Inland Revenue
Te Tari Taake

MINISTRY OF
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Te Manatū Whakahiato Ora

Changing Families' Financial Support and Incentives for Working

Annex Report 1

Effective marginal tax rates for Working for Families recipients

Centre for Social Research and Evaluation
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Te Tari Taake

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This is one of a number of reports contributing to an evaluation of the Working for Families (WFF) package. This report examines effective marginal tax rates (EMTRs) for WFF recipients.

What is Working for Families?

The WFF package introduced changes to in-work incentives and family entitlements, and provided support to meet childcare and accommodation costs. The main components affected by the policy changes were WFF Tax Credits, the Accommodation Supplement (AS) and Childcare Assistance (CCA), all of which existed in some form before WFF. The major changes began in October 2004 and were implemented in stages through to 1 April 2007. The key target group for the WFF changes were low-to-middle income families.

In the 2008 tax year, families received a total of $3.11 billion from WFF Tax Credits, AS and CCA.[1] Families in receipt of a main benefit (eg the Unemployment Benefit or Domestic Purposes Benefit) received $1.15 billion, while non-beneficiary families received $1.95 billion. The amount of WFF dollars paid to individual families is determined by a number of factors including: total family income, the sources of income, and the number and ages of dependent children.

What are the objectives of WFF?

The key objectives of the policy changes set out by Cabinet in 2004 were to:

- **make work pay** by supporting families with dependent children, so that they are rewarded for their work effort
- **ensure income adequacy**, with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty
- achieve a social assistance system that **supports people into work**, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports them into, and to remain in, employment.

What are effective marginal tax rates?

Income a person earns from employment is subject to income tax. However, this may not be the only part of their earned income that is lost to the person. Workers pay Accident Compensation Corporation (ACC) levies on liable income earned, and people receiving social assistance face abatements (a reduction in entitlements) when they earn income above specified thresholds[2]. Additionally, people may have obligations to repay Student Loans to the government, or to pay Child Support for their children no longer living with them.

EMTRs are a measure of the total amount lost from a marginal increase in earnings (often taken to be $1) due to taxes, deductions and social assistance abatements. For example, an EMTR of 60% means that 60¢ of the next $1 of income earned is lost to the person, and 40¢ is kept in the hand.

1 This compares to a total of $1.36 billion being paid to families in the 2004 tax year (before WFF). WFF amounts reported here are as at the September 2009 update to the linked MSD/IR datasets.

2 ‘Income-testing’ is a way to target financial assistance to those families most in need.

Why are we interested in EMTRs?

The WFF dollars paid have improved income adequacy for many recipient families. WFF payments are successfully reaching the policy's target groups, and have reduced the income gap between high income and low income households (Ministry of Social Development and Inland Revenue, 2010). There have also been improvements to child hardship rates for the types of families targeted by WFF (Perry, 2009). There is also an interest in whether WFF has achieved one of its other objectives, of making work pay.

EMTRs are often used as an indicator of the financial incentive for individuals to earn additional income. The lower the EMTR a person faces, the more financially profitable it is for them to increase their hours of work or earnings. Conversely, a high EMTR over a range of earnings can be a disincentive for a person to enter the workforce, to increase their hours of work, or to take on higher paying employment, if the financial benefits are small (or negative).

From a wider perspective, there is also a large body of research which shows increasing EMTRs for large numbers of people has “serious negative consequences on economic growth, labour supply, and capital formation” (Karabegovic et al, 2004).

There is ongoing interest, therefore, in the levels of EMTRs faced by WFF recipients and, in particular, the number and types of families facing high EMTRs which may act as a disincentive for them to enter work or to extend their working hours.

It should be acknowledged there is some conjecture over the extent to which EMTRs influence individuals’ decisions to increase their participation in work – particularly in relation to the big changes in a person’s employment behaviour, such as moving from not working or working part-time, to working full-time.

This report examines EMTRs in relation to a marginal increase in earnings of $1 a week. In the context of WFF, this won’t capture the impact on employment behaviour of those big decisions individuals and families make about whether to work or not, or whether to work part-time or full-time. A key aim of the WFF package changes, such as the introduction of the in-work tax credit, was to provide an incentive for beneficiaries with children to move from a benefit into part-time or full-time work. An EMTR analysis alone cannot adequately capture what things have an impact on people’s work-related decisions. Other factors, such as the availability of childcare or access to transport, may be far more important in decisions individuals and families make to increase their participation in work.

How were EMTRs calculated?

Using linked Ministry of Social Development (MSD) and Inland Revenue (IR) administrative data for the 2004 to 2008 tax years[3], nine individual components[4] were included in the EMTR calculation as contributing to an overall EMTR faced by WFF recipient families:

- Income tax
- ACC levies
- WFF Tax Credits abatement
- Accommodation Supplement abatement
- Childcare Assistance abatement
- Benefit abatement
- Student Allowance abatement

[3] Linked IR/MSD data beyond the 2008 tax year was not available at the time the analysis in this report was done.

[4] See Section 2.2 for a detailed description of the nine components.

- Student Loan obligations
- Child Support obligations.

Components such as Student Loan and Child Support obligations are included to provide a clearer picture of the overall disincentives for families to increase their participation in work. While they are not ‘taxes’, they are legislatively-defined deductions that can contribute to high EMTRs.

EMTRs were calculated in relation to earning a theoretical extra $1 a week ($52 a year) of labour market income from the position the person was in at the end of each tax year. An overall EMTR for each person was calculated by summing all nine EMTR components, making some allowance for interacting components. For couples, the family EMTR was taken to be the highest EMTR faced by either person (see Section 2.3 for further details). Some analysis of EMTRs for both primary and secondary earners in couples is included in Section 3.3.

Findings

What level of EMTRs do families[5] face overall?

Of the 357,200 WFF recipient families in the 2008 tax year[6]:

- 34% (122,800) had an EMTR of 25% or less
- 20% (71,600) had an EMTR between 25% and 50%
- 35% (126,700) had an EMTR between 50% and 75%
- 9% (30,800) had an EMTR between 75% and 100%
- 2% (5,400) had an EMTR above 100%.

Figure 1 shows EMTRs are different under WFF. Recipient families in 2008 were more likely to face low EMTRs up to 25% and less likely to face very high EMTRs above 75% than before WFF was introduced. Some families have greatly improved EMTRs under WFF, while others face higher EMTRs. The pattern of EMTRs has also been affected by changes in the types of families being eligible to receive WFF at different times. This is discussed further in Section 3.7.

An abatement of a WFF main component contributed to the overall EMTR for less than half (47% or 168,300) of all recipient families in 2008.[7] This is a considerably lower proportion than pre-WFF, when 72% of families in 2004 had an abatement of a WFF main component contributing to their overall EMTR. This decrease is largely a result of the removal, under WFF, of the AS abatement for beneficiaries.

The average EMTR of families with children receiving WFF:

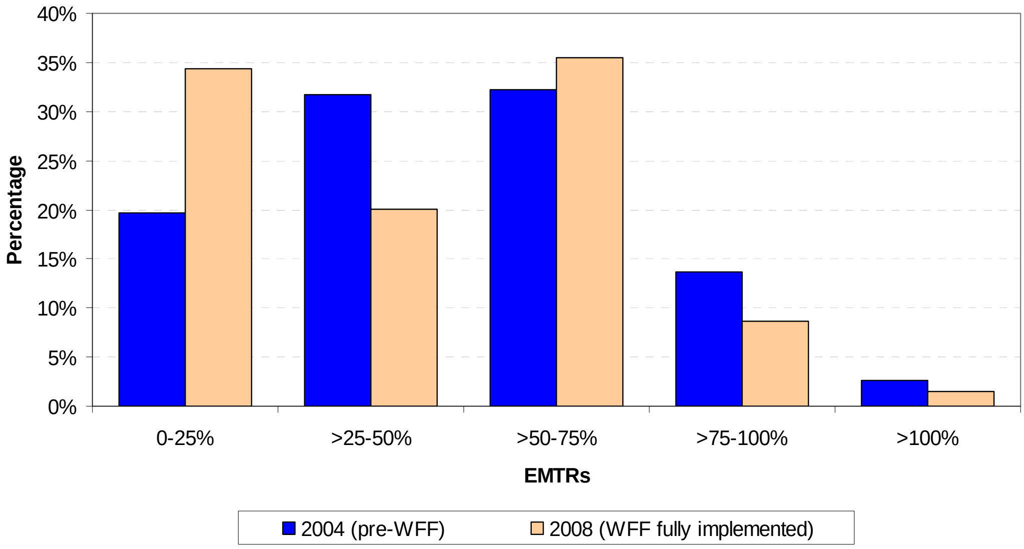
- decreased from 47% to 40% between 2004 and 2005 – reflecting the removal under WFF of the AS abatement for beneficiaries
- increased again by the time WFF was fully implemented due to the changed WFF Tax Credits abatement regime and expanded eligibility: by 2008, the average EMTR was 45%.

[5] In this report, ‘families’ refers to WFF recipient sole parents and couples with dependent children. It does not include singles and couples without children in receipt of Accommodation Supplement.

[6] WFF recipient and entitlement numbers presented in this report may differ to those published elsewhere due to the rules applied to form the EMTR analysis dataset (see Section 2.1).

[7] Unless specified otherwise, all references in this report to particular years are tax years. For example, the 2008 tax year covers the period 1 April 2007 to 31 March 2008.

Figure 1: Overall EMTR profile in 2004 and 2008 for WFF recipient families



Source: Linked IR/MSD datasets as at September 2009.

How did WFF change the EMTRs for low income families?

Two changes implemented as part of the WFF package reduced EMTRs for many low income families:

- from October 2004, beneficiaries in receipt of AS no longer faced an abatement of this component on the first $80 they earned
- from April 2006, the adjustment to income thresholds and abatement rates for WFF Tax Credits meant families with annual incomes between $20,356 and $35,000 whose WFF Tax Credits were previously abating at 18% or 30%, no longer faced any abatement of this component.

Beneficiary families have lower EMTRs under WFF because of these two changes – particularly the first one. In 2004, 71% of beneficiary families had an abatement of a WFF component contributing to their overall EMTR, but from 2007 none do. The average EMTR for WFF recipient beneficiary families dropped from 47% in 2004 to 22% in 2005, and has remained at this lower rate.

The vast majority of beneficiaries not in paid work have low EMTRs, and only face EMTRs above 25% when they have Student Loan or Child Support obligations. In contrast, beneficiaries in paid work face a wide spread of EMTRs – including 35% (19,800) in 2008 who faced EMTRs in excess of 75%. Benefit abatement at the maximum rate of 70% was the primary cause of these very high EMTRs (on top of income tax and ACC levies).

Non-beneficiary families with very low incomes in receipt of the minimum family tax credit face total EMTRs just above 100%. The April 2006 changes to the WFF package increased the after tax income threshold for this tax credit from $15,080 to $17,680. Subsequently, the number of families assessed as being eligible to receive the component more than tripled from 900 in 2006 to 2,800 in 2007.

Other low income non-beneficiary families in receipt of WFF Tax Credits, with annual incomes between $20,356 and $35,000, have much lower EMTRs following the April 2006 WFF changes.

How did WFF change the EMTRs for middle-to-high income families?

Changes to the WFF package in April 2006 included: the introduction of the in-work tax credit; the replacement of two WFF Tax Credits income thresholds by a single higher threshold; and the removal of the 18% WFF Tax Credits abatement rate along with a reduction in the 30% rate to 20%.

As a result of these changes, EMTRs for many middle-to-high income families receiving WFF Tax Credits were lower due to a reduction in the abatement rate from 30% to 20%.

However, approximately 50,000 non-beneficiary families became newly eligible to receive WFF Tax Credits as a result of the higher income thresholds associated with the in-work tax credit. These families had their overall EMTRs increased by 20% due to them now receiving WFF Tax Credits at an abated rate. Although they faced higher EMTRs, these families had disposable incomes greater than they would have been without the April 2006 changes.

What are the characteristics of families with very high EMTRs?

Ten percent (36,100) of all WFF recipient families in 2008 had EMTRs above 75%. This included 2% (5,400) who had EMTRs over 100%. Families with EMTRs above 100% would initially lose money if they took on additional paid employment.

Of the 36,100 families facing very high EMTRs in 2008 – the majority (19,800) were beneficiary families.

In the 2008 tax year, 17% of all WFF recipient beneficiary families faced EMTRs of more than 75%. The proportion has been slightly lower since the introduction of WFF. Very high EMTRs for beneficiaries are primarily due to benefit abatement – usually at the maximum rate of 70% (on top of income tax and ACC levies). Student Loan obligations (28% of all WFF recipient beneficiary families in 2008) and Child Support obligations (10% in 2008) also add to very high EMTRs for some beneficiaries.

Seven percent (16,300) of all WFF recipient non-beneficiary families had EMTRs above 75% in 2008. Very high EMTRs for non-beneficiaries can be due to a single other component on top of income tax and ACC levies (such as minimum family tax credit), or can be due to the cumulative effect of numerous other components.

Very high EMTRs for non-beneficiaries almost always include the abatement of WFF Tax Credits and/or AS, along with income tax and ACC levies. This was also the case before WFF was introduced (for Family Assistance and AS abatement). Student Loan obligations (31% of WFF recipient non-beneficiary families in 2008) and Child Support obligations (26% in 2008) often also contribute to high EMTRs for non-beneficiary families.

In 2008, 2,700 families (sole parents in 80% of the cases) were entitled to the minimum family tax credit. This component abates dollar-for-dollar of net family income so, in combination with income tax and ACC levies, recipients face EMTRs just above 100%.

Very few recipients of Childcare Assistance face an abatement of the component on the next dollar earned – only 0.1% (40) in 2008. However, for the few families affected, on average they lost $22 of their entitlement as a result of earning an extra $1.

Of the 3,200 families with children who received the Student Allowance in March 2008, 27% (900) had a dollar-for-dollar (100%) abatement of part of the allowance, as their family income exceeded the allowable income threshold.

How do EMTRs differ for primary and secondary earners in couple families?

The EMTR faced by each person in a couple with dependent children is often different (this being the case for 80% of WFF recipient couples in 2008). Usually this is due to the couple having different earnings and therefore different personal tax rates. A person could also have a higher EMTR if they had, for example, Child Support obligations.

EMTRs were examined separately for primary earners (defined as the person in a couple who earns the most), and secondary earners (the person who earns the least). As may be expected, secondary earners generally have lower EMTRs than primary earners: 85% of secondary earners in 2008 had EMTRs below 50%, compared to 43% of primary earners.

The average EMTR for primary earners in couples increased slightly after the April 2006 WFF Tax Credits changes (from 52% to 54%), while the average EMTR for secondary earners decreased by 10 percentage points (from 46% to 36%). As well as the effects of the April 2006 changes, these trends were influenced by the types of families becoming newly eligible for WFF Tax Credits from April 2006.

Changes in EMTRs for families receiving WFF in 2008

Eligibility rules for WFF Tax Credits have changed over time, so the types of the families receiving this component in 2008 are not the same as the families who received it in 2004. To take this into account, the EMTR profile of the families receiving WFF in 2008 were compared with the EMTR profile assuming the WFF changes had not been implemented for two groups – those who would have been eligible for WFF Tax Credits in 2004, and those who would not have been eligible.

Nearly two-thirds of the families who received WFF Tax Credits in 2008 would have been eligible for Family Assistance in 2004 based on their 2008 family incomes, sources of income and the number and ages of their children. The average EMTR for such families in 2008 was 24%. If WFF had not been introduced, the families would have been facing considerably higher overall EMTRs of 52% on average. The lower EMTRs under WFF are mainly due to the removal of the AS abatement for beneficiaries, and changes to WFF Tax Credits income thresholds and abatements from April 2006. As well as having considerably lower EMTRs, these families were receiving greater amounts of WFF payments and had disposable incomes that were, on average, approximately $100 a week more than they would have been without WFF.

Over a third of the WFF recipient families in 2008 would not have been eligible for Family Assistance in 2004 because their family incomes were too high. The overall EMTRs of these families were 20% higher, on average, in 2008 than they would have been without WFF. This is due to them receiving WFF Tax Credits at an abated rate. While these families had higher EMTRs under WFF, they had disposable incomes that were, on average, approximately $120 a week more due to the WFF payments they were receiving.

What are the EMTRs for AS recipients without children?

Most of the 125,700 recipients of AS in 2008 who did not have dependent children were either single beneficiaries (in 64% of cases) or single non-beneficiaries (in 23% of cases). Couples account for the remaining 13% of AS recipients without children. The majority of non-beneficiaries without dependent children receiving AS are superannuitants.

Seven out of 10 singles and couples without children receiving AS had low EMTRs of up to 25%. In contrast, around one in 10 of them had EMTRs of more than 75% – typically from 70% benefit abatement, income tax and ACC levies.

The removal under WFF of the AS abatement for beneficiaries saw the average EMTR for all singles and couples without children receiving AS drop from 43% in 2004 to 22% in 2005, and it has remained at 22%.

Changes having an impact on EMTRs since the 2008 tax year

At the time the analysis for this report was done, linked IR/MSD data was not available beyond the 2008 tax year. Since then, there have been changes to many of the nine components included in the EMTR calculations. There was also a new tax credit introduced in the 2010 tax year for non-beneficiaries not eligible for WFF Tax Credits – the independent earner tax credit (IETC).

Tax cuts (changes to tax rates and associated income thresholds) have lowered EMTRs by a few percentage points for many families – offset to a small extent by increases in ACC levies. An increase in the income threshold for WFF Tax Credits from October 2008 means some families will have EMTRs which are 20% lower. In contrast, any families who became newly eligible for WFF Tax Credits as a direct result of the change will have higher EMTRs.

Proposed increases to the income thresholds for some main benefits are expected to improve financial incentives for part-time work for those receiving such benefits.[8]

Recipients of the IETC with annual incomes above $44,000 and up to $48,000 will have EMTRs 13% higher due to the abatement of the tax credit.

Conclusions

The incentives for being in paid work have improved for most WFF recipient beneficiary families as a result of reduced EMTRs under WFF. The removal of the AS abatement for beneficiaries, and the April 2006 changes to the WFF Tax Credits income thresholds and abatement rules mean beneficiaries no longer face any WFF abatement.

Beneficiaries in paid work can, however, still face very high EMTRs primarily due to benefit abatement at 70% on top of income tax and ACC levies. In 2008, 17% (19,800) of all beneficiary families had EMTRs in excess of 75%. For these families, work incentives may be low.

