Departmental Disclosure Statement

Families Package (Income Tax and Benefits) Bill

The departmental disclosure statement for a government Bill seeks to bring together in one place a range of information to support and enhance the Parliamentary and public scrutiny of that Bill.

It identifies:

- the general policy intent of the Bill and other background policy material;
- some of the key quality assurance products and processes used to develop and test the content of the Bill;
- the presence of certain significant powers or features in the Bill that might be of particular Parliamentary or public interest and warrant an explanation.

This disclosure statement was prepared by the Treasury, Inland Revenue and the Ministry of Social Development.

The Treasury, Inland Revenue and the Ministry of Social Development certify that, to the best of their knowledge and understanding, the information provided is complete and accurate at the date of finalisation below.

8 December 2017.

Contents

Part One: General Policy Statement

This Bill gives effect to policy changes announced in the Speech from the Throne. These form a Families Package of changes to income tax and benefits. The Families Package replaces part of the earlier Budget 2017 Family Incomes Package, which was mostly enacted in the *Taxation (Budget Measures: Family Incomes Package) Act 2017*.

Objectives

The Families Package is designed to provide targeted social assistance to improve incomes for low- and middle-income families with children, and to reduce child poverty. It is part of the Government's focus on ensuring children get the best start in life, and complements other legislation to increase the number of weeks of paid parental leave from 1 July 2018 and 1 July 2020.

The Package also provides income support for some families without children through the reinstatement of the independent earner tax credit, the introduction of the Winter Energy Payment, and some changes to Accommodation Supplement.

The Families Package will:

- repeal the tax threshold changes, reinstate the independent earner tax credit, and repeal *Working for Families* tax credit changes legislated as part of the Budget 2017 Family Incomes Package:
- boost incomes for low- and middle-income families by increasing payments of family tax credit, and raising the *Working for Families* tax credit abatement threshold:
- increase financial assistance provided to caregivers receiving Orphan's Benefit and Unsupported Child's Benefit:
- introduce a Best Start tax credit to help families with costs in a child's early years:
- introduce a Winter Energy Payment to help older New Zealanders and those in receipt of a main benefit to heat their homes over winter:
- implement changes to Accommodation Supplement.

The other measures announced as part of the Families Package, including changes to the Accommodation Supplement and Accommodation Benefit maximum rates of payment, are dealt with separately to this Bill through regulations (2 of which were enacted as part of the Budget 2017 Family Incomes Package and reconfirmed in the Families Package).

Specific changes

The following is a brief summary of the policy measures contained in this Bill.

Personal tax changes

This Bill repeals the personal tax changes enacted by the *Taxation (Budget Measures: Family Incomes Package) Act 2017*. This will allow for revenue to instead be targeted to various social assistance programmes through the income tax and benefit systems. The personal income tax thresholds from 1 April 2018 for the 2018–19 income year and later will be those currently applying for the 2017–18 income year. Repealing the current legislated change in tax thresholds, which would have applied from 1 April 2018, will change the tax thresholds as set out in Table 1.

Table 1: Personal income tax thresholds

Current legislated bracket from 1 April 2018 ($)	New bracket from 1 April 2018 ($)	Rate
1 – 22,000	1 – 14,000	10.5%
22,001 – 52,000	14,001 – 48,000	17.5%
52,001 – 70,000	48,001 – 70,000	30%
70,001+	70,001+	33%

The consequential amendments that are in the *Taxation (Budget Measures: Family Incomes Package) Act 2017* will be similarly repealed, including changes to fringe benefit tax attribution thresholds, employer superannuation contribution tax thresholds, portfolio investment entity thresholds, PAYE codes, non-filing thresholds, extra pays, and secondary tax. The uplift factor for individual provisional taxpayers who use the uplift method is also reinstated.

Independent earner tax credit

This Bill reinstates the independent earner tax credit from 1 April 2018 (which is the date it was going to be repealed). The independent earner tax credit will be reinstated as it is currently: an annual tax credit of $520 a year applying to individual incomes of $24,000 to $44,000 a year, and abated from $44,000 at a rate of 13% (fully abated by $48,000).

