Regulatory Impact Statement: Increase to the Working for Families abatement threshold

Decision sought	Analysis produced for the purpose of informing Cabinet decisions in relation to increasing the Working for Families abatement threshold
Agency responsible	Inland Revenue
Proposing Ministers	Hon Nicola Willis, Minister of Finance Hon Louise Upston, Minister for Social Development and Employment, Minister for Child Poverty Reduction Hon Simon Watts, Minister of Revenue
Date finalised	4 April 2025

Briefly describe the Minister's regulatory proposal

The proposal is to increase the Working for Families abatement threshold by $2,200 to $44,900. This change is intended to help mitigate the increased targeting of the Working for Families scheme as a result of wage growth, as well as increasing entitlements for low-income working families to help mitigate the increased cost of living.

The cost of this proposal would be funded through savings from increasing the Working for Families abatement rate from 27% to 27.5%, and income testing the first year of the Best Start Tax Credit. The changes, if agreed, would be effective from 1 April 2026.

Summary: Problem definition and options

What is the policy problem?

Due to the combined effect of wage growth over time and the Working for Families abatement threshold remaining at the same level it was set at in 2018 ($42,700), the scheme has become increasingly targeted to lower-income families and more families are receiving abated entitlements. More families are expected to be subject to abatement over time as wages continue to grow. As such, Working for Families as a mechanism to help low-income families with rising household living costs is becoming less effective.

Some families are currently experiencing or will experience higher effective marginal tax rates as a result of earning income over the abatement threshold, which reduces the incentive to take up additional hours of paid work.

Therefore, the current abatement threshold's ability to meet the scheme's objectives of incentivising work and ensuring income adequacy has decreased over time.

What is the policy objective?

Working for Families has three objectives, which must be considered when making changes to the scheme:

- Make work pay by supporting families with dependent children so they are rewarded for their work effort.
- Ensure income adequacy with a focus on low- and middle-income families with dependent children to address issues of poverty, especially child poverty.
- Achieve a social assistance system that supports people into work by making sure people get the assistance they are entitled to, when they should, with delivery that supports them into, and to remain in, employment.

The scheme must achieve these objectives at a sustainable cost to the Government.

Ensuring income adequacy by raising the abatement threshold and doing this at a sustainable cost to the Government are prioritised over other objectives, per Ministerial direction.

What policy options have been considered, including any alternatives to regulation?

This policy was produced subject to the limitations described below. We considered a range of different increases to the Working for Families abatement threshold, and numerous savings options to offset the cost. Ministers' preferred option is a package as follows, and which has a fiscal saving of $6 million over the forecast period:

- increasing the Working for Families abatement threshold by $2,200, from $42,700 to $44,900
- increasing the Working for Families abatement rate from 27% to 27.5%, and
- income-testing the first year of the Best Start Tax Credit to align with the abatement settings currently used for the second and third year of the payment (abatement of 21% for income over $79,000).

There are no non-regulatory options available. Introducing these changes will require changes to the Income Tax Act 2007. Without intervention, continued wage growth will mean that more low-income families will start to receive abated Working for Families entitlements over time.

What consultation has been undertaken?

No public consultation has been undertaken in connection with these proposals because of Budget secrecy.

Is the preferred option in the Cabinet paper the same as the preferred option in the RIS?

Given that the package of reforms must be fiscally neutral, officials support the preferred option in the Cabinet paper. Introducing an abatement threshold for the first year of the Best Start Tax Credit means that the savings are better used to support lower-income families. At the same time, the increased abatement rate allows further cost savings. Together, these changes allow for the proposed increase in the abatement threshold to the greatest extent possible. Within the tight fiscal boundaries, these changes address the overarching problem of families becoming increasingly subject to abated entitlements as their incomes grow.

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)

Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

For Inland Revenue, the Ministry of Social Development, and the Department of Internal Affairs, the proposed package will have departmental administration capital costs of $2 million and $3.270 million operating over the forecast period. These costs will be met from within departments' existing funding and are associated with updating systems, resources and customer guidance.

Around 61,000 families would receive a reduction of income. Of these families, 89% have taxable incomes over $100,000 (an average decrease of $43 per fortnight). This includes 53,000 families who become ineligible for Best Start (average decrease of $49 per fortnight), and 9,000 families earning over $79,000 and with children aged 0-1 years old who receive an abated amount of Best Start.

Income testing the first year of Best Start may indirectly decrease Working for Families take up rates more broadly. This is a result of consequential changes to SmartStart increasing compliance costs associated with the Best Start application process.

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

The package is essentially fiscal neutral to the Crown with a forecast $6 million net fiscal saving for the Government over the forecast period comprising a $211 million saving in the Best Start Tax Credit and a $205 million cost increase in Working for Families. Around 142,000 families would benefit. Of these families, 85% have taxable income below $100,000.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the Ministers' preferred option are likely to outweigh the costs?

The proposed package would help mitigate cost-of-living pressures for families earning at or above the new abatement threshold, particularly for those earning up to $100,000 per year, and could marginally improve work incentives for low- to middle- income families below the threshold.

The proposed changes adjust the rates of existing tax credits, and therefore no new or additional monitoring is required. Some effects of the proposed changes can be monitored using data Inland Revenue currently collects as part of administering Working for Families. Officials will report back to Ministers if the Working for Families abatement threshold needs to be increased again.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

The proposed package would be implemented via Budget night legislation and would take effect from 1 April 2026, coinciding with the start of the tax year. Transitional provisions will not be required. Ongoing operation of the policy changes will primarily be the responsibility of Inland Revenue as the agency responsible for the Working for Families scheme. There will also be impacts on the Ministry of Social Development and the Department of Internal Affairs.

