

# Regulatory Impact Statement: Working for Families – Family scheme income

<b>Decision sought</b>	Final Cabinet decisions
<b>Agency responsible</b>	Inland Revenue
<b>Proposing Ministers</b>	Hon Simon Watts, Minister of Revenue
<b>Date finalised</b>	14 May 2026

This proposal aims to simplify the definition of income (family scheme income) used to calculate Working for Families entitlements, making it easier for families to understand and comply with. This change includes removing some low-risk income adjustments and amending legislation to be more agile in response to changing risk in specific cases. The changes, if agreed, would be effective from 1 April 2027.

## Summary: Problem definition and options

### What is the policy problem?

A family's entitlement to Working for Families tax credits is partially based on their income, or "family scheme income". In broad terms, the starting point for calculating the family scheme income is the total amount of net income a family receives, with the family required to add or subtract certain amounts. Family scheme income is intended to capture the family's ability to meet living expenses, and the adjustments address the risk of families rearranging their finances to inflate entitlements beyond what is justified.

The complexity of the family scheme income calculation creates administrative and compliance costs as well as debt. Consultation shows that many families struggle to understand what is required of them and incorrectly declare income, resulting in under or overpayments. This leads to additional work for administering staff and intermediaries and, at times, inconsistent approaches to resolving issues.

Data limitations constrain analysis, but it is apparent that some income adjustments are a lower integrity risk than others, and removing them would make requirements clearer. Current legislation specifies which income adjustments must be included in family scheme income, limiting the effectiveness of non-regulatory options.

### What is the policy objective?

The primary objective is to reduce the complexity of family scheme income to make it easier for families to understand, improve administrative efficiency, and simplify how customer entitlements are determined. This objective should be weighed against any integrity impacts and include potential mitigations where necessary. Success would be measured by the reduction of complexity for customers, while maintaining the integrity of the Working for Families scheme.

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

Maintaining the current definition of family scheme income (Option 1) would continue to minimise integrity risks at the cost of additional complexity for customers and staff, which often results in under and overpayments (and therefore debt). Officials considered non-regulatory options such as improved guidance, use of data, forms and processes. However, these measures would not sufficiently address the primary problem because the types of payments that qualify as adjustments are mandated by legislation. Officials therefore also considered regulatory options:

- Option 2: Removing all income adjustments and placing more emphasis on anti-avoidance.
- Option 3: Removing lower-risk income adjustments.
- Option 4: Removing lower-risk income adjustments and introducing legislative flexibility to re-apply specific income types in future. Two sub-options of Option 4 have been considered. These differ in how they treat adjustments for “other payments”:
  - 4(a): Keep "other payments" adjustment but increase de minimis to \$8,000 (Minister’s preferred option).
  - 4(b): Remove the "other payments" adjustment (Inland Revenue’s preferred option).

**What consultation has been undertaken?**

In 2016, Inland Revenue sought staff feedback about current issues with family scheme income and used administrative data to identify the impact for customers. Officials also heard more general feedback on the complexity of the scheme through Government consultation on the Working for Families review (2022) as well as Inland Revenue’s internal stewardship review (undertaken between 2023 and 2025). This initial work informed problem identification and option development. Government tested the recommended option to simplify the definition by removing low-risk adjustments. through a public discussion document in 2025 over six weeks. While feedback on the proposal was limited, it generally supported simplification alongside better guidance, with some variation in views on the risks or benefits of removing certain income adjustments. Officials have considered this feedback and revisited which income adjustments to remove or retain, as well as the proposed monitoring and reporting approach. Feedback mostly supported the recommended removals. However, one adjustment type that received contrasting views from submitters is proposed to be retained following the revisit.

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

No. While most of the key changes under Option 4 align in the Cabinet paper and RIS, they differ in the treatment of “other payments”. The preferred option in the Cabinet paper keeps this adjustment and increases the de minimis to \$8,000 (Option 4(a)), whereas the preferred option in the RIS removes the adjustment (Option 4(b)).

## Summary: Minister's preferred option in the Cabinet paper

### Costs (Core information)

The Minister's preferred Option 4(a) would have a one-off implementation cost to Inland Revenue of \$0.200 million operating in the 2026/27 fiscal year. It would also have an ongoing fiscal cost of \$3.000 million operating over the forecast period from removing certain income adjustments and increasing the "other payments" de minimis to \$8,000. The changes would impose some additional non-monetary costs on all customers and Inland Revenue staff to learn and apply the new definition, some of it balanced by the simplification of not having to calculate, report and administer the removed adjustments.

### Benefits (Core information)

Overall, we expect this option will make it easier for customers to understand how their income affects their Working for Families entitlements and make it easier for Inland Revenue staff to administer the scheme. Legislative flexibility will also make it easier to respond to integrity risk.

### Balance of benefits and costs (Core information)

Officials consider that the non-monetised benefits of reduced ongoing administrative and compliance costs outweigh the implementation and fiscal costs.

### Implementation

If agreed, the changes would come into effect on 1 April 2027. The proposal would be implemented by Inland Revenue. Legislative settings should be in force by December 2026. This allows time for implementation and communication to customers about the changes by early 2027. Inland Revenue would incorporate the new settings into notices of entitlement issued in February 2027. These inform customers' income estimation and Working for Families entitlements ahead of the start of the 2027–28 tax year.

There is a risk that some families will structure their income to increase their entitlements; however, officials consider that this risk is low due to the income adjustments being removed having a low value and frequency of use and are generally not easily used to channel income. Ongoing monitoring and reporting as well as the option to amend legislation quickly in some cases will mitigate this risk.

### Limitations and Constraints on Analysis

Limited data, and constraints on the use of that data due to resourcing, contribute to the problem. It is difficult to accurately assess the scale and risk of integrity issues. When data is available, significant resourcing is required to use it effectively. On balance, however, officials consider that the available data, as well as feedback from impacted customers, staff and intermediaries, are sufficient to support the case for change. Improvements to data collection and regular monitoring and reporting, as well as a more flexible regulatory system for some income types, will support future advice on the effectiveness of the change.

