

Fact Sheet 1 – Family Incomes Package

Summary

From 1 April 2018:

The \$2 billion per year Family Incomes Package will provide better rewards for hard work, help lower-income families with young children meet their living costs, and improve incomes for people with high housing costs.

The Family Incomes Package will benefit 1,340,000 families by an average of \$26 per week. Around 750,000 superannuitants and 41,000 students will also benefit from the Family Incomes Package.

The measures in this Package are expected to lift 20,000 households above the threshold for severe housing stress, and reduce the number of children living in families receiving less than half of the median income by around 50,000.

The following elements make up the Package:

- Increasing the bottom two income tax thresholds:
 - From \$14,000 to \$22,000; and
 - From \$48,000 to \$52,000.
- Discontinuing the Independent Earner Tax Credit (IETC).
- Family Tax Credit (FTC):
 - Increasing payment rates for children aged under 16, so that they align with the rates for children aged 16 to 18 years; and
 - Increasing the abatement rate from 22.5 cents to 25 cents in the dollar and decreasing the abatement threshold from \$36,350 a year to \$35,000 a year.
- Housing costs:
 - Increasing the maximum Accommodation Supplement (AS) payments and updating locations of Accommodation Supplement areas to reflect increases in housing costs; and
 - Increasing the weekly payments of Accommodation Benefit for eligible Student Allowance recipients by up to \$20.

Superannuitants will gain from the tax threshold increases and some will also gain from the Accommodation Supplement increases.

The impact of the Family Incomes Package on any given family or individual will depend on their particular circumstances, including the types of supplementary assistance they may receive.

Impact on family incomes

Tax threshold changes and discontinuing IETC

The tax threshold changes provide a tax reduction of \$10.77 a week to anyone earning more than \$22,000 per annum, increasing to \$20.38 a week for anyone earning more than \$52,000 per annum.

These changes are likely to increase work incentives. Working families and individuals not receiving a benefit will gain from the tax threshold changes if their individual incomes are above \$14,000.

Individuals who receive the Independent Earner Tax Credit of up to \$10 per week will be fully compensated by the increase in the \$14,000 tax threshold. Only 32 per cent of those eligible claim this credit during the tax year.

New Zealand Superannuation recipients will gain from the tax threshold increases, and from the link between Superannuation rates and after-tax average wages.

Changes to Family Tax Credit

Eligible families with children aged under 16 will gain further from the increases to the Family Tax Credit rates for younger children.

Family Tax Credits increase by \$9.25 a week for the first child under 16, while credits for subsequent children increase by between \$17.75 and \$26.81 per week.

A small number of families may be disadvantaged by the changes to Family Tax Credit abatement settings but in nearly all cases this will be more than offset by the tax threshold changes. Transitional assistance will be available for any families experiencing overall losses of more than \$3 per week as a result of the changes across the Family Incomes Package.

Changes to accommodation payments

The maximum Accommodation Supplement rates for a two person household will increase between \$25 and \$75 a week, while larger households will gain up to between \$40 and \$80 a week in accommodation support, depending on where they live. In addition, the make-up of the four Accommodation Supplement areas will be updated so families in areas where housing costs have increased the most will receive further gains.

Families and individuals who are entitled to receive Accommodation Supplement at the maximum payment rate will gain from these changes.

Student Allowance recipients who are eligible to receive Accommodation Benefit at the current maximum weekly rate of \$40 may now receive up to \$60 per week. This will help around 41,000 students with high accommodation costs.

Average impacts

The package as a whole is expected to benefit around 1,340,000 families by an average of \$26 per week.

The table below shows the impacts across the population for those families who gain from the Family Incomes Package. These are approximate changes by income quintile, and indicate how a family's average gain is distributed across the elements of the package.

Table 1: Distribution of gains by element¹

Quintile	Minimum income in range	Number of Families who gain	Average change in:				Average gain from all elements ²
			Tax	IETC	WFF	AS	
1	*	154,000	\$5.13	(\$0.10)	\$16.63	\$17.04	\$35.32
2	\$24,000	296,000	\$11.07	(\$5.73)	\$6.10	\$3.81	\$15.11
3	\$51,000	296,000	\$20.90	(\$2.32)	\$2.98	\$2.14	\$23.69
4	\$84,000	298,000	\$28.12	(\$3.77)	\$1.65	\$0.25	\$26.24
5	\$127,000	298,000	\$34.65	(\$1.43)	\$0.00	\$0.00	\$33.22
Total		1,342,000	\$21.58	(\$2.94)	\$4.28	\$3.32	\$25.81

There will be flow-on gains to around 750,000 superannuitants and 41,000 students who also benefit from the Family Incomes Package.

What is the economic effect of the package?

In the short term, household consumption is expected to increase, increasing employment growth and reducing the unemployment rate by around 0.1 percentage points. Overall, the package results in a cumulative \$3 billion increase in nominal GDP across the five years to June 2021. It is expected to have a modest, positive impact on GDP in the long run.

¹ The Treasury recommends the following caveats be noted when interpreting this analysis. To ensure the sample is representative of the New Zealand population, sample weights have been modified to match the administrative characteristics of the Accommodation Supplement recipients. This has been done as an aggregate level adjustment. The impact of Temporary Additional Support is excluded from Table 1. Accommodation Supplement area changes have been included at the Urban Area (2001) level, however, subsequent changes have been made at the Area Unit level. Area Unit data is not available in Treasury's microsimulation model, so these changes have not been included. Table 1 excludes New Zealand Superannuation recipients and independent students.

² Some interactions between the tax and transfer system are not presented. Therefore the Tax, IETC, WFF and AS columns are not intended to sum to the average gain from all elements column.

How much does the package cost?

The total net cost of the Family Incomes Package is on average \$2 billion per year, and about \$6.5 billion over the four-year Budget forecast period.

Table 2: Cost by element of the Family Incomes Package

\$million	2017/18	2018/19	2019/20	2020/21
Reduction in Tax Revenue including IETC	486.000	1,896.000	1,895.000	1,976.000
Working for Families	97.000	373.000	318.000	310.000
Accommodation Supplement	87.559	361.583	380.296	399.723
Accommodation Benefit	6.300	19.500	19.500	19.800
Transitional Fund	1.063	0.500	0.400	0.250
Consequential Impacts ³	-74.338	-575.244	-760.906	-693.736
Operating balance impact	603.584	2,075.339	1,852.290	2,012.037

The cost is lower in 2019/20 because indexation of the younger-child rates for the Family Tax Credit and abatement changes (part of the Working for Families tax credits) were expected to occur on 1 April 2019 and was therefore included in previous forecasts.

More information

All changes in the Family Incomes Package will commence from 1 April 2018. Until then taxes and payments are unaffected.

For more information about the Family Incomes Package, see www.budget.govt.nz and www.msd.govt.nz/about-msd-and-our-work/newsroom/2017/budget-2017.html.

To find out what the Family Incomes Package means for you, see the Family Incomes Package Calculator at:

www.budget.govt.nz/budget/2017/family-incomes-calculator

³ Consequential impacts include, for example, increased GST revenue as people spend their additional after-tax income, a reduction in gross benefit expenditure (as the net payments to benefit recipients are unchanged), partially offset by increases in New Zealand Superannuation payments due to an increase in the after-tax average wage (to which it is linked).