Taxation (Income-sharing Tax Credit) Bill

Officials' Report to the Finance and Expenditure Committee on Submissions on the Bill

February 2011

Prepared by the Policy Advice Division of Inland Revenue and the Treasury

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OVERVIEW

The Taxation (Income-sharing Tax Credit) Bill amends the Income Tax Act 2007 to introduce a new tax credit for couples with dependent children. The bill seeks to support the objectives of:

- giving parents greater choice in their work and caring roles;
- giving families with children additional financial support; and
- acknowledging the contributions of those who forgo income to care for their children.

To achieve this, the bill proposes a new tax credit for couples who care for dependent children and sets out the eligibility criteria for the new income-sharing tax credit. Under the proposed scheme, couples with dependent children will pay the same amount of tax for the same level of combined couple income, regardless of which partner earns the income. The notional effect of the tax credit is as if each individual earned, and was taxed on, half of the couple's combined income amount. This addresses concerns that the individual-based progressive personal tax system results in unfair outcomes for couples with dependent children.

The bill also amends the Tax Administration Act 1994 by setting out the method of applying for and receiving the tax credit.

The bill does not contain any other tax issues.

Submissions

The bill attracted 102 submissions. Feedback was general, with very few of the submissions relating to specific provisions in the bill.[1]

There were 85 submissions in support of the bill, 12 opposed the bill and 5 expressed mixed views. Most submissions were from individuals with most supporting the intent of the bill and the creation of a new tax credit. A number of submissions were received from organisations, most of which opposed the bill or raised fundamental concerns with key elements. Several organisations agreed with the underlying objectives of the bill but not with creation of a new tax credit for couples with dependent children. Some submitters recommended that the bill should not proceed and that alternative options should be reviewed to achieve the underlying objectives.

The general themes and arguments raised in support or opposition to the bill are set out in the following tables.

Some submissions recommended changes to the eligibility criteria in clause 15, or to other specific criteria. The report sets out officials' responses to those submissions.

[1] The names of those who made submissions are listed in the annex at the end of this report.

General themes

The majority of submissions mentioned general themes or reasons for supporting or opposing the bill without discussing specific aspects of the draft legislation. Submissions by the Families Commission and the National Council of Women in New Zealand, for example, set out a range of arguments in support and opposition to various concepts in the bill.

Two broad themes emerged in submissions:

- arguments for and against the use of the income-sharing tax credit compared with other methods of supporting families and the impact on those in greatest need of financial assistance; and
- whether there is an inequity in the individual-based progressive tax system for couples who are financially interdependent but not in a business partnership (regardless of whether they have dependent children or not).

Supporting families with dependent children through the income-sharing tax credit

While some submitters saw the income-sharing tax credit as a means of supporting families with dependent children, others considered the income-sharing tax credit to be an inequitable and discriminatory means of supporting families. As 78% of the value of the tax credits is expected to go to families with more than $70,000 income, submitters raised concerns that the tax credit was poorly targeted and not helping those in greatest need, especially sole parents. Alternative methods of supporting families were instead recommended.

The arguments around assisting families with dependent children through the income-sharing tax credit are set out in the following table.

SUPPORT	OPPOSE
Fairness and equity	
A fairer tax system with reduced taxes on couples is a better approach than handouts and transfers such as Working for Families (WFF) tax credits.	It gives an unjustifiable and inequitable benefit to relatively well-off families. The tax credit is poorly targeted as it does not go to households with the highest needs. It will have a negative impact on income distribution. It does not address child poverty. It does not help those in greatest need. Those on a low income will have less opportunity to benefit from the bill. It does not take into account that there are other gains associated with having a non-working partner, such as free childcare. Two parents working have additional costs such as childcare and transport but may not receive anything from the tax credit.
Fiscal cost	
Revenue costs could be recouped through lower social costs from poor health and family disunity. It may result in some savings from childcare subsidies.	It has a large fiscal cost, which could come at the expense of other policies that support families or be a burden to other taxpayers.

