

# Fact Sheet – Families Package

## Summary

The Families Package will provide targeted assistance to improve incomes for low- and middle-income families with children. It is part of the Government's focus on reducing child poverty, and ensuring children get the best start in life.

The Families Package will:

- boost the incomes of low- and middle-income families with children by increasing the Family Tax Credit and raising the Working for Families abatement threshold
- 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 many of our poorest families heat their homes over winter
- increase the rate of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance by \$20.31 per week
- increase paid parental leave to 26 weeks
- reinstate the Independent Earner Tax Credit
- implement the Accommodation Supplement and Accommodation Benefit increases announced in Budget 2017
- repeal the tax cuts and changes to Working for Families announced in Budget 2017.

Relative to the status quo (i.e., without Budget 2017 changes), an estimated 385,000 families with children will be made better off by an average of \$75 a week in 2020/21 when the Package is fully implemented.

Compared to what they would have received from the Budget 2017 settings 365,000 families with children will be better off by an average of \$39 per week in 2020/21.

By 2020/21, around 650,000 families without children will gain approximately \$14 per week (averaged over the year) due to increases in the Accommodation Supplement and the Winter Energy Payment.

The Families Package will help reduce child poverty. In 2020/21, the Package is projected to reduce the number of children living in households earning below 50% of the equivalised (moving line) median household income by around 88,000, or a reduction of around 48% relative to the status quo. This reduction is 39,000 more than was projected to have occurred under Budget 2017 settings.

Superannuitants and students will also benefit. Approximately 710,000 superannuitants will benefit from the introduction of the Winter Energy Payment (WEP) in 2018. Approximately 41,000 students are expected to benefit from increases in the Accommodation Benefit.

By reversing the previous Government's income tax cuts, the Families Package will raise revenue by \$8.36 billion over the five-year forecast period (including \$0.49 billion in 2017/18). This additional revenue is used to fund the costs of the Package, estimated at \$5.53 billion

over the forecast period (including delivering \$80 million in additional revenue in 2017/18). This means that over the forecast period, the Families Package is estimated to have a positive impact on the Government’s operating balance of \$2.84 billion compared with Budget 2017 (including \$0.57 billion in 2017/18).

These net savings free up funding to support other priority areas for the Government, including housing, health and education.

**Key components of the Families Package**

***Boosting Working for Families tax credits***

Budget 2017 made changes to Working for Families (WFF) tax credits. These changes are being repealed and replaced with higher payment rates and a higher income threshold before the payments start to reduce (abate), effective from 1 July 2018.

The annual Family Tax Credit rate for the eldest child will increase to \$5,878 (\$575 higher than in Budget 2017). The rates for children aged below 16 are also being increased to align with the rates for children aged 16 to 18.

The abatement threshold for Working for Families payments will increase from \$36,350 to \$42,700, while the abatement rate will increase from 22.5% to 25%.

In 2018/19, 26,000 more families will be eligible for Working for Families as a result of the changes. In 2020/21, 39,000 more families will be eligible.

Table 1: Annual rate of Family Tax Credit

	<b>Current</b>	<b>1 July 2018</b>
Eldest child, 16-18	\$5,303	\$5,878
Eldest child, 0-15	\$4,822	
Subsequent child, 16-18	\$4,745	\$4,745
Subsequent child, 13-15	\$3,822	
Subsequent child, 0-12	\$3,351	
WFF abatement rate	22.5%	25%
WFF abatement threshold	\$36,350	\$42,700

The table below shows how changes to the Family Tax Credit will impact families with different incomes. It does not account for other aspects of the Families Package. The combined effects of the Package are presented further below – see *Impact on low-income families and child poverty* and *Family examples*.

Table 2: Family Tax Credit changes

Annual family income \$	Only child			Two child family			Three child family		
	Child aged under 16			Eldest child over 16 and youngest under 13			Eldest child over 16, 2 <sup>nd</sup> child over 16, youngest child 13-15		
	Current settings	From 1 July 2018	Total change	Current settings	From 1 July 2018	Total change	Current settings	From 1 July 2018	Total change
<30,000	4,822	5,878	1,056	8,654	10,623	1,969	13,870	15,368	1,498
35,000	4,822	5,878	1,056	8,654	10,623	1,969	13,870	15,368	1,498
40,000	4,001	5,878	1,877	7,833	10,623	2,790	13,049	15,368	2,319
45,000	2,876	5,303	2,427	6,708	10,048	3,340	11,924	14,793	2,869
50,000	1,751	4,053	2,302	5,583	8,798	3,215	10,799	13,543	2,744
55,000	626	2,803	2,177	4,458	7,548	3,090	9,674	12,293	2,619
60,000		1,553	1,553	3,333	6,298	2,965	8,549	11,043	2,494
65,000		303	303	2,208	5,048	2,840	7,424	9,793	2,369
70,000				1,083	3,798	2,715	6,299	8,543	2,244
75,000					2,548	2,548	5,174	7,293	2,119
80,000					1,298	1,298	4,049	6,043	1,994
85,000					48	48	2,924	4,793	1,869
90,000							1,799	3,543	1,744
95,000							674	2,293	1,619
100,000								1,043	1,043