Agency capacity to implement the changes depends on final decisions for all Budget 2025 initiatives. There may be some degree of cumulative impact from making multiple changes to different parts of the tax system from one date. However, in and of themselves, changes to rates and thresholds are comparatively minor and are undertaken as part of Inland Revenue's business as usual work.

Limitations and Constraints on Analysis

Due to coalition commitments and/or Ministerial direction, our analysis of options was limited due to the constraint of providing a fiscally neutral package. More financially generous options initially considered were of increasing the abatement threshold by $5,000 and $10,000; however, these were not actively considered due to the fiscal cost. Those options would likely have resulted in a significant increase in income adequacy and work incentives. Effectively, our analysis did not explore alternative options that were substantively different from those under final Ministerial consideration. Due to Budget secrecy Inland Revenue has not been able to undertake public consultation on the specific proposals outlined in this Regulatory Impact Statement. Due to timing constraints, in-depth modelling (including the Treasury's Tax and Welfare Analysis "TAWA" modelling) was only completed for preferred options. As such, some options presented in the Regulatory Impact Statement have not been modelled by TAWA or have only been modelled by TAWA for indicative purposes. For the same reason, we are only able to comment on the potential child poverty impacts for the preferred package.

The Government is seeking feedback on broader and more significant potential changes to the Working for Families tax credit system. This is detailed in the discussion document titled "Empowering families: increasing certainty and preventing debt in the Working for Families scheme". Inland Revenue is also conducting a stewardship review of Working for Families that considers options to improve the scheme over the longer term. The options considered in this Regulatory Impact Statement are limited to smaller changes that adjust the existing settings, would be effective from 1 April 2026, and do not structurally change the Working for Families scheme.

Officials are currently working through policy issues relating to the maintenance of the Minimum Family Tax Credit and how it fits within the changes proposed in the discussion document referred to above. As such, we consider the Minimum Family Tax Credit is out of scope for the purpose of the analysis provided in this Regulatory Impact Statement.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

s 9(2)(a)

Signed by the responsible Manager(s) Maraina Hak Date: 4 April 2025

Quality Assurance Statement ***[Note this isn't included in the four-page limit]***	
Reviewing Agency: Inland Revenue and the Ministry of Social Development	**QA rating:** Partially meets
Panel Comment: The Quality Assurance reviewers at the Ministry of Social Development and Inland Revenue have reviewed the Regulatory Impact Statement (RIS) prepared by Inland Revenue and considers that the information and analysis summarised in the RIS partially meets the Quality Assurance criteria. There are two elements being considered: i) a small to medium increase in entitlements by way of an increase in the abatement threshold with the cost attached to that increase being offset by, ii) a small increase in the Working for Families abatement rate and by income testing the first year of the Best Start Tax Credit. Together the changes ensure that the overall effect is neutral from a government fiscal sustainability perspective. We note that the analysis was constrained by the absence of consultation and condensed timelines to meet Budget 25 deadlines. We also note that fiscal constraints also limited the range of options that could be considered. As such the material is presented as well as could be expected given these constraints; however, it still limits the reliance that can be placed on the analysis.	

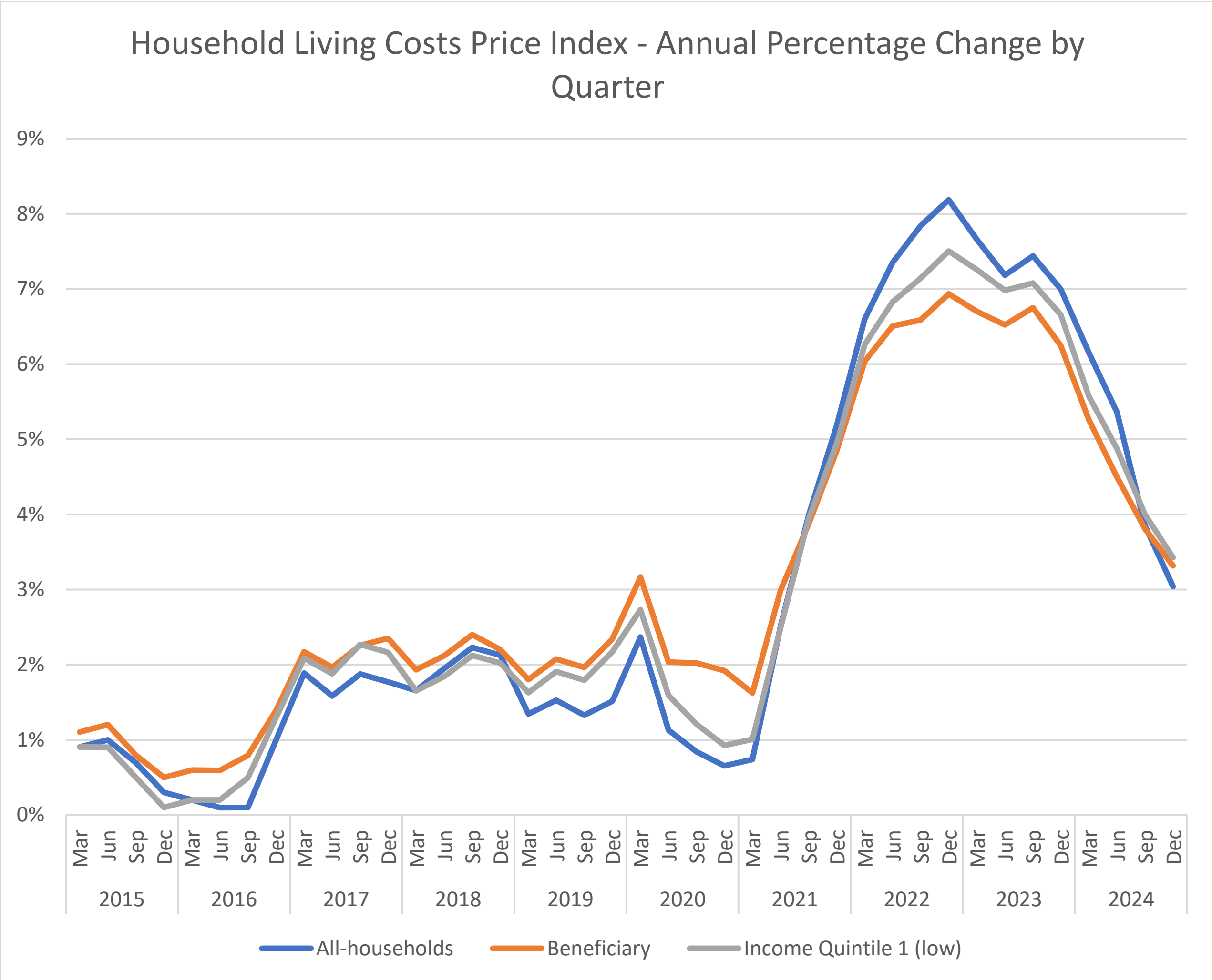
Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