## Summary: Agency's preferred option in the RIS

<b>Costs (Core information)</b>
The preferred option in the RIS (Option 4(b)) will have the same one-off implementation cost to Inland Revenue as Option 4(a) (\$0.200 million operating in 2026/27 financial year). However, the fiscal cost will be greater at \$13.800 million operating over the forecast period from removing certain income adjustments, and in addition also removing "other payments". There would be some non-monetary costs on all customers and Inland Revenue staff to learn and apply the new definition, some of it balanced by the simplification of not having to calculate, report and administer the removed adjustments.
<b>Benefits (Core information)</b>
We expect this option will share similar benefits to Option 4(a), with the removal of "other payments" further simplifying the scheme for customers and Inland Revenue staff.
<b>Balance of benefits and costs (Core information)</b>
As with Option 4(a), officials consider the non-monetised benefits of reduced ongoing compliance and administrative costs outweigh the implementation and fiscal costs. Removing "other payments" would further support these benefits.
<b>Implementation</b>
Same as Option 4(a).
<b>Limitations and Constraints on Analysis</b>
Same as Option 4(a).

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.

Responsible Manager(s) signature:

s 9(2)(a)



Paul Young  
Acting Policy Lead  
Policy  
14 May 2026

<b>Quality Assurance Statement</b>	
Reviewing Agency: Inland Revenue	<b>QA rating:</b> Meets
Panel Comment: Inland Revenue's internal quality assurance panel has reviewed the Regulatory Impact Statement (RIS) prepared by Inland Revenue on 13 May 2026. The panel considers that the information and analysis summarised in the RIS meets the quality assurance criteria.	

## Section 1: Diagnosing the policy problem

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

1. The Working for Families scheme was introduced between 2004 and 2007 to support low- and middle-income families with the costs of raising children in New Zealand. The key objectives of the scheme are to support work incentives (make work pay), ensure income adequacy for low- and middle-income families, and to support people into work at a sustainable cost to the Government.
2. Working for Families is jointly administered by Inland Revenue (approximately 80% of recipients) and the Ministry of Social Development (approximately 20%). It comprises four different tax credits: the Family tax credit, In-work tax credit, Minimum family tax credit, and Best Start tax credit (introduced in 2018).
3. While Working for Families is part of the tax and transfer system, it could be considered part of the welfare system. However, it is more broad-based and less targeted to a family's specific needs than some Ministry of Social Development income support.
4. Families can opt for weekly or fortnightly (in-year) payments or wait until the end of a tax year and receive their entitlement as a lump sum. In-year payments are based on the family's estimate of what their income will be for the year in advance. After the end of the tax year, Inland Revenue checks the income of those families who have a registered Working for Families account with Inland Revenue and squares them up if they received too little or too much.
5. Families are required to inform their paying agency when their income or circumstances change to ensure their payments reflect what they are entitled to. If they do not do this in a timely manner, they risk overpayment debt. Some families incorrectly declare or exclude income sources, which then results in them receiving incorrect entitlements.
6. The complexity of the scheme and uncertainty of current rules also drive higher customer contacts, contributing to the costs of administering Working for Families. These costs have increased by 115% since 2015. In comparison, Inland Revenue's administrative costs for other products increased by 20% over the same period.

### ***Family scheme income***

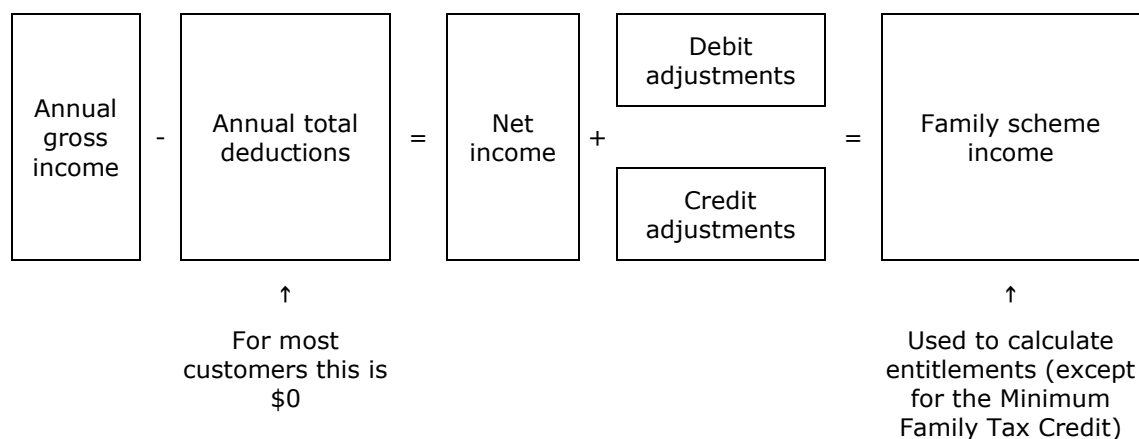
7. Working for Families entitlements are calculated based on a family's annual net income<sup>1</sup> in a given tax year with some specific adjustments. This is called family scheme income. Family scheme income is similar to Australia's approach for Family Tax Benefit.

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<sup>1</sup> "Net income" is a concept for tax purposes in the Income Tax Act 2007 and is the amount of income a person (or entity) has after allowable deductions are subtracted from gross income.

8. This definition is intended to reflect a family's ability to meet living expenses when determining the level of Working for Families tax credits that they are entitled to compared with a pure net income concept.<sup>2</sup>
9. Figure 1 below illustrates how family scheme income is determined:

**Figure 1:** Calculating family scheme income



10. Family scheme income adjustments can either be credit or debit adjustments:
  - credit adjustments reduce family scheme income, therefore increasing what people are entitled to, for example, child support paid
  - debit adjustments increase family scheme income, therefore decreasing what people are entitled to, for example, child support received.
11. There are 25 possible adjustments and most of these increase family scheme income (therefore reducing the amount of Working for Families tax credits people are entitled to). The most common adjustments relate to child support.
12. In 2011, the definition of family scheme income was broadened to include new types of income adjustments, including trustee income, certain fringe benefits, and passive income derived by dependent children. The purpose of this change was to address concerns that some families were structuring their affairs to maximise Working for Families entitlements without reflecting their true ability to meet living costs.

