

21 May 2015

Fact Sheet 3 – Changes to Working for Families

Summary

From 1 April 2016

- **Low- to middle-income working families not on a benefit will get up to \$12.50 a week more from Working for Families, depending on their income.**
- **Very low-income working families (receiving the Minimum Family Tax Credit) will get \$24.50 more a week from Working for Families, approximately matching the increase in benefit rates.**

What is changing?

From 1 April 2016, three elements of Working for Families will change:

1. Increase to the In-Work Tax Credit

The base rate of the In-Work Tax Credit will increase from \$60 to \$72.50 a week – an increase of \$12.50 a week, or around 21 per cent.

The In-Work Tax Credit can be claimed by working families unless their family income before tax is over a certain amount – \$89,000 a year, for example, for a family with two young children.

A “working family” for the purposes of Working for Families is a family with dependent children that is not receiving a benefit (or Student Allowance) and is working either 20 hours a week or more, in the case of a sole parent, or 30 hours a week or more in total for a couple.

No changes are being made to the Family Tax Credit, which is paid on the same basis to both beneficiary and working families and is the largest single part of Working for Families.

2. Increase in abatement rate

The abatement rate for Working for Families tax credits will be increased from 21.25 cents to 22.5 cents in the dollar.

Most Working for Families payments start reducing (abating) when a family’s income goes past a certain threshold. Payments currently reduce by 21.25 cents for each dollar earned over \$36,350 of gross income.

Raising the abatement rate to 22.5 cents in the dollar means Working for

Families payments will reduce slightly faster, but at the same time the base level of these payments is increasing by \$12.50 a week. The net result is that the additional \$12.50 from increasing the In-Work Tax Credit will be targeted at lower-income families.

3. Increase to the Minimum Family Tax Credit

The Minimum Family Tax Credit will rise by \$12 a week.

The Minimum Family Tax Credit is a separate part of Working for Families that is currently paid to around 4,000 very low-income working families on the margin between working and going on a benefit.

It tops up a family's earnings from work to a specified amount – currently \$23,036 after tax (\$26,735 gross) per year – thereby guaranteeing a minimum income for a working family not on a benefit. This is higher than the amount they could earn while on a benefit and working the same number of hours.

The Minimum Family Tax Credit is not affected by the increase in the Working for Families abatement rate.

For very low-income working families, the increase in the Minimum Family Tax Credit and the In-Work Tax Credit totals \$24.50 a week, approximately matching the increase in benefit rates.

How do these changes affect people's incomes?

As a result of these changes to Working for Families:

- Working families earning less than around \$27,000 a year in gross income will get the full \$12.50 extra a week from the In-Work Tax Credit increase plus \$12 a week from the Minimum Family Tax Credit increase (if they are receiving this payment), to give a total weekly increase of \$24.50
- Other working families earning \$36,350 or less a year will get the full \$12.50 extra a week from the In-Work Tax Credit increase
- Working families earning more than \$36,350 will get a progressively smaller increase as their incomes get higher – a family earning \$45,000, for example, will get an increase of \$10.42 a week
- Some families will actually get slightly less from Working for Families, with most of these being higher-income families earning more than \$88,000 a year.

A more detailed breakdown is shown in Table 1.

Over the course of a year, the changes to Working for Families are expected to benefit an estimated 203,000 working families with 383,000 children.

Of these, 53,000 families, with 103,000 children, are estimated to be earning

\$36,350 or less a year, and therefore getting the full \$12.50 increase in In-Work Tax Credit.

An estimated 18,000 families will receive slightly less from Working for Families each week, with the average reduction being around \$3 a week. Of these families, around 14,000 are families earning over \$88,000 a year. The remainder are families earning over \$36,350 who claim the Family Tax Credit but not the In-Work Tax Credit, and in consequence lose a small amount of assistance with the increase in abatement.

Why are changes being made?

While two-thirds of children in more severe material hardship live in beneficiary families, the other third live in low-income working families.

The Government considers that these families, and the children who live in them, could also do with some extra support.

The In-Work Tax Credit has not been increased since it was introduced in its current form in 2006.

In addition, as set out in Fact Sheet 2, an estimated 26,000 low-income working families will get, on average, around \$8 more a week from the Accommodation Supplement as an indirect result of the increase in benefit rates.

The increase to the Minimum Family Tax Credit, on top of the increase to the In-Work Tax Credit, maintains the financial incentive to go off a benefit and into work.

