

# Hon Simon Watts, Minister of Revenue

## Information Release

### Minimum Family Tax Credit Threshold – Holding the Rate this Year

**January 2025**

#### Availability

This information release is available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2025/CBC-24-SUB-0126>

#### Documents in this information release

#	Reference	Type	Title	Date
1	IR2024/464	Report	The Minimum Family Tax Credit threshold – updated draft Cabinet paper	14 November 2024
2	CBC-24-SUB-0126	Cabinet Paper	The Minimum Family Tax Credit Threshold – Holding the Rate this Year	2 December 2024
3	CBC-24-MIN-0126	Minutes	Minimum Family Tax Credit Threshold: Holding the Rate this Year	2 December 2024
4	CAB-24-MIN-0472	Minutes	Report of the Cabinet Business Committee: Period Ended 6 December 2024	6 December 2024
5	IR2024/244	Report	Minimum Family Tax Credit and Working for Families Tax Credit threshold overlap	29 August 2024

#### Additional information

The Cabinet paper was considered by the Cabinet Business Committee on 2 December 2024 and confirmed by Cabinet on 6 December 2024.

#### 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.

Sections of the Act under which information was withheld:

- 9(2)(a) to protect the privacy of natural persons, including deceased people
- 9(2)(f)(iv) to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

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Inland Revenue  
Te Tari Taake

POLICY

**Tax policy report:**      **The Minimum Family Tax Credit threshold – updated draft Cabinet paper**

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<b>Date:</b>	14 November 2024	<b>Priority:</b>	Medium
<b>Security level:</b>	In Confidence	<b>Report number:</b>	[IR2024/464]

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Revenue	<b>Agree</b> to recommendations <b>Agree</b> to Ministerial consultation and lodgement <b>Refer</b> to the Minister of Finance <b>Refer</b> to the Minister for Social Development and Employment	Lodge with Cabinet Office by 28 November 2024

**Contact for telephone discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>Suggested first contact</b>
Maraina Hak	Policy Lead	s 9(2)(a)	<input checked="" type="checkbox"/>

14 November 2024

Minister of Revenue

## **The Minimum Family Tax Credit threshold – updated draft Cabinet paper**

### **Purpose**

1. This report attaches an updated draft Cabinet paper, which reflects Ministers' decisions to hold the Minimum Family Tax Credit threshold at its current level for one year only. It seeks your agreement to undertake Ministerial consultation on the updated Cabinet paper, and then lodgement of the paper with the Cabinet Office. A Cabinet decision is required given the decision to hold the Minimum Family Tax Credit threshold at its current level for one year would result in a fiscal saving.

### **Background**

2. We recently provided you with a report and draft Cabinet paper which proposed pausing adjustments and holding the Minimum Family Tax Credit threshold at its current level [IR2024/432]. We have now updated the draft Cabinet paper (attached) so that it seeks Cabinet agreement to hold the Minimum Family Tax Credit threshold at its current level for *one year only* (for the 2025-26 tax year).

### **The Minimum Family Tax Credit**

3. The Minimum Family Tax Credit "tops up" a recipient's after-tax earnings to a minimum level of income. The minimum level of income is provided by the Minimum Family Tax Credit threshold. The threshold is typically set to ensure that, on an annual basis, sole parent recipients are better off in work and receiving the payment than they would be receiving a main benefit [CAB-21-MIN-0116.33]. This could encourage beneficiaries to move into full-time work and receive the Minimum Family Tax Credit.<sup>1</sup> The Minimum Family Tax Credit threshold is currently \$35,316 net or \$41,484 gross.
4. In 2021, Cabinet agreed to set the Minimum Family Tax Credit threshold so that, on an annual basis, sole parent families were financially better off receiving the Minimum Family Tax Credit than they would be receiving a main benefit. This decision meant that the Minimum Family Tax Credit threshold would be calculated to factor in an amount equating to five months of the Winter Energy Payment [CAB-21-MIN-0116.33].
5. However, as part of Budget 2024, Ministers decided that Minimum Family Tax Credit recipients should also benefit from the increases to personal income tax thresholds and the In-work Tax Credit. As such, the Minimum Family Tax Credit threshold is now set at least \$25 per week above the level it needs to be to meet its policy objective according to the 2021 Cabinet decision [IR2024/244 refers].
6. Given the adjustment made to the Minimum Family Tax Credit threshold as part of the Budget 2024 tax package, Ministers have decided not to adjust the threshold further this year (for the 2025-26 tax year). After this year, adjustments will resume

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<sup>1</sup> A "full-time earner" is defined as a single person who is employed for at least 20 hours per week or a couple who are employed for at least 30 hours per week between them.

by applying the same percentage increase as would be applied when setting the threshold in line with the formula agreed in the Cabinet 2021 decision noted above.

### ***Impacts***

7. The draft Cabinet paper outlines that holding the Minimum Family Tax Credit threshold at its current level will impact recipients. As of July 2024, 2,943 families received the Minimum Family Tax Credit. Of this population, 86% are sole parent families.
8. Recipients' nominal incomes will not be negatively impacted by the decision to hold the Minimum Family Tax Credit threshold at its current level for one year because their total income in hand will not decrease. At the same time, their total income in hand will not increase until the Minimum Family Tax Credit threshold is increased again. This means that in real terms, their income will decline with annual wage growth.