#### *Operational process for calculating family scheme income*

13. Inland Revenue does not hold data on most income adjustments used for family scheme income (that is, it is not generally reported to Inland Revenue as the individual's income), therefore customers are expected to supply this when they apply for Working for Families or when their estimated income or circumstances change.
14. Most adjustments to family scheme income are calculated manually, rather than automatically. Income adjustments are typically 'rolled over' to ensure they are

<sup>2</sup> Other agencies may use family scheme income for their own purposes. The Ministry of Social Development uses it to calculate certain entitlements: the Parental Income Test for Student Allowance, the income test for a Community Services Card (administered by Work and Income on behalf of the Ministry of Health) for low-income earners with dependent children, and as part of the Parental Income Test of the Young Parent Payment.

continuously captured in the calculation of entitlements while also reducing compliance costs. For example, if a family made an income adjustment in 2019, the adjustment would carry over into future years, unless it is changed or removed by the customer.

15. Based on data from the 2021–22 tax year, Inland Revenue estimates that only 2% of Working for Families customers have income adjustments included in their calculation (other than adjustments for child support).

### ***Inland Revenue’s regulatory stewardship review of Working for Families***

16. Inland Revenue recently undertook a regulatory stewardship review of the Working for Families scheme 2023 to 2025. This was a ‘first principles’ review that looked at how Working for Families is currently delivered and how it could be improved in the future and drew from a range of sources including administrative data and customer insights.
17. The review found that Working for Families has become more complex since it was introduced. This complexity leads to increased debt and uncertainty for some customers and creates administrative burden and inefficiencies for paying agencies. This complexity also drives higher customer contacts, contributing to the costs of administering Working for Families. The scheme is Inland Revenue’s third most costly product to administer,<sup>3</sup> with the unit responsible for the scheme seeing their costs increase by 115% since 2015 (while its other costs only increased by 20%).
18. Among other factors, Inland Revenue found that the current definition of family scheme income was contributing to the scheme’s complexity. The Government is now considering options that simplify the scheme, and this includes looking at potential changes to the definition of family scheme income.

### **What is the policy problem or opportunity?**

19. The current settings aim to improve the integrity of the Working for Families scheme by reducing the risk of families structuring their affairs to maximise entitlements, while also improving equity by ensuring that families get the right support. The prescriptive definition of family scheme income in legislation is intended to make sure the rule of law is clear and can be applied consistently across a range of contexts and circumstances.
20. However, the breadth and complexity of the current definition is challenging for both customers and administering staff as well as third parties to understand, leading to high compliance and administrative costs, and contributing to poor customer experiences.
21. The detailed and descriptive nature of the current legislative provisions, as well as lack of data, means that Inland Revenue has limited capacity to address these issues through non-regulatory changes. Data limitations due to resourcing and quality issues with some of the data provided by customers (and limited ability to improve this data), also constrains Inland Revenue’s analysis of the problem. However, the highlighted issues suggest that family scheme income, as currently defined in legislation, may not be

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<sup>3</sup> Similar to pay-as-you earn (PAYE), after income tax and goods and services tax.

adequately meeting the policy intent. Inland Revenue expects that if these problems are not addressed, families will continue to experience challenges with the current system.

***Complexity of current rules can create compliance costs for customers, and result in incorrect declarations that impact entitlements***

22. Although most income adjustments are only relevant to a very small number of individuals (around 2% of Working for Families customers), all customers are required to consider every income adjustment type when applying for or adjusting their income for Working for Families purposes. In essence, the current rules assume all customers have a complete understanding of income adjustments as well as complete oversight over their own affairs.
23. However, this assumption is likely incorrect. Many customers struggle to understand what types of income some adjustments include and which adjustments are relevant to them. Some adjustments are very technical in nature, while others are very broad, making it challenging for both staff and customers to apply a consistent approach across all definitions.
24. Poor understanding of requirements results in some customers incorrectly declaring or failing to declare income. For example, in 2024, Inland Revenue observed a small sample group of customers who declared “other payments” and found only 59% of these declarations were correct.<sup>4</sup> The majority of these customers were on low incomes and therefore likely in financial hardship.<sup>5</sup> Some families may have incorrectly declared amounts that are not taxable and should not be an adjustment (for example, savings, family help under a de minimis threshold of \$5,000) resulting in a lower payment than they would have otherwise been entitled to.

***High customer contact and manual processing can drive up administrative costs and lead to greater uncertainty for customers***

25. The complexity of the definition of family scheme income also means that all processes, applications and systems adjacent to it are complex. Many customers contact the Inland Revenue contact centre for support, and some customers may provide additional information that is not relevant to income adjustments. This results in an increased workload for staff to clarify or correct declarations, although it is difficult to quantify how much additional work this involves. While Inland Revenue holds some data that could be used to help determine family scheme income, this is not available for all income adjustments and creates additional administrative burden for staff.
26. This complexity can also create an unnecessary burden for tax agents and intermediaries who provide information to Inland Revenue on behalf of their clients.
27. An internal review in 2016 found that Inland Revenue staff thought that processes dealing with family scheme income could be more consistent. For example, some staff asked customers to provide evidence of income (eg, bank statements), while other staff

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<sup>4</sup> This is based on a sample size of 120 customers, with only 71 of those customers correctly declaring “other payments”.

<sup>5</sup> Inland Revenue determines that a person is in hardship if their income is equal to or below the average costs as determined by the Household Expenditure Guide. 106 families out of the sample group of 120 met this criterion.

accepted information over the phone. Some staff also spent a significant amount of time clarifying what should be included in adjustments. When clarification was not provided, some families included savings or other forms of payments not needed for the adjustment, particularly for “other payments”. It can therefore be difficult for Inland Revenue staff to ensure consistency when dealing with different family circumstances.