More information

Inland Revenue will contact Working for Families recipients in February 2016 to inform them of their likely entitlement for the 2016/17 year.

Table 1. Working for Families tables – 1 April 2016 changes

Annual income \$	One-child family			Two-child family		
	One child 1-12 yrs	1 April 2016	Total change (weekly)	Two children 1-12 yrs	1 April 2016	Total change (weekly)
25,000	\$180.25	\$204.75	+\$24.50	\$244.69	\$269.19	+\$24.50
30,000	\$152.73	\$165.23	+\$12.50	\$217.17	\$229.67	+\$12.50
35,000	\$152.73	\$165.23	+\$12.50	\$217.17	\$229.67	+\$12.50
40,000	\$137.81	\$149.44	+\$11.62	\$202.26	\$213.88	+\$11.62
45,000	\$117.38	\$127.80	+\$10.42	\$181.82	\$192.25	+\$10.42
50,000	\$96.95	\$106.17	+\$9.22	\$161.39	\$170.61	+\$9.22
55,000	\$76.52	\$84.53	+\$8.02	\$140.96	\$148.98	+\$8.02
60,000	\$56.08	\$62.90	+\$6.81	\$120.53	\$127.34	+\$6.81
65,000	\$35.65	\$41.26	+\$5.61	\$100.09	\$105.71	+\$5.61
70,000	\$15.22	\$19.63	+\$4.41	\$79.66	\$84.07	+\$4.41
75,000	\$ -	\$ -	\$ -	\$59.23	\$62.44	+\$3.21

80,000	\$ -	\$ -	\$ -	\$38.80	\$40.80	+\$2.01
85,000	\$ -	\$ -	\$ -	\$18.36	\$19.17	+\$0.81
90,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
95,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Annual income \$	Three-child family			Four-child family		
	Three children 1-12 yrs	1 April 2016	Total change (weekly)	Four children 1-12 yrs	1 April 2016	Total change (weekly)
25,000	\$309.13	\$333.63	+\$24.50	\$388.58	\$413.08	+\$24.50
30,000	\$281.62	\$294.12	+\$12.50	\$361.06	\$373.56	+\$12.50
35,000	\$281.62	\$294.12	+\$12.50	\$361.06	\$373.56	+\$12.50
40,000	\$266.70	\$278.32	+\$11.62	\$346.14	\$357.76	+\$11.62
45,000	\$246.27	\$256.69	+\$10.42	\$325.71	\$336.13	+\$10.42
50,000	\$225.83	\$235.05	+\$9.22	\$305.28	\$314.50	+\$9.22
55,000	\$205.40	\$213.42	+\$8.02	\$284.84	\$292.86	+\$8.02
60,000	\$184.97	\$191.78	+\$6.81	\$264.41	\$271.23	+\$6.81
65,000	\$164.54	\$170.15	+\$5.61	\$243.98	\$249.59	+\$5.61
70,000	\$144.10	\$148.51	+\$4.41	\$223.55	\$227.96	+\$4.41
75,000	\$123.67	\$126.88	+\$3.21	\$203.11	\$206.32	+\$3.21
80,000	\$103.24	\$105.25	+\$2.01	\$182.68	\$184.69	+\$2.01
85,000	\$82.81	\$ 83.61	+\$0.81	\$162.25	\$163.05	+\$0.81
90,000	\$62.37	\$ 61.98	-\$0.40	\$141.82	\$141.42	-\$0.40
95,000	\$41.94	\$40.34	-\$1.60	\$121.38	\$119.78	-\$1.60
100,000	\$21.51	\$18.71	-\$2.80	\$100.95	\$98.15	-\$2.80
105,000	\$1.07	\$0.00	-\$1.07	\$ 80.52	\$76.51	-\$4.00
110,000	\$ -	\$ -	\$ -	\$60.08	\$54.88	-\$5.20
115,000	\$ -	\$ -	\$ -	\$39.65	\$33.25	-\$6.41
120,000	\$ -	\$ -	\$ -	\$19.22	\$11.61	-\$7.61
125,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Note: These tables cover only families with children aged 1-12 due to the complexity of trying to estimate payments for families with children who are moving into different Family Tax Credit age brackets and becoming eligible for higher payments. This table assumes families are eligible for both the Family Tax Credit and the In-Work Tax Credit.