

Hon Simon Watts, Minister of Revenue

Information Release

Order in Council: Income Tax (Tax Credit) Order 2023 (Increase in Working for Families Tax Credit Rates)

February 2024

Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2024/2024-ir-cab-23-sub-0465>

Documents in this information release

#	Reference	Type	Title	Date
1	IR2023/267	Policy report	CPI indexation of Family Tax Credit and Best Start Tax Credit	28 November 2023
2	CAB-23-SUB-0465	Cabinet paper	Order in Council: Increase in Working for Families Tax Credit Rates	29 November 2023
3	CAB-23-MIN-0465	Minute	Order in Council: Increase in Working for Families Tax Credit Rates	29 November 2023

Additional information

The Cabinet paper was considered and confirmed by Cabinet on 29 November 2023.

One attachment to the Cabinet paper is not included in this information release as it is publicly available:

- Order in Council: Income Tax (Tax Credit) Order 2023¹

Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply are identified. Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

¹ <http://www.legislation.govt.nz/regulation/public/2023/0288/8.0/contents.html>

Sections of the Act under which information was withheld:

9(2)(a) to protect the privacy of natural persons, including deceased people

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POLICY AND REGULATORY STEWARDSHIP

Tax policy report: **CPI indexation of Family Tax Credit and Best Start Tax Credit**

Date:	28 November 2023	Priority:	High
Security level:	In Confidence	Report number:	IR2023/267

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	Agree to recommendations	In time for Cabinet meeting on 29 November
Hon Simon Watts Minister of Revenue	Agree to recommendations Agree to lodge the attached Cabinet paper	In time for Cabinet meeting on 29 November

Contact for telephone discussion (if required)

Name	Position	Telephone
Maraina Hak	Policy Lead	s 9(2)(a) [REDACTED]
Richard McLaughlan	Policy Advisor	s 9(2)(a) [REDACTED]

28 November 2023

Minister of Finance
Minister of Revenue

CPI indexation of the Family Tax Credit and Best Start Tax Credit

Executive Summary

1. This report asks you to agree to changes to the Family Tax Credit (FTC) and Best Start Tax Credit (BSTC) rates in line with inflation, as required by the Income Tax Act 2007.
2. This report also seeks your agreement to lodge the attached Cabinet paper (subject to any changes you may make) ahead of the Cabinet meeting on 29 November 2023.
3. Under current Working for Families (WFF) legislation, the FTC and BSTC payment rates must be increased to match inflation at specified times. The rates must be increased once the cumulative value of quarterly increases in the Consumers Price Index (CPI) reaches 5% since the rates were last adjusted.¹
4. As occurred in 2022, the prescribed amount for these changes can be increased by an Order in Council (OIC), but this must be done by 1 December of the relevant year, with the change applying from 1 April of the following calendar year. There is also an ability to amend these rates via primary legislation, however, the 1 December statutory deadline still applies.²
5. The cumulative CPI threshold released on 17 October 2023 was 5.65% from 1 October 2022 to 30 September 2023, which will automatically trigger a higher rate of WFF payment rates from 1 April 2024.
6. The FTC will be increased for the eldest child rate from \$7,121 to \$7,524, and the subsequent child rate from \$5,802 to \$6,130. The BSTC will be increased from \$3,632 to \$3,838. The expected fiscal costs of the CPI adjustments are included in the fiscal forecasts created in the Half-yearly Economic and Fiscal Update 2023.

Next steps

7. To meet the date required by law, the OIC must be made no later than 1 December. We understand that there is a Cabinet and an Executive Council meeting scheduled on 29 November 2023. Officials recommend that the Minister of Revenue submit a Cabinet paper and associated OIC to these meetings for consideration and approval, in order to meet the statutory deadline.
8. The OIC has been prepared by the Parliamentary Counsel Office and is currently with the Cabinet Office.

¹ The payment rates for the FTC and BSTC were last set in November 2022 by Order in Council incorporating inflation from 1 October 2021 to 30 September 2022.

² There will not be a primary legislative vehicle available to make this change that would be enacted prior to 1 December.