From 1 April 2018, the Minimum Family Tax Credit threshold amount will also increase from \$23,816 to \$26,156. This is to ensure families with children remain better off working full-time than receiving a main benefit after the introduction of the WEP. 4,000 families will benefit from these changes.

**Introduction of the Best Start tax credit**

The Government is introducing a Best Start tax credit of up to \$3,120 per year (or \$60 per week) per child to help families with costs in a child’s early years.

It will be available to all families in the first year of a child’s life. For the second and third years, support will continue for low- and middle-income families – the Best Start tax credit will be abated at 21% for family income above \$79,000.

Table 3: Best Start tax credits for a child’s second and third years

Family Income	< \$79,000	\$80,000	\$85,000	\$90,000	\$95,000
Best Start tax credit	\$3,120	\$2,910	\$1,860	\$810	\$0

The Best Start tax credit will be made available for children born, or due to be born, on or after 1 July 2018.

Families will not receive Best Start and Paid Parental Leave at the same time. For families receiving Paid Parental Leave, the Best Start tax credit will begin after Paid Parental Leave ends.

Best Start will be available to caregivers receiving the Orphan's Benefit, the Unsupported Child's Benefit and the Foster Care Allowance caring for children under three.

As with other Working for Families tax credits, families may need to apply to receive Best Start. For families in receipt of a main benefit and receiving their Family Tax Credit from MSD, enrolment will generally be automatic. Other families will be able to apply online through Inland Revenue's website.

Around 65,000 newborns will qualify annually.

Best Start replaces the Parental Tax Credit, which provided eligible families with up to \$220 per week for the first 10 weeks of a child's life. Families receiving Best Start will be significantly better off over the first year of a child's life. For a family not taking Paid Parental Leave, Best Start provides \$3,120 over the first year, compared with only \$2,200 previously with the Parental Tax Credit. For many low-income families, the difference will be even greater – the Parental Tax Credit was not available to recipients of a benefit or the student allowance.

### ***Introduction of the Winter Energy Payment***

The Winter Energy Payment (WEP) will support those in receipt of a main benefit, New Zealand Superannuation or a Veteran's Pension to heat their homes in winter by increasing the amount of money available to them over the winter months.

The WEP is a payment of \$450 a year for single people, and \$700 for couples or those with dependent children.

The WEP will be paid in regular instalments over the winter months (May to September inclusive) – weekly for main benefit recipients, and fortnightly for superannuitants.

The WEP will become available from 1 July 2018. In future years, it will start on 1 May and continue for 22 weeks. Because it is being introduced partway through winter in 2018, WEP payments for 2018 will be for 13 weeks and therefore less than the full-year amount.

All those who are eligible to receive the WEP will receive it automatically, with no need to apply. There will be an opt-out option for people who do not need the assistance.

Eligibility will be conditional on people being largely resident in New Zealand over the winter months. Anyone absent from the country for more than four weeks will not receive the WEP unless they return home during the eligibility period.

Approximately 1 million people will be eligible for the WEP, including approximately 710,000 people receiving New Zealand Superannuation or a Veteran's Pension, and 275,000 people currently receiving a main benefit.

### ***Increase the rate of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance***

The rates of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance will increase by \$20.31 a week from 1 July 2018. This will provide caregivers who are not able to receive the Family Tax Credit with an increase in financial assistance at the same rate as the increase in the eldest child Family Tax Credit rate for children aged 0-15.

### ***Introduction of 26 weeks of paid parental leave***

As part of its 100-Day Plan, the Government has already extended paid parental leave from the current 18 weeks to 22 weeks, effective from 1 July 2018. A further extension to 26 weeks will come into effect on 1 July 2020.

There is clear evidence of the health and welfare benefits to both the child and parent or caregiver from an extended period of bonding after the birth of a child. The extension of paid parental leave will allow more parents and caregivers to spend longer with their child before returning to work, and better realise these benefits.