### **Consultation**

9. The Treasury and the Ministry of Social Development (including the Child Wellbeing and Poverty Reduction Group) were consulted on this report and the updated draft Cabinet paper.

### **Next steps**

10. Following Ministerial consultation on the draft Cabinet paper, it should be finalised and lodged with the Cabinet office by Thursday 28 November so that it can be considered at the Cabinet Economic Policy Committee on Wednesday 4 December. We will provide your office with speaking notes.

## Recommended action

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We recommend that you:

1. **note** that the attached draft Cabinet paper has been updated to reflect the decision from Ministers to hold the Minimum Family Tax Credit threshold at its current level for one year (for the 2025-2026 tax year).

Noted

2. **agree** to resume adjustments to the Minimum Family Tax Credit after this year by applying the same percentage increase as would be applied when setting the threshold in line with the formula agreed in CAB-21-MIN-0116.33.

Agreed/Not agreed

3. **agree** the enclosed draft Cabinet paper be circulated for ministerial consultation and subsequent Cabinet lodgement.

Agreed/Not agreed

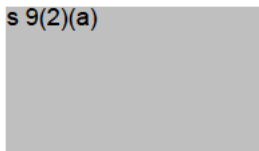
4. **refer** a copy of this report to the Minister of Finance for her information.

Referred/Not referred

5. **refer** a copy of this report to the Minister for Social Development and Employment for her information.

Referred/Not referred

s 9(2)(a)



**Maraina Hak**

Policy Lead

Policy

**Hon Simon Watts**

Minister of Revenue

/ /

In Confidence

Office of the Minister of Revenue

Cabinet Economic Policy Committee

## **THE MINIMUM FAMILY TAX CREDIT THRESHOLD – HOLDING THE RATE THIS YEAR**

### **Proposal**

- 1 This paper seeks the Cabinet Economic Policy Committee's agreement to:
  - 1.1 Hold the Minimum Family Tax Credit threshold at its current level for one year (noting that a substantial increase to the threshold was made as part of Budget 2024); and
  - 1.2 Approve the fiscal savings which will be generated by holding the Minimum Family Tax Credit threshold at its current level.

### **Relation to Government priorities**

- 2 This proposal relates to the Government's priority to ensure public expenditure is effective and responsible and recognises that a substantial adjustment to the Minimum Family Tax Credit threshold was made this year as part of the Budget 2024 tax package.

### **Executive summary**

- 3 The Minimum Family Tax Credit is paid to some low-income working families as part of their Working for Families tax credits. The Minimum Family Tax Credit "tops up" a recipient's after-tax earnings to a minimum level of income (commonly referred to as a "threshold").
- 4 The Minimum Family Tax Credit threshold is set at a level to ensure that sole parent families would be financially better off on an annual basis receiving the Minimum Family Tax Credit than they would be receiving a main benefit [CAB-21-MIN-0116.33]. The threshold is typically adjusted yearly to reflect increases to sole parent benefit levels, and was set to be \$1 more per week, than would be the case if that person had stayed on a main benefit.
- 5 Following Budget 2024 changes to the personal income tax thresholds and the In-work Tax Credit, the minimum level of income provided by the Minimum Family Tax Credit is currently at least \$25 per week higher than it needs to be to meet its policy objective.

- 6 In light of the substantial adjustment to the Minimum Family Tax Credit threshold as part of Budget 2024, I propose we hold the Minimum Family Tax Credit threshold at its current level for this year (for the 2025-2026 tax year – that is, 1 April 2025 to 31 March 2026). This will result in a fiscal saving.

## **Background**

- 7 The Minimum Family Tax Credit is paid, as part of Working for Families tax credits, to some low-income families who are in employment.
- 8 In 2004, Cabinet agreed to adjust the Minimum Family Tax Credit threshold annually by an amount sufficient to ensure that recipients do not suffer a reduction in income when moving off benefit and into work [CAB Min (04) 13/4]. There is no legislative requirement to adjust the Minimum Family Tax Credit threshold; however, it can be increased through an Order in Council made prior to 1 December each year (to apply from 1 April the following year) if the need arises to maintain the payment's policy intent.
- 9 In 2021, Cabinet agreed to set the Minimum Family Tax Credit threshold so that, on an annual basis, sole parent families were financially better off receiving the Minimum Family Tax Credit than they would be receiving a main benefit. This decision meant that the Minimum Family Tax Credit threshold would be calculated to factor in an amount equating to five months of the Winter Energy Payment [CAB-21-MIN-0116.33].
- 10 As part of Budget 2024, the Government increased the personal income tax thresholds and the In-work Tax Credit. The Minimum Family Tax Credit threshold was increased as part of Budget 2024 so that recipients also benefited from the tax changes. As such, forecasts for future Minimum Family Tax Credit expenditure included the Budget 2024 changes. Holding the Minimum Family Tax Credit at its current level for one year (as this paper proposes) will generate a fiscal saving, which will require Cabinet approval.