Recommended action

It is recommended that you:

- 1 **note** there is a legislative requirement to index FTC and BSTC rates to the CPI once cumulative inflation reaches 5%.

Noted

- 2 **note** that the cumulative CPI threshold which was released in October was 5.65% for the year to September 2023, which will lead to a higher rate of FTC and BSTC payment rates from 1 April 2024.

Noted

- 3 **agree** to make a CPI-indexation increase to the FTC eldest child rate by \$403 per annum (taking it from \$7,121 to \$7,524 per annum), and the subsequent child rate by \$328 per annum (taking it from \$5,802 to \$6,130 per annum) by 1 April 2024 by Order in Council.

Agreed / Not agreed
Minister of Finance

Agreed / Not agreed
Minister of Revenue

- 4 **agree** to make a CPI-indexation increase to BSTC by \$206 per annum (taking it from \$3,632 to \$3,838 per annum) from 1 April 2024 by Order in Council.

Agreed / Not agreed
Minister of Finance

Agreed / Not agreed
Minister of Revenue

- 5 **agree** to take the attached Cabinet paper to Cabinet and Executive Council on 29 November 2023, which will enable the changes to be published by 1 December 2023, in line with the requirement under the Income Tax Act 2007.

Agreed / Not agreed
Minister of Finance

Agreed / Not agreed
Minister of Revenue

- 6 **note** that the Income Tax (Tax Credit) Order 2023 has been prepared by the Parliamentary Counsel Office to reflect the new rates for the FTC and BSTC.

Noted

7 **note** that the expected fiscal costs of the CPI adjustments are included in the fiscal forecasts created in the Half-yearly Economic and Fiscal Update 2023.

Noted

s 9(2)(a)

Maraina Hak
Policy Lead, Policy and Regulatory
Stewardship
Inland Revenue
28 / 11 / 2023

Hon Nicola Willis
Minister of Finance

..... / /

Hon Simon Watts
Minister of Revenue

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CPI inflation adjustment of FTC and BSTC

9. The Family Tax Credit (FTC) is the 'base unit' of the Working for Families (WFF) tax credit. This payment is available to families with dependent children and is not conditional on work obligations or whether they are receiving a benefit. The amount received depends on the family's income, the number of dependent children they have and any shared care arrangements. There are approximately 264,100 recipients of the FTC.³
10. The Best Start Tax Credit (BSTC) is a payment of \$69 per week for families supporting a new-born baby and is universal for all families with new-borns in their first year. It was introduced in 2018 as part of the Families Package, replacing the Parental Tax Credit. There are approximately 137,600 recipients of the BSTC.
11. Under the Income Tax Act 2007, the FTC and BSTC payment rates must be adjusted for inflation once the cumulative value of quarterly increases in the Consumer Price Index (CPI) reaches 5%. These inflation-indexed increases ensure FTC and BSTC maintain their real value over time.
12. The standard process for setting and authorising rates through an Order in Council (OIC) is set out in the Income Tax Act 2007. The OIC must be made no later than 1 December and come into effect and apply from 1 April following that date. There is also an ability to amend these rates via primary legislation, however, the 1 December statutory deadline still applies.⁴
13. The rates were last set by an OIC incorporating inflation up to the end of September 2022. For this report, the cumulative count of inflation starts from 1 October 2022. The 5% cumulative threshold was exceeded from 1 October 2022 to 30 September 2023 by 0.65%. This was published on 17 October 2023. This will result in a higher rate of WFF from 1 April 2024.
14. Accordingly, the adjustments to the WFF Tax Credits that will take effect from 1 April 2024 are as follows:

Tax credit payment (annualised)	From (\$)	To (\$)	Change (\$)
Family Tax Credit Approximately 264,100 recipients			
Eldest child rate	\$7,121 \$136 p/w	\$7,524 \$144 p/w	\$403 \$8 p/w
Subsequent child rate	\$5,802 \$111 p/w	\$6,130 \$117 p/w	\$328 \$6 p/w
Best Start Tax Credit Approximately 137,600 recipients	\$3,632 \$69 p/w	\$3,838 \$73 p/w	\$206 \$4 p/w

Costs included in forecasts

15. The regular index adjustments are estimated to have the following fiscal costs:

³ Recipient figures are taken from the number of Working for Families claims with non-zero entitlement during the 2022 income tax year.

