Inland Revenue
Te Tari Taake

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Information sheet

Empowering families: Increasing certainty and preventing debt in the Working for Families scheme – Government discussion document

The Government wants to make Working for Families more accurate and easier for families to understand and manage their payments. It also wants to help people avoid going into debt, which can happen when people estimate their income for the year wrongly or there is a change in their income or other circumstances. The Government's discussion document provides the following set of proposals aimed at meeting these objectives.

- Using a period shorter than a year to calculate entitlements and using past income for this calculation, to make payments more accurate and help to prevent debt.
- Simplifying the definition of family scheme income (the income basis used to calculate Working for Families tax credit entitlements).
- Refining the Working for Families residence requirements and improving information sharing between Inland Revenue and the New Zealand Customs Service.
- The document also seeks feedback on some aspects of recipients' experiences as they move from a benefit into work.

Shorter period of assessment

At the moment, a family's Working for Families entitlement is calculated on the income they earn in a tax year (1 April to 31 March). If a recipient opts to receive weekly or fortnightly payments, they need to estimate what they think they will earn over that coming tax year.

The Government is suggesting a shorter assessment period than the current one-year period. A period of a month or quarter would improve accuracy and help prevent overpayments and underpayments.

The Government also suggests a shift from calculating a recipient's Working for Families on the recipient's estimate of *future* income over the coming year to basing the calculation on past income they *actually* received. This would help to prevent people going into debt.

Making work pay: Supporting transition from benefit to work

An important function of Working for Families is that it should help make sure that people are better off in work. The Government wants to hear about people's experiences and views on the process of moving off a benefit and into work, to help improve support for people moving off a benefit.

This includes understanding the barriers that people face when moving into work – at the individual, employer or government level. In particular, the Government is interested in understanding how the administration of payments can impact a person's decisions to enter work or work more hours.

Definition of family scheme income

Family scheme income includes all taxable income, as well as some other types of income specific to Working for Families calculations. This is used to calculate a family's Working for Families entitlement.

Some taxable income information is reported to Inland Revenue on a regular basis (for example, salary and wages from an employer) but other information is self-reported at the end of the tax year (for example, self-employment income).

Families also need to declare if they receive any of an additional list of specific types of income for example, private payments of child support, income from trusts, business income or investments and any other income to help meet day-to-day living expenses.

If a family wants to receive in-year payments from Inland Revenue (weekly or fortnightly), they are required to estimate their income for the tax year for Working for Families purposes for all of these types of income.

As this definition has become too broad, confusing and time-consuming and can lead to incorrect estimates, the Government proposes to simplify the definition of family scheme income for Working for Families purposes. Some of the less frequently used income types, such as depreciation recovered on the sale of buildings or some pensions and annuities, could be removed.

This change would also support a move to a shorter period of assessment, allowing more families to benefit from the change.

Residence requirements and information sharing

The principal caregiver or the child being cared for must meet residence requirements to be eligible for Working for Families. The existing residence requirements look at physical presence and immigration status, and for the principal caregiver, their tax residence status.

Families who receive Working for Families payments must notify Inland Revenue when they depart New Zealand in case their departure affects their entitlements. If a family is no longer entitled to Working for Families but they continue to receive payments after they leave New Zealand, they may end up in debt.

The Government proposes to simplify the residence criteria for Working for Families and require both caregivers and children to be physically present in New Zealand to qualify. The Government is interested in hearing in what circumstances and for what period of time someone should still qualify for payments while they are overseas (for example, travelling on holiday).

The Government proposes improved information sharing between Inland Revenue and Customs to help reduce the risk of people being overpaid when they move overseas. This information would allow Inland Revenue to follow up with families to check if they have moved overseas and when necessary, stop payments.