### ***Reinstatement of the Independent Earner Tax Credit***

The Independent Earner Tax Credit (IETC) provides income support for low- and middle-income earners who do not benefit from Working for Families tax credits. Budget 2017 legislated for the repeal of the IETC in 2018.

IETC will be retained as it is now benefitting, and will continue to benefit eligible individuals earning between \$24,000 and \$48,000 by up to \$520 a year.

Approximately 500,000 people will be eligible for the reinstated IETC.

### ***Retaining housing support changes***

The Government is retaining increases to the Accommodation Supplement maximum payments announced in Budget 2017. Accommodation Supplement Areas are also being updated to better align Accommodation Supplement support with local housing costs.<sup>1</sup> An estimated 135,000 households will benefit by an average of \$35 per week.

Table 4: Accommodation Supplement maxima, \$ per week  
(change shown in brackets)

	<b>Area 1</b>	<b>Area 2</b>	<b>Area 3</b>	<b>Area 4</b>
1 person	\$165 (+\$20)	\$105 (+\$5)	\$80 (+\$15)	\$70 (+\$25)
2 people	\$235 (+\$75)	\$155 (+\$30)	\$105 (+\$30)	\$80 (+\$25)
3+ people	\$305 (+\$80)	\$220 (+\$55)	\$160 (+\$40)	\$120 (+\$45)

Budget 2017 increases to the Accommodation Benefit of up to \$20 a week are also being retained. Approximately 41,000 students are expected to benefit from increases in the Accommodation Benefit, on top of the Student Allowance increases being progressed separately to the Families Package.

### ***Repealing the Budget 2017 tax cuts***

In Budget 2017, the previous Government increased the bottom two income tax thresholds with effect from 1 April 2018. These changes are being repealed.

Repealing these tax cuts frees up funding to cover the costs of the Families Package, and leaves approximately \$2.84 billion to support other priorities.

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<sup>1</sup> Communities throughout New Zealand are allocated to four Accommodation Supplement Areas that reflect local housing costs, with those with higher accommodation costs in Area 1, through to those with lower accommodation costs in Area 4.

**Impact on low-income families and child poverty**

By 2020/21, approximately 385,000 families with dependent children will be better off by an average of \$75 more per week relative to the status quo (i.e., without Budget 2017 changes).

Compared to what they would have received from the Budget 2017 settings, 365,000 families with children will be better off by an average of \$39 per week in 2020/21.

By 2020/21, around 650,000 families without children will gain approximately \$14 per week (averaged over the year) due to increases in the Accommodation Supplement and the Winter Energy Payment.

The table below shows the impacts on families with children benefiting from the Families Package by income decile, relative to the status quo.

Table 5: Distribution of gains by income decile in 2020/21 (compared with status quo)

Family Taxable Income Decile	Compared to status quo (i.e., settings pre-Budget 2017)			
	Minimum Family Taxable Income in Range	Number of Families	Families Gaining	Average Gain per week for Families that Gain
1	*	65,000	65,000	\$78.24
2	\$21,000	60,000	60,000	\$93.42
3	\$26,000	62,000	62,000	\$74.77
4	\$42,000	62,000	62,000	\$81.17
5	\$64,000	62,000	59,000	\$75.44
6	\$81,000	62,000	44,000	\$54.10
7	\$99,000	62,000	16,000	\$44.28
8	\$121,000	62,000	9,000	\$62.46
9	\$149,000	62,000	*	*
10	\$198,000	62,000	*	*
ALL	*	620,000	384,000	\$75.44

The Families Package will help reduce child poverty. In 2020/21, the Package is projected to reduce the number of children living in households earning below 50% of the equivalised (moving line) median household income by around 48% relative to the status quo. This reduction is 39,000 more than was projected to have occurred under Budget 2017 settings.

Due to complex interactions in the tax and transfer system, a small number of families risk being unintentionally financially disadvantaged as a result of the Package. A transitional fund is being established to support these families for up to 12 months.

## Family examples

These are illustrative examples of how the Families Package will impact different families, compared with what they get now. They are based on changes effective 1 July 2018 (and 1 April 2018 for housing support changes). The families with children under three are assumed to be eligible for Best Start. Note that the impact of the Families Package on families will depend on a range of factors, including housing costs.

### *Example 1*

A couple with a six-year-old and a 10-year-old, with a single income of \$90,000

This family will get \$49 more a week than they currently receive. They will be \$28 a week better off compared with Budget 2017 settings.