Non-beneficiary families with very low incomes receiving the minimum family tax credit had overall EMTRs just above 100%. Work incentives are very low for such families unless they can start earning over the income threshold for this tax credit. When they do this, their EMTRs will fall considerably.

As expected[9], the April 2006 changes to the WFF Tax Credits income thresholds and abatement rules improved EMTRs for other low income working families, thereby improving their work incentives. Non-beneficiary families with annual incomes between $20,356 and $35,000, who previously faced an 18% or 30% abatement of their WFF Tax Credits payments, no longer faced an abatement of this component from April 2006.

An anticipated consequence of the WFF changes in April 2006 was that EMTRs would be higher for some middle and higher income families who became newly eligible to receive WFF Tax Credits as a direct result of the changes. Approximately 50,000 middle-to-high income families have greater disposable incomes from their new entitlements, but their work

[8] Social Assistance (New Work Tests, Incentives, and Obligations) Amendment Bill 125-2 (2010).

[9] Cabinet Minute (04) 13/4. See: http://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/policy-development/working-for-families/cab-min--04--13-4.pdf.

incentives have reduced as a result of an increase in their EMTRs due to the 20% WFF Tax Credits abatement.

1. Introduction

This is one of a number of reports contributing to an evaluation of the Working for Families (WFF) package.[10] This report examines effective marginal tax rates (EMTRs) for WFF recipients.

1.1. What are EMTRs?

When a person earns additional income from employment, this will be subject to income tax. For example, from 1 April 2009, income over $70,000 is taxed at a rate of 38¢ in the dollar. This means if a person with an annual income of more than $70,000 earns an extra dollar of income from employment, 38¢ of this will be paid to the government in income tax.

However, this may not be the only part of the additional income that is lost. For example, workers are subject to an ACC Earners' Levy – $1.70 per $100 of liable income earned for salary and wage earners in the 2010 tax year. This means, using the example above, for every extra dollar earned, not only is 38% paid as income tax, another 1.7% is paid to ACC.

Most types of social assistance from the government are income-tested to allow the assistance to be targeted. When a person receiving such assistance begins to earn income over a particular threshold, abatements[11] will usually come into effect to reduce the person's entitlement amount. For example, a person in receipt of a main benefit[12] can earn up to $80 a week from work with no impact on their benefit entitlement amount. However, once they start earning over $80 a week, their benefit entitlement is reduced by either 30% or 70% for every dollar earned in excess of $80.

EMTRs is the term used to describe the total amount lost to a person from a marginal increase in earnings (often taken to be $1) due to taxes, levies and social assistance abatements. In certain situations, people can face EMTRs of more than 100%. That is, they would initially lose money if they took on additional paid employment.

1.2. Why are we interested in EMTRs?

The Ministry of Social Development and Inland Revenue (2010) shows that the WFF dollars paid out have improved income adequacy for many recipient families (one of the key objectives of WFF set out by Cabinet in 2004). WFF payments are successfully reaching the policy's target groups, and have reduced the income gap between high income and low income households. Perry (2009) shows there have also been improvements to child hardship rates for the types of families targeted by WFF.

There is also an interest in whether WFF has achieved one of its other key objectives of making work pay. That is, families are rewarded for increasing their work effort.

EMTRs are often used as an indicator of the financial incentive for individuals to earn additional income. The lower the EMTR a person faces, the more financially profitable it is for them to increase their hours of work or their earnings, as they get to keep more of any

[10] For a complete summary of all the findings from the WFF evaluation, see Ministry of Social Development and Inland Revenue (2010).

[11] 'Abatement' is used here to refer to the withdrawal (or reduction) of some amount of social assistance paid by the government to an individual or family, because they receive additional income from employment or some other chargeable source (eg Child Support payments received).

[12] The Ministry of Social Development defines a beneficiary as a person or family in receipt of a main benefit, ie the Unemployment, Domestic Purposes, Widow's, Independent Youth, Sickness or Invalid's Benefit or the Emergency Maintenance Allowance.

additional income they earn. Conversely, high EMTRs can be a disincentive for a person to enter the workforce, to increase their hours of work, or to take on higher paying employment, if the financial benefits are small (or negative).

From a wider perspective, Karabegovic et al (2004) discuss a large body of research which shows increasing EMTRs for large numbers of people can have "serious negative consequences on economic growth, labour supply, and capital formation".

There is ongoing interest, therefore, in the levels of EMTRs faced by WFF recipients and, in particular, the number and types of families facing high EMTRs which may act as a disincentive for them to enter work or to extend their working hours.

It should be acknowledged there is some conjecture over the extent to which EMTRs influence individuals' decisions to increase their participation in work – particularly in relation to the big changes in a person's employment behaviour, such as moving from not working or working part-time, to working full-time.

This report examines EMTRs in relation to a marginal increase in earnings of $1 a week. In the context of WFF, this won't capture the impact on employment behaviour of those big decisions individuals and families make about whether to work or not, or whether to work part-time or full-time. A key aim of the WFF package changes, such as the introduction of the in-work tax credit, was to provide an incentive for beneficiaries with children to move from a benefit into part-time or full-time work. An EMTR analysis alone cannot adequately capture what things have an impact on people's work-related decisions. Other factors, such as the availability of childcare or access to transport, may be far more important in decisions individuals and families make to increase their participation in work.

In terms of whose EMTRs might be affected by the WFF policy changes, Cabinet Minute (04) 13/4[13] stated "EMTRs will be improved for low income working families earning between $20,000 and $27,500 [increased to $35,000 by later enhancements] a year, thereby improving work incentives. EMTRs will be higher for some middle and higher income families not previously eligible for assistance".

1.3. Working for Families package

The WFF package introduced changes to in-work incentives and family entitlements, and provided support to meet childcare and accommodation costs. It was estimated to provide around $1.6 billion a year in increased financial entitlements[14] and in-work support to families.

The key objectives of the WFF package set out by Cabinet in 2004 were to:

- **make work pay** by supporting families with dependent children, so that they are rewarded for their work effort
- **ensure income adequacy**, with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty
- achieve a social assistance system that **supports people into work**, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports them into, and to remain in, employment.

[13] See: http://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/policy-development/working-for-families/cab-min--04--13-4.pdf.

[14] WFF Tax Credits (previously called Family Assistance), AS and CCA all existed in some form before WFF was introduced. As part of the WFF package, changes were made to all three components, as well as some elements of the benefit system. In 2004, $1.36 billion in total for the three components was paid to families. In 2008, the figure was $3.11 billion.

Low-to-middle income families were the key target group for the WFF changes.

The package had six key components designed to work together to achieve its objectives:

- Increases to family tax credit rates, enhancements to the abatement regime, and a new in-work tax credit.
- Childcare Assistance (CCA) improvements.
- Accommodation Supplement (AS) initiatives.
- Invalid's Benefit changes.
- Special Benefit changes and the introduction of Temporary Additional Support.
- Consequential changes to other social assistance.

Major changes to the above components began in October 2004 and were implemented in stages through to 1 April 2007.

Legislation that came into effect from 1 April 2006 raised the income threshold and lowered the rate of abatement for income in excess of the threshold for WFF Tax Credits. These changes were expected to provide additional amounts of WFF Tax Credits to an estimated 160,000 families, including around 60,000 newly eligible families whose incomes were higher than the previous target group's incomes (meaning they were previously not eligible).

In most cases, Inland Revenue (IR) pays WFF Tax Credits but Work and Income, a service of the Ministry of Social Development (MSD), pays the family tax credit to most beneficiaries. Work and Income pays AS to both beneficiaries and non-beneficiaries, and it pays Childcare Assistance entitlements directly to childcare services.

1.3.1. Implementing Working for Families

The WFF changes and their implementation were structured to meet the goals of improving income adequacy, making work pay and ensuring families get the assistance they are entitled to. Changes were made which increased the number of families eligible for AS and CCA and increased the levels of payments.

This was followed by changes increasing family tax credit rates, increasing abatement thresholds, reducing abatement rates, increasing the minimum family tax credit and removing the child component of main benefits.

The focus of the April 2006 changes was on making work pay. The AS and CCA changes had already addressed some of the financial barriers to families moving into work. The introduction of the in-work tax credit provided a specific incentive for families to enter or remain in work.

The timeline of the implementation of the WFF changes follows.

October 2004

- The abatement of AS was removed for beneficiaries.
- The AS entry thresholds were decreased and abatement thresholds increased for non-beneficiaries.
- The Childcare Subsidy and Out-of-School and Recreation Subsidy (OSCAR) rates were increased and aligned with each other, and income thresholds increased.

April 2005

- Family tax credit rates were increased by $25 a week for the first child and $15 a week for additional children.[15]
- The child component of main benefits was moved into the family tax credit.
- The AS maximum rates were increased in some areas where housing costs were high. The number of AS areas increased from three to four.
- The family tax credit began to be treated as chargeable income for assessing Special Benefit eligibility.

October 2005

- The Childcare Subsidy and OSCAR rates were increased by another 10%.

April 2006

- The child tax credit was replaced by the in-work tax credit for eligible working families, set at $60 per family per week, plus an additional $15 a week for fourth and subsequent children. The in-work tax credit became available to couple families working a combined total of 30 hours a week or more, or sole parents working a total of 20 hours a week or more.
- The minimum family tax credit after tax income threshold was increased from $15,080 to $17,680.
- The WFF Tax Credits abatement thresholds ($20,356 and $27,481) were replaced by a single threshold of $35,000.
- The 18% abatement rate was removed completely and the 30% rate reduced to 20% for WFF Tax Credits.
- Temporary Additional Support was introduced to replace Special Benefit.

October 2006

- The Childcare Subsidy and OSCAR income thresholds were increased so a greater number of families were eligible.

April 2007

- Family tax credit rates were increased by $10 per child per week.
- The minimum family tax credit income threshold was increased to $18,044 after tax.

Legislation requires that future rates of the family tax credit and the abatement threshold for WFF Tax Credits will be regularly adjusted for inflation. The first inflation adjustment of just over 6% came into effect from 1 October 2008. Periodic reviews of the in-work tax credit and parental tax credit are being done from 30 June 2008.

1.3.2. Receipt of Working for Families

The amount of WFF paid to a particular family is determined by a number of factors including: the total family income, the sources of income, and the number and ages of dependent children (see Sections 2.2.3 to 2.2.5 for further details).

[15] Foster Care Allowance, Unsupported Child's Benefit and Orphan's Benefit rates were also increased by $15 a week.

In the 2008 tax year, a total of 357,200 families with dependent children received a main component of WFF[16] (Table 1). Of these families:

- 99% received WFF Tax Credits – by itself in just over half of all cases, and with AS or CCA in just under half of all cases
- 42% received AS – rarely as the only main component received
- 17% received CCA – rarely as the only main component received.

A total of $3.11 billion of WFF was paid to families with children in the 2008 tax year. This was more than double the amount paid to families in 2004 ($1.36 billion).

Changes to the WFF Tax Credits income thresholds and the introduction of the in-work tax credit from 1 April 2006 made a large number of (mostly couple) families newly eligible to receive WFF Tax Credits (previously their incomes were too high for them to have any entitlement). This explains much of the big increase between 2006 and 2007 in the total number of WFF recipients, and in the proportion of families receiving only WFF Tax Credits.

Singles and couples without children can receive AS, but not the other two WFF main components. In March 2008, there were 125,700 AS recipients without children. The main focus in this report is on families with children, but some information is presented on EMTRs for singles and couples without children in Chapter 4.

Table 1: WFF components and amounts paid to families in the tax years 2004 to 2008[1, 2]

	2004 (n=245,400)	2005 (n=244,400)	2006 (n=265,600)	2007 (n=348,900)	2008 (n=357,200)
WFF components paid					
WFF Tax Credits[3], AS and CCA	12%	12%	13%	11%	10%
WFF Tax Credits and AS	43%	42%	40%	32%	31%
WFF Tax Credits and CCA	4%	4%	5%	6%	7%
WFF Tax Credits only	40%	37%	39%	51%	51%
AS, CCA	<1%	<1%	<1%	<1%	<1%
AS only	1%	2%	2%	1%	1%
CCA only	<1%	1%	1%	<1%	<1%
Total	100%	100%	100%	100%	100%
Total amounts paid (millions)					
WFF Tax Credits	$935m	$894m	$1,375m	$2,136m	$2,466m
Accommodation Supplement	$373m	$393m	$467m	$497m	$507m
Childcare Assistance	$52m	$64m	$95m	$121m	$134m
Total	$1,360m	$1,351m	$1,937m	$2,754m	$3,108m

Notes:
1. Families were included in this table if they received a WFF main component in the March month of each tax year, or received an end-of-year WFF Tax Credits lump sum payment. The components and amounts paid shown in the table relate to all WFF payments made to these families in each tax year. The table excludes singles and couples without children who were paid AS.
2. In this and subsequent tables, "<1%" means greater than 0% but less than 0.5%.
3. WFF Tax Credits figures for 2004 are referring to Family Assistance payments for that year.

Source: Linked IR/MSD datasets as at September 2009.

16 The figure of 357,200 represents families who received a WFF main component in the March month of each tax year, or who received an end-of-year WFF Tax Credits lump sum payment. This is an undercount of all families receiving WFF, as some families received a main component for only part of the tax year before March.

2. Methodology

2.1. Data

EMTRs were calculated for people earning a theoretical extra $1 (gross) of labour market income a week ($52 a year) from the situation they were in at the end of each tax year from 2004 to 2008.[17] As the extra dollar is taken to be income earned from employment, for both beneficiaries and non-beneficiaries, it is subject to income tax and ACC levies, and may also lead to the abatement of any social assistance the family is receiving.

Point-in-time EMTRs are presented in this report (ie as at 31 March in each tax year). It should be noted, however, that the EMTR for an individual is not necessarily static within a year. Policy changes, macroeconomic conditions and personal choices can all influence EMTRs. For example, the government can make legislative changes affecting tax rates or income thresholds, economic conditions can make it more or less likely for people to be on benefit, or people can choose to increase or decrease their hours of work, any of which can change an individual's or a family's marginal tax rate and other abatements or deductions.

The WFF evaluation has available a series of datasets constructed from the combined administrative records of the MSD and IR. At the time of this study, they contained five years of data from 1 April 2003 to 31 March 2008, and included all families who received a WFF-related payment for this period.

The base dataset used for this analysis is an annual tax year summary of demographic and financial income for singles and couples. If a couple were together, or a person was single, for all 12 months of a tax year, they would appear as one row in the dataset for that tax year. If, however, their partnership status changed over the course of a tax year, the people concerned would appear as additional rows as either singles or in other couples. Only spells that ended 31 March of each tax year were included in this analysis.

The data includes (for both people if a couple):

- unique identifier (IRD number)
- gender
- age as at 31 March
- ethnicity
- partnership status (single or couple)
- number and ages of children as at 31 March
- gross annual tax year income (and tax paid) from:
  - salary and wages
  - main benefits (by type of benefit)
  - other taxable sources, ie the total of self-employment, partnerships, shareholder-employee salaries, interest and dividends, estates and trusts, Mäori authority distributions, overseas income, rents and 'other IR3 income' (eg cash jobs, or in certain situations, profits from the sale of land, buildings, shares or other property)
  - WFF payments received – separately for WFF Tax Credits, AS and CCA
  - Student Allowance, New Zealand Superannuation, ACC and Paid Parental Leave
- Child Support paid or received.

[17] Linked IR/MSD data beyond the 2008 tax year was not available at the time the analysis in this report was done.

The analysis dataset comprised all families who received any component of WFF in March of each tax year[18], or who received an end-of-year WFF Tax Credits lump sum payment for any of the tax years 2004 to 2008. Around 1,300 WFF recipient couple families were excluded from the analysis dataset in each of the five years because income details and other information were not available for the partner of the WFF recipient.

2.2. Components of EMTRs

For this analysis, nine components were included in the EMTR calculations:

- Income tax
- ACC levies
- WFF Tax Credits abatement
- Accommodation Supplement abatement
- Childcare Assistance abatement
- Benefit abatement
- Student Allowance abatement
- Student Loan obligations
- Child Support obligations.

Components such as the Student Loan and Child Support obligations are included to provide a clearer picture of the overall disincentives for families to increase their participation in work. While they are not taxes, they are legislatively-defined deductions that can contribute to high EMTRs.

The list of EMTR components above is not exhaustive. There are other components that could usefully have been included in the analysis if data had been available. For example, recipients of Temporary Additional Support, or its predecessor Special Benefit, may lose some amount of entitlement if they earn additional income. Therefore, the EMTRs shown in this report could be understated for some people.

2.2.1. Income tax

Income for tax purposes is known as ‘taxable income’. In terms of the data available to this study, taxable income includes gross income from:

- salary and wages (from labour market employment)
- self-employment
- partnership income
- shareholder-employee salaries
- main benefits
- Paid Parental Leave
- taxable pensions (including New Zealand Superannuation and Veteran’s Pension)
- Student Allowance
- ACC payments received
- interest and dividends
- rents
- estate and trust income
- schedular payments (formerly known as withholding payments)

[18] The number of families receiving through-the-year WFF payments tends to decrease in the last few months of each tax year, with the lowest numbers occurring in March. This is partly due to IR initiatives, such as proactive action to avoid families being overpaid WFF Tax Credits and incurring a debt to IR. Additionally, some families lose their entitlement with the ‘ageing out’ of 18 year olds (ie they are no longer considered dependent children for WFF Tax Credits purposes) on 31 December.

- Mäori authority distributions
- overseas income
- other IR3 income
- net losses brought forward (which reduce taxable income)
- losses from a loss attributing qualifying company (which reduce taxable income).

The three rates of personal income tax (19.5%, 33% and 39%) remained constant over the period of interest for this study (see Table 2). During this period, the tax system included a low-income tax rebate for income under $38,000, so the marginal tax rate for individuals with annual taxable income under $38,000 was not exactly 19.5%. Rather, there were sub-levels of marginal tax rates (depending on the source of income), and these averaged out to 19.5% at an income of exactly $38,000.

Table 2: Personal income tax rates for the tax years 2004 to 2008

Taxable income	Tax rate
Income up to $38,000	19.5%
Income up to $9,500	*15.0%*
Earnings up $9,500 and income up to $38,000[1]	*16.5%*
Income over $9,500 and income up to $38,000	*21.0%*
Income over $38,000 and up to $60,000	33.0%
Income over $60,000	39.0%

Note:
1. 'Earnings' are income received from labour market employment. The marginal tax rate of 16.5% reflects a partial abatement of the low income rebate as income increases beyond $9,500 for people with a mixture of earnings and other sources of taxable income.