Current economic environment

1. The Government is focusing on building a stronger, more productive economy that lifts real incomes and increases opportunities for New Zealanders.[1] Ministers have recognised that New Zealand families have experienced and will continue to experience cost-of-living pressures, which runs counter to that objective.

2. The household living-costs price index (HLPI) looks at how much a "basket of goods" costs for different households and compares that cost to a base quarter (in this case, the base quarter is June 2014). This graph shows how household living costs have changed since 2018 (which is when the Working for Families abatement threshold was last adjusted – this is discussed in further detail in paragraphs 12 to16):



3. This graph shows that households across all income quintiles have experienced a strong rise in the cost of living in the post-COVID-19 period, with annual HLPI inflation (how much prices have changed over a year) ranging between 5% and 9% in 2022 and 2023.[2]

[1] Budget Policy Statement 2025.
[2] https://www.stats.govt.nz/information-releases/household-living-costs-price-indexes-march-2024-quarter/

4. While annual inflation has stabilised, the cost of living measured by the HLPI for the average New Zealand household increased by 3% from December 2023 to December 2024.[3] The biggest contributors to this increase for the average household was insurance (up 14.3%), property rates and related services (up 12%), and rent (up 4.4%).

5. Minimum wage has increased over time. In 2018, minimum wage was $16.50. It has since increased by $7.00 (42%) to $23.50 from 1 April 2025. As wages continue to grow, more low-income families will have their entitlements abated away. More income earned results in more of the entitlement being abated away.

6. At present, the Government is operating in a fiscal deficit. This position is forecast to narrow from 2025–26, with a return to surplus forecast in 2028–29.[4] However, this is a slower return to surplus than was previously expected in the Budget Economic and Fiscal Update 2024, with core Crown tax revenue being cumulatively $13 billion lower than previous forecasts. As such, the Ministers have directed the proposed changes be fiscally neutral or create savings.

Working for Families is a key mechanism in supporting low- to middle-income families

7. The Working for Families package was implemented by the Ministry of Social Development and Inland Revenue between October 2004 and April 2007. The objectives of Working for Families are to:

   - Make work pay by supporting families with dependent children so they are rewarded for their work effort.
   - Ensure income adequacy with a focus on low- and middle-income families with dependent children to address issues of poverty, especially child poverty.
   - Achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, with delivery that supports them into, and to remain in, employment.

8. The scheme should achieve these objectives at a sustainable cost to the Government.

9. The Working for Families scheme was introduced to provide support to families with children and encourage those families into work. Inland Revenue estimates that 335,800 families with dependent children received Working for Families entitlements in the 2022–23 tax year. It comprises four different payments:

   - **Family Tax Credit:** This is the base component of Working for Families and is an amount paid for each child.[5] Approximately 257,000 families received the Family Tax Credit in the 2022-23 tax year. This component is paid by the Ministry of Social Development and Inland Revenue.
   - **In-work Tax Credit**: This is available to families who are in work and not receiving a main benefit or student allowance. Approximately 161,000 families received the In-work Tax Credit in the 2022-23 tax year. This component is paid by Inland Revenue.
   - **Minimum Family Tax Credit:** A top-up payment for families with incomes below a certain level, working at least 20 hours per week (sole parent) or 30 hours per week

[3] Stats NZ Household Living Price Index – December 2024 quarter. Retrieved on 25 March 2025.
[4] Half Year Economic and Fiscal Update 2024.
[5] Families are not eligible to the Family Tax Credit if they receive the Unsupported Child's Benefit.

(couple).[6] Approximately 3,000 families received the Minimum Family Tax Credit in the 2022-23 tax year. This component is paid by Inland Revenue.

- **Best Start Tax Credit:** A payment to support parents with the costs of a young child (under three years old). Currently, this credit is paid to families regardless of their level of income until their child is one year old.[7] It then abates at a higher income level from the other components in the second and third years. Approximately 141,000 families received the Best Start Tax Credit in the 2022-23 tax year. This component is paid by the Ministry of Social Development and Inland Revenue.