## **Analysis**

### **MFTC threshold**

- 11 The Minimum Family Tax Credit “tops up” a recipient's after-tax earnings to a minimum level of income. The minimum level of income recipients receive is provided by the Minimum Family Tax Credit threshold, which is typically set \$1 above the weekly level of income a sole parent beneficiary could receive. This is to ensure that, on an annual basis, sole parent families receiving the Minimum Family Tax Credit are better off than sole parent beneficiaries. The Minimum Family Tax Credit threshold is currently \$35,316 net or \$41,484 gross.
- 12 Following Budget 2024 changes, the Minimum Family Tax Credit threshold was increased, and is now at least \$25 (per week) above the level it needs to be to meet its policy objective, as agreed by Cabinet in 2021. Because the Budget 2024 tax package included a substantial adjustment to the Minimum Family Tax Credit threshold, I propose that we agree to hold the threshold at its current level for one year (for the period from 1 April 2025 to 31 March 2026).



- 13 I propose that we resume the adjustments to the Minimum Family Tax Credit threshold from the 2026-27 tax year, by applying the same percentage increase as would be applied when setting the threshold in line with the formula Cabinet agreed to in 2021 [CAB-21-MIN-0116.33].

### Impacts

- 14 Because recipients are currently at least \$25 better off receiving the Minimum Family Tax Credit than they would be receiving a main benefit, there is a stronger monetary incentive for sole parent beneficiaries to move into full-time employment, compared to before Budget 2024.<sup>1</sup> Holding the Minimum Family Tax Credit threshold at its current level would mean that recipients will remain at the same income level until adjustments are resumed next year (subject to Cabinet confirmation).

### Financial implications

- 15 This proposal has fiscal savings, which would result in a forecast reduction in expenditure and require a forecasting adjustment.

	\$ million increase / (decrease)				
<b>Vote Revenue</b>					<b>2028/29</b>
<b>Minister of Revenue</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>&amp; Outyears</b>
Benefits or Related Expenses					
Minimum Family Tax Credit PLA	(0.243)	(0.970)	(0.970)	(0.970)	(0.970)
<b>Total operating</b>	<b>(0.243)</b>	<b>(0.970)</b>	<b>(0.970)</b>	<b>(0.970)</b>	<b>(0.970)</b>

### Legislative Implications

- 16 The decisions in this paper do not have any legislative implications.

### Impact Analysis

#### Regulatory impact assessment

- 17 The Ministry for Regulation has confirmed that the proposal is exempt from the Regulatory Impact Analysis requirements on the basis that there is no statutory obligation to adjust the Minimum Family Tax Credit annually.

<sup>1</sup> A "full-time earner" is defined under section MA 7(1) of the Income Tax Act 2007 as a single person who is employed for at least 20 hours per week or a couple who are employed for at least 30 hours per week between them.

### **Climate implications of policy assessment**

- 18 Holding the Minimum Family Tax Credit threshold at its current level for one year will not have any climate implications.

### **Population implications**

- 19 Holding the Minimum Family Tax Credit threshold at its current level will impact recipients. As of July 2024, 2,943 families received the Minimum Family Tax Credit. Of this population, 86% are sole parent families.
- 20 Recipients' nominal incomes will not be negatively impacted by the decisions in this paper because their total income in hand will not decrease. At the same time, their total income in hand will not increase until the Minimum Family Tax Credit threshold is increased again. This means that in real terms, their incomes will decline with annual wage growth.

### **Human rights**

- 21 The decisions in this paper will not have any human rights implications in relation to the Human Rights Act 1993.

### **Consultation**

- 22 The Treasury and the Ministry of Social Development were consulted on the proposals in this paper.

### **Communications**

- 23 We have made announcements in the past following previous increases to the Minimum Family Tax Credit threshold. As the Minimum Family Tax Credit threshold will not be increased this year, I propose we do not make an announcement.
- 24 Families will continue to receive an annual notice of entitlement as they do each year, with the expected level of Working for Families tax credit payments including the Minimum Family Tax Credit where they are eligible.
- 25 The Annual General Adjustment of benefits is scheduled to occur on 1 April 2025. Questions may arise about whether there will be a corresponding adjustment to the Minimum Family Tax Credit threshold. I can work with the Minister for Social Development and Employment closer to the time to develop key messages for responding to questions on the Minimum Family Tax Credit.