Income tax-EMTRs were calculated on the basis of each individual earning an extra $52 above their annual income for each tax year. Therefore, if the individual had an annual income that was at least $52 lower than the next income tax threshold, their EMTR was taken to be the highest current tax rate they faced. For example, if a person's annual income was $50,000, if they earned an extra $52, this amount would be taxed at 33¢ in the dollar.

If a person was within $52 of a tax threshold, their income tax-EMTR was taken to be the next highest tax rate (if a higher rate existed). For example, if a person's annual income was $59,995, if they earned an extra $52, this amount would (apart from the first $5) be taxed at 39¢ in the dollar.

Individuals whose taxable income in any year was a loss (ie they had reserves of tax losses) were assumed to have an income tax-EMTR of zero. That is, if they earned an extra $1 a week, their taxable income was still likely to be a loss, and they would not have to pay tax on the extra $1 of earnings.

2.2.2. ACC levies

Individuals who earn liable income[19] from salary and wages, self employment, partnership income, shareholder-employee salaries, schedular payments, ACC payments, overseas income or other IR3 income must pay levies to ACC with respect to these types of income.

All workers pay an Earners' Levy to cover medical, rehabilitation and weekly compensation costs for the non-work-related personal injuries of employees and the self-employed.

19 Liable earnings are the part of a person's total income on which ACC levies are payable. Types of income not liable include: interest and dividends, rents, Student Allowance, main benefits, pensions, Paid Parental Leave, estate and trust income, and passive partnership income earned by a non-working partner.

As well as the Earners' Levy, the self-employed also pay other levies:

- Work Levy (for work-related injury cover)
- Residual Claims Levy (to cover the ongoing costs of work-related claims before 1 July 1999, and non-work claims to earners before 1 July 1992)
- Health and Safety in Employment Levy (collected on behalf of the Department of Labour to help fund Occupational Safety and Health).

Work levies for the self-employed vary according to the industry they work in – reflecting the different work-related injury risks in some types of jobs. As data was not available on the industry self-employed people worked in, ACC-EMTRs for the self-employed were calculated in relation to the average levy rates over all industry classification units (see Table 3).

Table 3: Self-employment levies per $100 liable earnings[1] averaged across industries for the tax years 2004 to 2008[2]

Financial year	Average Work Levy rate	Average Earners' Levy rate	Average Residual Claims Levy rate	Health and Safety in Employment Levy rate	Total levy rate per $100 liable earnings
2004	$2.01	$1.18	$0.35	$0.06	$3.60
2005	$1.95	$1.20	$0.34	$0.06	$3.54
2006	$2.05	$1.20	$0.37	$0.06	$3.68
2007	$2.32	$1.30	$0.39	$0.06	$4.07
2008	$2.15	$1.30	$0.48	$0.06	$3.99

Notes:
1. Levies shown in the table include Goods and Services Tax (GST).
2. Source is an email communication dated 2 October 2009, Business Service Centre, Accident Compensation Corporation.

Salary and wage earners pay the Earners' Levy shown in Table 4. There is a maximum Earners' Levy amount payable each year. Once an individual's income reaches the maximum income threshold, they do not pay any extra amount to ACC. This means an individual's ACC-EMTR is zero when their taxable income passes the maximum shown in Table 4 (for salary and wage earners) and Table 5 (for the self-employed). Only 600 (0.2%) of the WFF recipient families in 2008 had liable incomes (for either person if a couple) that exceeded the maximum income threshold.

Table 4: Salary/wage ACC Earners' Levy rates[1] for the tax years 2004 to 2008

Cover year ended 31 March	Earners' Levy rate per $100 liable earnings	Maximum income threshold for salary/wage earners
2004	$1.20	$88,728
2005	$1.20	$92,189
2006	$1.20	$94,226
2007	$1.30	$96,619
2008	$1.30	$99,817

Note:
1. The rates shown are composite rates that include both an Earners' Levy component (for non-work-related injuries), and a Residual Claims Levy component. The rates shown include GST.

If a self-employed person works at least an average of 30 hours a week during a tax year, and has an annual income which falls below the minimum earnings shown in Table 5, they will pay ACC levies calculated on the full-time minimum earnings shown. If a self-employed person works less than an average of 30 hours a week over the tax year, and their annual income from self-employment falls below the minimum earnings shown in Table 5, they will pay ACC levies on the actual amount earned. As the hours people worked were not available, it was assumed people with low annual earnings from self-employment did not work an average of 30 hours a week, so their ACC-EMTR was calculated on the amount of their actual earnings.

Table 5: Self-employed ACC Earners' Levy minimum and maximum income thresholds for the tax years 2004 to 2008

Cover year ended 31 March	Minimum earnings for self-employed under 18 years	Minimum earnings for self-employed aged 18+ years	Maximum income threshold for self-employed
2004	$11,960.52	$15,808.00	$87,185.00
2005	$13,312.00	$16,640.00	$88,728.25
2006	$14,144.00	$17,680.00	$92,188.85
2007	$14,976.00	$18,720.00	$94,225.95
2008	$15,808.00	$19,760.00	$96,619.25

Note: The self-employed pay the ACC Earners' Levy for the current year on liable earnings from the previous tax year. Hence the maximum income thresholds for the self-employed set out in the last column are the previous year's maximums for salary and wage earners.

Apart from those people whose earnings exceeded the maximum income thresholds (and therefore who have an ACC-EMTR of zero), the appropriate levy rate shown in Table 3 or in Table 4 was used as the ACC-EMTR. For example, an ACC levy of $1.30 per $100 earned corresponds to an ACC-EMTR of 1.3%.

2.2.3. WFF Tax Credits abatement

WFF Tax Credits is an entitlement for families with financially dependent children aged 18 years or younger. It consists of four components:

- **Family tax credit** – a payment for each dependent child aged 18 years or younger.
- **In-work tax credit** – a payment for families who work a minimum number of hours (20 hours a week for sole parents; a combined total of 30 hours a week for couples), and who are not receiving a benefit or Student Allowance. This was introduced from 1 April 2006.[20]
- **Minimum family tax credit** – a payment for non-beneficiary families with very low incomes who work a specified number of hours (as above) to ensure a minimum income.
- **Parental tax credit** – a payment for a newborn baby for the first eight weeks after the baby is born.[21]

The minimum family tax credit abates dollar-for-dollar of additional net family income received. This means if a family was receiving the minimum family tax credit, their WFF Tax Credits-EMTR was taken to be (100% – income tax-EMTR).[22] Once a family starts earning more than the income threshold for the minimum family tax credit ($18,044 after tax in the 2008 tax year), they no longer receive this entitlement. In this case, they usually still remain eligible for the family tax credit and in-work tax credit.

Data was not available for the periods families were paid minimum family tax credit; it was available only for the total WFF Tax Credits payments made. However, information was available on whether a family was assessed at the end of the year as having some amount of minimum family tax credit entitlement during the entire tax year. For analysis purposes, a family was taken to be receiving minimum family tax credit in March of a tax year if they:

[20] The in-work tax credit replaced the child tax credit which was a payment of $15 per child per week to low income non-beneficiary families.

[21] Working individuals with a newborn baby can alternatively receive Paid Parental Leave for up to 14 weeks.

[22] In certain situations, earning an extra $1 for people whose annual income is a loss (eg from non-business rental losses) means they still incur an overall loss for the tax year and their minimum family tax credit will not abate. Data was not available to take this situation into account when calculating WFF Tax Credits-EMTRs.

- were assessed as having a minimum family tax credit entitlement for the tax year
- received a WFF Tax Credits payment in March, or a WFF Tax Credits lump sum payment at the end of the year
- did not receive a main benefit payment in March.

For the other WFF Tax Credits components, there are income thresholds specified in legislation after which the WFF Tax Credits entitlement starts to abate (see Table 6). For example, in 2006 if the total family income was assessed as being between $20,356 and $27,481, any extra $1 earned effectively meant the family lost 18¢ of WFF Tax Credits entitlement. In the same year, if the total family income was assessed as being more than $27,481, they lost their WFF Tax Credits entitlement at a rate of 30¢ for each $1 earned over the threshold.

Table 6: WFF Tax Credits income thresholds and abatement rates for the tax years 2004 to 2008

Tax year	Lower income threshold	Upper income threshold	Abatement rate
2004	$0 >$20,000 >$27,000	$20,000 $27,000 Maximum[1]	0% 18% 30%
2005	$0 >$20,356 >$27,481	$20,356 $27,481 Maximum[1]	0% 18% 30%
2006	$0 >$20,356 >$27,481	$20,356 $27,481 Maximum[1]	0% 18% 30%
2007	$0 >$35,000	$35,000 Maximum[1]	0% 20%
2008	$0 >$35,000	$35,000 Maximum[1]	0% 20%

Note:
1. The maximum income at which the family is no longer entitled to WFF Tax Credits differs according to the number and ages of their dependent children. Each WFF Tax Credits component has a different cut-off point.

The in-work tax credit begins to abate only after the family tax credit has fully abated. The parental tax credit begins to abate only after the family tax credit and the in-work tax credit have both fully abated.

Income for WFF Tax Credits assessment purposes is the total family income, ie the combined income from both people if a couple. This includes all taxable income as well as Child Support payments received, but reduces by the amount of Child Support paid.

When a family was receiving a WFF Tax Credits component other than the minimum family tax credit, the EMTR was taken to be the abatement rate associated with the family earning an additional $52 on top of their family income for the tax year. For example, in 2008 if the total annual family income was assessed as being at least $52 less than $35,000, the EMTR was taken to be zero, otherwise it was taken to be 20%.

From the beginning of the 2005 tax year, beneficiaries in receipt of the family tax credit had their entitlements protected ('ring-fenced') in a month if their family income in that month was below one month's equivalent of the lower income threshold. For example, one-twelfth of $20,356 is $1,696, so if a beneficiary received the family tax credit in a month and had a family income in the month of less than $1,696, the full entitlement for the month was ring-fenced – regardless of the level of income earned in the rest of the year.

2.2.4. Accommodation Supplement abatement

The Accommodation Supplement (AS) is a non-taxable supplement to help both beneficiaries and working people with accommodation costs, including rent, board or a mortgage. To qualify for AS, people's accommodation costs must be more than a certain amount, and their income and assets must be under certain limits. Housing New Zealand Corporation tenants are not eligible to receive AS.

The AS maximum rates and income thresholds differ by area – reflecting the fact different parts of New Zealand have either higher or lower housing costs than others. Data on the AS areas is not included in the linked IR/MSD datasets for AS recipients. The post codes where families of interest lived during the period 2004 to 2008 were available in 97% of cases, so these were mapped as closely as possible to the AS areas. In the minority of cases where a post code was not available, it was assumed the family lived in the AS area covering 'the rest of New Zealand' (known as Area 4 from 1 April 2005).

Income for AS purposes is the total family income including all types of taxable income, as well as Child Support payments received. Information on cash assets was not available, so these were not included in the determination of AS-EMTRs.

Under WFF, AS does not abate for beneficiaries when they earn additional income from employment. Previously, AS would abate at 25¢ for each $1 of income earned by a beneficiary up to $80 a week. For income earned above $80, the AS no longer abated (but the benefit started abating instead).

For non-beneficiaries, AS abates at 25¢ for each extra $1 earned when a person's weekly income exceeds specified income thresholds. Appendix A, Table A1 contains the income abatement thresholds and cut-out incomes for AS for the tax years 2004 to 2008.

AS entitlements and income thresholds are defined at a weekly level. For this reason, each person's AS-EMTR was calculated on one week's income in the March month of each tax year (by taking one quarter of the monthly income[23]).

If a family did not receive AS in March, or the average weekly family income in March was below the income abatement threshold, their AS-EMTR was taken to be zero. Otherwise, the AS-EMTR was 25%.

2.2.5. Childcare Assistance abatement

Childcare Assistance (CCA) is comprised of two types of subsidies, both of which are paid directly to the childcare provider:

- **Childcare Subsidy** (CCS) is a payment for low and middle income parents to subsidise the costs of childcare and early childhood education for children aged under 5 years. CCS is available for a maximum of 50 hours a week for parents in work, education or training; and for up to nine hours a week for other parents.[24]
- **Out of School Care and Recreation (OSCAR) Subsidy** is a payment to low and middle income families in work, education or training to subsidise care for 5–13 year olds outside

[23] In some cases, dividing the March monthly income by four may overestimate the weekly income, eg if five weekly, or three fortnightly, pay periods occurred in the month.

[24] Since 1 July 2007, '20 Hours ECE' has meant that three and four year olds enrolled in a teacher-led early childhood education service and some kōhanga reo have been able to qualify for up to 20 hours of early childhood education with no compulsory fees. A parent cannot receive the Childcare Subsidy for the same hours they are receiving 20 hours ECE, but they may be able to claim the subsidy for hours of attendance not covered by the 20 hours ECE.

school hours. OSCAR is available for up to 20 hours a week during school term-time, and for up to 50 hours a week during school holidays.

CCA entitlements are set amounts per hour per child applicable to specified weekly income ranges. Income for CCA purposes is the total family income. This includes all types of taxable income, as well as Child Support, Accommodation Supplement, Temporary Additional Support and Special Benefit payments received.

Appendix A, Table A2 shows the income thresholds for CCA for the period 2004 to 2008. When a person's income increases and the income threshold for a range is exceeded, the CCA entitlement rate drops to the next level down (sometimes referred to as a 'cliff-face' abatement) rather than abating gradually. For example, in the 2008 tax year if a family with one dependent child was earning $1,199 a week, they could receive a Childcare Subsidy of $170 a week if claiming the maximum 50 hours. If the family's weekly income increased by $1 to $1,200, their entitlement would reduce by $52 to $118 a week. This equates to an EMTR of 5,200%.

2.2.6. Benefit abatement

People in receipt of a main benefit (eg the Unemployment Benefit or Sickness Benefit) can earn up to $80 a week from work before the amount of benefit they are paid starts to reduce. Once a beneficiary has taxable earnings that exceed $80 a week, their benefit starts to abate at either 30¢ or 70¢ for each extra $1 earned. Appendix A, Tables A3 and A4 contain the income thresholds and abatement rates for each type of main benefit. For some benefits income is charged annually against the benefit[25]; in other cases, income is charged on a weekly basis.[26]

For benefits for which income is charged annually, benefit-EMTRs were calculated on annual income. For benefits charged weekly, the March average weekly income was used to determine the EMTR.

Income for benefit purposes is the total family income including all types of taxable income except for the benefit payments themselves.[27] In some situations, Child Support payments received are also counted as income. In this study, Child Support payments received were included as chargeable income against the benefit when:

- a couple both received a main benefit
- the individual received a Childcare Subsidy, Temporary Additional Support, Special Benefit or the Domestic Purposes Benefit-Care of sick or infirm.

Benefit-EMTRs were only included in the overall EMTR calculation if the person received some amount of benefit in March of the tax year.

[25] When income is charged annually, it does not matter how much the beneficiary earns in any particular week. Rather, it is the total income they earned over the past 12 months that will determine whether they have to pay back to the MSD any of the total amount of benefit received over the past 12 months.

[26] When income is charged weekly, the beneficiary's entitlement reduces in the following week if the amount of income they earned was over $80 for the week.

[27] Other types of income may also be included as chargeable income (eg ex-gratia and compensation payments, gifts, compassionate grants etc). As information was not available on these types of income, they were not included in this analysis. In some situations, severely disabled clients may not have their benefit abated when they earn income from employment above $80 a week. Also sole parents receiving the Domestic Purposes Benefit may get an additional $20 a week income exemption when they have unmet childcare costs while they are working. Information was not available to this study to take either of these situations into account.

2.2.7. *Student Allowance abatement*

A Student Allowance is a weekly payment to help people with their day-to-day living expenses while they study full-time towards recognised tertiary qualifications, or they are adults studying full-time at secondary school. The allowance does not have to be paid back to the government (unlike a Student Loan).

The Student Allowance is income-tested, and entitlement is determined by a number of factors including: personal income, parents' income if the student is aged under 24 years, whether the student lives in their parental home, whether they have a partner and how much the partner earns, and whether they have dependent children. People receiving a main benefit cannot receive a Student Allowance at the same time.

Information was not available on whether students were living with their parents, or on what their parents were earning. Therefore, Student Allowance-EMTRs were calculated assuming the student was living independently of his or her parents – perhaps a reasonable assumption for analyses of WFF recipient families with dependent children. Income for calculating Student Allowance-EMTRs was taken to be the total family income. This includes all types of taxable income, other than the Student Allowance itself, and Child Support payments received.

From 1 September 2005, Student Allowance abates dollar-for-dollar when the student starts earning over a specified weekly income threshold (see Table 7). Therefore, if a person was receiving a Student Allowance in March, and their family weekly income in that month was over the income threshold, their Student Allowance-EMTR was taken to be 100%. Otherwise, it was taken to be zero.

Table 7: Student Allowance income thresholds and abatement rates for the tax years 2004 to 2008

Period	Partnership status	Family income threshold	Abatement rate over threshold
1 April 2003 to 31 August 2005	Sole parent Couple with children	$135.13 $270.26	Full entitlement Full entitlement
1 September 2005 to 31 March 2008	Sole parent Couple with children	$180.00 $360.00	100% 100%

Before 1 September 2005, the allowance was lost completely once the student earned over the income threshold. For example, if a sole parent was receiving a Student Allowance of $100 a week in March, and their weekly income through that month was $135 (ie within $1 of the income threshold), by earning an extra $1 they would have lost the entire allowance of $100 (ie a Student Allowance-EMTR of 10,000%).

2.2.8. *Student Loan obligations*

People who intend to study either full-time or part-time for at least 32 weeks, can take out a Student Loan from the government to help finance their study. A loan can be made up of three parts:

- compulsory fees – pays the entire amount of tuition fees for study at a university or polytechnic
- course-related costs – a lump sum up to $1,000 a year for things like stationery, textbooks, childcare, travel or computer equipment
- living costs – up to $160 a week can be borrowed for living expenses (less the amount of Student Allowance received after tax).