If they live in Central Auckland, they could also get up to \$31 a week more Accommodation Supplement, depending on how much rent they pay.

### *Example 2*

A couple with a four-year-old and a six-month-old, with a single income of \$55,000

This family will get \$129 more a week than they currently receive. They will be \$88 a week better off compared with Budget 2017 settings.

If they live in Hamilton, they could also get up to \$100 a week more Accommodation Supplement, depending on how much rent they pay.<sup>2</sup>

### *Example 3*

A sole parent with a two-year-old, on an income of \$45,000

This family will receive \$107 more a week than they currently receive. They will be \$97 a week better off compared with Budget 2017 settings.

If they live in Wellington, they could also get up to \$30 a week more Accommodation Supplement, depending on how much rent they pay.

### *Example 4*

A sole parent with a six-month-old, not in work, receiving Sole Parent Support

During the winter months this family will get \$112 more a week than they currently receive, and \$80 more a week for the rest of the year. Over the entire year, the family is on average \$94 a week better off compared with Budget 2017 settings.

If they live in South Auckland, they could also get up to \$110 a week more Accommodation Supplement, depending on how much rent they pay.<sup>3</sup>

### *Example 5*

A retired couple receiving New Zealand Superannuation

This couple gets \$32 more a week during winter months from the Winter Energy Payment.

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<sup>2</sup> The potential increase in AS includes the impact of Hamilton being re-zoned from Area 3 to Area 2

<sup>3</sup> The potential increase in AS includes the impact of South Auckland being re-zoned from Area 2 to Area 1

## Fiscal impacts

By reversing the tax cuts the previous Government announced in Budget 17, the Families Package is estimated to raise revenue by approximately \$8.36 billion over the forecast period. This means an increase in revenue of \$7.88 billion over the next four years, plus increased revenue of \$0.49 billion in 2017/18 – see the table below.

Table 6: Revenue impact of the Families Package  
(increases in revenue shown in brackets, fiscal years)

(\$ million)	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears	Total
Repealing the previous Government's changes to income tax thresholds <sup>4</sup>	(486)	(1,896)	(1,896)	(1,976)	(2,059)	(8,313)
Tax impacts from changes to Paid Parental Leave	-	(8)	(8)	(17)	(18)	(51)
<b>Total Revenue Impact</b>	<b>(486)</b>	<b>(1,904)</b>	<b>(1,904)</b>	<b>(1,993)</b>	<b>(2,077)</b>	<b>(8,364)</b>

The total estimated expenditure impact of the Families Package is \$5.53 billion. This includes approximately \$2.00 billion in Working for Families increases, \$1.81 billion for Winter Energy Payments, and \$1.14 billion in Best Start payments – see the table below. Implementation costs for the Ministry of Social Development and Inland Revenue are not included in these estimates.

Table 7: Expenditure impacts of the Families Package (fiscal years)

(\$ million)	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears	Total
Working for Families	(97)	540	530	520	510	2,003
Best Start	-	80	231	373	451	1,135
Winter Energy Payment	-	443	448	455	465	1,811
Other expense components <sup>5</sup>	17	94	100	177	190	578
<b>Total Expenditure Impact</b>	<b>(80)</b>	<b>1,157</b>	<b>1,309</b>	<b>1,525</b>	<b>1,616</b>	<b>5,527</b>

Overall, the Families Package has a positive impact on the Government's operating balance. The net impact of the Families Package is \$2.84 billion over the forecast period (including \$0.57 billion of increased revenue in 2017/18) – see the table below.

<sup>4</sup> Net of reinstatement of IETC

<sup>5</sup> Includes changes to Paid Parental Leave and increases to Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance.

Table 8: Overall fiscal impact  
(net impact, increases in revenue shown in brackets, fiscal years)

(\$ million)	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears	Total
Total revenue impact	(486)	(1,904)	(1,904)	(1,993)	(2,077)	(8,364)
Total expenditure impact <sup>6</sup>	(80)	1,157	1,309	1,525	1,616	5,527
Total Fiscal Impact	(566)	(747)	(595)	(468)	(461)	(2,837)

### More information

For an estimate of how Accommodation Supplement payments will change from 1 April 2018, go to the Accommodation Supplement and Childcare Assistance calculator (<http://www.workingforfamilies.govt.nz/calculators/>) on the Working for Families website.

For more information on Paid Parental Leave changes, go to <http://www.mbie.govt.nz/info-services/employment-skills/legislation-reviews/extending-paid-parental-leave-to-26-weeks-by-2020>

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<sup>6</sup> Excludes implementation costs