10. The features of Working for Families tax credits enable income support to be targeted to relatively low-income families. Changing these tax credits settings has been identified as the preferred way to address cost-of-living issues for these families particularly when their Working for Families entitlements are abated, (as identified in the problem definition).

Key features of the Working for Families scheme

11. Working for Families eligibility and entitlements are specified in the Revenue Acts. These are discussed below.

- *Eligibility:* Generally, principal caregivers over the age of 16 with dependent children are eligible for Working for Families, provided they also meet the scheme's residency requirements.[8]
- *Entitlements:* Each payment has a different rate with different qualifying criteria. However, families with income over a certain income threshold (an abatement threshold) will receive an abated or reduced rate of the payment. The Family Tax Credit and the In-work Tax Credit abate at 27% for all income over $42,700. This means for every dollar earned over $42,700, a person would see their Working for Families entitlement decreased by 27 cents. The point at which entitlements cut out (reduces to zero) depends on the number of children in a family and what payments are received. This is shown in the table below for the Family Tax Credit and In-work Tax Credit.

Number of children	Maximum entitlement per year	Income cut-out
1	$12,594	$89,344
2	$18,724	$112,048
3	$24,854	$134,752
4	$31,764	$160,344
5	$38,674	$185,937
6	$45,584	$211,530

Abatement settings

12. The abatement threshold and abatement rate are defined in the Income Tax Act. The threshold is not indexed to wage growth or inflation and can be amended by primary or secondary legislation. The abatement rate can be amended by primary legislation only.

[6] Families are not eligible for the Minimum Family Tax Credit if they receive a main benefit or the Unsupported Child's Benefit.
[7] Families are not eligible for Best Start and Paid Parental Leave at the same time.
[8] Alongside the general Working for Families eligibility criteria, each individual payment has its own specific requirements that families must meet to receive the payment.

13. As part of the 2004 to 2007 Working for Families introduction, a single abatement threshold was set at $35,000 with an abatement rate of 20%. Since 2006, the abatement threshold has been increased on three occasions – the latest being the 2018 increase to the current threshold of $42,700.

14. The Working for Families abatement rate has been increased four times since the 2004 to 2007 reforms. The changes to the abatement rate were to tighten the targeting of payments to lower-income groups while reducing the overall cost of Working for Families.

15. The Best Start Tax Credit was introduced in 2018 and has different abatement settings from the other Working for Families tax credits. It is unabated for a child's first year. In the second and third years, it is abated at a rate of 21% for incomes above $79,000 until the child turns three.

Interactions between different social policy products are having a negative impact on work incentives

16. Consistent increases to the rates of other social policy products received by Working for Families recipients means that different entitlements abate at the same time for some of those recipients. If a Working for Families recipient earns approximately $821.15 per week or more over a year, they will receive abated entitlements. However, the Working for Families "abatement zone" currently coincides with the "abatement zone" of other social policy products such as Jobseeker Support and Sole Parent Support. The simultaneous abatement of these payments results in higher effective marginal tax rates for recipients of both payments. Higher effective marginal tax rates negatively impact the incentive to take up additional hours of paid work. This interaction is shown in the table below:

Social policy product	Abatement threshold (weekly) and rate	Weekly cut-out points	Simultaneous "abatement zone" (with Family Tax Credit)	Effective marginal tax rate at $821.15[9]
Sole Parent Support	$160 at 30% $250 at 70%	$934	$821.15 to $934	116.1%
Jobseeker Support (couple with children)	$160 at 70%	$1,088	$821.15 to $1,088	

17. This simultaneous abatement is not limited to main benefits and occurs within the Working for Families scheme. The different abatement thresholds for the Best Start Tax Credit, Family Tax Credit, and In-work Tax Credit means that it is possible for a family receiving multiple tax credits to experience abatement of more than one Working for Families tax credit at the same time. Officials have not modelled how many families are affected by the simultaneous abatement of the Family Tax Credit and Best Start. However, those affected are likely to be families with income between $79,000 and $97,276, which is the income cut out point for Best Start for families with one child.

What is the policy problem or opportunity?

18. Due to the combined effect of wage growth over time and the abatement threshold remaining at the same level it was set at in 2018, the entitlements of more low-income

[9] This takes into account reductions due to personal income tax (17.5%), benefit abatement (70%), Working for Families abatement (27%), and ACC levies (1.6%).

families are being abated. More families are subject to abatement over time as wages continue to grow. As such, Working for Families as a mechanism to help low-income families meet rising household living costs is becoming less effective.

19. Some of these families will experience high effective marginal tax rates as a result, which reduces the incentive to take up additional hours of paid work. At present, a family working 34.9 hours per week (which is less than the traditional full-time work week of 40 hours) or more at the current minimum wage of $23.50 will be subject to abatement. The table below exhibits how the lack of regular increases to the Working for Families abatement threshold means that a family can work fewer hours before their entitlements will start to abate.

Year	Working for Families abatement threshold	Minimum wage	Hours worked per week to reach abatement threshold
2006	$35,000	$10.25	65.7
2010	$36,827	$12.75	55.5
2014	$36,350	$14.25	49.1
2018	$42,700	$16.50	49.8
2024	$42,700	$23.15	35.5
2025	$42,700	$23.50	34.9

20. We conclude that the level of the current abatement threshold is not meeting the scheme's objectives to incentivise work and ensure income adequacy, particularly for low-income families.