Once a person starts earning over a set amount a year (the 'repayment threshold'), they must start paying back their Student Loan, even if they are still studying. Minimum repayments are calculated as 10¢ for every $1 of taxable income over the annual repayment threshold (see Table 8). Income for Student Loan purposes is the individual's taxable income.

Table 8: Student Loan annual repayment thresholds for the tax years 2004 to 2008

Tax year	Annual repayment threshold
2004	$15,964
2005	$16,172
2006	$16,588
2007	$17,160
2008	$17,784

2.2.9. Child Support obligations

Child Support is money paid by a parent not living with their children to help financially support them when a couple with children split up, or when two people with children are not living together.

The person caring for the child (the custodial parent) generally applies for Child Support. A standard formula is used to calculate how much Child Support must be paid by the non-custodial parent each month. The formula uses a process which works out the non-custodial parent's taxable income, takes away a set living allowance (the amount of which depends on their living arrangements – such as if they have a partner and how many children live with them), and multiplies the result by a percentage based on the number of children the non-custodial parent pays support for.

There is a minimum Child Support amount that must be paid for a full year, eg $773 ($14.85 a week) in the 2010 tax year. There is also a maximum income above which the non-custodial parent does not have to pay any further support (see Table 9). When the non-custodial parent's income reaches or exceeds the maximum income threshold, their Child Support-EMTR is effectively zero because, if they earn an extra $1, they don't have to pay any additional support.

Table 9: Child Support maximum income for the tax years 2004 to 2008

Tax year	Income maximum
2004	$90,823
2005	$93,522
2006	$97,167
2007	$100,157
2008	$104,312

The EMTRs for Child Support depend on the number of children the non-custodial parent is paying support for, and whether they share the care of the children. As long as the non-custodial parent was not earning above the maximum income threshold, their Child Support-EMTR was taken to be the percentage that reflected their circumstances, shown in Table 10.

Table 10: Child Support percentage rates

Care not shared		Care shared[1]	
No. of non-custodial children	Rate	FTE no. of non-custodial children[2]	Rate
One	18%	Half	12%
Two	24%	One	18%
Three	27%	One and a half	21%
Four	30%	Two	24%
Five	30%	Two and a half	25.5%
Six	30%	Three	27%
Seven	30%	Three and a half	28.5%
Eight or more	30%	Four or more	30%

Notes:

1. A person who cares for a child for at least 40% (146) of the nights of the Child Support year (usually from 1 April to 31 March) is taken to be sharing the care of that child with the main carer. In some situations, a person might not care for a child for 40% or more of the nights, but special circumstances exist that mean the ongoing daily care of the child is shared substantially equally between the two carers.
2. If a person shared the care of a single child (shown as a full-time equivalent [FTE] of half a child), the Child Support percentage rate is 12%. If they shared the care of two children, the FTE number of children is one (ie a half plus a half), so the applicable rate is 18% (the same rate as for one child not in shared care). In the case of one child not being in shared care, and the other child being in shared care, the FTE number of children is 1.5, so the applicable rate is 21%.

2.3. Calculating the overall EMTR

As an initial step, the nine EMTRs described in the previous subsection were calculated for each individual as follows:

- **Income tax-EMTR** – based on annual taxable income for the tax year
- **ACC-EMTR** – based on annual liable income for the tax year
- **WFF Tax Credits-EMTR** – calculated if WFF Tax Credits was received in March of the tax year or an end-of-year lump sum payment was received[28], using the total family income for the tax year
- **Accommodation Supplement-EMTR** – calculated if AS was received in March of the tax year, using the average weekly family income in March
- **Childcare Assistance-EMTR** – calculated if CCA was received in March of the tax year, using the average weekly family income in March
- **Benefit-EMTR** – calculated if a main benefit was received in March of the tax year, based on either the March weekly or the annual family income depending on whether income is charged against the benefit weekly or annually
- **Student Allowance-EMTR** – calculated if the allowance was received in March of the tax year, using the average weekly family income in March
- **Student Loan-EMTR** – calculated for each individual registered with a Student Loan based on their annual income for the tax year
- **Child Support-EMTR** – calculated for each individual paying Child Support in a tax year using their annual income for the tax year.

People who receive income from self-employment can claim the ACC levies they pay as a business expense. Therefore, in terms of calculating the income tax-EMTR, if a person receives an additional $1 of income from self-employment, they can claim the ACC levy against the extra $1 earned, which reduces the income on which tax is paid (by the levy amount). If a person is already paying the maximum ACC levy, an extra $1 of income has no

[28] The WFF Tax Credits-EMTR was calculated with respect to tax credits paid (cash in hand) rather than annual entitlement amounts.

additional ACC levy attached, so the taxable income is unaffected. To deal with this situation, for people earning income from self-employment (where the liable income was below the maximum income thresholds), their income tax-EMTR was scaled down by a factor of (100% – ACC levy). For example, in 2004 the self-employment average ACC levy was $3.60 per $100 of income, so their income tax-EMTR was scaled down by 3.6%.

When a person's main benefit is abating, this affects the growth in their taxable income, which in turn affects the rates at which WFF Tax Credits, Child Support and Student Loans are payable. To deal with this, the three component EMTRs were scaled as follows:

$$\text{EMTR\_Adjusted} = \text{EMTR} * \frac{(1 - \text{Income\_Tax\_EMTR} - \text{Benefit\_EMTR})}{(1 - \text{Income\_Tax\_EMTR})}$$

In the formula above, if the benefit is not abating then the base EMTR remains unchanged. If the Income_Tax_EMTR and Benefit_EMTR together totalled more than 1 (eg when they had values of 0.33 and 0.7 respectively), the EMTR_Adjusted was taken to be zero.

When an EMTR component was calculated based on family income (as is the case for all the WFF components), the same abatement rate was applied to both people in a couple, as no matter who earns an extra $1, the family faces the abatement.

An overall EMTR for each individual was calculated by summing the nine EMTR components. Note that EMTR components will be zero for an individual if they were not receiving the component, or their income was not high enough to incur an abatement or deduction.

As the unit of analysis in this report is families rather than individuals, an overall 'family EMTR' was then calculated. For sole parents (48% of all WFF recipient families in 2008), this was simply the individual EMTR as calculated above. For couples, the family EMTR was taken to be the highest total EMTR faced by either person.[29] For 20% of couples in 2008, both individuals had the same EMTR, so choosing one over the other makes no difference in this circumstance. For almost all other couples, choosing the highest individual EMTR meant the family EMTR was that of the primary earner (the person with the highest income).

[29] The highest EMTR was chosen to represent the family EMTR for couples, to provide a picture of the maximum EMTRs being faced by WFF recipient families. Section 3.3 provides information on EMTRs for both primary and secondary earners in couples.

3. EMTRs for WFF recipient families

This chapter examines EMTRs for WFF recipient sole parents and couples with dependent children (referred to as 'families'). Information on EMTRs for singles and couples without children who receive AS is presented in Chapter 4.

3.1. Overall EMTRs

Over half (54%) of all WFF recipient families face an EMTR of 50% or less, including 34% who face an EMTR of 25% or less (see Table 11, Table 12 and Figure 2). The number and proportion of families with low EMTRs (up to 25%) is greater under WFF – mostly due to the removal of the AS abatement for beneficiaries. Families with EMTRs up to 25% only have income tax and the ACC levy contributing to their total EMTR.

Table 11: Number of WFF recipient families[1] with each level of EMTR[2], by tax year[3]

EMTR range[4]	2004	2005	2006	2007	2008
0–25%	48,200	98,400	104,700	120,600	122,800
>25–50%	77,800	44,500	40,000	79,700	71,600
>50–75%	79,200	65,300	80,600	114,200	126,700
>75–100%	33,600	32,800	36,700	29,100	30,800
>100%	6,600	3,400	3,600	5,200	5,400
Total[5]	245,400	244,400	265,600	348,900	357,200
Average EMTR[6]	47%	40%	42%	42%	45%

Notes:

1. Total WFF recipient (and entitlement) numbers presented in this report may differ from those published elsewhere, due to the rules applied to form the EMTR analysis dataset.
2. For couples, EMTRs were calculated for each individual, and the family EMTR was taken to be the highest EMTR faced by either person.
3. The vertical dotted line in this and subsequent tables distinguishes periods before and after WFF was first implemented.
4. An EMTR of 25%, for example, means the person loses 25¢ of the next $1 earned to taxes, abatements or other deductions, and gets to keep 75¢ in the hand.
5. Figures do not always add exactly to the total due to rounding to the nearest 100.
6. Average EMTRs presented here are medians rather than means. This is because in 2004 and 2005 the mean does not give an appropriate middle value for the distribution of EMTRs, due to a relatively small number of families with extremely large Student Allowance abatements. Changes to the abatement rules for Student Allowance from September 2005 considerably lowered EMTRs for this component, and thus lessened the effect of outliers. For example, in 2008 the mean EMTR was the same as the median (45%).

Source: Linked IR/MSD datasets as at September 2009.

Table 12: Percentage of WFF recipient families with each level of EMTR, by tax year

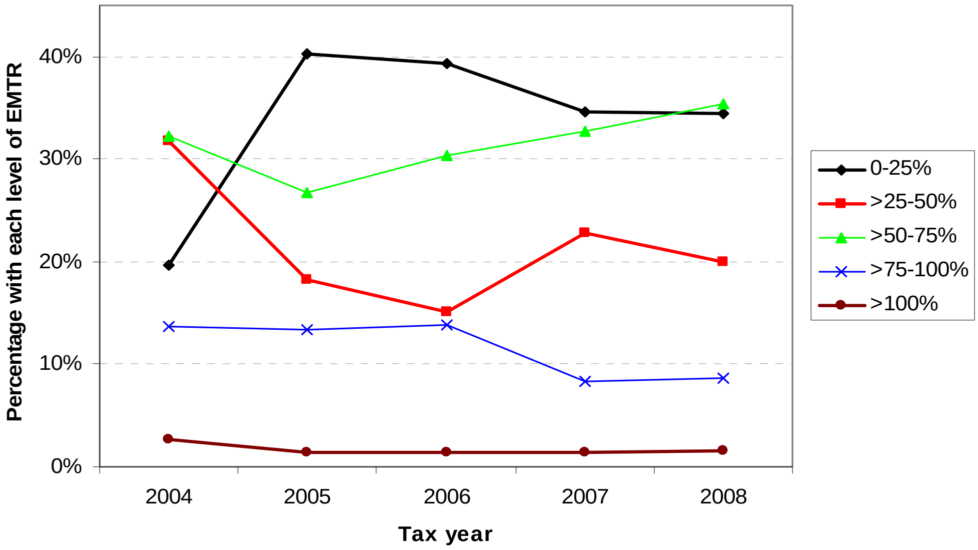
EMTR range	2004	2005	2006	2007	2008
0–25%	20%	40%	39%	35%	34%
>25–50%	32%	18%	15%	23%	20%
>50–75%	32%	27%	30%	33%	35%
>75–100%	14%	13%	14%	8%	9%
>100%	3%	1%	1%	1%	2%
Total	100%	100%	100%	100%	100%

Note: Percentages are calculated using un-rounded numbers as the base.
Source: Linked IR/MSD datasets as at September 2009.

There was a large increase (31% or 83,300) in the number of WFF recipient families between the 2006 and 2007 tax years. The April 2006 changes to the WFF Tax Credits income thresholds, and the introduction of the in-work tax credit, meant approximately

50,000 non-beneficiary families became newly eligible[30] to receive WFF Tax Credits (previously their incomes were too high for them to have any entitlement).[31] For these families, their disposable income increased by the amount of tax credits they newly received, but as their family incomes were over the new $35,000 income threshold, their overall EMTRs increased due to a 20% WFF Tax Credits abatement.

Figure 2: EMTRs for WFF recipient families for the tax years 2004 to 2008



Source: Linked IR/MSD datasets as at September 2009.

Despite the large increase in the number of WFF recipients between 2006 and 2007, there was a drop in the number and proportion of families facing EMTRs over 75% and up to 100% (the only EMTR category to show this trend). The decrease in families facing such EMTRs appears to be associated with the 1 April 2006 adjustments to the income thresholds and abatement rates for WFF Tax Credits. This change meant families with annual incomes between $20,356 and $35,000 whose WFF Tax Credits abated in 2006 at 18% or 30%, no longer faced any abatement of this component in 2007. Aside from the WFF Tax Credits abatement, income tax and ACC levies, these families typically had one or more other component (eg AS or benefit abatement) contributing to their overall EMTR above 75% in 2006. With the WFF Tax Credits abatement dropping to zero in 2007, the overall EMTR dropped below 75% in 2007.

As a result of the trends discussed above, the average EMTR for WFF recipient families dropped from 47% in 2004 to 40% in 2005. It increased again by the time WFF was fully implemented to be 45% in 2008. Three-quarters of all WFF recipient families had EMTRs in 2008 of 57% or less, and nine out of 10 families had EMTRs in 2008 of 76% or less.

In 2008, around 30 families had EMTRs of more than 500%, ie if they had earned an extra $1 a week, they would have lost more than $5 a week in tax, levies and abatements. The

[30] For example, for a non-beneficiary family with two children aged under 12 years, entitlement to the family tax credit in the 2006 tax year ceased with family incomes around $49,000, but in the 2007 tax year these families had an in-work tax credit entitlement up to approximately $81,500 (assuming the couple worked a total of 30 hours a week between them).

[31] Many families also start receiving WFF Tax Credits when changes occur in their family circumstances so they now meet existing eligibility criteria. This can occur, for example, when a family has their first or an additional child; or the family income reduces for some reason such as a reduction in the hours worked, a job loss, or when a couple split up and one parent has sole care-giving responsibilities for the children.

Childcare Assistance abatement was the primary cause of the extremely high EMTR in all such cases.

In 2004 and 2005, over 900 families had EMTRs of more than 500%. The high numbers in these years were almost all people receiving a Student Allowance who would have completely lost their weekly allowance (often a few hundred dollars) if they had earned an extra $1 of income. This abatement 'cliff-face' was replaced in September 2005 (ie half way through the 2006 tax year) by a dollar-for-dollar abatement regime over the Student Allowance income threshold.

Table 13 shows that less than half (47% or 168,300) of all WFF recipient families in 2008 had an abatement of a WFF component contributing to their EMTR. In 2004, nearly three-quarters of WFF recipients had an abatement of a WFF component contributing to their EMTR. Much of the decrease appears to be due to the removal under WFF of the AS abatement for beneficiaries. This is reflected in the drop in the proportion of families facing the AS abatement, from 35% in 2004 to 7% in 2005.

Table 13: Contribution of individual components to overall EMTRs for WFF recipient families, by tax year[1]

EMTR components	2004 (n=245,400)	2005 (n=244,400)	2006 (n=265,600)	2007 (n=348,900)	2008 (n=357,200)
Income tax[1]	99%	99%	99%	99%	99%
ACC levies[2]	99%	99%	99%	99%	99%
Benefit abatement	16%	15%	14%	9%	9%
Any WFF component abatement[3]	72%	35%	40%	44%	47%
WFFTC abatement	*44%*	*32%*	*37%*	*39%*	*43%*
CCA abatement	*<1%*	*<1%*	*<1%*	*<1%*	*<1%*
AS abatement	*35%*	*7%*	*9%*	*8%*	*8%*
Student Loan obligations	12%	15%	13%	13%	14%
Student Allowance abatement	<1%	<1%	<1%	<1%	<1%
Child Support obligations	10%	10%	10%	9%	9%

Notes:
1. Individuals whose taxable income in any year was a loss were assumed to have an income tax-EMTR of zero. Hence 1% of families show as not having an income tax-EMTR.
2. Self-employed individuals whose taxable income in any year was a loss were assumed to have an ACC-EMTR of zero. Also, individuals with incomes that exceed the maximum income thresholds will not pay additional ACC levies on the next dollar earned. Hence 1% of families show as not having an ACC-EMTR.
3. As many families receive more than one WFF main component, the percentages for the WFFTC, CCA and AS abatements do not total to "Any WFF component abatement".

Source: Linked IR/MSD datasets as at September 2009.

Fourteen percent of all WFF recipient families in 2008 had Student Loan obligations contributing to their EMTR, while 9% had benefit abatement or Child Support obligations contributing to their overall EMTR.

3.2. EMTRs by partnership status

Between 2004 and 2006, couples with children accounted for only 40% of all WFF recipient families. In 2007 and 2008, the proportion was just over half. This change resulted from a large increase between 2006 and 2007 in the number of couple families receiving WFF payments. Many of these couple families became newly eligible for WFF Tax Credits with the April 2006 changes to income thresholds and abatement rates, and the introduction of the in-work tax credit.

Table 14 shows that just under half of all sole parents in receipt of WFF had low EMTRs up to 25%. The removal under WFF of the AS abatement for beneficiaries had a significant impact on sole parents: the proportion with EMTRs of more than 25% and up to 50% halved between 2004 and 2005 (from 39% to 19%), with a concurrent increase occurring in the proportion with EMTRs up to 25% (from 19% to 48%).

Table 14: Percentage of WFF recipient families with each level of EMTR, by partnership status and tax year

EMTR range	2004	2005	2006	2007	2008
Sole parents	*(n=150,500)*	*(n=148,900)*	*(n=156,800)*	*(n=169,200)*	*(n=170,400)*
0–25%	19%	48%	50%	49%	48%
>25–50%	39%	19%	15%	20%	19%
>50–75%	24%	18%	20%	19%	20%
>75–100%	14%	13%	14%	10%	10%
>100%	3%	1%	1%	2%	2%
Total	100%	100%	100%	100%	100%
Couples with children[1]	*(n=95,000)*	*(n=95,600)*	*(n=108,800)*	*(n=179,700)*	*(n=186,900)*
0–25%	20%	28%	24%	21%	22%
>25–50%	19%	17%	15%	25%	21%
>50–75%	45%	40%	45%	46%	49%
>75–100%	14%	14%	14%	7%	7%
>100%	2%	2%	2%	1%	1%
Total	100%	100%	100%	100%	100%

Note:
1. EMTRs for couples were taken to be the highest EMTR faced by either parent. See Section 2.3 for further details.

Source: Linked IR/MSD datasets as at September 2009.

Twelve percent (21,000) of sole parents faced EMTRs of more than 75% in 2008. In nearly three-quarters of these cases, benefit abatement was contributing to the high EMTR – often also in combination with Student Loan or Child Support obligations. In 8% (1,800) of cases in 2008, sole parents' EMTRs of more than 75% were largely due to them receiving the minimum family tax credit which abates dollar-for-dollar of net income earned. In a further 13% of cases, family tax credit or in-work tax credit abatement and AS abatement both contributed to the high EMTRs.