A person cannot claim the independent earner tax credit if they, or their partner, are eligible for a Best Start tax credit. This is achieved from defining a Best Start tax credit as a *Working for Families* tax credit in *section MA 8* of the *Income Tax Act 2007*. The eligibility criteria for the independent earner tax credit already excludes people eligible for *Working for Families* tax credits.

Working for families tax credits

This Bill repeals the *Working for Families* tax credit changes enacted by the *Taxation (Budget Measures: Family Incomes Package) Act 2017*. As a result, the family tax credit amounts, Working for Families tax credit abatement rate, and threshold from 1 April 2018 will be the same as they were on 1 April 2017.

The abatement rate for the *Working for Families* tax credits will increase from 22.5% to 25% from 1 July 2018. For the 2018–19 tax year only, the abatement rate for the year will be 24.38%.

The abatement threshold for the *Working for Families* tax credits will increase from $36,350 a year to $42,700 a year from 1 July 2018. For the 2018–19 tax year only, the abatement threshold for the year will be $41,116.

As a consequence of the changes to abatement rate and abatement threshold, this Bill repeals sections in a number of Acts that were to phase the abatement rate up to 25% and the abatement threshold down to $35,000 over time. These sections are no longer required given the change in policy settings.

The consequential changes in the *Taxation (Budget Measures: Family Incomes Package) Act 2017* for *Working for Families* tax credits around the indexation of family tax credits are re-enacted in this Bill. The date from which the *Consumers Price Index: All Groups excluding cigarettes and tobacco* is measured from is amended from 1 April 2018 to 1 July 2018 to reflect the new date on which the amounts of family tax credit are increased.

Family tax credit

This Bill will increase the family tax credit amounts from 1 July 2018. This will increase the interim weekly or fortnightly payments of family tax credit from 1 July 2018. It will also increase the annual entitlement amount for family tax credit, but not by the full amount in the 2018–19 tax year. The annual amount in the 2018–19 tax year will be an average of the 2 amounts reflecting the amounts are increasing partway through the tax year. From the 2019–20 tax year onwards the annual amounts will be the same as the amounts listed for 1 July 2018 in the table below.

Table 2: Family tax credit amounts

<table>
<tr><th></th><th>1 April 2018</th><th>1 July 2018</th><th>Annual amount for 2018–19 tax year</th><th>Weekly increase from 1 July 2018</th></tr>
<tr><td>Eldest child, 16-18</td><td>$5,303</td><td rowspan="2">$5,878</td><td>$5,734</td><td>$11.06</td></tr>
<tr><td>Eldest child, 0-15</td><td>$4,822</td><td>$5,614</td><td>$20.31</td></tr>
<tr><td>Subsequent child, 16-18</td><td>$4,745</td><td rowspan="3">$4,745</td><td>$4,745</td><td>–</td></tr>
<tr><td>Subsequent child, 13-15</td><td>$3,822</td><td>$4,514</td><td>$17.75</td></tr>
<tr><td>Subsequent child, 0-12</td><td>$3,351</td><td>$4,397</td><td>$26.80</td></tr>
</table>

The combination of the increase in family tax credit amounts and increase in abatement threshold will mean a significant increase in payments to lower-income families with younger children.

Orphan's benefit and unsupported child's benefit

This Bill increases the rates of payment for the Orphan's Benefit and Unsupported Child's Benefit by $20.31 per week, from 1 July 2018. This increase reflects the increase in the eldest child amount of family tax credit for children aged 0-15 years old from the same date. There will be similar increases in the Foster Care Allowance paid to foster caregivers. No legislative changes are required to increase the rates of Foster Care Allowance as *section 363 of the Oranga Tamariki Act 1989* gives the Chief Executive of the Ministry for Vulnerable Children, Oranga Tamariki, the authority to determine and therefore increase the rates of Foster Care Allowance.

Caregivers in receipt of the Orphan's Benefit and Unsupported Child's Benefit, and the Foster Care Allowance, will also be able to apply for the Best Start tax credit.

Minimum family tax credit

This Bill increases the threshold of the minimum family tax credit from $23,816 to $26,156 for the 2018–19 tax year and later years to ensure the policy objective is maintained, that beneficiaries with children will be better off in full-time work, following the introduction of the Winter Energy Payment and the annual indexation of main benefit rates.