***Legislative settings only partially support policy intent***

28. Despite the definition of family scheme income being set out in legislation, it is apparent that this is not well understood by staff or customers.
29. Inland Revenue has found that many income adjustments, such as building depreciation or retirement contributions, are only made by a small handful of families so the total amount of adjustments are low. Therefore, these adjustments do not materially impact family scheme income (although they may provide a deterrent impact for families attempting to structure into the Working for Families scheme).
30. Some income adjustments also fail to reflect the actual means that a family has for their day-to-day needs because they do not consider that families are often part of multi-directional support networks. “Other payments” are the best example of this.

**Example 1: How “other payments” accounts for multi-directional support**

Kate has two children. Kate’s brother gives her \$500 a month to help with the household costs. Kate must let Inland Revenue know that she is receiving an additional \$6,000 a year so it can be reflected in her family scheme income. If instead, Kate’s brother provided Kate with \$500 worth of groceries a month, this would not need to be reflected in her family scheme income.

Also, Kate’s parents live with the family and Kate largely supports them, to the estimated value of \$10,000 a year. This indirect support is not taken into account for Working for Families purposes meaning Kate’s entitlements reflect the \$6,000 a year she receives from her brother, but not the \$10,000 a year she spends on her parents.

31. Therefore, the adjustments that make up family scheme income can fail to reflect the actual resources a family has available to them. Current settings only recognise the financial support a family receives, but not the support they give or the non-financial support they receive. This is particularly a problem for Māori and Pacific communities given the ways in which collectivism, support and community underpin the fabric of these respective cultural worldviews.
32. There are also concerns that some adjustments inadvertently capture amounts they are not intended to. In particular, without a specific exclusion, “other payments” can capture other forms of financial support paid by the Government. This further highlights the complexity of family scheme income, the administrative burden of maintenance it requires from policy, legal and customer support personnel, and the problems faced by its interaction with income support policy more broadly.
33. Other shifts have occurred since 2011, when many of the integrity adjustments were added.

34. First, Inland Revenue has shifted to an intelligence-led operating model that emphasises customers getting things right from the start, and its understanding of revenue risks across its products has improved through better data and analytical approaches.
35. Second, the breadth of Working for Families eligibility in 2011 was wider, and a larger number of families might have considered whether they could access it. Just over 60% of families with children were entitled to Working for Families in 2011, compared to just over 40% of families with children now. This will reduce further from 1 April 2026 as the first year of the Best Start tax credit is income tested in line with the second and third years. As eligibility has narrowed, integrity risks arise across a narrower range of families and circumstances, although they continue to require active management.
36. However, it is important to note that income adjustments are important and do capture some sources of income that are available to be used for a family's living expenses that may not have been otherwise captured. For example, in the 2022 tax year, adjustments reduced families' entitlements by approximately \$6 million, and more than half of this was made up of company income derived by a child (\$3.8 million). If this adjustment had not been introduced in 2011, it would be possible for a family to channel income to a child and still receive Working for Families tax credits. This would not properly account for the family's true economic resources.

### **What objectives are sought in relation to the policy problem?**

37. The primary objective of the proposal is to reduce the complexity of family scheme income so that it is easier to work out what Working for Families customers are entitled to. In turn, this should make the scheme easier for customers to understand and more efficient for Inland Revenue to administer.
38. This primary objective must be considered alongside a secondary objective to maintain the integrity of the Working for Families scheme. That is, options should consider whether there is any impact on the ability for families to structure their affairs to inflate their entitlements and, if it increases this risk, potential ways to mitigate this.
39. The inherent tension between these two objectives means that possible options fit along a spectrum that could result in trade-offs between them. This may depend on risk tolerance and administrative preferences over time. For instance, a simpler definition of income with fewer income adjustments could reduce the compliance burden for customers but open the system to manipulation. On the other hand, measures that improve integrity could create additional complexity and costs. Ideally, the best option will balance these objectives in a practical way.

### **What consultation has been undertaken?**

40. The development of the problem definition and options analysis was informed by an internal review in 2016. This included insights from Inland Revenue staff, who referenced both administrative issues and compliance costs for customers.<sup>6</sup> This internal review also drew on administrative data that quantified the value and usage of each income adjustment, and used a sample group to further analyse how often customers correctly

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<sup>6</sup> Working for Families Tax Credits: Family scheme income review (internal Inland Revenue report, 2016)

or incorrectly declared certain types of income, and the potential impact of this on financial hardship.

41. Inland Revenue’s stewardship review of Working for Families (2023-2025) included more general feedback from Inland Revenue staff, customers and intermediaries on the complexity of the scheme, including family scheme income.
42. The Government then undertook public consultation on the proposal to simplify the definition of family scheme income in the discussion document: “Empowering families: Increasing certainty and preventing debt in the Working for Families scheme”. Public consultation ran from 22 May to 3 July 2025 (six weeks) and was promoted using targeted social media, search engine advertisements, and through direct contact with the Inland Revenue customer base. Officials received a total of 42 written submissions and conducted 11 engagement sessions with key stakeholders.
43. Feedback on simplifying family scheme income was limited, but a small number of submitters supported the proposal to base simplification on analysis of usage and risk for each adjustment type, provided this was supported by staff training and clear communication to customers. Some held contrasting views on the risk and value of removing certain adjustment types, such as removing “other income” and retaining “passive income”.
44. Recommendations from submitters included non-regulatory options such as better staff guidance. Submitters also proposed that if changes were progressed, a post-implementation review be undertaken to ensure that simplifying family scheme income did not inadvertently create new inequities or loopholes. Officials have revisited the income adjustments considered for removal. One of the adjustment types with contrasting views from submitters is proposed to be retained following the revisit. Additional focus on monitoring family scheme income risks and improving customer experience when providing information on family scheme income are planned in addition to current processes.