Figure 3 shows that, as a result of the trends discussed above, the average EMTR for sole parent WFF recipients dropped considerably between 2004 and 2005 (from 47% to 32%), and has remained at a similar low level.

Couples with children in receipt of WFF generally have much higher family incomes than sole parents.[32] Consequently, couple families (22%) were much less likely than sole parents (48%) to face low EMTRs of up to 25%. Almost half of all couple families in 2008 had EMTRs between 50% and 75%: in over nine out of 10 cases this was due to family tax credit or in-work tax credit abatement, income tax and ACC levies – sometimes also with Student Loan or Child Support obligations.

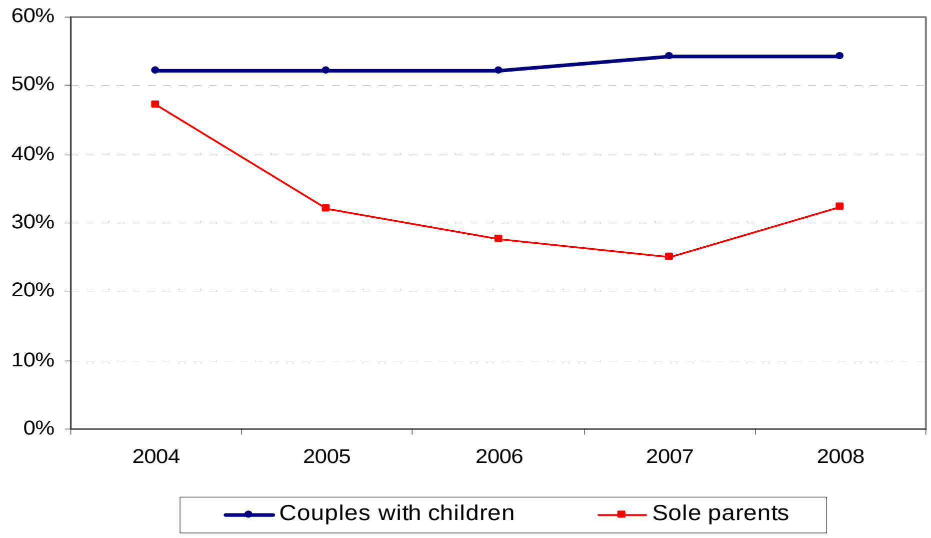
Eight percent (around 15,000) of couples with children had EMTRs of more than 75% in 2007 and 2008. In nearly half of these cases, the high EMTR was from the combination of WFF Tax Credits and AS abatement, income tax, and ACC levies – often also with Child Support or Student Loan obligations. In 29% of cases, the EMTRs over 75% were a result of benefit abatement (usually at the maximum rate of 70%), income tax and ACC levies – sometimes also with Student Loan and/or Child Support obligations. Student Allowance abatement contributed to very high EMTRs for couples in 5% (700) of cases in 2008. In 3%

[32] The median taxable family income in 2008 for WFF recipient couples with children was $47,000; for sole parents it was $18,600.

(500) of cases, the minimum family tax credit abatement was primarily responsible for the very high EMTR.

The average EMTR for couples with children in receipt of WFF changed very little over the five years under examination (Figure 3). The average was 52% between 2004 and 2006, and 54% in 2007 and 2008.

Figure 3: Average EMTRs[1] for WFF recipient families, by partnership status, 2004 to 2008 tax years



Note:
1. The average EMTRs presented here are medians rather than means. See the notes to Table 11 for further details on the reason for this.
Source: Linked IR/MSD datasets as at September 2009.

3.3. EMTRs for primary and secondary earners in couple families

The EMTR faced by each parent in a couple family is more often than not different. This could occur, for example, if only one person in the family is in paid employment. A person not working in 2008 has an income tax-EMTR of 15% (on the theoretical extra $1 of earnings EMTRs are being calculated on). If their partner was earning at least $60,000, their partner would have an income tax-EMTR of 39% in 2008.

For the social assistance-related components included in this EMTR analysis (an abatement of main benefits, WFF Tax Credits, Accommodation Supplement, Childcare Assistance and Student Allowance), entitlements are determined by family income, so they affect both people in a couple equally. That is, no matter who in the couple earns extra income, this counts towards a possible abatement of the family’s social assistance payments.

In this report, a ‘family EMTR’ was calculated for couples as the highest EMTR faced by either person in the couple. Around 20% of parents in couples had the same EMTR as each other. For the remaining couples, this methodology usually meant the EMTR of the primary earner (defined here as the person with the highest taxable income) was selected to be the family EMTR. In a minority of cases, the secondary earner (the person in a couple with the lowest taxable income) may have had a higher EMTR than their partner, eg if they had Child Support obligations which increased their total EMTR.

This section presents information on EMTRs separately for primary and secondary earners in couples. Table 15 shows that, as expected, secondary earners in couples generally have lower EMTRs than primary earners, with 85% of secondary earners in 2008 having EMTRs below 50% compared to 43% of primary earners.

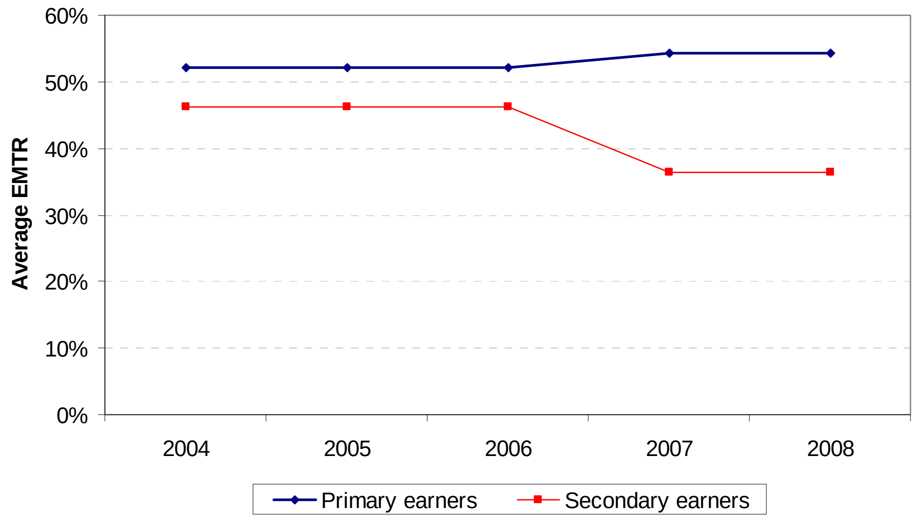
Table 15: Percentage of WFF recipient couple families with each level of EMTR, by earner status and tax year

EMTR range	2004 *(n=95,000)*	2005 *(n=95,600)*	2006 *(n=108,800)*	2007 *(n=179,700)*	2008 *(n=186,900)*
Primary earner					
0–25%	20%	29%	25%	22%	22%
>25–50%	20%	16%	15%	26%	21%
>50–75%	44%	39%	45%	45%	49%
>75–100%	13%	14%	13%	7%	7%
>100%	2%	2%	2%	1%	1%
Total	100%	100%	100%	100%	100%
Secondary earner					
0–25%	23%	33%	30%	30%	29%
>25–50%	45%	38%	39%	56%	56%
>50–75%	21%	20%	24%	10%	12%
>75–100%	9%	8%	7%	3%	3%
>100%	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%

Source: Linked IR/MSD datasets as at September 2009.

Figure 4 shows the average EMTR for primary earners in couples increased slightly after the April 2006 WFF Tax Credits changes (from 52% in 2006 to 54% in 2007) – the pattern seen for couples overall in the previous section. In contrast, the average decreased by 10 percentage points for secondary earners (from 46% in 2006 to 36% in 2007).

Figure 4: Average EMTRs[1] for primary and secondary earners in WFF recipient couple families, 2004 to 2008 tax years



Note:

1. The average EMTRs presented here are medians rather than means. See the notes to Table 11 for further details on the reason for this.

Source: Linked IR/MSD datasets as at September 2009.

The April 2006 enhancements to the WFF package had different effects on the EMTRs for couples depending on whether or not they were already receiving WFF Tax Credits before the changes, and on the amount of income being earned by the family:

- For primary earners in families who were already receiving WFF Tax Credits in 2006, the WFF changes reduced their average EMTR from 52% in 2006 to 45% in 2007.[33] This decrease stemmed from changes to income thresholds and abatement rates which meant families with annual incomes over $20,356 had lower WFF Tax Credits-EMTRs from April 2006.[34]
- For the large number of higher income couple families who became newly eligible for WFF Tax Credits in 2007 (as a result of higher income thresholds associated with the in-work tax credit), the primary earners in these families had an average EMTR in 2007 of 54%. For these families, their EMTRs were 20% higher after the April 2006 changes due to receiving an abated rate of WFF Tax Credits, but their disposable incomes were greater (see Section 3.7 for further details).
- Overall, the higher EMTRs being faced by primary earners in newly eligible couple families more than cancelled out the reduction in EMTRs for already eligible families, with the average EMTR for all primary earners increasing from 52% in 2006 to 54% in 2007.
- For secondary earners in families who were already receiving WFF Tax Credits in 2006, the April 2006 changes to income thresholds and abatement rates reduced their average EMTR from 46% in 2006 to 36% in 2007.
- Secondary earners in the large number of newly eligible couple families had an average EMTR in 2007 of just over 40% – this was higher than in 2006 due to the WFF Tax Credits abatement.
- As both groups of secondary earners had lower average EMTRs in 2007 than secondary earners in 2006, overall the average EMTR in 2007 for secondary earners was lower than the average in 2006.

3.4. EMTRs by beneficiary status

In 2006, non-beneficiaries accounted for half of all WFF recipient families, but in 2007 and 2008 the proportion has been two-thirds. This pattern mainly resulted from a large increase in the number of non-beneficiary (mostly couple) families becoming newly eligible for WFF Tax Credits with the changes to the WFF package introduced from 1 April 2006. Part of the decrease in the beneficiary proportion was due to an ongoing decrease in the number of families in receipt of a main benefit over the period of examination for this report.

The vast majority of beneficiaries in receipt of WFF have lower EMTRs because of changes introduced by the WFF package. In 2004, 71% of beneficiary families had an abatement of a WFF component contributing to their overall EMTR, but from 2007 none do.

Most beneficiaries not in paid work have EMTRs under 25% due to a low rate of income tax and ACC levies[35] (Table 16). If these beneficiaries earned $1 a week of labour market income, it would not be enough to start abating their benefit.

Beneficiaries not in paid work gained considerably from the removal under WFF of the AS abatement for beneficiaries: they no longer faced a 25% abatement of this component on the first $80 they earned. This gain can also be seen in Figure 5, where the average EMTR for beneficiaries not in paid work dropped from 43% to 22% between 2004 and 2005. The average EMTR for this group was lower still in 2007 and 2008 at 18%.

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[33] Some families who received WFF Tax Credits in 2006 were no longer eligible in 2007 due to changes in their circumstances, such as their family income increasing considerably, or their youngest child 'aged out' of being considered a dependent child.

[34] Recipient families with incomes between $20,356 and $35,000 had their WFF Tax Credits-EMTR go from 18% or 30% down to 0%, and families with incomes above $35,000 had this EMTR go from 30% down to 20%.

[35] EMTRs are calculated on a theoretical extra $1 a week of labour market income earned, which will be subject to income tax and ACC levies.

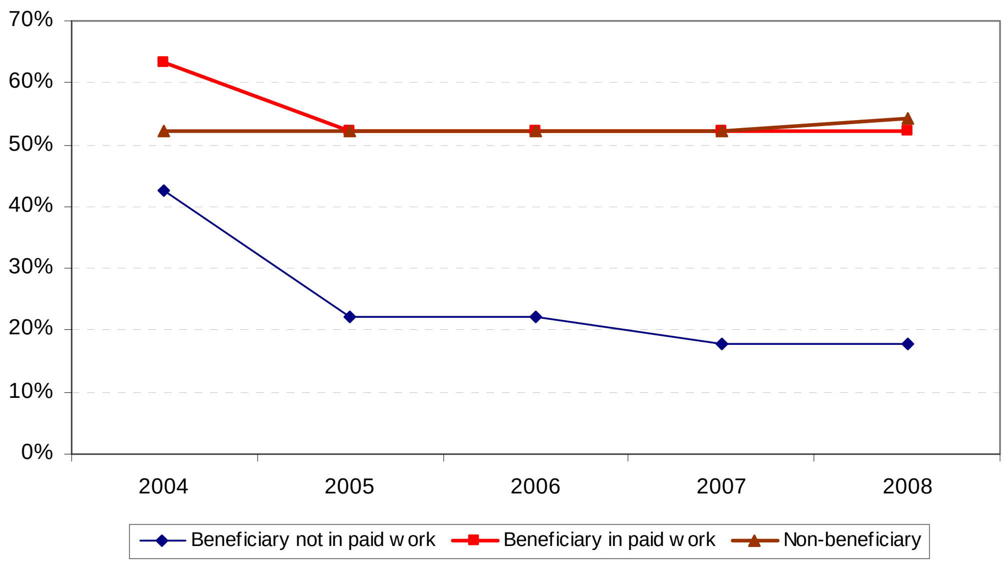
Table 16: Percentage of WFF recipient families with each level of EMTR, by beneficiary status[1] and tax year

EMTR range	2004	2005	2006	2007	2008
Beneficiary not in paid work[2]	*(n=69,600)*	*(n=65,400)*	*(n=66,000)*	*(n=63,300)*	*(n=61,500)*
0–25%	23%	79%	85%	85%	84%
>25–50%	61%	20%	14%	15%	15%
>50–75%	15%	1%	1%	<1%	<1%
>75–100%	2%	0%	0%	0%	0%
>100%	<1%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Beneficiary in paid work[2]	*(n=69,800)*	*(n=68,300)*	*(n=65,600)*	*(n=59,800)*	*(n=56,800)*
0–25%	12%	31%	34%	33%	34%
>25–50%	24%	15%	12%	15%	14%
>50–75%	23%	19%	20%	18%	17%
>75–100%	35%	33%	33%	31%	31%
>100%	6%	2%	2%	3%	4%
Total	100%	100%	100%	100%	100%
Non-beneficiary[3]	*(n=106,000)*	*(n=110,800)*	*(n=134,000)*	*(n=225,800)*	*(n=238,900)*
0–25%	23%	23%	20%	21%	22%
>25–50%	18%	20%	17%	27%	23%
>50–75%	50%	46%	50%	46%	49%
>75–100%	7%	9%	11%	5%	5%
>100%	2%	2%	2%	2%	1%
Total	100%	100%	100%	100%	100%

Notes:
1. 'Beneficiary' refers to a person in receipt of a main benefit such as the Unemployment Benefit or Domestic Purposes Benefit. For this analysis, beneficiary status is determined in the March month of each tax year.
2. Appendix A, Table A5 shows EMTR patterns for all beneficiaries combined.
3. Not in receipt of a main benefit.

Source: Linked IR/MSD datasets as at September 2009.

Figure 5: Average EMTRs[1] for WFF recipient families, by beneficiary status, 2004 to 2008 tax years



Note:
1. The average EMTRs presented here are medians rather than means. See the notes to Table 11 for further details on the reason for this.

Source: Linked IR/MSD datasets as at September 2009.

Fifteen percent of beneficiaries not in paid work had EMTRs of more than 25% and up to 50%, due to Child Support and/or Student Loan obligations adding to income tax and ACC levies.

Beneficiaries in paid work face a much wider spread of EMTRs than beneficiaries not in paid work. In 2008, just over a third of beneficiaries in paid work had EMTRs of up to 25%, a little under a third had EMTRs of more than 25% and up to 75%, and just over a third faced EMTRs above 75%.

Beneficiaries who earn income above specified thresholds face benefit abatement at either 30¢ or 70¢ for each extra $1 earned (see Appendix A, Tables A3 and A4). This, combined with income tax, explains why many beneficiaries who are also earning labour market income often face high EMTRs. Figure 5 shows the average EMTR for beneficiaries in paid work has remained much greater than that for beneficiaries not working – and in fact the gap has widened over time.

Beneficiaries in paid work gained from the removal under WFF of the AS abatement for beneficiaries, with the average EMTR dropping from 63% in 2004 to 52% in 2005. This was a smaller drop than that seen for beneficiaries not in paid work as, before WFF, beneficiaries who earned above $80 a week already had an AS-EMTR of zero (as AS only abated on the first $80 earned).

Forty-four percent of all non-beneficiary families had EMTRs below 50%, including 22% who face low EMTRs up to 25%.

Nearly half of all non-beneficiary families face EMTRs of more than 50% and up to 75%. EMTRs at this level are mostly a combination of a WFF Tax Credits abatement, income tax and ACC levies – sometimes also combined with Student Loan or Child Support obligations, or an AS abatement.

EMTRs above 100% for non-beneficiaries are almost always due to a minimum family tax credit abatement or Student Allowance abatement, along with income tax and ACC levies. In a small number of cases (40 in 2008), very high EMTRs are primarily due to a CCA abatement.

The average EMTR for non-beneficiary families in receipt of WFF changed very little over the five years under examination (Figure 5). The average EMTR was 52% between 2004 and 2007, and 54% in 2008. Since 2005, average EMTRs for non-beneficiary families and beneficiaries in paid work have been very similar.

3.5. EMTRs by family income

EMTRs tend to be higher as family income increases, but the pattern is not clear-cut. Table 17 and Figure 6 show EMTRs in 2008 for WFF recipient families with annual incomes up to $20,000 are clearly lower than for other families. In nearly two-thirds of cases, these low income families were beneficiaries who weren't earning enough income to abate their benefit, and hence had low overall EMTRs.

In contrast, a small proportion (2%) of non-beneficiary families with incomes up to $20,000 had very high EMTRs primarily as a result of either a minimum family tax credit or Student Allowance abatement. In a further 6% of cases, beneficiary families with incomes up to $20,000 faced high EMTRs primarily due to benefit abatement.

Families with annual incomes between $20,000 and $35,000 had a much wider spread of EMTRs than those with lower incomes. This is largely due to incomes in this range having a greater likelihood of benefit abatement for beneficiaries, and of AS abatement for non-beneficiaries.