Parental tax credit

The Best Start tax credit will replace the parental tax credit from 1 July 2018. This Bill will change the eligibility criteria for the parental tax credit so it no longer applies to children born on or after 1 July 2018. A principal caregiver will not be eligible to receive the parental tax credit and the Best Start tax credit for the same child.

Best Start tax credit

This Bill introduces a new tax credit in the Income Tax Act 2007 for families of children under the age of three, referred to as the Best Start tax credit **(Best Start)**. Best Start will be defined as a *Working for Families* tax credit in *section MA 8 of the Income Tax Act 2007*.

Best Start is a payment of up to $3,120 a year per child to help families with the costs in a child's early years, up until the child turns 3. It is intended to give all families extra support in the first year of a child's life and targeted support for low- and middle- income families with children aged 1 or 2.

In the first year of a child's life, there is no income abatement applied to the Best Start payment. If the principal caregiver is also receiving a paid parental leave payment, they cannot also receive Best Start payments for the same period of time as paid parental leave payments for the same child. Once paid parental leave ceases to be payable, Best Start payments can be made for the rest of the eligible period. A principal caregiver cannot receive a parental tax credit and Best Start payment for the same child.

In the second and third years of a child's life, Best Start payments will be abated at 21% for family income over $79,000 a year. Where payments are made for more than 1 child, they will be abated sequentially. Payments will cease when the child turns 3 years old, or the child or the principal caregiver no longer meets the eligibility criteria. If a child dies before they turn 3, payments can continue for 4 weeks before they cease.

Best Start will come into effect from 1 July 2018 and will apply to:

- children born on or after 1 July 2018; and
- children born before 1 July 2018 where there was an expected due date on or after 1 July 2018.

Payments will be made to principal caregivers of dependent children, who meet the specified eligibility criteria. These criteria are similar to those that apply for the family tax credit, with some exceptions. Best Start will be available to caregivers who receive Orphan's Benefit, Unsupported Child's Benefit, or Foster Care Allowances for that child.

The Best Start payment amount of $3,120 will be able to be increased by Order in Council when the *Consumers Price Index: All Groups excluding cigarettes and tobacco* exceeds a cumulative 5%. The first Order in Council increase would be measured from 1 July 2018. The Order in Council provision would also allow for an increase in the Best Start abatement threshold (currently $79,000).

Best Start will primarily be paid by Inland Revenue. There is provision in the *Tax Administration Act 1994* for payments to be made by the Ministry of Social Development to principal caregivers who are in receipt of a main benefit under the *Social Security Act 1964*.

Winter Energy Payment

This Bill introduces a new Winter Energy Payment **(WEP)** in the Social Security Act 1964 for recipients of main benefits, New Zealand Superannuation, and Veteran's Pension. The WEP will support those recipients to meet their household heating costs during the winter period.

As such, the WEP will not be available to people who are receiving long-term residential care in a hospital or rest home or who are receiving residential care services (where that care is or those services are funded under the New Zealand Public Health and Disability Act 2000). It will be reviewed and may be terminated for people who have their rate of main benefit reduced because they are a long-term hospital patient. A person must be in New Zealand over the winter period in order to receive the WEP. As such, the WEP is only payable to a beneficiary (who continues to receive their main benefit, veteran's pension, or New Zealand superannuation) for 1 or more days during any absence of the beneficiary from New Zealand if that absence is equal to or shorter than 4 weeks during the winter period.

People may also elect not to receive the WEP and inform the Ministry of Social Development accordingly. However, they may revoke this election and receive the WEP again.

The amount of payment for the full winter period will be:

- $450 for single people without dependent children:
- $700 for couples and for single people with dependent children.

Children for whom an Orphan's Benefit, Unsupported Child's Benefit, and Foster Care allowance are paid will be counted as dependent children for the purposes of the rate of WEP.

The WEP will be payable from 1 May each year for the following 22 weeks. Instalments will be paid fortnightly for New Zealand Superannuation and Veteran's Pension recipients, and weekly for main benefit recipients.