## **Section 2: Assessing options to address the policy problem**

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

45. The criteria that will be used to compare options are:
  - **Income adequacy:** The difference in net income for eligible families.
  - **Equity:** Whether customers in similar circumstances are treated the same and have similar outcomes. It also considers the impact across customer groups with different resources.
  - **Compliance costs:** The burden on customers to comply with requirements, including consideration of impacts on different groups of customers.
  - **Administrative costs:** The overall cost for agencies to implement and administer the proposed changes.
  - **Integrity:** The estimated impact on integrity, specifically the risk of families structuring their affairs to inflate payments and receive more than what they are entitled to.

- **Fiscal cost:** The overall cost to the government.
- **Policy agility:** Whether it impacts Inland Revenue’s ability to make future policy changes to the scheme as directed by the Government. The simpler and more coherent the rules, the more easily future policy changes can be made.

### **What scope will options be considered within?**

46. Officials discounted adopting a similar approach to the Ministry of Social Development for some of their assistance types, which is intended to cover a family’s full economic circumstances, including assets. This requires detailed information on a family’s income and financial situation (largely provided by the individual) to understand how financial assistance can help people with specific costs (for example, housing or disability costs) or other immediate and essential needs that cannot be met from other income or assets. Unlike the Ministry of Social Development for some of their products, Inland Revenue does not generally ask for any information relating to family assets.
47. Moving to this model would result in higher administrative and compliance costs, thereby not addressing the core problem. Further, we considered that this approach was not appropriate due to key differences between these assistance types (which are highly targeted and operate as a safety net) and the Working for Families regime (which is focused on supplementing families’ income at a broader population level).
48. Officials considered but discounted other changes including:
  - Introducing a general de minimis threshold for all income adjustment types, other than net income, a family could earn before it would be added to family scheme income. This would reduce the number of customers who need to report income adjustments. However, customers would still need to consider all adjustment types and calculate whether they are above the threshold, so it would not materially reduce compliance effort and costs.
  - Clarifying adjustments, with the aim of reducing confusion around what constitutes “other payments” in particular, but also looking at whether other types of adjustments could be clarified. However, given the large number of adjustments, the highly technical nature and/or obscurity of some of the adjustments, this would not address the core problem and would not result in a significant simplification.
49. Officials also considered non-regulatory changes that could be progressed regardless of any legislative amendments, including better collection and utilisation of data, improved forms, guidance and applications, and changes to filing and end-of-year square-up rules. These changes could improve customer experience but, on their own, are not able to make a significant difference to address the issues.

### **What options are being considered?**

#### ***Option 1: Maintaining the status quo***

50. Maintaining the status quo would involve keeping the current definition of family scheme income, including all income adjustments. As discussed above, the status quo is weighted towards minimising integrity risks and seeking to reflect the family’s true circumstances. However, it leads to complexity that most customers struggle to

understand. This results in incorrect entitlements, which can then lead to under- and overpayments, and potentially debt.

***Option 2: Removing all income adjustments and placing more emphasis on anti-avoidance***

51. One option considered would involve removing all the income adjustments from primary legislation, other than child support paid and received. Specific focus would be given to anti-avoidance to prevent Working for Families customers arranging their affairs away from earning taxable income to inflate their entitlements. This could involve introducing a new Working for Families specific anti-avoidance provision or strengthening existing ones.
52. This option would simplify the customer experience in relation to family scheme income for most families. It shifts the onus of information collection from customers to the administering agency. It does not require customers to understand different forms of income or how to, when to, and how much of these forms of income to declare to administering agencies. It would reduce the need for customers to contact Inland Revenue, while also improving general customer experiences when applying for Working for Families. It should simplify the system that most customers (whose family scheme income is already currently akin to their net income) interact with.
53. This change would maintain administering agencies' discretion to investigate the customers whose net income is vastly different from the actual means they have available to them for their day-to-day expenses, such as those who shift to receiving significant trust income.
54. However, this would decrease equity because customers who have similar resources available for their day-to-day expenses would receive different levels of Working for Families tax credits, depending on whether they receive, for legitimate reasons, income from types that are not reported as part of individual taxable income, or whether their income is largely or solely from taxable income. In addition, the trade-offs from shifting the onus of information collection for correct assessments to Inland Revenue would increase administrative costs. It would also increase the likelihood that income from high-risk areas (higher risk that taxable income is shifted to these income types) goes uncaptured because Inland Revenue would not have the necessary resources (in the absence of better data) to investigate the affairs of all customers.
55. An additional or stronger anti-avoidance rule may create more confusion and uncertainty for customers. It may also result in the different treatment of customers in similar positions (for example, employees and self-employed), potentially creating unfair and unequal outcomes. For those who are suspected to have breached the anti-avoidance rule, the process can be confusing, costly and time intensive.
56. Although this option would improve the experience of Working for Families for most customers, its trade-offs mean that it would not be preferred over the status quo. Given increased inequity between customers with similar resources for day-to-day needs and the amount of work Inland Revenue would have to do to administer Working for Families under this option, especially to ensure the income of those with high-risk/high-value income is understood, and reflected in a customer's family scheme income, the significant administrative cost could be considered untenable. Removing the onus from customers will also increase fiscal costs because it would result in a diminished

understanding of customer incomes, and therefore, greater Working for Families entitlements.