### **Proactive release**

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

## Recommendations

I recommend that the Committee:

- 1 **note** that in April 2004, Cabinet agreed to increase the Minimum Family Tax Credit threshold 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 employment [CAB Min (04) 13/4 refers];
- 2 **note** that in April 2021, Cabinet agreed to include an amount equating to five months of the Winter Energy Payment in the Minimum Family Tax Credit threshold calculation, ensuring that sole parent recipients would be financially better off than sole parent beneficiaries on an annual basis [CAB-21-MIN-0116.33];
- 3 **note** that, following Budget 2024 decisions, the guaranteed level of income provided by the Minimum Family Tax Credit was increased by at least approximately \$25 per week;
- 4 **note** that, as a result of Budget 2024 decisions, the Minimum Family Tax Credit threshold is set at a level which is higher than needed per the Cabinet's 2021 decision [CAB-21-MIN-0116.33] about how to set the Minimum Family Tax Credit threshold;
- 5 **agree** to hold the Minimum Family Tax Credit threshold at its current level for one year (2025-2026 tax year), with a consequential decrease in expenses;
- 6 **agree** to resume adjustments to the Minimum Family Tax Credit threshold from the 2026-27 tax year, by applying the same percentage increase as would be applied when setting the threshold in line with the formula agreed in CAB-21-MIN-0116.33;
- 7 **note** the following changes to appropriations in accordance with section 185 of the Tax Administration Act 1994, reflecting the changed expenses described in recommendation 5 above, with a corresponding impact on the operating balance and net debt:

	\$ million increase / (decrease)				
<b>Vote Revenue</b>					<b>2028/29</b>
<b>Minister of Revenue</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>&amp; Outyears</b>
Benefits or Related Expenses					
Minimum Family Tax Credit PLA	(0.243)	(0.970)	(0.970)	(0.970)	(0.970)
<b>Total operating</b>	<b>(0.243)</b>	<b>(0.970)</b>	<b>(0.970)</b>	<b>(0.970)</b>	<b>(0.970)</b>

- 8      **note** that the above changes to appropriations for 2024/25 will be reported and disclosed in the 2024/25 Supplementary Estimates.

Authorised for lodgement

Hon Simon Watts

Minister of Revenue



# Cabinet Business Committee

## 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.*

### Minimum Family Tax Credit Threshold: Holding the Rate this Year

**Portfolio**                      **Revenue**

On 2 December 2024, the Cabinet Business Committee:

- 1        **noted** that in April 2004, Cabinet agreed to increase the Minimum Family Tax Credit threshold 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 employment [CAB Min (04) 13/4];
- 2        **noted** that in April 2021, Cabinet agreed to include an amount equating to five months of the Winter Energy Payment in the Minimum Family Tax Credit threshold calculation, ensuring that sole parent recipients would be financially better off than sole parent beneficiaries on an annual basis [CAB-21-MIN-0116.33];
- 3        **noted** that, following Budget 2024 decisions, the guaranteed level of income provided by the Minimum Family Tax Credit was increased by at least approximately \$25 per week;
- 4        **noted** that, as a result of Budget 2024 decisions, the Minimum Family Tax Credit threshold is set at a level which is higher than needed as per Cabinet's 2021 decision about how to set the Minimum Family Tax Credit threshold;
- 5        **agreed** to hold the Minimum Family Tax Credit threshold at its current level for one year (2025-2026 tax year), with a consequential decrease in expenses;
- 6        **agreed** to resume adjustments to the Minimum Family Tax Credit threshold from the 2026-27 tax year, by applying the same percentage increase as would be applied when setting the threshold in line with the formula agreed in CAB-21-MIN-0116.33;

- 7 **noted** the following changes to appropriations in accordance with section 185 of the Tax Administration Act 1994, reflecting the changed expenses described in paragraph 5 above, with a corresponding impact on the operating balance and net debt:

	\$ million increase / (decrease)				
<b>Vote Revenue Minister of Revenue</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
Benefits or Related Expenses					
Minimum Family Tax Credit PLA	(0.243)	(0.970)	(0.970)	(0.970)	(0.970)
<b>Total operating</b>	<b>(0.243)</b>	<b>(0.970)</b>	<b>(0.970)</b>	<b>(0.970)</b>	<b>(0.970)</b>

- 8 **noted** that the above changes to appropriations for 2024/25 will be reported and disclosed in the 2024/25 Supplementary Estimates.

Jenny Vickers  
Committee Secretary

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**Present:**

Rt Hon Christopher Luxon (Chair)  
Rt Hon Winston Peters  
Hon David Seymour  
Hon Nicola Willis  
Hon Chris Bishop  
Hon Brooke van Velden  
Hon Shane Jones  
Hon Dr Shane Reti  
Hon Simeon Brown  
Hon Erica Stanford  
Hon Paul Goldsmith  
Hon Judith Collins KC  
Hon Todd McClay  
Hon Simon Watts

**Officials present from:**

Department of the Prime Minister and Cabinet



## Minute of Decision

**Report of the Cabinet Business Committee: Period Ended  
6 December 2024**

On 9 December 2024, Cabinet made the following decisions on the work of the Cabinet Business Committee for the period ended 6 December 2024:

	Not in scope	In scope	Out of scope
1	[Redacted]	[Redacted]	[Redacted]
2	[Redacted]	[Redacted]	[Redacted]
3	[Redacted]	[Redacted]	[Redacted]
4	[Redacted]	[Redacted]	[Redacted]
5	[Redacted]	[Redacted]	[Redacted]
6	[Redacted]	[Redacted]	[Redacted]
7	[Redacted]	[Redacted]	[Redacted]
8	[Redacted]	[Redacted]	[Redacted]
9	[Redacted]	[Redacted]	[Redacted]

CBC-24-MIN-0126	<b>Minimum Family Tax Credit Threshold: Holding the Rate this Year</b> Portfolio: Revenue	CONFIRMED
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Not in scope		