21. All low- to middle-income families whose incomes exceed the Working for Families abatement threshold as a result of wage growth are impacted by the current abatement settings. Based on Inland Revenue administrative data from the 2022-23 tax year, 63% of solo parents earned less than $50,000 with 31% earning between $30,000 and $50,000.[10]

22. Inland Revenue does not generally collect information on the age, ethnicity or disability of people receiving Working for Families.[11] We expect that some groups are more likely to be impacted by the issues arising from the current abatement threshold based on median household incomes. In June 2024, Māori and Pacific households had median incomes of approximately $46,500,[12] meaning many could be entitled to Working for Families and are earning incomes at or slightly above the current threshold. The median household income for disabled people in New Zealand was $41,918, just below the threshold; however, it is unclear whether the threshold affects disabled people's incentives to work.

23. Previous public engagement on the 2022 review of Working for Families showed that most submitters supported an increase to the abatement threshold due to cost-of-living pressures and a desire to maintain or improve work incentives and income levels. Officials note that the public also supported broader changes to Working for Families, including indexing (i.e., increasing) the abatement threshold and lowering the abatement rate, which cannot be achieved within current fiscal constraints.

What objectives are sought in relation to the policy problem?

[10] This data includes Inland Revenue customers and beneficiaries who were squared up by Inland Revenue at the end of the tax year.

[11] Inland Revenue only collects information on the age of a child as this affects eligibility. Additional information may be collected from time to time to inform Inland Revenue's customer research.

[12] Taken from the household income and housing-cost statistics released by StatsNZ on 20 February 2025

24. The three objectives of Working for Families (as set out in paragraph 7) must be considered when analysing any proposed changes to Working for Families. Broadly, these objectives are to:

- increase financial incentives to take up and stay in employed work
- ensure income adequacy, and address issues of poverty, especially child poverty, and
- achieve a social assistance system that supports people into work.[13]

25. It is generally possible to achieve two of these three objectives for any given policy change, but not all. Regardless of which objectives an option may achieve, it must achieve these objectives at a sustainable cost to the Government.

26. In line with Government direction, ensuring income adequacy for low-income families by raising the abatement threshold and doing this at a sustainable cost to government is prioritised over other objectives.

What consultation has been undertaken?

27. The options in this proposal were developed by Inland Revenue, in conjunction with the Treasury and the Ministry of Social Development. The Department of Internal Affairs was consulted on flow-on impacts to SmartStart.

28. The 2022 review of Working for Families showed that most submitters supported an increase to the abatement threshold. This is referred to in paragraph 23. No public consultation has been undertaken on the specific options in this proposal due to the time constraints and Budget sensitivity.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

29. The criteria that will be used to compare options are:

- **Income adequacy:** Assesses the difference in net income of eligible families.
- **Work incentives:** Considers the impact of the proposal on financial incentives to work (whether families are encouraged to take up or increase hours of work).
- **Child poverty impact:** Assesses how the proposed options affect both measured child poverty rates and child poverty on an individual household basis.
- **Debt mitigation:** Options that result in fewer overpayments are preferred.
- **Fiscal cost:** Measures the overall cost to the government.
- **Administration costs:** Measures the overall cost of implementing and administering the proposed changes.
- **Equity:** Measures how fair and equitable each option is, keeping in mind the goal of Working for Families is to assist low- to middle-income families.

30. Unlike the other criteria, measured child poverty impacts are derived from using specific methodologies. Officials cannot comment on the child poverty impacts of each individual option because they were not modelled in isolation. However, we can comment on the

[13] The Working for Families objectives are discussed in more detail at paragraph 7.

child poverty impacts of the preferred package as a whole because we have completed TAWA modelling for that.

What scope will options be considered within?

31. The scope of the options was determined by Ministers after considering officials' initial advice. Options considered out of scope:
    - indexing the Working for Families abatement threshold,
    - reducing the Working for Families abatement rate,
    - the changes outlined in the discussion document "Empowering families: increasing certainty and preventing debt in the Working for Families scheme".

32. Ministers have directed officials that the proposed changes, including the increase to the Working for Families abatement threshold, must be fiscally neutral or result in a saving. As such, we have only considered options that are broadly fiscally neutral when packaged with the abatement threshold increase.

33. Options considered but not advanced are:
    - increasing the abatement threshold for the Family Tax Credit and In-work Tax Credit threshold by either by $5000 to $47,700, or $10,000 to $52,700 (not advanced due to the fiscal constraints),
    - repealing Best Start (not advanced because it is likely this option will have a significant negative impact on income adequacy),
    - introducing a 40% abatement rate at $100,000 or $120,000 (not advanced because Ministers preferred a smaller package targeted at low-income families with minimal impacts to the broader Working for Families recipient population),
    - skipping the next round of CPI indexation adjustments (not advanced because Ministers preferred a smaller package targeted at low-income families with minimal impacts to the broader Working for Families recipient population).

34. Cost analysis is based on previous reporting that used both BEFU24 and HYEFU24 forecasts and therefore is only presented at a high level to avoid errors in cross-referencing. Due to time constraints and resourcing, officials only modelled distributional impacts using TAWA modelling for a small number of refined packages. Options that are unsupported by TAWA modelling have been flagged in the option analysis. Final costs and distributional impacts are only presented in detail for the preferred package:
    - increasing the Working for Families abatement threshold by $2,200 to $44,900,
    - income testing the first year of Best Start, and
    - increasing the Working for Families abatement rate to 27.5%.

What options are being considered?