⁴ There will not be a primary legislative vehicle available to make this change that would be enacted prior to 1 December.

Fiscal years (\$m)					
	2023/24	2024/25	2025/26	2026/27	2027/28
FTC	36	150	152	147	142
IWTC⁵	4	17	17	17	16
BSTC	4	17	17	17	16
Debt Impairment⁶	1	5	5	5	4
Cash	45	189	191	186	178
Total (Revenue)	44	184	186	181	174

16. The expected fiscal costs of the CPI adjustments are included in the fiscal forecasts created in the Half-yearly Economic and Fiscal Update 2023 and is expected to be \$20 million lower than the estimates created for the Pre-election Economic and Fiscal Update 2023. It should be noted that this does not include flow-on implications to the Ministry for Social Development. More specifically, the savings for MSD administered financial assistance.

Minimum Family Tax Credit

17. The Minimum Family Tax Credit (MFTC) provides a financial incentive to ensure low income working families remain better off financially in full time work than they would be on a main benefit. This helps support people in moving from a main benefit to full-time work.⁷
18. The MFTC rate is tied to main benefit rates. That is, as main benefits will increase with either wage growth or inflation from 1 April 2024, the MFTC should also be increased, to maintain the policy intent of the payment. The confirmed method of indexing main benefits was not established in time for the MFTC adjustment to be included as part of this Order in Council process. Ministers will be asked to take decisions on the impacts of indexation on the MFTC. Officials will report to you at a later date.

Next steps

19. The FTC and BSTC adjustments are reflected in the drafting of the OIC which the Parliamentary Counsel Office has provided to the Cabinet Office. The title of this OIC is the Income Tax (Tax Credit) Order 2023.
20. The Cabinet paper and associated OIC will need to be lodged in time for Cabinet consideration (and the Executive Council thereafter) on Wednesday 29 November 2023. This will ensure that the OIC is published no later than 1 December.

⁵ An increase in the FTC entitlement rate will have a flow-on effect to increase IWTC costs because IWTC abates after FTC. This does not include the proposed increase to the IWTC of \$25 per week from 1 April 2024.

⁶ The impairment ratio represents the amount of Working for Families debt that has been generated as a result of the overpayment of an entitlement. The impairment ratio drives the difference between cash and revenue forecasts as it represents cash paid out was Working for Families entitlements (cash) where no entitlement exists (revenue).

⁷ Or for sole parents, to work 20 hours or more a week.

21. Inland Revenue will publish an item in its Tax Information Bulletin series informing individuals of the change in early 2024. Existing recipients will be contacted in February 2024 with an updated estimate of their WFF tax credit entitlement for the tax year beginning 1 April 2024.

In Confidence

Office of the Minister of Revenue

Chair, Cabinet

ORDER IN COUNCIL: INCREASE IN WORKING FOR FAMILIES TAX CREDIT RATES

Proposal

- 1 This paper seeks Cabinet's agreement to increase certain Working for Families tax credit rates, as required by the Income Tax Act 2007. Authority is sought for the Minister of Revenue to make a submission to the Executive Council on 29 November 2023 of the required Order in Council, the Income Tax (Tax Credit) Order 2023 (the Order).
- 2 A series of adjustments to the Family Tax Credit (FTC) and Best Start Tax Credit (BSTC), which form part of the Working for Families tax credits, have been proposed to reflect annual price inflation of 5.65% since rates were last adjusted in September 2022.
- 3 In summary, I propose that, from 1 April 2024, the:
 - 3.1 FTC rates increase:
 - 3.1.1 For the eldest child, from \$7,121 p.a. to \$7,524 (i.e. from \$136 to \$144 per week) after tax;
 - 3.1.2 For a subsequent child, from \$5,802 p.a. to \$6,130 (i.e. from \$111 to \$117 per week) after tax; and
 - 3.2 BSTC rate increase from \$3,632 p.a. to \$3,838 (i.e. from \$69 to \$73 per week) after tax.