Rachel Hayward  
Secretary of the Cabinet





**Inland Revenue**  
Te Tari Taake

## POLICY

**Tax policy report: Minimum Family Tax Credit and Working for Families Tax Credit threshold overlap**

<b>Date:</b>	29 August 2024	<b>Priority:</b>	Medium
<b>Security level:</b>	Sensitive - Budget	<b>Report number:</b>	IR2024/244

### Action sought

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Agree</b> to recommendations <b>Indicate</b> if you would like officials to provide you with further advice <b>Refer</b> to the Minister for Social Development and Employment and Minister for Child Poverty Reduction	19 September 2024
Minister of Revenue	<b>Agree</b> to recommendations <b>Indicate</b> if you would like officials to provide you with further advice	19 September 2024

### Contact for telephone discussion (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Maraina Hak	Policy Lead, Inland Revenue	s 9(2)(a)
Natisha Jones	Senior Policy Advisor, Inland Revenue	s 9(2)(a)

29 August 2024

Minister of Finance  
Minister of Revenue

## **Minimum Family Tax Credit and Working for Families threshold overlap**

### **Executive summary**

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#### **Purpose**

1. This report explains the issue of overlapping abatement thresholds of the Minimum Family Tax Credit and Working for Families Tax Credits, which is forecast to occur on 1 April 2027. This was raised as part of Budget 2024 and Ministers asked officials to report back on the issue.

#### **Minimum Family Tax Credit**

2. The Minimum Family Tax Credit is one of the four Working for Families Tax Credits and was designed to be a key mechanism to get families off benefit and into work.
3. The credit's threshold is set to ensure that a working family will always be better off than if they were on benefit. The credit does this by providing a guaranteed amount for families who are not on benefit and who work a certain number of hours (20 hours for sole parents and 30 for couples). In 2023, approximately 3,000 families were entitled to and received the credit. These families represent the lowest income earners in the Working for Families scheme.
4. To maintain a gap between benefits and the Minimum Family Tax Credit's guaranteed amount (the threshold), Cabinet has historically updated the Minimum Family Tax Credit amount annually. Previously, the Minimum Family Tax Credit amount has been set to ensure that a family is marginally better off working than being on benefit.<sup>1</sup> However, the Budget 2024 decision to allow the In Work Tax Credit to flow through to the Minimum Family Tax Credit threshold means that Minimum Family Tax Credit recipients are guaranteed to be better off by at least \$25 per week than if they were on benefit.
5. There are several longstanding problems with the Minimum Family Tax Credit, such as high effective marginal tax rates on additional hours of work. Officials consider that some of these existing problems and the overlap issue undermine the objective of the credit to encourage families into work. To provide broader context for this decision, we are also reporting to you on some broader issues in the Working for Families scheme (IR2024/284 refers).

#### **The overlap issue**

6. The Minimum Family Tax Credit threshold and the Working for Families abatement threshold are estimated to overlap on 1 April 2027, assuming:
  - a. the Minimum Family Tax Credit threshold will be adjusted annually to match increases in benefits (currently \$41,483 gross, \$35,316 net), and

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<sup>1</sup> For example, the Minimum Family Tax Credit could be set as \$1 more than benefit per year.

- First decision:** How should the Minimum Family Tax Credit threshold be set later this year, for effect on 1 April 2025?

- | Option 1: increase threshold in line with Consumer Price Index increases to the Sole Parent Support benefit   | Option 2: do not increase the threshold <i>(IR recommendation)</i>  |
|---|---|
| <p><b>Outcome:</b> recipients will have their incomes increase in line with benefits on 1 April 2025, the \$25 increase from Budget 2024 is maintained by annual increases. Provides small additional work incentives for Minimum Family Tax Credit customers in the short term.</p> <p><b>Cost:</b> No fiscal cost as this was included in Budget 2024.</p> <p><b>Action:</b> An Order in Council is required by 1 December 2024. A Cabinet policy decision is required to maintain the \$25 gap in perpetuity.</p> <p>Overlap estimated to occur from 1 April 2027.</p> | <p><b>Outcome:</b> recipients will see no increase on 1 April 2025, the \$25 Budget 2024 increase starts to erode. The policy intention of the credit will be maintained for a slightly longer period.</p> <p><b>Cost:</b> Small fiscal saving.</p> <p><b>Action:</b> A Cabinet policy decision is required to change the approach to the threshold which was set at Budget 2024. No legislative changes are required.</p> <p>Overlap estimated to occur from 1 April 2031.</p> |

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## **Minimum Family Tax Credit and Working for Families threshold overlap**

### **Background**

#### **Link to Government priorities**

11. The overlap issue relates to the Government's Jobseeker reduction target to have 50,000 fewer people on Jobseeker Support benefit.
12. The Minimum Family Tax Credit was designed to encourage and assist families with dependent children with the transition from benefit into full time work. The payment provides the strongest incentive to work at 20 hours per week. The overlapping abatement thresholds discussed in this report would mean that while Minimum Family Tax Credit recipients are still better working than on benefit, they would be disincentivised to work more than 20 hours.