### ***Option 3: Removing lower-risk income adjustments***

57. The number and nature of the income adjustments that make up family scheme income contribute to the overall complexity of Working for Families. One way to reduce complexity would be to remove some of the current income adjustments from family scheme income.
58. This approach could mitigate the downsides of Option 2 by removing most of the current income adjustments but retaining those considered to be high risk, along with child support and private maintenance.<sup>7</sup>
59. The adjustments evaluation provides a strong foundation for what adjustments could be removed based on integrity risk (how likely/easy can customers artificially channel income through this adjustment type and what is the volume/scale of this income type to reduce fiscal risk/cost). The table in appendix one outlines what adjustments are proposed to be removed and what adjustments are retained as a result of the evaluation.
60. Removing lower-risk income adjustments would significantly decrease the complexity of the Working for Families scheme by ensuring that customers are not required to understand many types of income to apply for Working for Families, or to accurately adjust their incomes for Working for Families purposes.
61. Despite being a low risk from an integrity perspective, it is important that child support and private maintenance remain part of family scheme income. This is because both child support and private maintenance payments fundamentally change the amount of economic resource that a family has available to them for their day-to-day needs. Furthermore, the expectation is that those receiving child support or private maintenance payments will utilise these funds directly on the child in their care (food, clothing, etc) or on products or services that are essential for a child's wellbeing (such as housing).
62. Therefore, both child support and private maintenance, despite receiving a low-risk rating, should continue to be reflected in a family's family scheme income. This is due to the way in which such payments, either paid or received, fundamentally change the economic resources available, and the ways in which child support and private maintenance payments support the costs associated with children.
63. However, removing adjustments from legislation means that these income types are completely removed from the Working for Families entitlement calculation.
64. Like the status quo, this option would not allow Inland Revenue to quickly address emerging forms of income that may present an integrity and fiscal risk in future. The result of removing income types from the customer base may contribute to an overall cycle of the expanding and shrinking of a definition of income for Working for Families purposes. The 2011 changes were made to prevent gaming; this risk focus has had significant impacts on many customers. If this option was progressed and the definition of income

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<sup>7</sup> Private maintenance payments are ongoing payments made to support a child under a private arrangement outside the child support system.

narrowed, it is likely that the trade-offs will become more visible over time. As administrative preferences change the visibility of these trade-offs, most notably the associated risk and integrity factors, it will likely result in an expanding definition of family scheme income. Therefore, this option may result in a continued oscillation between the trade-offs.

***Option 4: Remove lower-risk income adjustments but introduce legislative flexibility to reapply specific income types in future***

65. Option 4 is largely the same as Option 3 because both options would remove lower-risk income adjustments. The difference is that Option 4 would introduce legislative flexibility to reapply specific income types in future should they become higher risk. There are also two sub-options to Option 4 around the existing "other payments" adjustment, one option being to remove the adjustment entirely, the other to increase the existing de minimis.

Legislative flexibility

66. Generally, changes to family scheme income should be made via primary legislation and apply from the start of a tax year, that is, from 1 April. The problem is the interaction between the usual timing of legislative vehicles and Inland Revenue's annual process for Working for Families. Inland Revenue pays most people their Working for Families throughout the year and therefore needs to confirm their expected entitlement before 1 April. It is only administratively feasible to make changes to the Working for Families entitlement rules if the legislative vehicle is enacted by 1 December of the year preceding the tax year in which the change will apply.<sup>8</sup> Additionally, information from the previous tax year is not generally available until June of the following year, which makes it less likely that issues are identified early enough for a change to be included in a bill that would be enacted by 1 December, which would push out the feasible application date by another tax year.
67. To address this, legislative flexibility for income adjustments would allow a timely response to any future or emerging integrity risks. For example, this is the approach taken in the United Kingdom, in relation to the definition of family income for the purposes of tax credits.
68. Officials considered a legislative empowering provision allowing the prospective addition, removal, or alteration of income adjustment types by way of regulations. However, the application of such a wide regulation-making power was deemed not feasible for the way current family scheme income adjustments are set out in primary legislation. To improve responsiveness to changing and emerging risks there may be an opportunity to explore in future whether adjustments required could be set out entirely in regulations as is done in other countries.
69. To create responsiveness when it is more likely it could be required, it is feasible to create legislative flexibility under current legislative settings for a limited number of current adjustments proposed to be removed. These adjustments are not deemed high risk but may have some opportunity in some cases to be used to channel income. An empowering provision would allow for these specific current family scheme income adjustments to be brought back into force by Order in Council (OIC) if they become a high integrity and/or

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<sup>8</sup> There are some limited exceptions to this that do not apply to income adjustments.

fiscal risk. Like other OICs that amend the Working for Families scheme, the OIC should be prospective, that is, it should apply from the beginning of the next tax year.

70. This option should be a significant improvement over the status quo and aligns with the underlying policy intent to limit integrity and fiscal risk, while also being a feasible option from a legal requirement point of view. It also reduces complexity for customers who would only be required to understand a reduced number of types of income while balancing integrity and fiscal risk. In turn, customers would have a better experience when applying and navigating Working for Families. Being able to more accurately reflect income should reduce overpayments and debt and therefore decrease administrative costs.
71. A disadvantage would be reduced legislative visibility of what is included in family scheme income for Working for Families due to the new regulation-making power attached to some specific adjustment types. This would reduce certainty somewhat and would require clear education and guidance for customers (and administering staff). Visibility would, in particular, be given through forms and online processes when Working for Families customers are required to provide information on income adjustments, as well as communication specifically outlining any changes as part of the process of issuing notices of entitlement in February each year for the tax year ahead.
72. Overall, this option would continue to have high risk income adjustments specified in legislation. As a result, this option helps to prevent channelling income to artificially maximise entitlements while improving the negative customer experiences that exist under the status quo.

#### Option 4(a): Retain "other payments" adjustment and increase the de minimis to \$8,000

73. Under current law, families must adjust their family scheme income for "other payments" over \$5,000 per year. "Other payments" are payments used by the family for day-to-day living expenses or that replace lost or diminished income from any source and paid directly or indirectly. It is subject to numerous legislative exclusions and additional technical guidance.
74. Most income adjustments focus on specific income types. However, the "other payments" adjustment is unique in that it is very broad and unspecific. The payments can come from any source (for example, from family members or government agencies) and might be paid directly or indirectly (a payment is provided to the family, or a bill is paid on behalf of the family).
75. Many customers struggle to understand what counts as "other payments", often incorrectly declaring one-off capital payments, such as a grandparent paying for the installation of a heat pump. The broadness of the "other payments" category, combined with the myriad of individual circumstances that can occur, can lead to inconsistent treatment between different customers, despite staff from administering agencies spending a proportionally high amount of time on this particular adjustment.
76. One option considered is to increase the de minimis from \$5,000 to \$8,000. This increase reflects inflation since the rules were last updated in 2011. This would reduce the need to use the "other payments" adjustment. However, complexity and uncertainty would remain in relation to this adjustment type because all customers would still be required

to consider whether they receive "other payments" and calculate whether they are above or below the de minimis for the income year.