In the first year, the WEP will be paid from 1 July 2018 for the following 13 weeks (or 6 fortnights). The amount of the payment for the 2018 winter period will accordingly be $265.91 for single people and $413.64 for couples and single people with dependent children.

Accommodation supplement

This Bill removes the requirement that the area boundaries be updated from time to time as defined by the Government Statistician and confirms the area boundaries as defined by the Government Statistician as at 26 June 2017, while still allowing the changes to area boundaries that will be made on 1 April 2018 by the *Social Security (Budget 2017—Rates of, and Area for, Accommodation Supplement) Order 2017* to proceed. The Bill provides the ability to make regulations to define the Accommodation Supplement area boundaries. Once the first regulations are made, the area boundary definitions in the Act will be repealed.

Part Two: Background Material and Policy Information

Published reviews or evaluations

2.1. Are there any publicly available inquiry, review or evaluation reports that have informed, or are relevant to, the policy to be given effect by this Bill?	**YES**
Title: The Impact Of Rising Housing Costs On Accommodation Supplement Recipients Author: David Rea Date: 28 June 2017 http://thehub.superu.govt.nz/project/impact-rising-housing-costs-accommodation-supplement-recipients Title: Does the Accommodation Supplement increase spending on rents Authors: Dean Hyslop and David Rea Date: released under OIA in June 2017 https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/official-information-responses/2017/20170531-oai-accommodation-supplement-study.pdf Title: Impact of Accommodation Supplement Increases on the Housing Market Authoring agency: The Treasury Date: 7 March 2017 http://www.treasury.govt.nz/downloads/pdfs/b17-info/b17-3664879.pdf Material on the Budget 2017 Family Incomes Package, which is partly being repealed in this Bill and partly retained, can be found at http://www.treasury.govt.nz/publications/informationreleases/budget/2017/family-incomes-package and at http://www.msd.govt.nz/about-msd-and-our-work/work-programmes/family-incomes-package/index.html	

Relevant international treaties

2.2. Does this Bill seek to give effect to New Zealand action in relation to an international treaty?	**NO**

Regulatory impact analysis

2.3. Were any regulatory impact statements provided to inform the policy decisions that led to this Bill?	**YES**
Title: Families Package Authoring agencies: The Treasury, Inland Revenue, Ministry of Social Development, Ministry for Vulnerable Children Date: 24 November 2017 http://www.treasury.govt.nz/publications/informationreleases/ris/treasury	

2.3.1. If so, did the RIA Team in the Treasury provide an independent opinion on the quality of any of these regulatory impact statements?	**YES**
24 November 2017 “Treasury comments are based on revised expectations for Regulatory Impact Assessments covering 100–day plan priorities. The Regulatory Impact Statement shows how the proposed package of reforms shifts the balance of measures included in the Budget 2017 Family Incomes Package, to be more in line with the Government’s objectives. It also sets out the likely impacts on households and in fiscal terms. In addition, as noted in Section 1 of the Regulatory Impact Statement “Key Limitations or Constraints on Analysis” only the proposed package has been assessed. Consequently, it is not possible to be confident that the Government’s objectives are being met in the best way and with the least unintended consequences. The proposed review of the tax and transfer system may provide an opportunity for fuller consideration of the impact of the measures in practice and of other ways in which the same objectives might also be met.“	

2.3.2. Are there aspects of the policy to be given effect by this Bill that were not addressed by, or that now vary materially from, the policy options analysed in these regulatory impact statements?	**NO**

Extent of impact analysis available

2.4. Has further impact analysis become available for any aspects of the policy to be given effect by this Bill?	**YES**
Title: Treasury Report: Updating distributional impacts of the Families Package Authorising agency: The Treasury Date: 4 December 2017 The Treasury have produced further analysis of the impact of some of the changes in this Bill since the Regulatory Impact Statement was produced. A summary of the impacts are in the Appendix One.	
2.5. For the policy to be given effect by this Bill, is there analysis available on:	
(a) the size of the potential costs and benefits?	**YES**
(b) the potential for any group of persons to suffer a substantial unavoidable loss of income or wealth?	**YES**
Information is available in the Regulatory Impact Statement for this Bill, and in the regulatory impact statement for the Taxation (Budget Measures: Family Incomes Package) Act 2017. Further information is listed in the Appendix.	