SUPPORT	OPPOSE
Human rights	
Sole parents can access other forms of social assistance – for example, the domestic purposes benefit. It meets international obligations to the United Nations Convention on the Rights of the Child. Equal taxation of couples with the same combined income is a human rights issue.	It does not recognise or assist sole parents or other household arrangements that do not meet the definition of "couple", such as grandparents raising grandchildren. There is a human rights issue under the Bill of Rights Act 1990 section 19(1), in terms of discrimination against sole parents and women (and indirectly against Māori). It is inconsistent with international obligations on human rights.
Consistency with government policy	
It is consistent with other universal support accessible to higher income families such as 20 hours free childcare. It is inequitable to subsidise private childcare but not to support parents providing childcare. Paying parents to care for children would align with the government's support of childcare.	It does not align with wider government objectives on employment and growth or fiscal sustainability. The domestic purposes benefit rules have been amended to require work-testing when the youngest child is aged six – setting age of dependent child as 18 for the purposes of the income-sharing tax credit would offer couples more favourable treatment than that for sole parents.
Benefits to families and society	
Additional financial support will make it financially viable for a parent to raise children and support working partners. Families face additional costs, which this tax credit will recognise and assist with. It provides more options for families about work and care choices. It supports families raising children with special needs – when there are no suitable childcare options. Evidence supports families directly raising very young children during the critical early years of child development. This is a long-term investment in the wellbeing of children, which will produce gains to society as a whole. It could reduce benefit fraud when couples declare they are separate or single to claim benefits. It supports couples to stay together, including through a psychological effect of couples viewing themselves as one unit. This reduces societal costs associated with separation. The current system promotes family separation. It supports family wellbeing. It supports good parenting. It may free up part-time vacancies for the unemployed. It will support entrepreneurs and start-up self-employed businesses by increasing after-tax family income. It supports couples where one partner is on call (such as doctors and policemen) and the other has to be available for caregiving. This would encourage the retention of qualified workers in New Zealand, particularly in rural communities. It will assist home buyers wanting to start a family to meet mortgage payments, especially when one partner has no income.	The bill will not create a supportive environment for children and families.

SUPPORT	OPPOSE
Recognition of caregivers	
The bill recognises the role of caregivers who forgo work to raise their children, which is a vital contribution to society. The bill provides caregivers with economic visibility.	It does not extend to other forms of dependents such as disabled adults, partners with health problems and infirm elderly parents. It does not recognise the value of the caregiver as the tax credit is based on a working individual's income.

Inequity in the individual-based progressive tax system for couples who are financially interdependent

Some submitters saw the income-sharing tax credit as a means of ensuring that couples paid the same level of tax, regardless of which party earns the income. Other submitters considered that the current individual-based tax system was appropriate and that other changes to the tax system were a higher priority or a better alternative to a tax credit.

SUPPORT	OPPOSE
Fairness and equity	
It addresses the unfairness that exists in the current tax system where families earning the same combined income pay different levels of tax. The current system penalises parents who have one partner forgoing income in order to care for children directly. It provides similar tax incentives to those faced by couples who are self-employed and business owners by treating a couple as a "partnership".	It will create new anomalies between different types of taxpayers, such as sole parents and couples without children.
Recognition of caregivers	
It recognises the interdependence of the family unit.	Nominal splitting does not encourage actual sharing of income or assets. Not all families pool resources and share income.
Consistency with government policy	
Other welfare payments (WFF and benefits) are based on household income rather than individual income. The tax system is out of step and the tax credit would address this inconsistency. It is consistent with the Relationship Property Act 1976. Tax law is unduly individualistic and should instead reflect the family unit.	It is inconsistent with the principles underlying the Budget 2010 tax changes and directions set out in "Making Tax Easier". There is a disincentive for a carer to work part-time or remain attached to the workforce as the marginal tax rate is higher (particularly for women and therefore there are implications for the gender pay gap and labour force participation).

SUPPORT	OPPOSE
Tax system	
The current system has deadweight costs from couples finding ways to split income through trusts and companies.	The tax system should remain based on the individual, and welfare systems on household income. The single earner / dual earner tax differential is an inherent feature of progressivity. Direct social assistance outside of the tax system would be preferable. The 2001 McLeod tax review did not support income sharing. The tax system should not subsidise lifestyle choices. Recent tax cuts reduced disparity between single and dual earner households. It will add complexity to the tax system. It will distort the tax system and impose deadweight costs to the economy.