Option 4(b): Remove "other payments" adjustment together with other lower-risk income adjustments

77. Inland Revenue reviews of the "other payments" adjustment show high error rates, and significant administrative effort, with almost half of adjustments having no impact on entitlements because income remains below the abatement threshold. "Other payments" adjustments are primarily made to account for assistance provided by family and friends to pay for day-to-day living costs, which means that families with very low incomes are highly represented for this adjustment type.
78. Another option considered is removing the "other payments" income adjustment from family scheme income. This would greatly contribute further to the simplification of the family scheme income definition with the advantages outlined earlier and would allow redirecting compliance and administrative effort to higher-risk areas. However, removal does have a relatively high fiscal cost compared with the other adjustments proposed to be removed.

## How do the options compare to the status quo/counterfactual?

	<b>Option 1:</b> Status quo	<b>Option 2:</b> Removing all income adjustments and placing more emphasis on anti-avoidance	<b>Option 3:</b> Removing most lower-risk income adjustments	<b>Option 4:</b> Remove lower-risk income adjustments and introduce legislative flexibility to re-apply specific income adjustments in future  <b>Option 4(a):</b> Increase "other payments" de minimis <b>Option 4(b):</b> Remove "other payments"
Income adequacy	0	0	+	+
			Increased likelihood of families getting correct entitlements.	Increased likelihood of families getting correct entitlements.
Equity	0	+/- May increase vertical equity by simplifying the scheme for low-income customers. However, vertical equity may simultaneously be impacted if staff are not aware of significant income that has been artificially channelled through income types that have been removed.	+	+
			Increases vertical equity by simplifying the scheme for low-income customers, while also ensuring those who earn high-risk incomes must disclose that to Inland Revenue.	Increases vertical equity by simplifying the scheme for low-income customers, while also ensuring those who earn high-risk incomes must disclose that to Inland Revenue.
Compliance costs	0	+/0 Removal of income adjustments reduces complexity, but anti-avoidance rule adds uncertainty and compliance costs for those who are suspected of avoidance.	+	<b>4(a)+</b> Reduced complexity and compliance costs for customers.  <b>4(b)++</b> Further reduced complexity and compliance costs for customers.
			Reduced complexity for customers.	
Administrative costs	0	-- Significantly increased administrative costs.	+	<b>4(a)+</b> Decreased administrative costs.  <b>4(b)++</b> Further decreased administrative costs.
			Decreased administrative costs.	
Integrity	0	- Anti-avoidance rules can be difficult to apply successfully.	0	+
			Keeping high-risk adjustments means there is a focus on integrity and risk that is comparable to the status quo.	Keeping high-risk adjustments ensures a focus on integrity and risk comparable to the status quo.

	<b>Option 1:</b> Status quo	<b>Option 2:</b> Removing all income adjustments and placing more emphasis on anti-avoidance	<b>Option 3:</b> Removing most lower-risk income adjustments	<b>Option 4:</b> Remove lower-risk income adjustments and introduce legislative flexibility to re-apply specific income adjustments in future  <b>Option 4(a):</b> Increase "other payments" de minimis <b>Option 4(b):</b> Remove "other payments"
				Flexible legislation makes it possible to react more quickly than currently should the specific adjustments become an integrity risk in future making it necessary to re-apply these to family scheme income.
Fiscal impact	0	--  Will result in 'missing' income (either legitimately or because of artificial channelling), which may result in increased entitlements.	-  Removing income adjustments may result in increased entitlements. However, could result in fewer overpayments and debt, decreasing associated costs.	<b>4(a) -</b>  Removing lower-risk income adjustments may increase entitlements for some families; some families may become entitled. However, could result in fewer overpayments and debt, decreasing associated costs.  <b>4(b) --</b>  Same as above but with higher fiscal impact than Option 4(a).
Policy flexibility	0	-	0	+
Overall assessment	0	----	+++	<b>4(a) ++++++</b> <b>4(b) ++++++</b>

**Key for qualitative judgements:**

- ++ 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

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

79. Officials considered that, on balance, option 4(b) would best address the problem and meet the policy objectives. Removing all the proposed adjustments including “other payments” would simplify the family scheme income definition the most and enable administrative effort to be directed to higher-risk areas. "Other payments" has a high error rate and requires a high administration effort compared with other adjustments so removing it significantly contributes to simplification, both for customers and administering agencies. This is the best possible option because it best reduces complexity and combined with some legislative flexibility it will also ensure that Inland Revenue has the tools to respond quickly to specific emerging risks.
80. This option would have a total cost of \$13.8 million over the forecast period (to the end of the 2029/30 fiscal year), including one-off implementation costs and the ongoing fiscal cost from removing certain income adjustments, including “other payments”. Officials consider these costs are outweighed by the non-monetary benefits of making the scheme simpler for customers to understand and Inland Revenue staff to administer.
81. There could be a risk of some customers structuring their income in such a way to increase their entitlements. While this is difficult to quantify, we consider it low risk given the relevant income adjustments have low value and frequency of use under the status quo. This risk would be mitigated through improved use of existing data, the proposed monitoring and reporting approach and the option to make changes quickly through Order in Council for some adjustments that have a slightly higher risk of being used to channel income in some circumstances.

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

82. No. While most of the key changes under Option 4 align in the Cabinet paper and RIS, they differ in the treatment of “other payments”. The preferred option in the Cabinet paper keeps this adjustment and increases the de minimis to \$8,000 (Option 4(a)), whereas the preferred option in the RIS also removes the “other payments” adjustment (Option 4(b)).
83. The agency's preferred Option 4(b) would have a fiscal cost of \$13.8 million over the forecast period. The preferred option in the Cabinet paper (Option 4(a)) has a fiscal cost of \$3 million over the forecast period, lower than the agency’s preferred option.