#### **Minimum Family Tax Credit policy**

13. The Minimum Family Tax Credit is one of four Working for Families tax credits and is administered by Inland Revenue. The accompanying report IR2024/284 provides more detail on the Working for Families scheme.
14. The Minimum Family Tax Credit is intended to "make work pay" by ensuring low-income families remain financially better off in full-time work (20 hours for a sole parent, and a combined 30 hours or more for a two parent family) than they would be on a benefit. In 2023, approximately 3,000 families were entitled to and received the Minimum Family Tax Credit.
15. The Minimum Family Tax Credit provides a payment to increase a recipient's weekly after-tax earnings to a guaranteed amount. The guaranteed amount of income is what we refer to as the 'Minimum Family Tax Credit threshold.'<sup>2</sup> Following Budget 2024 decisions, the threshold is currently \$41,483 before tax (\$797.75 weekly), \$35,316 after tax (\$679.15 weekly).
16. Due to its "top up" function, the credit is not a fixed amount but will vary depending on a recipient's weekly income. This table shows how a recipient's entitlement can vary based on hours worked:<sup>3</sup>

<b>Weekly hours:</b>	<b>After-tax income per week (on minimum wage):</b>	<b>MFTC entitlement per week:</b>	<b>Total weekly income:</b>
20	\$403	\$276	\$679
25	\$499	\$180	\$679
30	\$594	\$85	\$679
35	\$690	Not entitled to MFTC	\$690

17. To match the annual Consumer Price Index increases to main benefits, the Minimum Family Tax Credit threshold is typically increased by Cabinet annually by 1 December (decisions taken in mid-November) to take effect on 1 April of the next

<sup>2</sup> The exact calculation for the threshold is complicated but generally set at a level that ensures recipients are marginally better off in work than they would be on benefit.

<sup>3</sup> The figures in the table below are not exact and have been rounded up to the nearest dollar. This total weekly income does not take into account further deductions such as ACC levies.

year. This year's annual increase will need to be considered against the broader overlap issue.

#### *The Minimum Family Tax Credit abatement*

18. Under existing settings, the Minimum Family Tax Credit abates (reduces) at 100%. This means that for every extra dollar earned, a family's entitlement reduces by one dollar. The impact of the 100% abatement means that recipients have no financial incentive to work additional hours beyond the 20 hours (as a single) or 30 hours (as a couple) required. However, there could be other incentives for people to work, such as attaining job security and satisfaction.

#### *Relationship to Working for Families abatement threshold*

19. Minimum Family Tax Credit recipients also receive other Working for Families Tax Credits. The relevant tax credits for the overlap issue are the Family Tax Credit and the In-work Tax Credit. Since these tax credits are aimed at low-to-middle income families, once a recipient starts to earn over \$42,700 before tax (the Working for Families abatement threshold) their entitlements will abate (reduce) at 27%.
20. The Working for Families abatement threshold is not periodically adjusted and was last increased on 1 July 2018.

#### *Impact of Budget 2024 initiatives*

21. In Budget 2024, Ministers agreed to increase the Minimum Family Tax Credit threshold to ensure that these recipients benefited from the In-work Tax Credit \$25 increase (IR2024/119 refers).<sup>4</sup>
22. The current threshold means that Minimum Family Tax Credit recipients are now at least \$25 better off than they would be receiving a sole parent benefit per week. This is different to the original policy intent that would ensure that recipients are only marginally better off. At the time of the Budget decision, there was no explicit agreement on whether this would be a permanent change.

### **The overlap issue**

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23. The Minimum Family Tax Credit threshold and the Working for Families abatement threshold are estimated to overlap on 1 April 2027 assuming:
  - a. the Minimum Family Tax Credit threshold will be adjusted annually to match increases in main benefits (currently \$41,483 gross, \$35,316 net), and
  - b. there is no adjustment to the Working for Families abatement threshold (currently \$42,700 gross).
24. This means in April 2027, a Minimum Family Tax Credit recipient whose income is higher than the overlapped thresholds will face an effective marginal tax rate of 128%. Practically, this means that for every dollar earned over \$42,700, there will be a decrease to the recipient's net income of more than \$1. This is demonstrated in the example below.<sup>5</sup>
25. The effective marginal tax rates created by the overlap mean that, despite working additional hours, affected recipients will see a *decrease* in their take home pay. This

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<sup>4</sup> This was reflected in an increase to the Minimum Family Tax Credit threshold from \$35,204 after tax to \$35,316 after tax on 31 July 2024. This change was further clarified in BN2024/181.

<sup>5</sup> The Minimum Family Tax credit abatement rate is reflected as a total of 100% to include the recipient's tax rate. In the example, the recipient's tax rate is 17.5% so the abatement rate reflected is 82.5%. If they had a lower tax rate, the Minimum Family Tax Credit abatement rate would increase as a result.

will have a negative impact on work incentives, because affected recipients are likely to be better off working fewer hours when receiving the credit.

**Example of overlap:**

Under this example, in 2027 the Minimum Family Tax Credit threshold has increased to \$43,000 (before tax) and the Working for Families Tax Credits abatement threshold remains at \$42,700 (before tax).

