Hon Bill English

Minister of Finance

Hon Paula Bennett

Minister for Social Development

Hon Peter Dunne

Minister of Revenue

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Changes to better target Working for Families

The Government is making changes that will better target Working for Families to lower income earners and ensure its cost remains sustainable into the future, Finance Minister Bill English, Social Development Minister Paula Bennett and Revenue Minister Peter Dunne say.

Working for Families will be altered over time so that eventually the scheme has:

- 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.
- An alignment between the Family Tax Credit (FTC) payments for children aged 16 years and over and the FTC payments for those aged 13 to 15.

To minimise the impact on affected families, the changes will take place in four steps, staring on 1 April 2012. Each step will take place when FTC payments are adjusted upwards for inflation, which on current forecasts will occur every two years. Payments to families earning less than the abatement threshold, for children aged under 16 will not be impacted.

“Working for Families is a broad and generous scheme and that will remain the case. But these changes will better target payments towards lower income families, ensuring the scheme is sustainable into the future,” Mr English says.

“The cost of Working for Families has roughly doubled from about $1.5 billion in 2005/06 to about $2.8 billion this year. That kind of growth is no longer sustainable and without changes the scheme would quite quickly become unaffordable.

“These changes will save $448 million over the next four years, compared to what the scheme was forecast to cost. The total cost of Working for Families will reduce to $2.6 billion in 2014/15.

“At a time when the Government is dealing with costs from the global financial crisis and two Canterbury earthquakes, these savings will free up funding for other Government priorities such as improving frontline public services and reducing borrowing,” Mr English says.

Ms Bennett says the changes will better target Working for Families to those most in need.

“Lower income families and beneficiaries will be largely unaffected by these changes, and the majority of families currently receiving Working for Families will get an increase in their payments after 1 April 2012.

“A number of families higher up the Working for Families scale, however, will receive a little less than they currently do now, or will no longer qualify,” Ms Bennett says.

Mr Dunne says implementing the changes in four gradual steps ensures the effect on families is small and the scheme continues to provide good work incentives for those moving into the workforce.

“Once these changes are fully implemented, the scheme will still be more generous than Labour's original scheme – before Labour extended it in the 2005 election campaign on the back of larger than expected tax revenue. Clearly those tax gains were neither permanent, nor sustainable.

“After 1 April, 2012, based on Treasury inflation forecasts, we expect the other three indexation dates to be 1 April 2014, 2016 and 2018,” Mr Dunne says.

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