Alternative options

Submitters who opposed the bill, but generally supported assisting families with dependent children, particularly low income families, suggested this objective would be better achieved in a number of alternative ways, including:

- changes to Working for Families (WFF) tax credits, including removing the work requirement of the in-work tax credit;
- increasing the housekeeper/childcare rebate;
- increasing welfare benefit levels;
- extending paid parental leave;
- a universal child benefit or an allowance for preschool years;
- improving early childhood health and education provisions;
- a carer’s allowance; and
- restructuring the tax and benefit system with a view to helping lower income earners.

Submitters who opposed the bill, but generally supported addressing inequities in the individual-based tax system, suggested this objective would be better achieved in a number of alternative ways, including:

- implementing a 28-28-28 top tax rate system;
- a uniform personal tax rate for all taxpayers, or cutting personal tax rates;
- a guaranteed minimum income scheme;
- couples could register with Inland Revenue as a partnership and be taxed under the partnership tax rules;
- analysing the proposal as part of a wider review of tax policy.

Additional information

The Committee requested officials provide further information on two options based on arguments raised in the submissions. This additional information is provided below.

Reducing the age of "dependent child" to two years old

If the age of "dependent child" was reduced to a maximum of two years old, this would reduce the number of families potentially eligible for the tax credit from approximately 310,000 to 55,000. This would significantly reduce the fiscal cost of the tax credit from $460 million to $90 million in the 2012–13 tax year. It would also reduce the ongoing operational costs to Inland Revenue by $2 to $3 million a year (from $3 to $4 million to around $1 million a year).

Parents of young children may be more likely to want to take up the option to sacrifice paid work to care for young children and to need the additional financial assistance. Some submitters have suggested that the benefits from parenting at home were greatest during the early years of childhood.

Once the child turned three the couple would no longer be eligible for the tax credit. This loss of assistance could require some families to increase the number of hours worked, or require a full-time carer to take up paid work and make greater use of early childhood education services, in order to maintain family income levels.

In developing the income-sharing scheme, officials have considered 6 and 18 as the potential age of "dependent child". Setting the age of "dependent child" to two years old would not align with WFF tax credits (18 years old), the age at which sole parents on the domestic purpose benefit are required to begin work testing (six years old), nor the age for compulsory schooling (six years old).

The question remains whether other means of providing additional support to families may be better targeted to couples facing the same marginal tax rate (who otherwise do not benefit), or couples on low incomes.

Treating the family unit as akin to a partnership under the Income Tax Act 2007

One alternative would be to treat the income of the couple as jointly earned, similar to the way a business partnership is treated. This reflects the idea that the couple is interdependent, with both partners contributing to the earning of income.

Under the provisions of the bill, the calculation of the proposed income-sharing tax credit is based on a notional sharing of income; it does not legally attribute or assign income between parties. Some submitters raised concerns that couples in a business partnership are able to attribute business income to each party but couples relying on wage and salary income are unable to share income in this manner. However, business income usually includes returns on capital investment as well as returns to physical effort, so a direct comparison cannot be made.

Attributing employment income between a couple would be a significant shift in the fundamental principles of the Income Tax Act 2007, which taxes an individual on the income they earn in their own right. That is, employment income is attributed only to the individual who has the employment contract with the employer. The option raises questions of how to treat the deduction of expenses in these partnerships.

This option would require a significant revision of the current bill and parts of the Income Tax Act 2007 and the Tax Administration Act 1994. There would be significant fiscal and administrative implications.

Treating a couple as a partnership would mean that the individual partners would be attributed income in their own right. This would have flow-on implications to other situations, such as child support payments and student loan repayments. There are implications outside of the tax system such as for loan applications, other payments and legal arrangements that rely on an individual's own level of income.

DEFINTION OF “COUPLE”

Clause 15(1) new section MG 2

Issue: Definition of “couple” to target people who are married only

Submissions

(The Kiwi Party, M van Beyere, Christo van Niekerk, Anthony Pitt, Family First NZ)

The tax credit should be especially targeted at married couples to encourage a marriage culture and family stability. This would balance out a “marriage penalty” within current tax and benefit systems.

