Proposal

- 1 I seek Cabinet agreement to the increase in Working for Families tax credit rates. I also seek authority to make a submission to the Executive Council of 14 November of the Income Tax Increase in Working for Families Tax Credit Rates Order 2022 (WFF Order) once it is finalised.
- 2 A series of adjustments to the Family Tax Credit (FTC) and Best Start Tax Credit (BSTC) have been proposed to reflect annual price inflation of 7.2% since rates were last adjusted with effect from 1 April 2022.
- 3 Additionally, the after-tax value of the Minimum Family Tax Credit (MFTC) will also need to increase to reflect the anticipated wage-growth adjustment of main benefit rates from 1 April 2023.
- 4 In summary, I propose that, from 1 April 2023, the:
 - 4.1 FTC rates increase from:
 - 4.1.1 For the eldest child, from \$6,642 p.a. to \$7,121 (i.e. from \$127 to \$136 per week) after tax; and
 - 4.1.2 For a subsequent child, from \$5,412 p.a. to \$5,802 (i.e. from \$104 to \$111 per week) after tax.
 - 4.2 BSTC rate increase from \$3,388 p.a. to \$3,632 (i.e. from \$65 to \$69 per week) after tax; and
 - 4.3 MFTC rate increase from \$32,864 p.a. to \$34,164 p.a. after tax.

Policy

Best Start Tax Credit and Family Tax Credit

- 5 The Income Tax Act 2007 requires that the FTC and BSTC payment rates must be adjusted for inflation once the total value of quarterly increases in the CPI reaches 5% since the payment rates were last adjusted.

- 6 The payment rates for the FTC and BSTC were last set by legislative amendment incorporating inflation up to the end of September 2021. Due to the current high rates of inflation, the 5% threshold was exceeded at the end of the September 2022 quarter. The annual inflation rate to the September 2022 quarter was 7.2%.
- 7 In line with current policy, I recommend that the MFTC threshold should be increased from \$32,864 p.a. to \$34,164 for the 2023/24 tax year. This increase reflects the average wage growth, and wage indexed main benefit rates that are expected to apply from 1 April 2023.
- 8 Because the new sole parent rates have not yet been determined and will not be available until February 2023, officials have adjusted the MFTC based on average wage change given by the preliminary Half Yearly Economic Fiscal Update (HYEFU) figures.
- 9 The confirmed HYEFU figures will be available after 9 November 2022. I recommend that the MFTC be revised, if required, once the confirmed HYEFU numbers are available.

Financial implications

- 10 There are no financial implications associated with adjusting the rates of Working for Families Tax Credits by inflation. The higher than expected CPI of 7.2% will increase the forecast costs of CPI indexation, which had been estimated at Budget Economic and Fiscal Update 2022, by \$5.7m in the 2022/23 Fiscal Year and \$20.0m in the 2023/24 Fiscal Year.
- 11 However, the preliminary results from the Half Year Economic and Fiscal Update 2022 (HYEFU 2022) indicate that the increased costs from the CPI indexation will be more than offset by other factors (e.g. wage growth) which will reduce the total cost of Working for Families in the 2022/23 Fiscal Year.

Timing and 28-day rule

- 12 The Income Tax Act 2007 requires the Order to be made no later than 1 December and to come into effect and apply from 1 April following that date. The Order therefore is in accordance with the rule that regulations must not come into force until at least 28 days after they have been notified in the New Zealand Gazette.

Compliance

- 13 The Order complies with:
- a. the principles of the Treaty of Waitangi;
 - b. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993;
 - c. the principles and guidelines set out in the Privacy Act 1993; and
 - d. relevant international standards and obligations.

Regulations Review Committee

- 14 Officials consider that there are no grounds for the Regulations Review Committee to draw the WFF Order to the attention of the House under Standing Order 319.

Certification by Parliamentary Counsel

- 15 The WFF Order will be certified by Parliamentary Counsel as being in order for submission to Cabinet.

Impact analysis

Regulatory Impact Assessment

- 16 The Treasury's Regulatory Impact Analysis team has determined that the proposals to adjust the FTC and the BSTC for inflation are exempt from the requirement to provide a Regulatory Impact Statement on the grounds that the government is required to make the adjustment by the Income Tax Act 2007.
- 17 The proposal to adjust the MFTC in line with increases to main benefit rates is also exempted by the Treasury's Regulatory Impact Analysis team. The exemption is on the grounds that it has no or minor impacts on businesses, individuals, and not-for-profit entities, as the adjustment maintains relativities and is required by established Cabinet policy.

Climate Implications of Policy Assessment

- 18 The Climate Implications of Policy Assessment (CIPA) teams has been consulted and confirms the CIPA requirements to not apply to these proposals as the threshold for significance is not met.

Publicity

- 19 I intend to make an announcement regarding the increase in the amount of the Working for Families tax credits after Cabinet has agreed to the recommendations. This may be before the Executive Council has authorised the Order on 14 November.
- 20 Inland Revenue will publish an item in its Tax Information Bulletin series, and relevant publications and material will be updated to incorporate the new amount. The Ministry for Social Development may also update its publicly available information.
- 21 Existing recipients will be contacted in early 2023 with an updated estimate of their Working for Families tax credits entitlement for the tax year beginning 1 April 2023.
- 22 The Order will be published in the New Zealand Gazette.

Proactive release

- 23 I propose to proactively release this Cabinet paper, associated minutes, and key advice papers within 30 working days of Cabinet making final decisions.

Consultation

- 24 The Treasury and Ministry of Social Development have been consulted on this paper.

Recommendations

I recommend that the Social Wellbeing Committee:

- 1 **Note** that Cabinet agreed:
 - a. in April 2004, to increase the Minimum Family Tax Credit from 1 April 2006 onwards by an amount sufficient to ensure that families do not suffer a reduction in income when moving off a welfare benefit and into full-time paid work [CAB Min (04) 13/4 refers];
 - b. in December 2020, to calculate the threshold based on sole parents moving off benefit at 20 hours being better off, rather than couples at 30 hours [CAB-2-MIN-0512 refers]; and
 - c. in April 2021, to change the approach to calculating the Minimum Family Tax Credit so that the Winter Energy Payment of the formula equates to five months of payments rather than 12 months of payments [CAB-21-MIN-0116.33 refers];
- 2 **Agree** that (subject to the finalised HYEPU figures) the annual amount of the Minimum Family Tax Credit increase from \$32,864 to \$34,164 (i.e. from \$38,647 to \$40,223 gross) for the tax year beginning 1 April 2023, as allowed under section MF 7 of the Income Tax Act 2007;

- 3 **Agree** that the amount of the Family Tax Credit increase from:
 - a. For the eldest child, \$6,642 p.a. to \$7,121 (i.e. from \$127 to \$136 per week) after tax; and
 - b. For a subsequent child, from \$5,412 p.a. to \$5,802 (i.e. from \$104 to \$111 per week) after tax;
 - c. as allowed under section MF 7 of the Income Tax Act 2007;
- 4 **Agree** that the Best Start Tax Credit rate increase from \$3,388 p.a. to \$3,632 (i.e. from \$65 to \$69 per week) after tax;
- 5 **Authorise** the Minister of Revenue to finalise the amount of the Minimum Family Tax Credit as may be required once the confirmed HYEPU figures are available after 9 November 2022; and
- 6 **Authorise** the submission of an Order in Council to the Executive Council at its meeting on 14 November 2022, giving effect to recommendations 2, 3 and 4, above.

Authorised for lodgement

Hon David Parker

Minister of Revenue