35. We considered a range of options to increase the abatement threshold to demonstrate the scale of the impact different increases might have. Given fiscal constraints, we also considered options that would deliver savings to offset the increase to the abatement threshold through:
    - targeting Best Start tax credit,

- changing the Working for Families abatement rate, and
- other changes to Working for Families tax credits.

Option 1: Status quo

36. Option 1 involves continuing with the current settings in Working for Families. Section 1 describes the existing issues created under the status quo. This option is contrary to the income adequacy and work incentive goals of the Working for Families scheme because it keeps the levels of support and work incentives stagnant, eroding the value of the payments in real terms. Also, it does not address the policy problem in this statement. However, it has the lowest fiscal cost.

Option 2: Increase the Working for Families abatement threshold for the Family Tax Credit and In-work tax credit components

37. We considered a range of different increases to the Working for Families abatement threshold. Generally, the larger the increase to the abatement threshold, the higher the fiscal cost. Larger increases are also associated with a stronger positive impact on income adequacy and work incentives.
    - Option 2A: increasing the threshold by $2,200 to $44,900:
        - This option has the lowest fiscal cost of the threshold options. At the current minimum wage, entitlements would start to abate at approximately 36.7 hours of work per week. This option would improve work incentives for approximately 5,000 families.
    - Option 2B: increasing the threshold by $2,300 to $45,000:
        - This option has higher fiscal cost than Option A. At current minimum wage, entitlements would start to abate at approximately 37 hours of work per week.

Comparison of options:

Criteria	Status quo	Increase by $2,200 to $44,900	Increase by $2,300 to $45,000
Income adequacy	0	+	+
Work incentives	0	+	+
Debt mitigation	0	0	0
Fiscal costs	0	-	-
Administration Costs	0	0	0
Equity	0	+	+

Example key for qualitative judgements:	
+++	Far better than doing nothing/the status quo/counterfactual
++	much better than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual
0	about the same as doing nothing/the status quo/counterfactual
-	worse than doing nothing/the status quo/counterfactual
- -	much worse than doing nothing/the status quo/counterfactual
- - -	Far worse than doing nothing/the status quo/counterfactual

Option 3: Savings options from targeting Best Start

38. The Best Start Tax Credit is a payment to help families with costs in a child's first three years. Eligible families are entitled to $73 a week in the first year of the child's life (except for weeks where they are receiving Paid Parental Leave). This amount starts to abate by 21% for all income over $79,000 for the child's second and third years. Entitlements cut out for families earning $97,276.

39. Option 3 has three sub-options that result in savings:
    - Option 3A: Income test the first year of Best Start:
        - Income testing the first year of Best Start would result in some families receiving less, which would generate savings. These savings are slightly offset by the administration cost of systems changes and updating internal guidance.
        - Approximately 9,000 families will have increased effective marginal tax rates as a result of being newly subject to Best Start abatement.
        - Officials have estimated that income testing the first year of Best Start will result in 53,000 families becoming ineligible.
    - Option 3B: Income test first year of Best Start, and remove entitlements for the third year:
        - Option B would income test the first year of Best Start and remove eligibility to the payment for children aged two years.
        - We have not assessed this option in depth. This option would generate savings; however, they would be slightly offset by administration costs primarily associated with income-testing the first year.

40. Due to time constraints, when our initial advice on targeting Best Start was provided, we had not yet modelled the impacts of child poverty for options 3A or 3B. Based on the information available at the time, Inland Revenue officials assessed that removing the entitlements for the third year of Best Start would have a significant negative impact on child poverty. Based on that advice, Ministers decided not to progress option 3B.

41. Income-testing the first year of Best Start may indirectly impact on Working for Families take up rates as a result of the consequential changes made to SmartStart – which is how families can currently apply for Best Start. Inland Revenue can use the information provided to determine a family's eligibility to other payments. This process resulted in a 5%

increase in Working for Families take up among families with children aged 0-1 in the 2020-21 tax year.[14]

42. However, income-testing the first year of Best Start will mean that families will have to apply via a separate Inland Revenue form. As such, fewer families may apply due to increased compliance costs in the application process, resulting in fewer families being identified as eligible for other Working for Families tax credits.

Comparison of options:

Criteria	Status quo	Income test first year of Best Start	Income test first year *and* remove entitlements for the third year
Income adequacy	0	-	- -
Work incentives	0	-	-
Debt mitigation	0	-	- -
Fiscal savings	0	+	+ +
Administration Costs	0	-	-
Equity	0	+	- - -

Option 4: Savings options from changes to the Working for Families abatement rate

43. We have considered three different changes to the abatement rate, all of which result in fiscal savings for the Government. Generally, a higher abatement rate will result in more savings. However, higher abatement rates have a negative impact on income adequacy and debt mitigation as entitlements abate at a quicker rate. A higher abatement rate also results in a higher effective marginal tax rate, which may have a negative impact on work incentives. Increasing the abatement rate will directly affect families earning over the Working for Families abatement threshold.

- Option 4A: increase the rate to 27.5%
  - The general impacts are set out under paragraph 39. Families earning above the Working for Families abatement threshold would be negatively impacted by this change. Approximately 180,000 families earning over the abatement threshold will have an increased effective marginal tax rate of 0.5%, resulting in a small negative impact on work incentives.
- Option 4B: increase the rate to 28%
  - Option B has the same impacts as those set out above under option A and under paragraph 41. However, the impacts of option B would be exacerbated due to the higher rate.

[14] Ministry of Social Development. *Estimates of Working for Families eligibility and take-up rates 2007-2020.* December 2022.

