

In Confidence

Office of the Minister of Revenue

Chair, Cabinet Legislation Committee

INCOME TAX (MINIMUM FAMILY TAX CREDIT) ORDER 2019

Proposal

1. This paper seeks the Cabinet Legislation Committee's agreement to the submission to the Executive Council of the attached Income Tax (Minimum Family Tax Credit) Order 2019 (the MFTC Order). The MFTC Order increases the after-tax value of the Minimum Family tax Credit from \$26,572 to \$27,768 for the tax year beginning 1 April 2020. This increase reflects the wage-growth adjustment of main benefit rates and the higher benefit abatement thresholds applying from 1 April 2020.

Policy

2. The Minimum Family Tax Credit (MFTC) provides a guaranteed level of after-tax income to households with dependent children who work full-time (defined as 20 hours per week for sole parents and 30 hours per week for couples) and do not receive a main benefit.
3. In 2004, Cabinet agreed to increase the MFTC threshold and to adjust it annually from 1 April 2006 to ensure that the amount of income someone can receive from working part-time and receiving an abated benefit never exceeds what they could earn if they worked full-time, moved off-benefit and began to receive in-work support.
4. The MFTC has been increased every year since 2006 to reflect changes to the relativities between in-work support and main benefits such as the CPI adjustment of benefit rates, minimum wage increases and marginal tax rate changes.
5. There are only a small number of households who receive the MFTC and approximately 90% of these are sole parents, reflecting the reduced hours-worked requirement for eligibility when compared to coupled households. In the 2017/18 tax year 3,320 households received the MFTC at a fiscal cost of \$12 million.
6. In line with current policy, I recommend that the MFTC threshold should be increased from \$26,572 (\$511 per week) to \$27,768 (\$534 per week) for the 2020/21 tax year. This increase reflects the minimum wage, benefit abatement thresholds and wage indexed main benefit rates that will apply from 1 April 2020.

Financial implications

7. There are no financial implications associated with adjusting the repayment threshold for 2020/21 as annual adjustments are accounted for in existing appropriations.

Timing and 28-day rule

8. The Income Tax Act 2007 requires the MFTC Order to be made no later than 1 December and to apply from 1 April following that date. The MFTC Order would

therefore be in accordance with the rule that regulations must not come into force until at least 28 days after they have been notified in the *New Zealand Gazette*.

Compliance

9. The MFTC Order complies with:
 - 9.1 the principles of the Treaty of Waitangi;
 - 9.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993;
 - 9.3 the principles and guidelines set out in the Privacy Act 1993; and
 - 9.4 relevant international standards and obligations.

Regulations Review Committee

10. Officials consider that there are no grounds for the regulations Review Committee to draw the MFTC Order to the attention of the House under Standing Order 319.

Certification by Parliamentary Counsel

11. The Regulations have been certified by Parliamentary Counsel as being in order for submission to Cabinet.

Impact analysis

12. The Treasury's Regulatory Quality Team has determined that the proposal is exempt from the Regulatory Impact Analysis requirements on the basis that it has no or only minor impacts on businesses, individuals or not-for-profit entities.

Publicity

13. I intend to make an announcement regarding the increase in the amount of the MFTC after the Order has been signed.
14. Inland Revenue will publish an item in its *Tax Information Bulletin* series, and relevant publications and material will be updated to incorporate the new amount.
15. Existing recipients will be contacted in early 2019 with an updated estimate of their Working for Families tax credits entitlement for the tax year beginning 1 April 2020.

Proactive release

16. I propose to proactively release this Cabinet paper, associated minutes, and key advice papers in full within 30 working days of Cabinet making final decisions.

Consultation

17. The Treasury and Ministry of Social Development have been consulted on this paper.

Recommendations

The Minister of Revenue recommends that the Cabinet Legislation Committee:

1. **note** that in April 2004, Cabinet agreed to increase the Minimum Family Tax Credit from 1 April 2006 onwards by an amount sufficient to ensure that families do not

suffer a reduction in income when moving off a welfare benefit and into full-time paid work [CAB Min (04) 13/4 refers];

2. **note** that the Income Tax (Minimum Family Tax Credit) Order 2019 increases the annual amount of the minimum family tax credit from \$26,572 to \$27,768 for the tax year beginning 1 April 2020, as allowed under section MF 7 of the Income Tax Act 2007;
3. **authorise** the submission to the Executive Council of the Income Tax (Minimum Family Tax Credit) Order 2019;
4. **note** that there is a legislative requirement under section MF 7 of the Income Tax Act 2007 that requires the Income Tax (Minimum Family Tax Credit) Order 2019 to be made prior to 1 December for it to come into force on 1 April 2020.

Authorised for lodgement

Hon Stuart Nash
Minister of Revenue