2.6. For the policy to be given effect by this Bill, are the potential costs or benefits likely to be impacted by:	
(a) the level of effective compliance or non-compliance with applicable obligations or standards?	**NO**
(b) the nature and level of regulator effort put into encouraging or securing compliance?	**NO**

Part Three: Testing of Legislative Content

Consistency with New Zealand's international obligations

3.1. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with New Zealand's international obligations?
No specific issues relevant to international obligations were identified in the development of the policies in this Bill. As such, there have been no formal steps to determine whether the policies to be given effect by this Bill are consistent with New Zealand's international obligations. It is noted that the Bill appears to assist with Articles 26 and 27 of the United Nations Convention on the Rights of the Child concerning the right to an adequate standard of living and to benefit from social security.

Consistency with the government's Treaty of Waitangi obligations

3.2. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with the principles of the Treaty of Waitangi?
In general, the Bill seeks to increase social assistance to low and middle income families and families with young children. Māori are over-represented in these groups and are likely to benefit from the measures in the Bill. No specific issues were identified in the Bill that may have implications for the rights and interests of Māori protected by the Treaty of Waitangi. As such, no formal steps have been taken to determine whether the policies to be given effect by this Bill are consistent with the principles of the Treaty of Waitangi.

Consistency with the New Zealand Bill of Rights Act 1990

3.3. Has advice been provided to the Attorney-General on whether any provisions of this Bill appear to limit any of the rights and freedoms affirmed in the New Zealand Bill of Rights Act 1990?	**YES**
Advice provided to the Attorney-General by the Ministry of Justice, or a section 7 report of the Attorney-General, is generally expected to be available on the Ministry of Justice's website at introduction of a Bill. Such advice, or reports, will be accessible on the Ministry's website at http://www.justice.govt.nz/policy/constitutional-law-and-human-rights/human-rights/bill-of-rights.	

Offences, penalties and court jurisdictions

3.4. Does this Bill create, amend, or remove:	
(a) offences or penalties (including infringement offences or penalties and civil pecuniary penalty regimes)?	**NO**
(b) the jurisdiction of a court or tribunal (including rights to judicial review or rights of appeal)?	**NO**

Privacy issues

3.5. Does this Bill create, amend or remove any provisions relating to the collection, storage, access to, correction of, use or disclosure of personal information?	YES
Amendments to the Tax Administration Act 1994 Sections 80KB and 80KV on what personal information is required for an application for family scheme tax credits is amended for the introduction of the Best Start tax credit. Section 85I on the ability to use information obtained from the administration of paid parental leave to determine entitlement to parental tax credit is amended to assist with administering the Best Start tax credit.	

3.5.1. Was the Privacy Commissioner consulted about these provisions?	YES
The Office of the Privacy Commissioner was consulted on the contents of the Families Package and the draft Bill (as at 30 November 2017). No changes were required to the Bill as a result.	

External consultation

3.6. Has there been any external consultation on the policy to be given effect by this Bill, or on a draft of this Bill?	NO
There has been no formal external consultation on the policies to be given effect by this Bill. However, the policies were discussed with the general public during the 2017 general election.	

Other testing of proposals

3.7. Have the policy details to be given effect by this Bill been otherwise tested or assessed in any way to ensure the Bill's provisions are workable and complete?	YES
The policy details have been reviewed by Inland Revenue, the Ministry of Social Development and the Ministry for Vulnerable Children (Oranga Tamariki) subject matter experts (within the time available) to assess the administrative impacts to ensure they are workable.	

Part Four: Significant Legislative Features

Compulsory acquisition of private property

4.1. Does this Bill contain any provisions that could result in the compulsory acquisition of private property?	NO
Given the nature of tax, this Bill does contain provisions that could result in the compulsory acquisition of private property. However, for the purposes of this statement, the answer is "No" as per the scope of the question explained in page 50 of the Disclosure Statements for Government Legislation: Technical Guide for Departments (June 2013).	

