

19 May 2011

Fact sheet – Working for Families changes

Why are changes being made?

- The cost of Working for Families has grown from about \$1.5 billion in 2005/06 to \$2.8 billion a year now. Without changes it would quickly become unaffordable. These changes make the scheme simpler and more sustainable into the future.
- The changes will save \$448 million over four years, which can be used for other Government priorities like improving frontline public services or reducing borrowing.
- The changes will mean lower income families receive a greater slice of WFF funding over time.

What is changing?

- The next four times Family Tax Credit (FTC) payments are adjusted for inflation:
 - The WFF abatement threshold will decrease by \$477 on the first adjustment, and thereafter each time by \$450.
 - The WFF abatement rate will increase each time by 1.25 cents in the dollar.
- After those four adjustments, WFF will therefore have:
 - A slightly lower abatement threshold of \$35,000, compared to the current \$36,827.
 - A slightly higher abatement rate of 25 cents in the dollar, compared to the current 20 cents in the dollar (this means WFF payments will reduce faster as income increases).
- As the law already prescribes, FTC payments will next be adjusted for inflation on 1 April 2012, and thereafter every time CPI inflation cumulatively reaches 5 per cent or more. On current forecasts these further changes are expected to occur on 1 April 2014, 1 April 2016 and 1 April 2018.

- In addition, inflation adjustments to FTC payments for children aged 16 and over will be temporarily halted until payment rates for children aged 13 to 15 catch up with them, as they will after successive inflation adjustments (this will reduce the number of different FTC payment categories from five to three).
- The Government is making these changes gradually to minimise the impact on affected families.

What does this mean for a family's WFF payments next year?

- The table below shows the FTC payment rates that are expected to apply in the 2012/13 tax year (ie, from 1 April 2012), based on current inflation forecasts. These are the maximum payment rates that apply to families below the new abatement threshold of \$36,350. Above this threshold, FTC payments will reduce by 21.25 cents for every dollar of family income.

Family Tax Credit amounts	Current payment rates for the 2011/12 tax year	Forecast payment rates for the 2012/13 tax year
Eldest Child if under 16	\$88.03	\$92.64
Eldest Child if 16 or over	\$101.98	\$101.98
Subsequent child rate if under 13	\$61.19	\$64.38
Subsequent child rate if 13 to 15	\$69.78	\$73.43
Subsequent child rate if 16 or over	\$91.25	\$91.25

- It is impossible to say with any certainty what an individual family will receive from one year to the next – this depends on whether there has been any change in their family income; whether they have any more children; whether any of their children have moved into a different payment category; whether any of their children have got a job, gone on a benefit, left home, or turned 18 and are no longer at school or in tertiary education; and when exactly in the year any of these events happen.
- For a great many families, these sorts of changes will be far more important than small adjustments to FTC rates or abatement.
- Nonetheless, officials have made estimates of how 1 April 2012 changes affect families, assuming that their circumstances next year – including their children's ages - are identical to how they are now.
- Based on these estimates, families earning below the new abatement threshold of \$36,350 will:
 - Receive an average of \$7 extra WFF tax credits per week.
 - Receive the full increase in FTC if they have children aged under 16 years.
 - Receive the same amount of FTC for children aged 16-18 years.

- It is estimated about 280,000 families earning less than \$70,000 a year will receive an increase in WFF payments, while about 110,000 families – mostly earning over \$60,000 a year will receive slightly less. Of this second group about 7,000 families will no longer be eligible for WFF in the 2012/13 year.
- The table below outlines the estimated effect of 1 April 2012 changes by income band.

Family income	Families who receive less WFF on 1 April 2012		Families who receive more WFF on 1 April 2012	
	Number	Average change \$ per week	Number	Average change \$ per week
Up to \$10,000	–	–	16,467	7.02
\$10,000 to \$20,000	–	–	87,452	6.93
\$20,000 to \$30,000	–	–	60,177	6.56
\$30,000 to \$40,000	N/A	N/A	37,501	7.31
\$40,000 to \$50,000	11,307	-2.68	29,928	2.77
\$50,000 to \$60,000	11,757	-1.87	27,455	2.70
\$60,000 to \$70,000	23,982	-3.45	10,984	2.62
\$70,000 to \$80,000	29,681	-4.44	N/A	N/A
\$80,000 to \$90,000	20,597	-5.43	N/A	N/A
\$90,000 to \$100,000	4,641	-5.14	–	–
\$100,000 to \$110,000	N/A	N/A	–	–
Above \$110,000	N/A	N/A	–	–
TOTAL	109,120		278,168	

NB: "N/A" represents sample sizes sufficiently small that they are below the margin of error and therefore cannot be reported.

- *For the reasons outlined on the previous page this is not be an accurate guide for individual families. Inland Revenue will contact WFF recipients in February 2012 to inform them of their likely entitlement for the 2012/13 year.*

More information

- A range of family examples are included in *Working for Families – how 1 April 2012 changes affect New Zealanders*.
- Families with younger children - for whom there are fewer variables affecting their circumstances - can also get an idea of how changes may affect them from *Working for Families tables - 1 April 2012 changes*, attached on the next page.
- Inland Revenue will contact WFF recipients in February 2012 to inform them of their likely entitlement for the 2012/13 year.