Mila is a sole parent who works at a supermarket for 35 hours per week, earning \$23.50 per hour and \$42,900 over the year. Following the overlap, she will face an effective marginal tax rate of 128.6% on income earned over \$42,700. This means that for every additional \$1 she earns, her after-tax income will reduce by \$1.28. She is not incentivised to work any additional hours.

This is a result of the following reductions to her income via:

- 17.5% personal income tax;
- 82.5% Minimum Family Tax Credit abatement;
- 1.6% ACC levy; and
- 27% Working for Families abatement (the additional abatement once the overlap happens).

This could be made worse if Mila has to make student loan repayments (12%).

***Significance of the issue considering the broader Working for Families scheme***

26. There is a conflict of respective policy intents if this overlap were to occur:
- a. the Minimum Family Tax Credit threshold is a guaranteed minimum income for low income working families, but at the same time,
  - b. the Working for Families abatement threshold is set at a level at which a family's income is considered too high for full entitlement.
27. The intention of the Minimum Family Tax Credit is to function as a bridge for transitioning people off benefit and eventually into full time employment. The long abatement range disincentivises working less than full time. The overlap exacerbates this issue.

**Decisions required from Ministers**

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**First decision - How should the Minimum Family Tax Credit threshold be set later this year, for effect on 1 April 2025?**

28. Changes to the threshold will impact the timing and effect of the overlap:
- a. **Option one:** increase the Minimum Family Tax Credit threshold in line with Consumer Price Index increases to the Sole Parent Support benefit, overlap occurs in **2027**.
  - b. **Option two:** do not change the Minimum Family Tax Credit threshold, overlap occurs in **2031** (Inland Revenue's preferred option).<sup>6</sup>

Adjusting the threshold

29. Under income tax legislation, Cabinet can increase the Minimum Family Tax Credit threshold annually to match the annual Consumer Price Index increases to benefits.
30. Increasing the threshold requires an Order in Council to be published by 1 December 2024, with the new threshold applying from 1 April 2025.

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<sup>6</sup> This is consistent with advice Inland Revenue officials provided in Budget 2024 (IR2024/119 refers).

31. We have considered whether the threshold could be decreased.<sup>7</sup> This would also delay the overlap to 2031 and return the settings closer to how it has historically been set. However, reducing the threshold would mean gains experienced from Budget 2024 decisions would effectively be reversed. This would mean recipients would be worse off than they currently are once the threshold is decreased. Accordingly, we do not recommend this.

Option one: increase the Minimum Family Tax Credit threshold in line with Consumer Price Index increases

32. This option would increase the Minimum Family Tax Credit threshold in line with Consumer Price Index increases to main benefits by 1 December 2024. We have projected the new threshold for 1 April 2025 to be approximately \$35,784 net or \$42,050 gross.
33. This would preserve the \$25 gap between benefits and the Minimum Family Tax Credit, allowing recipients to benefit from the effect of the Budget 2024 changes. For benefit recipients, this would also maintain the stronger work incentives provided by the Budget 2024 decisions to leave benefit and work 20 hours per week. Having such a gap was a deliberate change to the way the Minimum Family Tax Credit threshold was calculated. If Ministers wish to make this gap permanent, a Cabinet decision is required.
34. However, under this option the overlap would occur on **1 April 2027** when the new threshold is set. It is estimated that the overlap would impact around 60 families in April 2027, with this increasing in following years.

*Fiscal implications*

35. This option would have no fiscal cost as the cost of allowing the \$25 increase to the In-work Tax Credit to flow through to the Minimum Family Tax Credit threshold on an on-going basis was included in Budget 2024.

Option two: do not change the Minimum Family Tax Credit threshold (Inland Revenue's preferred option)

36. This option would not increase the Minimum Family Tax Credit threshold from the current level of \$35,316 net or \$41,483 gross.
37. This would erode the existing \$25 gap back to ensuring the threshold is marginally above Sole Parent Support benefit levels. Annual benefit increases, with no corresponding increase to the Minimum Family Tax Credit, would eventually close this gap. This option effectively reverses Budget 2024 changes over time.
38. Under this option, we estimate the overlap would not occur until **1 April 2031**, assuming no further increases to the Minimum Family Tax Credit are made in the interim. This would mean further decisions relating to the overlap are needed in the next few years. For families who receive the Minimum Family Tax Credit over longer periods, they would not see an increase in their after-tax income during this period.
39. We recommend this option as it would gradually return the threshold closer to the original way the Minimum Family Tax Credit is calculated. This is consistent with advice Inland Revenue officials provided in Budget 2024. A Cabinet paper is required to implement this decision and to agree to the fiscal savings.

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<sup>7</sup> Any decreases to the current threshold would require primary legislation change as the threshold cannot be decreased by Order in Council.

### *Fiscal implications*

40. This option would have the following fiscal savings. This assumes this approach would continue to apply for the following years.