Comparison of options:

Criteria	Status quo	Increase rate to 27.5%	Increase rate to 28%
Income adequacy	0	-	- -
Work incentives	0	-	-
Debt mitigation	0	-	-
Fiscal savings	0	+	+
Admin costs	0	0	0
Equity	0	-	-

Option 5: Savings options from other changes to the Working for Families scheme

44. We considered three other savings options within the broader Working for Families scheme. These options are discussed below.

- Option 5A: increase the Schedule 31 income bands from $1,500 to $3,000 increments:
    - The Schedule 31 income bands are set out in the Income Tax Act and are intended to provide customers with a small buffer against overpayments and debt resulting from annual income estimations that are too low. A customer's income estimation will fall within a particular income band and is then deemed to be at the top of that band during the year while interim payments are made. The recipient is then squared up at the end of the year using their actual yearly income.
    - The current bands are $1,500 increments and would be increased to $3,000 increments under this option. The broader bands would provide some customers with a greater buffer against overpayments, generating savings by mitigating debt. However, it may have a negative impact on income adequacy by decreasing weekly in-year payment amounts and potentially increasing the size and number of underpayments.
- Option 5B: shift the four+ child rate for the In-work Tax Credit to five+ children:
    - Families receiving the In-Work Tax Credit with four or more children receive an extra $15 per week per child for their fourth and subsequent children. This extra amount is on top of the base In-Work Tax Credit amount of $97.50. In the 2023 tax year, approximately 18,185 families with four or more children received the In-Work Tax Credit during the year.
    - Shifting eligibility for the extra amount to the fifth child and subsequent children in a family would deliver savings by reducing entitlements for families with four or more children. However, this option would have negative income

adequacy and work incentive impacts on these families as they would receive less than they currently do under the status quo.

Comparison of options:

Criteria	Status quo	Increase Schedule 31 income bands to $3,000	Shift four+ child rates for IWTC to five+ children	Skip CPI indexation adjustment
Income adequacy	0	-	-	- -
Work incentives	0	+	0	0
Debt mitigation	0	+	0	0
Fiscal savings	0	+	+	+ + +
Admin costs	0	-	-	0
Equity	0	0	- -	- -

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

45. Officials considered different packages to increase the Working for Families abatement threshold by an amount offset by other changes within the Working for Families scheme. The package most likely to address the problem within fiscal constraints would be:

- increasing the Working for Families abatement threshold by $2,200 to $44,900,
- increasing the Working for Families abatement rate to 27.5%, and
- income testing the first year of Best Start.

46. This package would help mitigate cost-of-living pressures for families earning at or above the new abatement threshold, particularly for those earning up to $100,000 per year, and could marginally improve work incentives for low to middle income families below the threshold.

47. We consider this is the best possible package within fiscal constraints, with acceptable trade-offs:

- Almost all families that receive less income are two-parent families.
- Removing the universal component of Best Start will reduce the number of families who are entitled to Best Start. However, the savings generated from this change would be used to target greater support to relatively lower income families.
- According to TAWA modelling 9,000 families will remain eligible to receive Best Start but their payments will be abated in the first year of their child’s life.
- Removing the universal component of Best Start is likely to have a small negative impact on some families in material hardship, given that children in families in

material hardship can be found in the middle and higher up the income spectrum. We anticipate any overall impact on measured rates would be small or negligible.

- TAWA modelling shows that the preferred package does not have significant impacts on measured child poverty rates.
- Families with a child under one who are not already receiving Working for Families entitlements, or a main benefit will have to apply directly for Best Start through Inland Revenue. Uptake among eligible families may be reduced if there is low awareness or increased compliance costs.
- Income testing the first year could increase the risk of debt for families receiving an abated amount of Best Start for a child under one year of age, given the likelihood of incorrect annual income estimates.

Assumptions and limitations:

48. The proposal assumes a 1 April 2026 (2026–27 tax year) implementation date. Fiscal costs were developed using Inland Revenue's microsimulation model with Half Year Economic and Fiscal Update 2024 (HYEFU24) forecasts. This model assumes that family incomes across the population, regardless of income source, grow at a uniform percentage equal to the growth in Average Ordinary Weekly Earnings (AOWE).

Distributional impacts

49. Distributional analysis was carried out using Treasury's micro-simulation model of the tax and welfare system (TAWA) with Household Economic Survey 2023 (HES23) data and Half Year Economic and Fiscal Update 2024 (HYEFU24) forecasts.

50. TAWA allocates Working for Families payments to all families that appear eligible due to their income, benefit status, and number of children. This may overestimate the number of recipient families.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

51. Given the constraints set out in this Regulatory Impact Statement, officials are comfortable with the proposed package as it balances the benefits to families against the fiscally constrained environment. Officials' preferred package is therefore the same as Ministers' preferred package.

52. Other packages may have allowed for a larger increase in the Working for Families abatement threshold. However, under the fiscal constraints, larger increases to the abatement threshold would have significant trade-offs resulting in substantial reductions in support for lower income families within the Working for Families scheme. For example, increasing the abatement threshold by $10,000 to $52,700 would have required increasing the abatement rate and skipping the CPI indexation adjustment.

53. Of the savings options put forward, Inland Revenue's preferred option was income-testing the first year of Best Start due to the increase in targeting support at low- and middle-income families. These families are likely to need the support more than higher income families.