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

<b>Affected groups</b>	<b>Comment</b> nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.	<b>Impact</b> \$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.	<b>Evidence Certainty</b> High, medium, or low, and explain reasoning in comment column.
<i>Additional costs of the preferred option compared to taking no action</i>			
Working for Families customers	Short-term compliance impact from customers needing to learn and apply new definition.	Low	Medium: Based on experience of administering staff and customers.
Inland Revenue	One-off departmental cost to implement the changes.	\$0.200m in 2026/27	Medium
	Short-term administrative impact from staff needing to learn and apply new definition.	Low	Medium: Based on experience of administering staff and customers.
Government	Ongoing fiscal costs due to removal of low-risk income adjustments.	\$3.000m over the forecast period.	Medium
	Potential integrity risk from families who are currently excluded from Working for Families who may structure into Working for Families.	Low	Low
Total monetised costs	One-off implementation cost. Ongoing, annual fiscal costs.	\$3.200m over the forecast period.	Medium
Non-monetised costs	Potential risk from families who are currently excluded from Working for Families who may structure into Working for Families.	Low	Low
<i>Additional benefits of the preferred option compared to taking no action</i>			
Working for Families customers	Increase in entitlement to families who no longer have to declare adjustments that have been removed, or because de minimis for other payments has been increased.	Up to \$3.000m over the forecast period.	
	Reduced ongoing complexity for all Working for Families customers.		High: Based on experience of administering

<b>Affected groups</b>	<b>Comment</b> nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.	<b>Impact</b> \$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.	<b>Evidence Certainty</b> High, medium, or low, and explain reasoning in comment column.
			staff and customers.
Inland Revenue	Ongoing administrative benefits, less time explaining to customers and less time fixing mistakes.		High: Based on experience of administering staff and customers.
Total monetised benefits	N/A		
Non-monetised benefits	Reduced complexity for Working for Families customers. Ongoing administrative benefits, less time explaining to customers and less time fixing mistakes.	High	High: Based on experience of administering staff and customers.

### **Section 3: Delivering an option**

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#### **How will the proposal be implemented?**

84. The implementation date would be 1 April 2027 (the start of the tax year). Legislation is expected to be introduced and enacted in May 2026 as part of Budget Day legislation.
85. Working for Families tax credit recipients receive a notice of entitlement for the upcoming tax year (1 April to 31 March) in approximately February each year. This means systems at both Inland Revenue and the Ministry of Social Development would need to be ready by this time. Administering agencies would incorporate the new settings into notices of entitlement issued in February 2027. These inform customers' income estimation and Working for Families entitlements ahead of the start of the new tax year. Changes would be communicated to customers as part of this process and will include updating forms that are filled in or updated by Working for Families customers where relevant. Changes to payment amounts would be 'live' from 1 April 2027.
86. The changes will have some flow-on effects for assessing eligibility for the Parental Income Test for Student Allowance, the income test for a Community Services Card for low-income earners with dependent children, and as part of the Parental Income Test of the Young Parent Payment, which also use the definition of family scheme income in the Income Tax Act 2007 for certain circumstances. Administering agencies will need to update guidance, forms, and web content to reflect the changed definition. These changes are expected to be minor, with only a small number of customers affected.

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

87. Inland Revenue monitors integrity risks to Working for Families tax credits alongside other products on an ongoing basis, using its data and analytics. If Inland Revenue's information showed that aspects of the existing rules become a higher integrity risk, Inland Revenue would assess these and recommend changes in a future legislative vehicle.
88. The values and volumes of Working for Families income adjustments over time and the use of the remaining income adjustments can be monitored annually. This data would not start becoming available until after 31 March 2029 because the returns for the 2027/28 financial year will not be finalised until after 31 March 2029.
89. Inland Revenue reports annually on the accuracy of Working for Families payments. However, we are unable to measure directly the impact of this initiative on accuracy because it only shows the aggregate outcome across all customers. This is also the case for Inland Revenue's internal monthly Working for Families reporting, which provides an overview of the customer base, customer contacts, payments, debt, write-offs and square-ups and may show changes at a high level.

## Appendix 1: Income adjustments proposed for removal

Adjustment	Section	Effect
Depreciation recovered on the sale of buildings used in business and/or rental activity	MB 1(5C)	Provides that depreciation losses on buildings allowed in the 2002–03 or earlier income years are excluded from family scheme income on disposal, subject to section MB 3.
Retirement savings scheme contributions	MB 1(5B)	Excludes certain retirement savings scheme contributions from family scheme income despite section CX 50B(2).
Pensions from a superannuation fund and certain life insurance annuities	MB 10	Requires that half of the amount of certain pensions and annuities, including pensions from superannuation funds and annuities exempt under section CW 4, are included in family scheme income.
Distributions from superannuation schemes	MB 5	Distributions from superannuation schemes made before retirement (if the current employer has made contributions) are included in family scheme income when employer contributions have been made.
Distribution from retirement savings schemes	MB 6	Includes distributions from retirement savings scheme contributions in family scheme income when retirement scheme contribution tax has been withheld and the recipient is not eligible for New Zealand superannuation at the time of distribution.
Tax-exempt overseas pensions	MB 1(2)(a) (overseas pensions only)	Provides that amounts referred to in sections CW 28(2)(a) (overseas pensions) and CW 32 (maintenance payments) are not treated as exempt income for family scheme income purposes. Change for adjustment covered by section CW 28(2)(a) (overseas pensions) only. Section CW 32 related adjustments (maintenance payments) retained.
Tax-exempt income	MB 1(2)(b)	Requires certain salary and wages under international agreements that are otherwise exempt from income tax, as listed in Schedule 38, to be included in family scheme income.
Trust distributions, not beneficiary income, recipient not settlor	MB 12B	Treats trust distributions as family scheme income when they are not beneficiary income and the recipient is not the settlor of the trust.
Income equalisation deposits and refunds	MB 1(5D) and (5E)	Family scheme income is adjusted to reflect deposits into, and refunds from, main income equalisation accounts.
Employer provided motor vehicles and vouchers and other short-term charge facilities	MB 7B	Includes certain non-cash employment benefits in family scheme income, it applies to employer-provided motor vehicles with salary sacrifice and short-term charge facilities (more than \$1,200; or 5% of salary or wages).