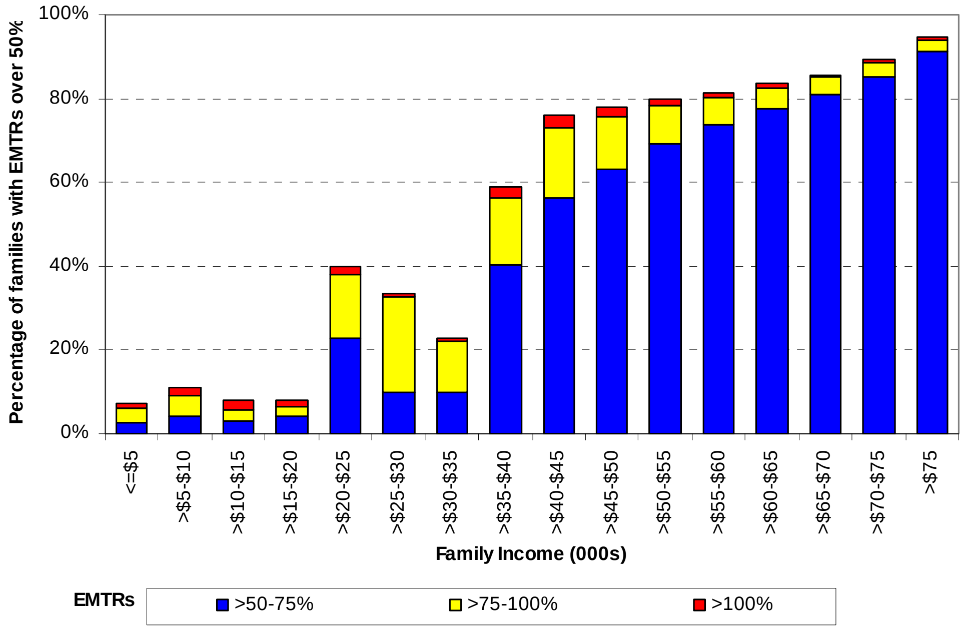
Table 17: Percentage of WFF recipient families in 2008 with each level of EMTR, by family income

Family Income (000s)	Number	Family EMTR range						Average EMTR
		0–25%	>25–50%	>50–75%	>75–100%	>100%	Total	
<=$5	12,200	81%	11%	3%	4%	1%	100%	16%
>$5–10	10,300	71%	18%	4%	5%	2%	100%	19%
>$10–15	24,500	72%	20%	3%	3%	2%	100%	22%
>$15–20	73,300	75%	17%	4%	2%	2%	100%	18%
>$20–25	30,900	36%	24%	23%	16%	2%	100%	47%
>$25–30	24,900	40%	27%	10%	23%	1%	100%	34%
>$30–35	22,300	44%	33%	10%	12%	1%	100%	32%
>$35–40	22,100	2%	39%	40%	16%	2%	100%	54%
>$40–45	20,500	2%	22%	56%	17%	3%	100%	54%
>$45–50	19,300	1%	21%	63%	13%	2%	100%	54%
>$50–55	17,600	1%	19%	69%	9%	1%	100%	54%
>$55–60	16,000	1%	18%	74%	6%	1%	100%	54%
>$60–65	14,700	1%	16%	78%	5%	1%	100%	54%
>$65–70	13,200	1%	14%	81%	4%	1%	100%	55%
>$70–75	10,100	<1%	10%	85%	3%	1%	100%	57%
>$75[1]	25,300	<1%	5%	91%	3%	1%	100%	60%
Total	357,200	34%	20%	35%	9%	2%	100%	45%

Note:
1. The spread of EMTRs for incomes above $75,000 and up to $100,000 (in $5,000 bands), and incomes "above $100,000" were almost identical, so they have not been shown separately in this table.

Source: Linked IR/MSD datasets as at September 2009.

Figure 6: Percentage of WFF recipient families in 2008 facing EMTRs above 50%, by family income



Source: Linked IR/MSD datasets as at September 2009.

Figure 6 shows the likelihood of facing EMTRs over 50% decreases across the three $5,000 income bands between $20,000 and $35,000. This reflects a decreasing likelihood of the families being beneficiaries as income increases, and therefore a decreasing likelihood of those families facing benefit abatement. Of the families facing EMTRs over 50%, benefit abatement contributed across the three $5,000 income groups between $20,000 and $35,000 in the proportions 83%, 74% and 54%.

The likelihood of an AS abatement (almost always in combination with Student Loan and/or Child Support obligations) contributing to EMTRs over 50% increases across the three $5,000 income groups between $20,000 and $35,000 in the proportions 10%, 20% and 34%.

Almost all families with annual incomes over $35,000 are non-beneficiaries.[36] When a family's income exceeds $35,000 in 2008, WFF Tax Credits begins to abate at 20%. The income tax rate increasing from 21% to 33% as taxable income passes $38,000 (in 2008 and earlier years), explains why the average EMTR for all income groups between $35,000 and $65,000 is 54% (including the ACC levy of 1.3%).[37] A further six percentage point income tax rate increase for incomes over $60,000, explains why the average EMTR trends from 54% towards 60% as income increases above $60,000.

The likelihood of facing EMTRs between 75% and 100% decreases as family income increases over $35,000. This pattern largely represents a decreasing likelihood of families receiving AS and thus facing the 25% AS abatement along with income tax, ACC levies and the WFF Tax Credits abatement.

Figure 7 shows WFF recipient families in 2008 have lower EMTRs, on average, than families in 2004 (before WFF), regardless of family income (see Appendix A, Table A6 for 2004 data).

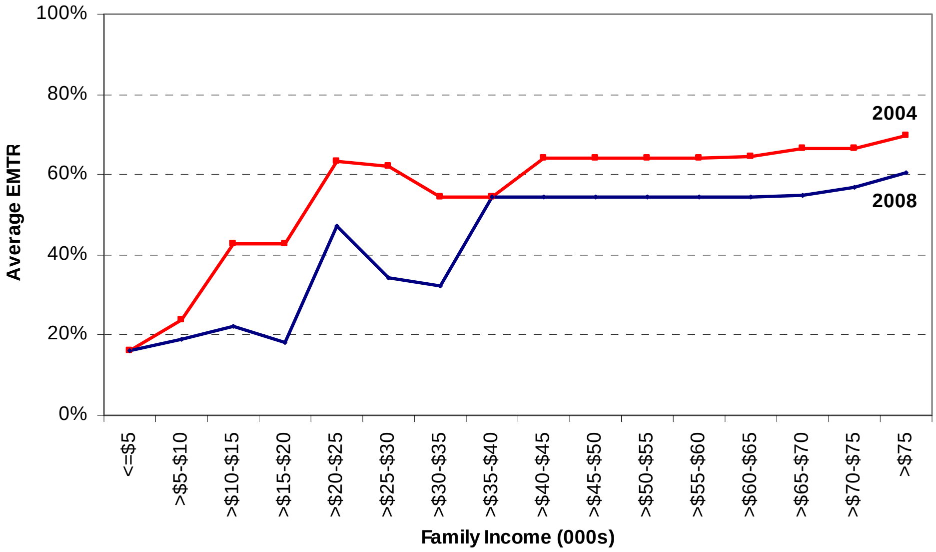
Lower EMTRs, on average, in 2008 compared to 2004 are due to both the removal under WFF of the AS abatement for beneficiaries and the changed income thresholds and abatements for WFF Tax Credits from April 2006. In 2004, families with incomes above $27,000 faced the abatement of their WFF Tax Credits at a rate of 30¢ for each extra $1 earned. In 2008, families with incomes up to $35,000 faced no abatement, and those with incomes over $35,000 had their WFF Tax Credits entitlement abated at 20¢ for each extra $1 earned. This explains the 10% difference between the two EMTR lines for higher incomes.

It should be noted the types of families who received WFF in 2008 are not exactly the same as the families who received WFF in 2004 – particularly after the April 2006 enhancements to the package. Section 3.7 examines this issue further.

[36] Around 3% of families with annual incomes above $35,000 were beneficiaries at the end of the 2008 tax year, but they had periods earlier in the tax year when they were non-beneficiaries, and they earned enough at this time to make their annual income above $35,000.

[37] Income tax is applied to an individual's income rather than to the total family income, so the impact on EMTRs of higher tax rates at different income levels is not clear-cut in Table 17. For example, if a total family income of $66,000 was made up of both people in a couple earning $33,000, both their income tax-EMTRs would be 21%. However, if only one person in a couple earned the entire $66,000, their income tax-EMTR would be 39%, and their partners would be 15% (the lowest marginal tax rate in 2008).

Figure 7: Average EMTRs[1] for WFF recipient families in 2004 and 2008, by family income



Note:
1. The average EMTRs presented here are medians rather than means. See the notes to Table 11 for further details on the reason for this.

Source: Linked IR/MSD datasets as at September 2009.

3.6. Families facing very high EMTRs

As seen earlier, 10% (36,100) of all WFF recipient families in the 2008 tax year had EMTRs above 75%, including 2% (5,400) who had EMTRs above 100%.

Underlying almost all EMTRs are income tax and ACC levies. In the period of interest for this report, these two components alone contribute between 16% and 40% to the overall EMTRs for families (and slightly more for the self-employed because of higher ACC levies). EMTRs over 75% can result from a single additional component (eg minimum family tax credit) or can result from the cumulative effect of a number of additional components.

The following two subsections provide information on beneficiary and non-beneficiary families facing very high EMTRs. Subsections 3.6.3 to 3.6.5 provide further detail on families facing the minimum family tax credit abatement, the Childcare Assistance abatement, and the Student Allowance abatement respectively. These components can all individually create EMTRs over 100% in combination with income tax and ACC levies.

3.6.1. Beneficiary families facing EMTRs above 75%

In the 2008 tax year, 17% (19,800) of all WFF recipient beneficiary families had EMTRs of more than 75%, including 2% (2,000) who had EMTRs above 100%. In 2004, before the introduction of WFF, beneficiary families faced EMTRs above 75% in 22% of cases.

Table 18 shows benefit abatement contributed to all the EMTRs above 75% for beneficiaries in 2008. Benefit abatement occurs when beneficiaries earn chargeable income (usually from working) of more than $80 a week. For some main benefits (eg the Sickness Benefit and Unemployment Benefit), the benefit abatement rate is 70% when income above $80 a week is earned; for others (eg the Domestic Purposes Benefit), abatement starts at 30% and moves to 70% when chargeable income exceeds $180 a week (charged on an annual basis).

Table 18: Contribution of individual components to overall EMTRs above 75% for WFF recipient beneficiary families, by tax year

EMTR components	2004 (n=30,100)	2005 (n=23,800)	2006 (n=23,100)	2007 (n=20,100)	2008 (n=19,800)
Income tax	100%	100%	100%	100%	100%
ACC levies	100%	100%	100%	100%	100%
Benefit abatement	92%	98%	100%	100%	100%
Any WFF component abatement	82%	26%	24%	0%	0%
WFFTC abatement	*71%*	*26%*	*24%*	*0%*	*0%*
CCA abatement	*<1%*	*<1%*	*<1%*	*0%*	*0%*
AS abatement	*27%*	*0%*	*0%*	*0%*	*0%*
Student Loan obligations	24%	24%	26%	27%	28%
Student Allowance abatement	0%	0%	0%	0%	0%
Child Support obligations	17%	14%	11%	11%	10%

Source: Linked IR/MSD datasets as at September 2009.

Before WFF was introduced, the abatement of Family Assistance (replaced by WFF Tax Credits), AS or CCA contributed to very high EMTRs for beneficiaries in most cases (82% in 2004). With the removal under WFF of the AS abatement for beneficiaries, the proportion of beneficiary families with very high EMTRs dropped to 26% in 2005. In April 2006, the income threshold for WFF Tax Credits increased to $35,000 and, as this is above the point where people are no longer eligible to receive a main benefit, WFF component abatement no longer contributes to EMTRs for beneficiaries.

Table 19: Combinations of components contributing to EMTRs above 75% for WFF recipient beneficiary families, by tax year

Components contributing to overall EMTRs[1]	2004 (n=30,100)	2005 (n=23,800)	2006 (n=23,100)	2007 (n=20,100)	2008 (n=19,800)
Income tax, ACC levies and:					
Benefit	14%	52%	52%	66%	65%
Benefit, Student Loan	2%	14%	16%	23%	24%
Benefit, Child Support	2%	6%	6%	7%	7%
Benefit, Student Loan, Child Support	1%	2%	2%	4%	4%
Benefit, WFFTC	37%	14%	14%	0%	0%
Benefit, WFFTC, Student Loan	10%	6%	6%	0%	0%
Benefit, WFFTC, AS	7%	0%	0%	0%	0%
Benefit, AS	5%	0%	0%	0%	0%
Benefit, WFFTC, Child Support	5%	3%	2%	0%	0%
Benefit, WFFTC, AS, Student Loan	3%	0%	0%	0%	0%
Benefit, WFFTC, Student Loan, Child Support	2%	1%	1%	0%	0%
Benefit, AS, Student Loan	2%	0%	0%	0%	0%
WFFTC, AS, Child Support	2%	0%	0%	0%	0%
WFFTC, AS	2%	0%	0%	0%	0%
AS, Student Loan, Child Support	2%	0%	0%	0%	0%
All other combinations	5%	2%	1%	<1%	<1%
Total	100%	100%	100%	100%	100%

Note:
1. The EMTR components are shown in the table as: “Benefit” = Benefit abatement, “Student Loan” = Student Loan obligations, “WFFTC” = WFF Tax Credits abatement, “AS” = Accommodation Supplement abatement, “Child Support” = Child Support obligations.

Source: Linked IR/MSD datasets as at September 2009.

Table 19 shows that, in nearly two-thirds of cases in 2008, EMTRs above 75% for beneficiaries were due to benefit abatement (at 70%) along with income tax and ACC levies. In the remaining 35% of cases, the very high EMTRs were due to the same three components plus Student Loan or Child Support obligations.

3.6.2. Non-beneficiary families facing EMTRs above 75%

In the 2008 tax year, 7% (16,300) of all WFF recipient non-beneficiary families had EMTRs of more than 75%, including 1% (3,400) who had EMTRs above 100%. In 2004, before WFF was introduced, non-beneficiary families faced EMTRs above 75% in 10% of cases.

Very high EMTRs for non-beneficiaries almost always include the abatement of WFF Tax Credits or AS, along with income tax and ACC levies (Table 20). This was the case before WFF was introduced (for Family Assistance and AS abatement), as well as after. Student Loan obligations (31% in 2008) and Child Support obligations (26% in 2008) often also contribute to high EMTRs for WFF recipient non-beneficiary families.

Table 20: Contribution of individual components to overall EMTRs above 75% for WFF recipient non-beneficiary families, by tax year

EMTR components	2004 *(n=10,100)*	2005 *(n=12,400)*	2006 *(n=17,200)*	2007 *(n=14,200)*	2008 *(n=16,300)*
Income tax	100%	100%	100%	100%	100%
ACC levies	100%	100%	100%	100%	100%
Benefit abatement	0%	0%	0%	0%	0%
Any WFF component abatement	98%	98%	99%	97%	98%
WFFTC abatement	*96%*	*96%*	*97%*	*93%*	*94%*
CCA abatement	*<1%*	*<1%*	*<1%*	*<1%*	*<1%*
AS abatement	*64%*	*72%*	*75%*	*64%*	*67%*
Student Loan obligations	26%	28%	30%	31%	31%
Student Allowance abatement	8%	7%	5%	6%	5%
Child Support obligations	26%	24%	24%	25%	26%

Source: Linked IR/MSD datasets as at September 2009.

Table 21 shows the combinations of components that, with income tax and ACC levies, contribute to non-beneficiaries having EMTRs above 75% in 2008:

- In 64% of cases, WFF Tax Credits and AS abatements both contributed to the total EMTR. This includes 25% of cases where Student Loan or Child Support obligations added to the total EMTR on top of these two WFF main components.
- In 34% of cases, either a WFF Tax Credits or AS abatement contributed to the total EMTR. This includes 22% of cases where Student Loan or Child Support obligations added to the total EMTR along with one of the two WFF main components.

In 10% (1,600) of cases in 2008, the very high EMTRs for non-beneficiary families were due to the minimum family tax credit abatement along with income tax and ACC levies. In a further 4% (600) of cases, the very high EMTRs were due to the same three components, and at least one of AS abatement, Student Loan obligations or Child Support obligations.

Student Allowance abatement contributed to EMTRs above 75% for non-beneficiary families in 5% of cases in 2008.

Table 21: Combinations of components contributing to EMTRs above 75% for WFF recipient non-beneficiary families, by tax year

Components contributing to overall EMTRs[1]	2004 (n=10,100)	2005 (n=12,400)	2006 (n=17,200)	2007 (n=14,200)	2008 (n=16,300)
Income tax, ACC levies and:					
WFFTC, AS	41%	45%	46%	36%	38%
WFFTC, AS, Student Loan	15%	19%	20%	19%	19%
WFFTC, Child Support	14%	12%	12%	13%	12%
WFFTC	8%	5%	3%	12%	10%
WFFTC, Student Loan, Child Support	4%	4%	4%	4%	5%
WFFTC, AS, Child Support	5%	5%	5%	4%	4%
AS, Student Loan, Child Support	1%	1%	1%	2%	2%
WFFTC, Student Loan	2%	1%	2%	1%	1%
WFFTC, Student Allowance	2%	2%	1%	1%	1%
WFFTC, Student Loan, Student Allowance	2%	1%	1%	1%	1%
Student Allowance	1%	1%	1%	2%	1%
WFFTC, AS, Student Loan, Child Support	1%	1%	1%	1%	1%
All other combinations	4%	4%	3%	5%	4%
Total	100%	100%	100%	100%	100%

Note:
1. The EMTR components are shown in the table as: “Benefit” = Benefit abatement, “Student Loan” = Student Loan obligations, “WFFTC” = WFF Tax Credits abatement, “AS” = Accommodation Supplement abatement, “Child Support” = Child Support obligations, “Student Allowance” = Student Allowance abatement.

Source: Linked IR/MSD datasets as at September 2009.

3.6.3. Minimum family tax credit

Very low income non-beneficiary families who work a required number of hours a week (20 hours for sole parents and a combined total of 30 hours for couples) may be eligible for the minimum family tax credit. This tax credit ensures the family has a minimum income specified in legislation.

Minimum family tax credit abates dollar-for-dollar of net income earned. This means the abatement of this component together with income tax total to an EMTR of 100%. ACC levies on top of this mean all minimum family tax credit recipients face an EMTR of just over 100%. In some cases the family may face an even higher EMTR, eg if they have Student Loan or Child Support obligations.