Charges in the nature of a tax

4.2. Does this Bill create or amend a power to impose a fee, levy or charge in the nature of a tax?	NO
Given this Bill is amending tax legislation, it does contain provisions that create or amend a power to impose a charge that is a tax. However, for the purposes of this statement, the answer is "No" as per the scope of the question explained in page 53 of the Disclosure Statements for Government Legislation: Technical Guide for Departments (June 2013).	

Retrospective effect

4.3. Does this Bill affect rights, freedoms, or impose obligations, retrospectively?	YES
Clause 27 in new Part 6 of Schedule 32 of the Social Security Act 1964 will, after the day after the date on which the Bill receives the Royal assent, require parts of New Zealand to be taken to be as defined on 26 June 2017. This is retrospective and affects rights, but is to preserve rights under boundaries as on 26 June 2017. This backdating removes the requirement that the area boundaries be updated when the Government Statistician updates their boundaries.	

Strict liability or reversal of the usual burden of proof for offences

4.4. Does this Bill:	
(a) create or amend a strict or absolute liability offence?	NO
(b) reverse or modify the usual burden of proof for an offence or a civil pecuniary penalty proceeding?	NO

Civil or criminal immunity

4.5. Does this Bill create or amend a civil or criminal immunity for any person?	NO

Significant decision-making powers

4.6. Does this Bill create or amend a decision-making power to make a determination about a person's rights, obligations, or interests protected or recognised by law, and that could have a significant impact on those rights, obligations, or interests?	NO

Powers to make delegated legislation

4.7. Does this Bill create or amend a power to make delegated legislation that could amend an Act, define the meaning of a term in an Act, or grant an exemption from an Act or delegated legislation?	YES
The Bill amends provisions in the Income Tax Act 2007 to change amounts by Order in Council. This is to allow the payment rate and threshold for the newly created Best Start tax credit to be changed by Order in Council. This will allow amounts to be increased quickly, for example, to reflect movement in price inflation over time, or to make changes to amounts in accordance with legislative requirements. The Bill amends section 61H of the Social Security Act 1964 to allow the rates of the Winter Energy Payment to be increased by Order in Council. The Bill amends section 61I of the Social Security Act 1964 so it empowers the Governor-General to make an Order in Council to define accommodation supplement areas based on any urban area, urban zone, or area unit of New Zealand as on 26 June 2017 (not, as under current s 61I, as from time to time) defined by the Government Statistician. The Bill introduces a regulation making power in the Social Security Act 1964 to define fully Accommodation Supplement areas. When the first regulations are made this will trigger the repeal of area definitions from the primary legislation.	

4.8. Does this Bill create or amend any other powers to make delegated legislation?	NO

Any other unusual provisions or features

4.9. Does this Bill contain any provisions (other than those noted above) that are unusual or call for special comment?	YES
The Bill repeals the Taxation (Budget Measures: Family Incomes Package) Act 2007. A number of the provisions in this Act have not yet come into effect.	

Appendix One: Further Information Relating to Part Two

Question 2.4 - Has further impact analysis become available for any aspects of the policy to be given effect by this Bill

Question 2.5 - For the policy to be given effect by this Bill, is there analysis available on:

(a) the size of the potential costs and benefits?

(b) the potential for any group of persons to suffer a substantial unavoidable loss of income or wealth?

Title: Treasury Report: Updating distributional impacts of the Families Package
Authorising agency: The Treasury
Date: 4 December 2017

The analysis in this report represents the impact of the Families Package against current tax settings.

The projected impacts of the Families Package in the form of gains/losses by income decile and the number of children in low-income households relative to current settings in the absence of the Budget 2017 changes, are as follows:

- reduce the number of children in low income households by 48% in 2021 (using the 50% of moving line median equivalised before housing costs household income measure);
- increase the weekly incomes of approximately 385,000 families with dependent children by an average of $66 a week in the tax year ending 31 March 2019; and
- increase the weekly incomes of approximately 626,000 families without dependent children by $13 a week (when the increase is averaged over a year) in the tax year ending 31 March 2019.

This report presents projected future numbers (for tax years 2019 to 2021) derived using the Treasury's microsimulation model. These projections are not comparable to the values in the Household Incomes Report published by the Ministry of Social Development, which uses the most recent survey data (2016) and is an analysis of past child poverty measures.