54. Officials recommended against the following savings measures as a means to achieve fiscal neutrality with the abatement threshold change:

- shifting the four+ child rate for the In-work Tax Credit to five+ children, due to the impact on incomes for larger families,
- repealing the Best Start tax credit, due to the impact on incomes, particularly for low-income families, and/or
- skipping the CPI indexation adjustment, due to the impact on incomes, particularly for low-income families (noting that the Treasury supported this option).

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Best Start and broader Working for Families tax credit recipients	Around 61,000 families would receive a reduction on income. Of these families, 89% have taxable incomes over $100,000 (Average decrease of $43 per fortnight). This includes 53,000 families who become ineligible for Best Start (average decrease of $49 per fortnight). Based on TAWA modelling, 9,000 families will remain eligible but will receive abated Best Start (average decrease of $33 per fortnight). Based on Inland Revenue administrative data, approximately 4,300 families will be newly subject to Best Start abatement (i.e. they do not receive the second or third year of Best Start for any other children.	Average decrease of $43 per fortnight.	Medium
Inland Revenue and other agencies	There will be costs to updating systems and supporting the changes – e.g. increased customer contact (staff impact), updating internal resources for Inland Revenue and for other agencies whose resources point to Inland Revenue products (such as SmartStart changes).		High
Total monetised costs	Ongoing, annual fiscal cost of the package to the Crown (essentially fiscally neutral). Departments to self-fund department administration capital and operating costs. Reduced entitlements for some families.	A forecast $6 million net fiscal saving to the Crown over the forecast period comprising a $211 million saving in the Best Start Tax Credit and a $205 million	Medium

Affected groups	Comment	Impact	Evidence Certainty
		cost increase in Working for Families. Around 142,000 families would benefit. Of these families, 85% have taxable income below $100,000. $2 million departmental administration capital costs over the forecast period to be self-funded by departments. $3.270 million departmental administration operating costs over the forecast period to be self-funded by departments.	
Non-monetised costs	The changes could result in lower uptake from people entitled to Best Start (or Working for Families more generally).	Medium	Medium
Additional benefits of the preferred option compared to taking no action			
Best Start and broader Working for Families tax credit recipients	Around 142,000 families would benefit. Of these families, 85% have taxable income below $100,000.	Average increase of $14 per fortnight	Medium

Affected groups	Comment	Impact	Evidence Certainty
Increased work incentive	There is a small number of people who will have increased work incentives and lower effective marginal tax rates as their family income will no longer be over the main abatement threshold.	5,000 individuals	Low: employment decisions may be influenced by other factors.
The Government	Ongoing, annual fiscal savings.	$6 million savings over the forecast period.	High
Total monetised benefits	Ongoing, annual fiscal savings.	$6 million savings over the forecast period.	
Non-monetised benefits	Increased targeting of support.	Medium	Low

Section 3: Delivering an option

How will the proposal be implemented?

Ongoing responsibility

55. Ongoing operation of the policy changes will primarily be the responsibility of Inland Revenue as the agency responsible for the Working for Families scheme. There may be some one-off implementation impacts for the Ministry of Social Development as well in terms of updating internal resources and guidance. There will also be impacts for the Department of Internal Affairs who administer resources, in particular SmartStart, which refer to the Best Start tax credit and overall Working for Families package.

Funding/costs for implementation

56. Implementation and ongoing administrative costs for Inland Revenue and the Ministry of Social Development will be met from within departments' existing funding.

Timing and notification for affected parties

57. Implementation would take place from 1 April 2026, coinciding with the start of the tax year. This is generally officials' preferred option for rate and threshold changes. The families who receive Best Start for children born prior to 1 April 2026 will continue to receive unabated Best Start payments until their child turns 1 year of age.

58. Working for Families tax credit customers receive a notice of entitlement in February each year advising them of their payments for the upcoming 1 April to 31 March tax year. Planning any rate and abatement changes from 1 April allows new rates to be built into the new year's entitlements and means there is less risk of confusing customers with rate changes during a period of entitlement.

59. Because these changes will be rolled up into the existing Working for Families yearly operating process, it is unlikely significant resources would be needed to educate customers on the threshold changes. Resources or materials which notify parents about Best Start will need to be updated to ensure new parents and caregivers are aware that there will be an income-testing component to the first year of Best Start.

60. Agency capacity to implement the changes depends on final decisions for all Budget 2025 initiatives. There may be some degree of cumulative impact of making multiple changes to different parts of the tax system from one date.

Other work required

61. Following enactment, Inland Revenue will issue its usual guidance in the Act Commentary and on our website to support understanding of the new rules and taxpayer compliance. Internal guidance will also be issued to support operational departments. Inland Revenue systems changes will be required to update rates and thresholds within the core tax system. These are relatively minor changes.

Implementation risks

62. As noted above, the key risk for this proposal is that the impact of cumulative changes to the tax system extends implementation and delivery timelines. However, in and of themselves, changes to rates and thresholds are comparatively minor changes and are made as part of Inland Revenue's business as usual work.

How will the proposal be monitored, evaluated, and reviewed?

63. This proposed change adjusts the rates of existing tax credits, and therefore no new or additional monitoring is required.

64. Some effects of the proposed changes can be monitored using data Inland Revenue currently collects as part of administering Working for Families. This data includes the number of Working for Families recipients, the makeup of those families, the amount and type of payments made, and end of year assessment data on under and overpayments. This administrative data provides descriptive information about Working for Families recipients, and the actual fiscal cost to the Government of the chosen settings.

65. Inland Revenue is also conducting a stewardship project that considers options to improve Working for Families over the longer term. This review considers other outcomes such as under/overpayments and debt.