Policy

Best Start Tax Credit and Family Tax Credit

- 4 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.
- 5 The payment rates for the FTC and BSTC were last set in November 2022 by Order in Council incorporating inflation from 1 October 2021 to 30 September 2022. Due to the current rates of inflation, the 5% threshold was exceeded at the end of the September 2023 quarter. The annual rate of inflation from 1 October 2022 to 30 September 2023 was 5.65%.

Financial Implications

- 6 There are no Budget allowance implications associated with adjusting the rates of Working for Families Tax Credits by inflation. The expected fiscal costs of the CPI adjustments are included in the fiscal forecasts created in the Half-yearly Economic and Fiscal Update 2023 and is expected to be \$20 million lower than the estimates created for the Pre-election Economic and Fiscal Update 2023.

Timing and 28-day rule

- 7 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

- 8 The Order complies with:
- 8.1 the principles of the Treaty of Waitangi;
 - 8.2 the rights and freedoms contained in the [New Zealand Bill of Rights Act 1990](#) and the [Human Rights Act 1993](#);
 - 8.3 the principles and guidelines set out in the [Privacy Act 1993](#) (if the regulations raise privacy issues, indicate whether the Privacy Commissioner agrees that they comply with all relevant principles);
 - 8.4 relevant international standards and obligations;
 - 8.5 the [Legislation Guidelines](#) (2021 edition), which are maintained by the Legislation Design and Advisory Committee.

Regulations Review Committee

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

Certification by Parliamentary Counsel Office

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

Impact analysis

Regulatory Impact Assessment

- 11 The Treasury's Regulatory Impact Analysis team has determined that 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 has limited statutory decision making because it is required to make the adjustment by the Income Tax Act 2007.

Regulatory Impact Assessment

- 12 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

- 13 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 of Social Development may also update its publicly available information.
- 14 Existing recipients will be contacted in early 2024 with an updated estimate of their Working for Families tax credits entitlement for the tax year beginning 1 April 2024.
- 15 The Order will be published in the New Zealand Gazette.

Proactive release

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

Consultation

- 17 The Treasury, Ministry of Social Development and Department of Prime Minister and Cabinet have been consulted on this paper.

Recommendations

The Minister of Revenue recommends that Cabinet:

- 1 **Note** the statutory requirement that the Family Tax Credit and Best Start Tax Credit 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.
- 2 **Agree** that the Family Tax Credit increase from:
 - 2.1 For the eldest child, \$7,121 p.a. to \$7,524 (i.e. from \$136 to \$144 per week) after tax; and
 - 2.2 For a subsequent child, from \$5,802 p.a. to \$6,130 (i.e. from \$111 to \$117 per week) after tax;
- 3 **Agree** that the Best Start Tax Credit rate increase from \$3,632 p.a. to \$3,838 (i.e. from \$69 to \$73 per week) after tax;
- 4 **Authorise** the submission of an Order in Council to the Executive Council at its meeting on 29 November 2023, giving effect to recommendations 2 and 3, above.

Authorised for lodgement
Hon Simon Watts
Minister of Revenue



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

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

Portfolio **Revenue**

On 29 November 2023, Cabinet:

- 1 **noted** that the statutory requirement that the Family Tax Credit and Best Start Tax Credit payment rates must be adjusted for inflation once the total value of quarterly increases in the CPI reaches five percent since the payment rates were last adjusted.
- 2 **agreed** that the Family Tax Credit increase from:
 - 2.1 for the eldest child, \$7,121 p.a. to \$7,524 (i.e. from \$136 to \$144 per week) after tax;
 - 2.2 for a subsequent child, from \$5,802 p.a. to \$6,130 (i.e. from \$111 to \$117 per week) after tax;
- 3 **agreed** that the Best Start Tax Credit rate increase from \$3,632 p.a. to \$3,838 (i.e. from \$69 to \$73 per week) after tax;
- 4 **noted** that the Income Tax (Tax Credit) Order 2023 gives effect to paragraphs 2 and 3 above;
- 5 **authorised** the submission to the Executive Council of the Income Tax (Tax Credit) Order 2023 [PCO 25955/3.0].

Rachel Hayward
Secretary of the Cabinet