Table 22 shows that in 2008 there were approximately 2,700 families in New Zealand who were assessed as being entitled to receive the minimum family tax credit[38] – 80% of whom were sole parents. Families predominantly receive minimum family tax credit for only short periods.

The April 2006 changes to the WFF package increased the income threshold for the minimum family tax credit from $15,080 to $17,680 after tax. This change coincided with the number of families assessed as being eligible to receive the component more than tripling between 2006 and 2007.

[38] The number of families receiving a minimum family tax credit payment during the year is greater than the number assessed at the end of the year as being entitled to receive the tax credit. Some families have short periods during the year where they legitimately receive payments because of their very low income but, on an annual basis, the family’s income exceeds the income threshold for this type of payment.

Table 22: Number of families entitled to minimum family tax credit, by tax year[1]

Tax year	Sole parents	Couples with children	Total[2]
2004	1,000	400	1,400
2005	700	300	1,000
2006	600	200	900
2007	2,200	600	2,800
2008	2,200	500	2,700

Notes:
1. The figures shown in the table relate to the number of families assessed at the end of the year as having some entitlement to minimum family tax credit at any stage during the tax year. Data was not available on when minimum family tax credit payments were actually made (see Section 2.2.3 for further details).
2. Figures do not always add exactly to the total due to rounding to the nearest 100.

Source: Linked IR/MSD datasets as at September 2009.

3.6.4. Childcare Assistance

Childcare Assistance (CCA) entitlements are set amounts per hour per child applicable to specified weekly income ranges. If a family earns additional income that takes them over an income threshold, their maximum entitlement drops considerably to the next level down (sometimes referred to as a 'cliff-face' abatement), rather than abating gradually. As the hourly entitlement rates applying to each income range differ by more than $1, all families experiencing the CCA abatement will have an EMTR over 100% (providing they claim for at least one hour of CCA a week). See Section 2.2.5 for further details.

EMTRs for this project were calculated on a family earning an extra $1 of labour market income a week. Therefore, only a very small number of families who have a weekly income that was at most $1 below an income threshold will experience CCA abatement.

Table 23 shows only 40 (0.1%) of the 35,300 CCA recipient families in 2008 had a non-zero CCA-EMTR. For the 40 families with non-zero CCA-EMTRs in 2008, the median was 2200%, and the maximum was 6550% (ie losing $65.50 in CCA entitlement as a result of earning an extra $1).

Table 23: Childcare Assistance receipt and EMTRs, by tax year

Tax year	Number receiving CCA in March	Number with non-zero CCA-EMTR	Percentage with non-zero CCA-EMTR
2004	24,100	70	0.3%
2005	32,000	50	0.2%
2006	36,500	60	0.2%
2007	40,400	50	0.1%
2008	35,300	40	0.1%

Source: Linked IR/MSD datasets as at September 2009.

3.6.5. Student Allowance

A Student Allowance is a weekly payment to help non-beneficiary students with their day-to-day living expenses while they study full-time toward recognised tertiary qualifications. The allowance is also available for adults studying full-time at secondary school.

Income tests are applied to the Student Allowance. As well as their own income, these tests consider the income of the student's spouse (if any), as well as the income of the parents of most childless students aged under 25 years. If the total relevant income is over the income threshold, the student's allowance abates dollar-for-dollar in relation to the excess income earned. See Section 2.2.6 for further details.

Table 24 shows that in 2008, 3,200 WFF recipient families received a Student Allowance in March. Of these, 27% (900) lost some of the allowance through abatement.

Table 24: Student Allowance receipt and EMTRs for WFF recipient families, by tax year

Tax year	Number receiving a Student Allowance in March	Number with non-zero Student Allowance-EMTR	Percentage with non-zero Student Allowance-EMTR
2004	3,600	900	24%
2005	3,500	900	25%
2006	3,800	900	23%
2007	3,800	900	25%
2008	3,200	900	27%

Source: Linked IR/MSD datasets as at September 2009.

3.7. Changes in EMTRs for families receiving WFF in 2008

Eligibility rules for WFF Tax Credits[39] have changed over time, so the types of families receiving this component in 2008 are not entirely the same as the families who received it in 2004. This section examines the effects of the WFF changes (fully implemented) on families, while taking into account the different types of families receiving WFF in 2004 and 2008.

The EMTR profile in the 2008 tax year is compared with the EMTR profile assuming the WFF changes had not been implemented for two groups – those who would have been eligible for WFF Tax Credits in 2004, and those who would not have been eligible (see Table 25 and Figure 8). Information is also presented on how disposable income has changed for these groups.

Table 25: Percentage of WFF recipient families in 2008 with each level of EMTR, using 2004 and 2008 eligibility rules

EMTR range	2008 WFF recipient families who would have been eligible for WFF Tax Credits in 2004		2008 WFF recipient families who would not have been eligible for WFF Tax Credits in 2004	
	Without the WFF policy changes[1] *(n=223,900)*	With the WFF policy changes[2] *(n=223,900)*	Without the WFF policy changes[1] *(n=133,300)*	With the WFF policy changes[2] *(n=133,300)*
0–25%	19%	54%	16%	2%
>25–50%	28%	22%	71%	17%
>50–75%	34%	14%	10%	72%
>75–100%	15%	9%	2%	8%
>100%	3%	2%	2%	2%
Total	100%	100%	100%	100%
Average (median)	52%	24%	34%	54%

Notes:
1. EMTRs using the eligibility rules that existed for Family Assistance in 2004.
2. EMTRs using the eligibility rules that existed for WFF Tax Credits in 2008.

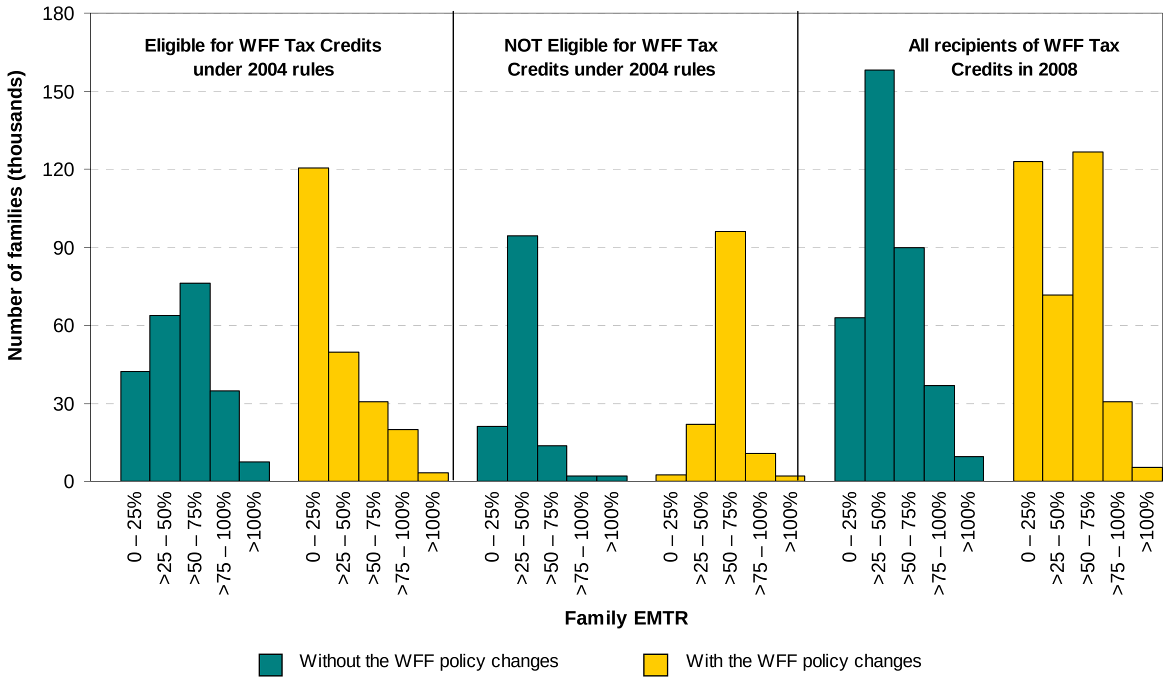
Source: Linked IR/MSD datasets as at September 2009.

Of the total 357,200 WFF recipient families in 2008, nearly two-thirds (223,900) would have been eligible for Family Assistance in 2004 based on their 2008 tax year income, the number and ages of their children and their benefit status. Large numbers of these families have

[39] WFF Tax Credits was known as Family Assistance up to February 2007. Family Assistance existed before WFF was introduced, but it was enhanced as part of the WFF package. For convenience, 'WFF Tax Credits' is being used here to refer to both WFF Tax Credits and Family Assistance.

considerably lower EMTRs under WFF due to the removal of the AS abatement for beneficiaries, and the changes to WFF Tax Credits income thresholds and abatements from April 2006. The average EMTR of these families in 2008 was 24%; if WFF had not been introduced, the families would have been facing considerably higher overall EMTRs of 52% on average.

Figure 8: EMTRs for WFF recipient families in 2008, using 2004 and 2008 eligibility rules



Source: Linked IR/MSD datasets as at September 2009.

As well as having considerably lower EMTRs, Table 26 shows the families in 2008 who would have been eligible for WFF Tax Credits in 2004 are receiving greater amounts of assistance under WFF, and they have disposable incomes approximately $5,400 a year (just over $100 a week) more than they would have been if WFF had not been introduced.

Over a third (133,300) of the WFF recipient families in 2008 would not have been eligible for WFF Tax Credits in 2004, as their incomes were too high relative to the number and ages of their children. These families have gone from not receiving WFF Tax Credits to receiving the tax credit at an abated rate. As such, the overall EMTRs of these families are 20% higher, on average, in 2008 than they would have been without WFF (Table 25).

While these families have higher EMTRs under WFF, they have higher disposable incomes by $6,000 a year (just under $120 a week), on average, due to the WFF payments they are now receiving (Table 26).

Table 26: Disposable family income[1] for WFF recipient families in 2008 using 2004 and 2008 eligibility rules, by taxable family income[2]

Taxable family income (000s)	2008 families who would have been eligible for WFF Tax Credits in 2004				2008 families who would not have been eligible for WFF Tax Credits in 2004			
		Average disposable income				Average disposable income		
	Number	2004 rules[3]	2008 rules	Change	Number	2004 rules	2008 rules	Change
$0–$10	18,400	$7,100	$10,300	$3,200	0	-	-	-
>$10–$20	97,300	$18,400	$23,000	$4,600	0	-	-	-
>$20–$30	55,800	$25,500	$30,500	$5,000	0	-	-	-
>$30–$40	31,800	$34,200	$40,100	$5,900	12,600	$29,700	$37,300	$7,700
>$40–$50	12,400	$41,900	$48,400	$6,400	27,300	$36,100	$43,500	$7,400
>$50–$60	2,900	$49,900	$57,200	$7,300	30,700	$43,200	$49,600	$6,400
>$60–$70	600	$57,600	$65,700	$8,100	27,300	$50,400	$55,400	$5,000
>$70	100	$68,300	$78,400	$10,100	35,300	$61,600	$65,200	$3,600
Overall	219,500	$22,000	$27,500	$5,400	133,300	$46,100	$52,200	$6,000

Notes:

1. 'Disposable family income' refers to the total family income left after taxes and other required deductions have been made that is available to be spent on goods or services, or saved. This was calculated as: total family taxable income, minus total tax paid by the family, plus all WFF payments received, plus Child Support received, minus Child Support paid, plus non-taxable MSD-paid supplements (eg Temporary Additional Support). The median was used to indicate the average disposable family income.
2. This table excludes families whose total taxable income was a loss (eg from rental or business losses), as disposable income is a less meaningful concept in this situation.
3. Rates for the WFF main components have all increased since October 2004. Therefore, WFF payments to families under the 2004 rules would be less than what they received in 2008. It is not possible using the data available to calculate exactly how much less WFF payments would have been. As an approximation, WFF payments to families in 2008 were halved as an approximation to the amount they would have received in 2004, and this amount was used in the calculation of the disposable income for these families. This proportion was used as the average WFF payment to recipient families in 2004 was approximately half the average WFF payment to families in 2008 who would have been eligible under 2004 rules, and the family income distribution of these two sets of families was broadly similar.

Source: Linked IR/MSD datasets as at September 2009.

4. EMTRs for AS recipients without children

This chapter examines EMTRs for Accommodation Supplement (AS) recipients who do not have dependent children. Singles and couples without children are not eligible for other WFF components. Families with dependent children who were receiving AS were included in the analysis in Chapter 3.

Most recipients of AS who do not have children are single and, in the majority of cases, they are beneficiaries (almost always recipients of the Invalid's, Sickness, Unemployment or Emergency Benefit). The majority of non-beneficiaries without dependent children receiving AS are superannuitants.

In 2008, AS recipients without children were:

- single beneficiaries in 64% of cases
- single non-beneficiaries in 23% of cases
- couple beneficiaries in 6% of cases
- couple non-beneficiaries in 7% of cases.

4.1. EMTRs by partnership status

Table 27 shows seven out of 10 singles and couples without children receiving AS had EMTRs up to 25% (due to a lower rate of income tax and the ACC levies). The large increase between 2004 and 2005 in the proportion of singles and couples with low EMTRs was due to the removal under WFF of the AS abatement for beneficiaries.

Table 27: Percentage of AS recipients without children with each level of EMTR, by partnership status and tax year

EMTR range	2004	2005	2006	2007	2008
Singles	*(n=119,100)*	*(n=114,200)*	*(n=117,000)*	*(n=113,800)*	*(n=109,400)*
0–25%	14%	72%	70%	70%	71%
>25–50%	62%	13%	14%	15%	15%
>50–75%	10%	2%	3%	4%	4%
>75–100%	13%	12%	12%	11%	10%
>100%	1%	<1%	<1%	<1%	<1%
Total	100%	100%	100%	100%	100%
Couples	*(n=15,600)*	*(n=15,900)*	*(n=16,600)*	*(n=16,600)*	*(n=16,300)*
0–25%	28%	71%	69%	68%	71%
>25–50%	51%	11%	12%	13%	11%
>50–75%	6%	5%	6%	7%	7%
>75–100%	13%	12%	11%	11%	10%
>100%	2%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Total	*(n=134,700)*	*(n=130,100)*	*(n=133,600)*	*(n=130,400)*	*(n=125,700)*
0–25%	16%	72%	70%	70%	71%
>25–50%	61%	13%	14%	15%	14%
>50–75%	10%	3%	4%	4%	4%
>75–100%	13%	12%	12%	11%	10%
>100%	1%	<1%	<1%	<1%	1%
Total	100%	100%	100%	100%	100%

Source: Linked IR/MSD datasets as at September 2009.

As a result of the removal under WFF of the AS abatement for beneficiaries, the average EMTR for all singles and couples without children receiving AS dropped from 43% in 2004 to 22% in 2005, and has remained at 22%.

Around one in 10 AS recipient singles and couples with no children had EMTRs of more than 75% – typically from benefit abatement at 70%, income tax and ACC levies.

4.2. EMTRs by beneficiary status

Table 28 shows nearly nine out of 10 of the AS recipients without children who were in receipt of a main benefit and not earning labour market income had EMTRs up to 25% (due to a low rate of income tax and ACC levies on the next $1 of labour market income earned). The large increase between 2004 and 2005 in the proportion of such people with low EMTRs was due to the removal under WFF of the AS abatement for beneficiaries. Twelve percent of the beneficiaries not earning labour market income had EMTRs of more than 25% and up to 50%, mostly due to Child Support obligations along with income tax and ACC levies.

Table 28: Percentage of AS recipients without children with each level of EMTR, by beneficiary status and tax year

EMTR range	2004	2005	2006	2007	2008
Beneficiary not in paid work	*(n=79,100)*	*(n=72,500)*	*(n=71,400)*	*(n=67,900)*	*(n=64,700)*
0–25%	1%	88%	87%	87%	87%
>25–50%	87%	12%	13%	13%	12%
>50–75%	12%	<1%	<1%	<1%	<1%
>75–100%	<1%	0%	0%	0%	0%
>100%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Beneficiary in paid work	*(n=29,600)*	*(n=27,700)*	*(n=27,400)*	*(n=25,700)*	*(n=23,600)*
0–25%	3%	29%	29%	27%	31%
>25–50%	28%	8%	9%	12%	10%
>50–75%	7%	4%	5%	6%	6%
>75–100%	59%	57%	56%	53%	50%
>100%	4%	2%	2%	2%	3%
Total	100%	100%	100%	100%	100%
Non-beneficiary	*(n=26,000)*	*(n=29,900)*	*(n=34,700)*	*(n=36,800)*	*(n=37,300)*
0–25%	75%	73%	69%	68%	69%
>25–50%	19%	19%	22%	22%	20%
>50–75%	5%	7%	9%	10%	10%
>75–100%	<1%	1%	1%	1%	1%
>100%	<1%	<1%	<1%	<1%	<1%
Total	100%	100%	100%	100%	100%

Source: Linked IR/MSD datasets as at September 2009.

Over half of the AS recipients without children who were receiving a main benefit and concurrently earning labour market income had EMTRs over 75%. These high EMTRs were primarily due to benefit abatement at 70% – sometimes combined with Child Support or Student Loan obligations.

Seven out of 10 of the non-beneficiary AS recipients without children had low EMTRs of 25% or less. Another one-fifth were facing EMTRs of more than 25% and up to 50%, due in most cases to an AS abatement on top of income tax and ACC levies. Eleven percent of non-beneficiary AS recipients without children had EMTRs over 50% as a result of a combination of AS abatement, income tax, ACC levies and, more often than not, either Student Loan or Child Support obligations.

5. Conclusions

The incentives for being in paid work have improved for most WFF recipient beneficiary families as a result of reduced EMTRs under WFF. The removal of the AS abatement for beneficiaries, and the April 2006 changes to the WFF Tax Credits income thresholds and abatement rules mean beneficiaries no longer face any WFF abatement.

Beneficiaries in paid work can, however, still face very high EMTRs primarily due to benefit abatement at 70% on top of income tax and ACC levies. In 2008, 17% (19,800) of all beneficiary families had EMTRs in excess of 75%. For these families, work incentives may be low.

Non-beneficiary families with very low incomes receiving the minimum family tax credit had overall EMTRs just above 100%. Work incentives are very low for such families unless they can start earning over the income threshold for this tax credit. When they do this, their EMTRs will fall considerably.