	\$ million increase / (decrease)				
<b>Vote Revenue Minister of Revenue</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29 &amp; Outyears</b>
Benefits or Related Expenses					
Minimum Family Tax Credit PLA	(0.243)	(1.189)	(2.027)	(2.735)	(3.150)
<b>Total operating</b>	<b>(0.243)</b>	<b>(1.189)</b>	<b>(2.027)</b>	<b>(2.735)</b>	<b>(3.150)</b>

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Age Group	Percentage
18-24	10%
25-34	25%
35-44	30%
45-54	15%
55-64	10%
65-74	5%
75-84	2%
85+	3%

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## Next steps

52. If you do not increase the Minimum Family Tax Credit threshold, a new Cabinet policy decision will be required to change the approach set at Budget 2024 and to agree to the fiscal savings.
53. If you increase the threshold on 1 December for 1 April 2025, an Order in Council will be required, as well as Cabinet policy decision to maintain the \$25 gap in perpetuity:
  - a. We will report to you in October with the new forecasted threshold (based on Consumer Price Index increases to the Sole Parent Support benefit).
  - b. The Order in Council will need to come into effect by 1 December 2024, so this will need to go through Cabinet Committees in November.
54. Increasing the threshold would mean the overlap is forecast to occur in April 2027.

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## Consultation

55. The Treasury were consulted. The Ministry of Social Development were consulted on an earlier version of this report s 9(2)(f)(iv)

## Recommended action

WE RECOMMEND THAT YOU:					Minister of Finance	Minister of Revenue																																				
<b>First decision:</b> setting the Minimum Family Tax Credit threshold for 1 April 2025 (required by 1 December 2024)																																										
<b>EITHER:</b>																																										
1. <b>OPTION ONE:</b> agree to increase the Minimum Family Tax Credit threshold in line with Consumer Price Index adjustments to the Sole Parent Benefit by 1 December 2024 (overlap estimated to occur 1 April 2027);					Agreed/Not agreed	Agreed/Not agreed																																				
a. <b>note</b> that this has no fiscal cost because the cost of allowing the \$25 increase to the In-work Tax Credit to flow through to the Minimum Family Tax Credit threshold on an ongoing basis was included in Budget 2024;					Noted	Noted																																				
b. <b>note</b> that an Order in Council is required to increase the Minimum Family Tax Credit Threshold and we will report back to you in October 2024;					Noted	Noted																																				
<b>OR:</b>																																										
2. <b>OPTION TWO:</b> agree not to increase the Minimum Family Tax Credit threshold on 1 December 2024 ( <b>Inland Revenue’s preferred option</b> ) (overlap estimated to occur 1 April 2031);					Agreed/Not agreed	Agreed/Not agreed																																				
a. <b>note</b> that this would reverse Budget 2024 decisions over time to allow the increases to the In Work Tax Credit to flow through to Minimum Family Tax Credit recipients, but would still maintain the overall policy intent of the Minimum Family Tax Credit;					Noted	Noted																																				
b. <b>note</b> this option would have a fiscal savings, resulting in a forecast reduction in expenditure:					Noted	Noted																																				
<table><tr><td></td><td colspan="5">\$ million increase / (decrease)</td></tr><tr><td>Vote Revenue</td><td></td><td></td><td></td><td></td><td>2028/29 &amp; Outyears</td></tr><tr><td>Minister of Revenue</td><td>2024/25</td><td>2025/26</td><td>2026/27</td><td>2027/28</td><td></td></tr><tr><td>Benefits or Related Expenses:</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Minimum Family Tax Credit PLA</td><td>(0.243)</td><td>(1.189)</td><td>(2.027)</td><td>(2.735)</td><td>(3.150)</td></tr><tr><td>Total Operating</td><td>(0.243)</td><td>(1.189)</td><td>(2.027)</td><td>(2.735)</td><td>(3.150)</td></tr></table>						\$ million increase / (decrease)					Vote Revenue					2028/29 & Outyears	Minister of Revenue	2024/25	2025/26	2026/27	2027/28		Benefits or Related Expenses:						Minimum Family Tax Credit PLA	(0.243)	(1.189)	(2.027)	(2.735)	(3.150)	Total Operating	(0.243)	(1.189)	(2.027)	(2.735)	(3.150)		
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c. <b>note</b> a Cabinet decision would be required to implement this option and to agree to the fiscal savings, we will report back to you in October 2024;					Noted	Noted																																				
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3. § 9(2)(f)(iv)					Yes/No	Yes/No																																				
4. § 9(2)(f)(iv)					Noted	Noted																																				

5.	<div>s 9(2)(f)(iv)</div> <div></div> <div></div> <div></div>	Noted	Noted
6.	<b>refer</b> a copy of this report to the Minister for Social Development and Employment and the Minister for Child Poverty Reduction;	Referred/ Not referred	

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**Maraina Hak**  
Policy Lead  
Policy, Inland Revenue

**Hon Nicola Willis**  
Minister of Finance  
/ /2024

**Hon Simon Watts**  
Minister of Revenue  
/ /2024

## Appendix 1 – Decision tree summarising options in this report

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First decision  
needed by  
**1 December 2024**

How should the MFTC threshold be set on 1  
April 2025?

Increase in line with  
CPI increases

OR

Do not increase\*

Overlap in 2027

Overlap in 2031

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