It should be available to married couples only, as evidenced by a marriage certificate. *(The Kiwi Party)*

Comment

It is not clear how the tax credit could be especially targeted to married couples other than by restricting the eligibility criteria to couples who are registered as married. Restricting the tax credit to married couples would reduce the number of people who would be eligible. Non-married couples who are in a civil union or de facto partnerships would also appear to face the “marriage penalty” some submitters referred to, as both partners’ incomes are taken into account in assessing eligibility for social assistance programmes. Restricting couples on the grounds of marital status would raise further discrimination issues. We do not consider that it would be significantly more difficult to verify the relationship status of people who are not married. Shifting from the definition used in WFF may also increase administrative costs slightly.

Other submitters, such as the Families Commission, were pleased to see the diversity of couple-partnerships recognised, including married, civil union and de facto couples.

Recommendation

That the submissions be declined.

Issue: Couples without children should be eligible

Submission
(National Council of Women of NZ, W Pincott, Robin Johnstone, Hilary Beath)

The tax credit should be extended to all couples in a committed relationship irrespective of whether they have children, or whether their children are still dependent.

Comment

The submission would significantly alter an underlying purpose of the tax credit, which is to support families with dependent children. While it may address equity concerns about the tax treatment between couples with and without children, it would not address concerns raised about sole parents not being eligible. The suggested change would simplify the system by removing requirements relating to children (including shared care) but would also expand the number of people who would be eligible. The fiscal cost of the tax credit would consequently significantly increase.

Recommendation

That the submission be declined.

Issue: Period of relationship should be reduced to a minimum of 122 days

Submission
(Hutt Valley Community Law Centre)

Further consideration is needed on why the length of the relationship is one tax year, while the exclusive care of a dependent child is 122 days. A parent who meets the exclusive care requirement may not have been in a new relationship for a whole tax year and therefore will miss out on the tax credit. It is not uncommon for people to change partners within a tax year. The same qualifying time (122 days) should be used to prove a new relationship.

Comment

The tax credit relates to the sharing of taxable income across the whole of the tax year. Therefore the criteria are for couples to be together for the whole of the tax year. Introducing a part-year option would complicate the administration of the tax credit, by requiring the allocation of income to portions of the tax year. It could also increase the possibility of fraud by people claiming to be a couple for short periods of time.

The period of "exclusive care" is set at 122 days to allow former partners to enter into shared care arrangements (compared with sole care arrangements) and still be eligible for the tax credit, similar to WFF tax credits. Requiring care of a dependent child for the whole of the tax year would be likely to exclude children under shared care arrangements.

Recommendation

That the submission be declined.

Issue: Dependent child should be dependent for whole of tax year

Submission
(Michael Taylor)

The period of dependency for a child should be the whole of the tax year, consistent with the period used in the definition of a couple. This would simplify the system and any anomaly would be similar to that created by the cut-off when reaching 18 years.

Comment

New section MG 2(1)(c) of the bill refers to the couple being a principal caregiver at some time during the year. This allows couples to qualify if there are times of the year when neither was caring for a dependent child. This could be due to shared care arrangements, as well as when a child may begin or cease to be a dependent child during the year.

Sections MG 3(7) and MG 5 deal with a dependent child only being dependent for part of the year. The amount of the tax credit is adjusted on a pro rata basis to the portion of the year the child was a dependent child.

Requiring a parent to be a principal caregiver for the whole of the tax year would exclude couples in the year a dependent child was born or ceased to be dependent. While this would reduce the fiscal cost and simplify the administration of the system, removing the availability of the tax credit for the year a child is born would reduce the effectiveness of the scheme. The tax credit would no longer assist with work and caring choices in the year the child was born, when it may be most necessary.

Recommendation

That the submission be declined.

DEFINITION OF A DEPENDENT

Clause 15(1) new section MG 2

Issue: Extend the criteria for "principal caregiver" to include caring for disabled adult children, disabled spouses or elderly parents

Submission
(Christopher Walters, National Council of Women of NZ, Parents as Partners)

The qualifying criteria defining a "principal caregiver" could be extended to include the care of disabled adult children, disabled spouses or elderly parents, as well as dependent children. There is a similar level of dependency and requirement for flexibility and choice in work and caring responsibilities as with dependent children. Similar changes could be made to the WFF tax credit.

Comment

Extending the bill to include other dependents would further increase the fiscal cost of the tax credit and increase the complexity and administration of the tax credit in verifying that other adults were dependent on the couple. The proposal is consistent with the bill's aim to provide couples with greater choice in their work and caring roles, but is inconsistent with its focus on families with children.