As expected[40], the April 2006 changes to the WFF Tax Credits income thresholds and abatement rules improved EMTRs for other low income working families, thereby improving their work incentives. Non-beneficiary families with annual incomes between $20,356 and $35,000, who previously faced an 18% or 30% abatement of their WFF Tax Credits payments, no longer faced an abatement of this component from April 2006.

An anticipated consequence of the WFF changes in April 2006 was that EMTRs would be higher for some middle and higher income families who became newly eligible to receive WFF Tax Credits as a direct result of the changes. Approximately 50,000 middle-to-high income families have greater disposable incomes from their new entitlements, but their work incentives have reduced as a result of an increase in their EMTRs due to the 20% WFF Tax Credits abatement.

[40] Cabinet Minute (04) 13/4. See: http://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/policy-development/working-for-families/cab-min--04--13-4.pdf.

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Appendix A: Additional tables

Table A1: Weekly Accommodation Supplement income thresholds and cut-outs, 2004 to 2008 tax years

Tax year	Single, 16-17 years	Single, 18+ years	Couple, no children	Couple, with children	Sole parent, 1 child	Sole parent, 2+ children
2004						
Area 1						
Income abatement threshold[1]	$211.02	$259.80	$430.32	$430.32	$340.03	$364.84
AS cut-out income	$611.02	$659.80	$890.32	$1030.32	$800.03	$964.84
Area 2						
Income abatement threshold	$211.02	$259.80	$430.32	$430.32	$340.03	$364.84
AS cut-out income	$471.02	$519.80	$730.32	$830.32	$640.03	$764.84
Rest of New Zealand						
Income abatement threshold	$211.02	$259.80	$430.32	$430.32	$340.03	$364.84
AS cut-out income	$391.02	$439.80	$650.32	$730.32	$560.03	$664.84
2005						
Area 1						
Income abatement threshold	$315.00	$315.00	$471.00	$496.00	$416.00	$447.00
AS cut-out income	$715.00	$715.00	$931.00	$1,096.00	$876.00	$1,047.00
Area 2						
Income abatement threshold	$315.00	$315.00	$471.00	$496.00	$416.00	$447.00
AS cut-out income	$575.00	$575.00	$771.00	$896.00	$716.00	$847.00
Rest of New Zealand						
Income abatement threshold	$315.00	$315.00	$471.00	$496.00	$416.00	$447.00
AS cut-out income	$495.00	$495.00	$691.00	$796.00	$636.00	$747.00
2006						
Area 1						
Income abatement threshold	$321.00	$321.00	$482.00	$482.00	$425.00	$425.00
AS cut-out income	$901.00	$901.00	$1,122.00	$1,382.00	$1,065.00	$1,325.00
Area 2						
Income abatement threshold	$321.00	$321.00	$482.00	$482.00	$425.00	$425.00
AS cut-out income	$721.00	$721.00	$982.00	$1,142.00	$925.00	$1,085.00
Area 3						
Income abatement threshold	$321.00	$321.00	$482.00	$482.00	$425.00	$425.00
AS cut-out income	$581.00	$581.00	$782.00	$962.00	$725.00	$905.00
Area 4						
Income abatement threshold	$321.00	$321.00	$482.00	$482.00	$425.00	$425.00
AS cut-out income	$501.00	$501.00	$702.00	$782.00	$645.00	$725.00
2007						
Area 1						
Income abatement threshold	$329.00	$329.00	$495.00	$495.00	$436.00	$436.00
AS cut-out income	$909.00	$909.00	$1,135.00	$1,395.00	$1,076.00	$1,336.00
Area 2						
Income abatement threshold	$329.00	$329.00	$495.00	$495.00	$436.00	$436.00
AS cut-out income	$729.00	$729.00	$995.00	$1,155.00	$936.00	$1,096.00
Area 3						
Income abatement threshold	$329.00	$329.00	$495.00	$495.00	$436.00	$436.00
AS cut-out income	$589.00	$589.00	$795.00	$975.00	$736.00	$916.00
Area 4						
Income abatement threshold	$329.00	$329.00	$495.00	$495.00	$436.00	$436.00
AS cut-out income	$509.00	$509.00	$715.00	$795.00	$656.00	$736.00
2008						
Area 1						
Income abatement threshold	$335.00	$335.00	$505.00	$505.00	$446.00	$446.00
AS cut-out income	$915.00	$915.00	$1,145.00	$1,405.00	$1,086.00	$1,346.00
Area 2						
Income abatement threshold	$335.00	$335.00	$505.00	$505.00	$446.00	$446.00
AS cut-out income	$735.00	$735.00	$1,005.00	$1,165.00	$946.00	$1,106.00
Area 3						
Income abatement threshold	$335.00	$335.00	$505.00	$505.00	$446.00	$446.00
AS cut-out income	$595.00	$595.00	$805.00	$985.00	$746.00	$926.00
Area 4						
Income abatement threshold	$335.00	$335.00	$505.00	$505.00	$446.00	$446.00
AS cut-out income	$515.00	$515.00	$725.00	$805.00	$666.00	$746.00

Note:

1. If a family's weekly income falls below the income abatement threshold their AS does not abate. Weekly incomes between this threshold and the AS cut-out income will abate at 25¢ in any $1 of income over the abatement threshold.

For a description of the current AS areas see: http://www.workingforfamilies.govt.nz/accommodation-supplement/.

Table A2: Weekly Childcare Assistance income thresholds and maximum rates, 2004 to 2008 tax years

Tax year[1] and number of dependent children	Income thresholds	Maximum CCA rate
2004		
One child	$0.00–$519.99 $520.00–$569.99 $570.00–$619.99 $620 or more	$127.00 $88.50 $49.00 Nil
Two children	$0.00–$639.99 $640.00–$689.99 $690.00–$739.99 $740 or more	$127.00 $88.50 $49.00 Nil
Three or more children	$0.00–$749.99 $750.00–$799.99 $800.00–$849.99 $850 or more	$127.00 $88.50 $49.00 nil
2005		
One child	$0.00–$769.99 $770.00–$849.99 $850.00–$929.99 $930 or more	$142.00 $99.00 $55.00 Nil
Two children	$0.00–$949.99 $950.00–$1,039.99 $1,040.00–$1,129.99 $1,130 or more	$142.00 $99.00 $55.00 nil
Three or more children	$0.00–$1,109.99 $1,110.00–$1,219.99 $1,220.00–$1,329.99 $1,330 or more	$142.00 $99.00 $55.00 nil
2006		
One child	$0.00–$769.99 $770.00–$849.99 $850.00–$929.99 $930 or more	$160.50 $111.50 $62.00 nil
Two children	$0.00–$949.99 $950.00–$1,039.99 $1,040.00–$1,129.99 $1,130 or more	$160.50 $111.50 $62.00 nil
Three or more children	$0.00–$1,109.99 $1,110.00–$1,219.99 $1,220.00–$1,329.99 $1,330 or more	$160.50 $111.50 $62.00 nil
2007		
One child	$0.00–$869.99 $870.00–$959.99 $960.00–$1,049.99 $1,050 or more	$165.50 $115.00 $64.00 nil
Two children	$0.00–$1,049.99 $1,050.00–$1,149.99 $1,150.00–$1,249.99 $1,250 or more	$165.50 $115.00 $64.00 nil
Three or more children	$0.00–$1,209.99 $1,210.00–$1,329.99 $1,330.00–$1,449.99 $1,450 or more	$165.50 $115.00 $64.00 nil
2008		
One child	$0.00–$1,199.99 $1,200.00–$1,299.99 $1,300.00–$1,399.99 $1,400 or more	$170.00 $118.00 $65.50 nil
Two children	$0.00–$1,379.99 $1,380.00–$1,489.99 $1,490.00–$1,599.99 $1,600 or more	$170.00 $118.00 $65.50 nil
Three or more children	$0.00–$1,539.99 $1,540.00–$1,669.99 $1,670.00–$1,799.99 $1,800 or more	$170.00 $118.00 $65.50 nil

Note:
1. The income thresholds and maximum rates shown in this table were those in place at 31 March of each tax year.

Table A3: Benefit abatement rates where income charged annually, 2004 to 2008 tax years

Type of benefit	Client annual income from employment		
	$0–$4,160	>$4,160–$9,360	>$9,360
DPB[1]-Care of sick or infirm[2]			
Couple, both beneficiaries	nil	15% each	35% each
All others	nil	30%	70%
DPB-Sole parent	nil	30%	70%
DPB-Women alone	nil	30%	70%
Emergency Maintenance Allowance	nil	30%	70%
Invalid's Benefit			
Couple, both beneficiaries	nil	15% each	35% each
All others	nil	30%	70%
New Zealand Superannuation[3] – including non-qualified partner	nil	70%	70%
Widow's Benefit	nil	30%	70%
Veteran's Pension paid to 65+ year old – including partner under 65 years	nil	70%	70%
Veteran's Pension paid to under 65 year old[4]	nil	30%	70%
Transitional Retirement Benefit	nil	70%	70%

Notes:
1. DPB = Domestic Purposes Benefit.
2. For DPB-CSI recipients, income is charged annually against family income rather than against the individual's income.
3. New Zealand Superannuation is only income tested when a non-qualifying partner aged under 65 years is included.
4. All people aged under 65 years who receive the Veteran's Pension have the pension abated at the rates shown in the table. If a person does not include their partner in the Veteran's Pension, the abatement applies only to their own income from employment. If they include their partner, the abatement applies to their joint income.

Table A4: Benefit abatement rates where income charged weekly, 2004 to 2008 tax years

Type of benefit	Family weekly income from employment	
	$0–$80	>$80
Emergency Benefit		
Couple, both beneficiaries	nil	35% each
All others	nil	70%
Independent Youth Benefit		
Couple, both IY beneficiaries	nil	35% each
Couple, other	nil	70%
Single	nil	70%
Sickness Benefit		
Couple, both beneficiaries	nil	35% each
All others	nil	70%
Unemployment Benefit		
Couple, both beneficiaries	nil	35% each
All others	nil	70%

Table A5: Percentage of WFF recipient beneficiary families with each level of EMTR, by tax year

EMTRs	2004 (n=139,500)	2005 (n=133,700)	2006 (n=131,600)	2007 (n=123,100)	2008 (n=118,300)
0–25%	17%	55%	59%	60%	60%
>25–50%	42%	17%	13%	15%	14%
>50–75%	19%	11%	10%	9%	8%
>75–100%	18%	17%	16%	15%	15%
>100%	3%	1%	1%	1%	2%
Total	100%	100%	100%	100%	100%
Average EMTR	47%	22%	22%	22%	22%

Source: Linked IR/MSD datasets as at September 2009.

Table A6: Percentage of WFF recipient families in 2004 with each level of EMTR, by family income

Family Income (000s)	Number	Family EMTR						Average EMTR
		0–25%	>25–50%	>50–75%	>75–100%	>100%	Total	
<=$5	10,900	78%	15%	3%	2%	2%	100%	16%
>$5–10	9,800	52%	34%	7%	4%	3%	100%	24%
>$10–15	45,600	30%	56%	10%	3%	1%	100%	43%
>$15–20	66,000	30%	47%	16%	6%	2%	100%	43%
>$20–25	34,100	1%	31%	37%	28%	4%	100%	63%
>$25–30	23,800	1%	17%	44%	35%	4%	100%	62%
>$30–35	18,300	1%	3%	66%	27%	3%	100%	55%
>$35–40	13,700	1%	4%	73%	18%	4%	100%	55%
>$40–45	9,400	1%	4%	77%	14%	5%	100%	64%
>$45–50	5,900	1%	4%	79%	11%	5%	100%	64%
>$50–55	3,300	1%	5%	78%	11%	5%	100%	64%
>$55–60	2,000	1%	5%	78%	10%	6%	100%	64%
>$60–65	1,100	1%	5%	76%	10%	9%	100%	65%
>$65–70	700	<1%	5%	76%	12%	7%	100%	67%
>$70–75	300	1%	5%	72%	12%	10%	100%	67%
>$75	600	1%	7%	67%	12%	14%	100%	70%
Total	245,400	20%	32%	32%	14%	3%	100%	47%

Source: Linked IR/MSD datasets as at September 2009.

Appendix B: Changes having an impact on EMTRs since the 2008 tax year

At the time the analysis for this report was done, linked IR/MSD data was not available beyond the 2008 tax year. Since then, there have been changes to many of the nine components included in the EMTR calculations. These changes are outlined below, as well as a brief description of a new tax credit introduced in the 2010 tax year – the independent earner tax credit (IETC).

Tax cuts have lowered the EMTRs by a few percentage points for many families – offset to a small extent by increases in ACC levies.

A change to the income threshold for WFF Tax Credits means families with annual incomes between $35,000 and $36,827 will no longer face a 20% abatement of their entitlements. In contrast, any families who became newly eligible for WFF Tax Credits under the October 2008 changes will have their EMTR increased as a result of the 20% abatement of the component. Families who started receiving the minimum family tax credit as a result of increases in the income thresholds for this component will have EMTRs over 100%.

Proposed increases to the income thresholds for some main benefits are expected to improve financial incentives for part-time work for those receiving such benefits.

Recipients of the IETC with annual incomes above $44,000 and up to $48,000 will have EMTRs 13% higher, due to the abatement of the tax credit.

Income tax

Changes to personal tax rates and various thresholds from 1 October 2008 and 1 April 2009 mean many taxpayers have had tax cuts. Budget 2010 announced further changes to personal income tax rates from 1 October 2010. The new rates and thresholds are shown in the following tables.

Table B1: Income tax rates from 1 October 2008 to 31 March 2009

Taxable income	Tax rate
Income up to $14,000	12.5%
Income over $14,000 and up to $40,000	21.0%
Income over $40,000 and up to $70,000	33.0%
Income over $70,000	39.0%

Table B2: Income tax rates from 1 April 2009 to 30 September 2010

Taxable income	Tax rate
Income up to $14,000	12.5%
Income over $14,000 and up to $48,000	21.0%
Income over $48,000 and up to $70,000	33.0%
Income over $70,000	38.0%

Table B3: Income tax rates from 1 October 2010

Taxable income	Tax rate
Income up to $14,000	10.5%
Income over $14,000 and up to $48,000	17.5%
Income over $48,000 and up to $70,000	30.0%
Income over $70,000	33.0%

ACC Earners' Levy

- In the 2009 tax year, the ACC Earners' Levy for salary and wage earners increased to $1.40 per $100 (1.4%), and the maximum earnings threshold increased to $102,922.
- In the 2010 tax year, the ACC Earners' Levy for salary and wage earners increased to $1.70 per $100 (1.7%), and the maximum earnings threshold increased to $106,473.
- In the 2011 tax year, the ACC Earners' Levy for salary and wage earners increased to $2.00 per $100 (2.0%), and the maximum earnings threshold increased to $110,018.

WFF Tax Credits abatement

- From 1 October 2008 (halfway through the 2009 tax year), the income threshold (where 20% abatement begins) was inflation adjusted, and increased from $35,000 to $36,827.
- The after-tax income threshold for minimum family tax credit increased to $18,460 from 1 April 2008. Further increases occurred in the next two tax years – to $20,540 from 1 April 2009, and to $20,800 from 1 April 2010. The after-tax income threshold will increase to $21,216 from 1 October 2010.

Accommodation Supplement abatement

- Income abatement thresholds and cut-offs increased in the 2009 tax year. See: http://www.workandincome.govt.nz/manuals-and-procedures/deskfile/extra_help_information/accommodation_supplement_tables/income_cut-out_points_non_beneficiary-01.htm (last accessed February 2010).

- Income abatement thresholds and cut-offs increased in the 2010 tax year. See: http://www.workandincome.govt.nz/manuals-and-procedures/deskfile/extra_help_information/accommodation_supplement_tables/income_cut-out_points_non_beneficiary.htm (last accessed February 2010).

Childcare Assistance abatement

From 1 April 2009, the CCA income thresholds were increased after an inflation adjustment of just over 6%. For the income thresholds and rates from 1 April 2009 see: http://www.workandincome.govt.nz/manuals-and-procedures/deskfile/extra_help_information/childcare_assistance_tables/childcare_assistance_income_abatement_and_rates-01.htm (last accessed February 2010).

It is expected that from 27 September 2010[41], income thresholds for Childcare Assistance will be reduced back to April 2008 levels, with CPI indexation of the levels going forward being removed. Grand-parenting of existing provisions will occur for three years for those in receipt of Childcare Assistance during the 12 months prior to the change.

Benefit abatement

The abatement-free income thresholds are expected to be increased from $80 a week to $100 a week for Domestic Purposes Benefits, Invalid's Benefit, Widow's Benefit and income-tested New Zealand Superannuation or Veteran's Pension from 27 September 2010.[42]

The part-time abatement threshold (where 70% abatement occurs) for Domestic Purposes Benefits, Invalid's Benefit, Widow's Benefit and veteran's aged under 65 receiving the

41 Social Assistance (New Work Tests, Incentives, and Obligations) Amendment Bill 125-2 (2010).

42 Ibid.

Veteran’s Pension are expected to be increased from $180 to $200 a week from 27 September 2010.

Student Allowance abatement

- In the 2009 tax year, the income threshold increased to $185.73 (sole parents) and $371.46 (couples with children).
- In the 2010 tax year, the income threshold increased to $192.01 (sole parents) and $384.02 (couples with children).
- In the 2011 tax year, the income threshold increased to $195.78 (sole parents) and $391.56 (couples with children).

Student Loan obligations

- In the 2009 tax year, the annual repayment threshold increased to $18,148.
- In the 2010 tax year, the annual repayment threshold increased to $19,084.
- In the 2011 tax year, the annual repayment threshold stayed at $19,084.

Child Support obligations

- In the 2009 tax year, the maximum income threshold increased to $109,682.
- In the 2010 tax year, the maximum income threshold increased to $114,191.
- In the 2011 tax year, the maximum income threshold increased to $120,463.

Independent earner tax credit

Effective from 1 April 2009, the government introduced a new independent earner tax credit (IETC) for people who earn between $24,000 and $48,000, who are not entitled to WFF Tax Credits and who are not receiving an income-tested benefit, New Zealand Superannuation, a Veteran’s Pension, or a foreign pension or benefit. The IETC is $10 a week, but it is abated at 13¢ for every $1 of income earned over $44,000. Entitlement to IETC is determined monthly.