Recommendation

That the submission be declined.

AGE OF DEPENDENT CHILD

Clause 15(1) new section MG 2(3), MG 2(4)

A number of submitters supported the current age of 18 as it is consistent with the age of a dependent child used elsewhere, including in WFF tax credits, and would simplify administration. Some submitters proposed alternative age limits.

Issue: Include children up to the age of 25 who are ineligible to receive a parental income-tested student allowance

Submission

(Andrew and Jacqueline Hart, Family First NZ, Hilary Beath, National Council of Women of NZ, Christo van Niekerk, Parents as Partners, Family First NZ)

The age of a dependent child should be extended to include young adult children up to the age of 24 or 25 years, if the young adult is in full-time study/tertiary education and is ineligible for a student allowance on the basis of parental income. This change in definition of dependent child could also apply to WFF tax credits for consistency.

One submitter suggested that there should be no age limit for dependent children.

Comment

The bill extends the definition of the age of a dependent child up to the end of the school year in which they turn 18. The eligibility rules for a student allowance for a young adult up to 24 years, who does not have their own dependent child, is subject to a parental income test. This reflects an expectation by government that parents will continue to financially support their young adult children in tertiary education. Students are also income tested against any income they earn in their own right.

Extending the definition of "dependent child" to students up to the age of 24 or 25 would include students who are ineligible for a student allowance on the basis of parental income. Such an extension would result in an increase in fiscal cost and a significant increase in the complexity and administration of the scheme.

Recommendation

That the submission be declined.

Issue: Restrict age to six years old

Submission
(National Council of Women in NZ, Michael Taylor)

Eligibility to the tax credit should cease or be drastically reduced once there is no child under the age of full-time schooling (effectively six years) – given the intention of the bill to give parents greater freedom to work fewer or more flexible hours in order to care for children full-time. Leaving the age at 18 would mean paying parents to be at home to care for children when the child is actually at school. Reducing the age limit would also align with the age of the youngest child at which sole parents on the domestic purposes benefit are required to be work-tested.

Comment

Restricting the age to six would align with children attending compulsory primary education, as well as the age at which sole parents on the domestic purpose benefit are required to begin work-testing.

If it is necessary to decrease the cost of the scheme, the option of restricting the age to six could be considered as it would significantly reduce the fiscal cost of income sharing from $460 million to $240 million in the 2012–13 tax year. However, this would also significantly decrease the number of couples who could benefit from the tax credits from 310,000 to 150,000. It would not address concerns raised by some submitters over the targeting of the scheme; most of the benefit would be received by couples with relatively high incomes.

Recommendation

That the submission be declined.

Issue: Restrict age to 5 or 12 years old

Submission
(Friends of Income Sharing)

If the fiscal constraints mean that the bill cannot proceed, the cost could be reduced by narrowing the criteria for the tax credit. This could be done by reducing the age of eligible children to 5 or 12 years.

Comment

While restricting the age of a couple's children would reduce the fiscal cost of the tax credit, the number of couples who would benefit from the scheme would also decrease. If the age were to be reduced to align with the age at which children attend primary school, it would be better to set the limit at six years of age. This would ensure consistency with the Education Act 1989 requirement that children must begin compulsory schooling before they turn six years old.

Recommendation

That the submission be declined.

SHARED CARE

Clause 15(1) new MG6

Most members of the National Council of Women in NZ saw problems with the administration of shared care in relation to income sharing when relationships are already strained or new partnerships are involved. Others indicated that separated partners would be more focused on care of the child than on forming new partnerships. The Families Commission welcomed the application of the bill to parents who are in new relationships after separating and who continue to have significant caring roles for their children.

Issue: Remove shared care eligibility

Submission
(Michael Taylor)

Only couples with full care of the child or who have responsibility for caring for the child for a significant amount of time, such as 80%, should be eligible as shared care of at least 122 days is an unjustified complication and could potentially influence sharing arrangements.

Comment

Restricting eligibility to those with full care for the whole year would reduce the number of couples eligible. While this would reduce the fiscal cost, it would likely put greater pressure on separating couples to gain full custody of the child, as there would be a potential financial advantage to doing so if they expected to be in a new relationship. This could lead to poorer outcomes for the children involved.

This would lead to a different definition of "dependent child" from that in the WFF system, restricting Inland Revenue's ability to use existing information and systems.

Recommendation

That the submission be declined.

Issue: Make tax credit proportional to shared care

Submission
(Parents as Partners)

Couples with shared care of a child should be eligible for income sharing in proportion to the time allocated to care, with a minimum requirement of one-third of any time. Care less than one-third of the time would arguably not affect their availability for employment.

Comment

Requiring parents to determine and declare the proportion of care they provided through the year will increase compliance requirements for applicants. Linking the level of the tax credit to the amount of time they provide care could affect decisions between former couples about care arrangements and potentially worsen outcomes for children.

Recommendation

That the submission be declined.

LEVEL OF TAX CREDIT

Clause 15(1) new section MG 3

Issue: Limit the tax credit for couples with incomes above a threshold

Submissions
(Michael Taylor, Whitireia Community Law Centre, Anthony Muir)

There should be a limit on eligibility for those who earn more than a certain amount in a tax year. *(Anthony Muir)*

The limit should be set at a household income of $80,000. *(Whitireia Community Law Centre)*

The tax credit should start reducing at some level and drop to zero at a higher level, such as four times the median individual wage. *(Michael Taylor)*

Comment

The suggested change would significantly reduce the cost of the new tax credit by reducing the number of people who would be eligible (78% of the value goes to households on more than $70,000). However, it would also reduce the effectiveness of the tax credit and remove key aspects, such as ensuring couples on the same combined income pay the same amount of tax. It could also create negative work incentives for couples near the threshold if a small increase in the combined couple income meant the loss of all the tax credit. There would be a small increase in complexity from the new eligibility criteria, although it is unlikely to increase the administrative cost of the new tax credit. Designing an abatement rate to reduce the amount of the tax credit as income increased would also defeat the underlying rationale and method of calculating the tax credit as well as worsening work incentives for both partners (especially where it overlaps with WFF abatement).

Recommendation

That the submissions be declined.

Issue: Reduce the level of the in-work tax credit if the couple is in receipt of an income-sharing tax credit

Submission

(The Kiwi Party)

When a family is entitled to receive an income-sharing tax credit, the WFF in-work tax credit should be reduced by 50% if one spouse is in work for less than 10 hours a week. This would acknowledge that there are fewer costs incurred when a spouse is not in full-time work. This would reduce the overall fiscal costs of the income-sharing measure.

Comment

The amount of the in-work tax credit should not be affected by the receipt of the income-sharing tax credit. The same amount of in-work tax credit is paid regardless of whether the qualifying person is a sole parent or in a couple arrangement and regardless of whether they are a single or dual-earner couple. The question of whether the in-work tax credit should reflect the level of extra costs associated with working and be on a per person basis is separate from the issue of income sharing.

If the desired outcome is to reduce the costs of income sharing, other options would be preferred, such as lowering the eligibility age for the dependent child.

Recommendation

That the submission be declined.

SHARING OF INCOME

Clause 15(1) new section MG 3

Issue: Share family income among all members of the household

Submission
(Family First NZ)

Looking at the income levels of the couple, the tax credit fails to take into account the number of children that a family is raising. Some adjustment should be made to reflect the number of children and resulting household costs. This could be achieved by the ability to split income amongst the children – for example, two-thirds between adults and one-third between children.

Comment

Splitting the income among family members was considered during the consultation process but was not recommended because of the higher level of complexity and administration costs that would be involved for a relatively small gain in tax savings for the family. This is particularly so if the tax credit is also to be shared based on the number of children and if a child starts or stops being a dependent child during the tax year. It also raises the question of whether children's income should also be added to the total amount of income to be shared.

Recommendation

That the submission be declined.

ADMINISTRATION OF TAX CREDIT

Clauses 19 to 23

Issue: Requirement to file and provide information and declare eligibility

Submission
(Michael Taylor, National Council of Women in NZ, Whitireia Community Law Centre)

Michael Taylor, most members of the NCWNZ and the Whitireia Community Law Centre supported using the same or similar methods of administration that existed for the WFF tax credits, including the use of an annual declaration of eligibility.

Comment

We agree that using the same rules will simplify the administration of the scheme for most people.

Recommendation

That the submission be noted.

Issue: Deliver through the PAYE system

Submission
(Father and Child Trust, Whitireia Community Law Centre, Parents as Partners)

The WFF tax credit is a subsidy paid out of general taxation, while the income-sharing tax credit is an adjustment to ensure parents are taxed equally compared with other couple households on the same combined income level. Paying the tax credit using the same systems as WFF tax credits may confuse the public into thinking income-sharing is a form of subsidy. To maintain its nature as an adjustment to tax, it should ideally be made available through the PAYE system. *(Father and Child Trust)*

The close alignment with the policies and processes used to administer the WFF scheme is supported as it is cost effective. *(Whitireia Community Law Centre, Community Law Canterbury and Parents as Partners)*

Comment

An alternative method of administering the income-sharing proposal would be to create a new PAYE tax code for eligible couples which alters the amount of PAYE withheld during the year to achieve the same net of tax result. However, this would impose greater compliance costs on couples, employers and PAYE intermediaries. It would require an end-of-year square-up to ensure the right amount of PAYE was withheld during the year and that any overpayments are recovered. The additional administration costs to implement a PAYE system would be much greater than by providing through an annual tax credit.

Recommendation

That the first submission be declined.

ANNEX: INDEX OF SUBMISSIONS

Note: listed in alphabetical order by surname or organisation name

- Al-Sallami, Hesham
- Auber, Fleur
- Bailey, Michelle
- Baker, Kerry
- Baron, Peter
- Beath, Hilary
- Binks, Richard
- Blackburn, Maria
- Blummont, Catherine
- Bracefield, Anthony Robert
- Business New Zealand
- Cahill, Derek and Margaret
- Caampbell, Josephine Lesley
- Campbell, Penny
- Chalmers, Justin Paul
- Chalmers, Martyn
- Community Law Canterbury
- Courtney, Bill
- CPAG - Child Poverty Action Group
- Dunedin Community Law Centre
- Eliott, Mark
- England, Colin
- Families Commission
- Family First New Zealand
- Farrell, Brenda
- Fatemi, Mehrdad
- Father and Child Trust
- Friends of Income Sharing
- Gibson, Nicola
- Halcrow, Gerry
- Hart, Andrew and Jacqueline
- Hill, Martin
- Hippolite, James
- Hitchins, Nicholas
- Holden, Allan and Wendy
- Human Rights Commission
- Hutt Valley Community Law Centre
- Johnstone, Helen
- Johnstone, Karen
- Johnstone, Robin
- Kamp, Betty-Ann
- Kat, Arjen
- Kiwi Party, The
- Knight, Jacqueline Anne
- Lemmon, Diane and Denis
- Lindsay, Megan
- Lord, Michael David
- Macdonald, Rowena
- McCarthy, Denis
- McCrossan, Anna
- McLaren, Duncan
- Mcpherson
- McPherson, Alex
- Metcalfe, Christine
- Miller, Stephen
- Moala, Ate (Dr), The Healing Centre
- Mockett, Keith
- Morris, Jordan
- Morris, Julie (Mrs.)
- Muir, Anthony
- National Council of Women of New Zealand
- New Zealand Business Roundtable
- New Zealand Council of Christian Social Services
- New Zealand Council of Trade Unions
- New Zealand Institute of Chartered Accountants
- Novilla, Francis
- Novilla, Grace
- Pace, Alan
- Parents as Partners
- Paul, Craig
- Pickering, Eric
- Pincott, Wayne
- Pitt, Anthony
- Prestidge & Associates, Brian E
- Mark Prestidge & Co Ltd
- Roblett, Chris and Sue
- Shakouri, Sara
- Sherwood, Mark
- Simpkin, Tim
- Skilling Family
- Smith, GE
- Taylor, Michael
- Thompson, G
- Thorp, Alan
- Tyremax New Zealand
- van Beyere, M
- van der Voorn, Peter
- van Niekerk, Christo
- Walters, Christopher
- Watts, Brandon
- Watts, Kelly-Marie
- Watts, P R
- White, Robert
- Whitehead, Lydia
- Whitehead, Matthew
- Whitireia Community Law Centre
- Wild, Eileen
- Wilkinson, Amanda
- Wilson, Hugh
- Women's Studies Association of New Zealand
- Wyatt, Sally
- Zohrab, Peter