

**SUBMISSION TO THE FINANCE AND EXPENDITURE
COMMITTEE
ON
TAXATION (INCOME-SHARING TAX CREDIT) BILL**

DECEMBER 2010



New Zealand Council Of
Christian Social Services

*Ma te huruhuru, Ka rere te manu
Adorn the bird with feathers so it can fly*

1. Introduction

1.1 The New Zealand Council of Christian Social Services (NZCCSS) has six foundation members: the Anglican Care Network, Baptist Union of New Zealand, Catholic Social Services, Methodist Church of New Zealand, Presbyterian Support New Zealand Inc. and the Salvation Army. NZCCSS works for a just and compassionate society in Aotearoa New Zealand. We see this as a continuation of the mission of Jesus Christ. In seeking to fulfil this mission, we are committed to giving priority to poor and vulnerable members of our society and to Te Tiriti O Waitangi.

1.2 Nationally, NZCCSS membership consists of multiple social service groups working from almost 640 separate organisational sites, which collectively provide over 1,200 social service programmes throughout New Zealand. Our members deliver a wide range of services that cover such areas as child and family services, services for older people, food-bank and emergency services, housing, budgeting, disability, addiction support, community development and employment services. Further details on NZCCSS can be found in Appendix 1.

1.3 NZCCSS is opposed to the Taxation (Income Sharing Tax Credit) Bill. This is because the Bill does not assist families who are most in need. Our submission details the reasons for our opposition and suggests ways in which government could better assist our families who would benefit most.

1.4 Contact details for this submission are Trevor McGlinchey, NZCCSS Executive Officer and Philippa Fletcher, Policy Advisor, PO Box 12-090, Thorndon, Wellington, Phone 04 473 2627, eo@nzccss.org.nz or philippa.fletcher@nzccss.org.nz.

1.5 We request an opportunity to appear before the Select Committee to make further comment on the Taxation (Income Sharing Tax Credit) Bill.

2. General comments

2.1 NZCCSS is generally in favour of policies that support parents who wish to stay at home to care for their children. However, this Bill is not an effective way of supporting those parents. We are unable to support this Bill for the following reasons:

- (1) It fails to support those most in need;
- (2) It contributes to inequality in NZ society;
- (3) It is discriminatory.

2.2 Other ways in which families with children could be better supported include: reducing socio-economic inequalities, reintroduction of the universal child benefit, access to the work Tax Credit component of working for Families for those families on benefits, increased benefit levels, support for breastfeeding, increased parental leave, or improved early childhood education provisions.

3. Specific issues

3.1 Narrow focus

This Bill is intended to benefit families, but focuses on a very narrow range. The families it is designed to benefit are those where there is a couple, who are both New Zealand tax residents for the entire year; and during the year, at least one of the partners is a principal caregiver of a dependent child (p.2).¹ This aspect has the potential to disadvantage our most vulnerable families. It is likely to reward comparatively high income earners and could discriminate against women and Māori.

3.2 Failure to address families who are most in need

The Bill's provisions are restricted to couples. Families unable to afford the basics of life are more likely to be sole parent families (*not couples*), and especially sole parent beneficiary families (*who are not eligible for this assistance*).

3.3 "The hardship rate for sole parent families is around 4 times that for those in two parent families (39% and 11% respectively)" (Perry, 2009, p.65). In addition, 'over 50% of sole parents and their children who are supported by a benefit live in hardship' (Perry, 2009, p.65 (MSD data)). Taxation policy is an important tool for redistributing income to assist family wellbeing. As Casswell-Laird has noted, 'it is an important vehicle for determining whether or not one in five New Zealand

¹ Families with dependent children headed by one parent comprise 28% of all families with children (2006 census data), (Ministry of Social Development, (2010), p. 18.

children continue to live below the poverty line' (2010, p.2). This Bill does nothing to assist our lowest income families.²

3.4 The Ministry of Social Development reinforces our concern with its comment that *the income splitting proposal would provide additional income for a limited population, with the most significant gains being for higher single-income households and lowest gains for low-income families [our emphasis]. Couples who have similar working hours (and arguably therefore are likely to share child minding responsibilities) would receive minimal, if any, gains, given that couples on the same marginal tax rate³ would not gain from the proposal. The proposal would be unlikely to greatly improve incentives to enter work for low-income unemployed families. Further, it would not target assistance to those who most need it*

(Ministry of Social Development quoted in Inland Revenue Department, 2010, p.10).

3.5 Inland Revenue has also noted that most of the benefit would go to higher income families.

The most significant gains would go to higher single income households with the lowest gains going to low-income families [our emphasis]. We estimate that 78% of the value of credits paid will go to couples with joint income of \$70,000 or more. No credit would be payable to partners with the same marginal tax rate. (Inland Revenue Department, 2010, p.4).

3.6 Finally, the Treasury concurs *that the credit is poorly targeted and has negative distributional impacts [our emphasis], as 78% of the benefits are expected to accrue to families earning over \$70,000 per annum. In addition, the fiscal cost of the proposal, estimated to be \$502 million per annum by the end of the Budget 2011 forecast period, will be more than 45% of new spending in Budget 2011 if progressed. Given the substantial fiscal cost, and the minor economic benefits, Treasury does not recommend introducing an income-sharing tax credit.* (Treasury quoted in Inland Revenue Department p.10).

3.7 The Bill contributes to increased inequality within New Zealand society

Treasury's comment about 'negative distributional impacts' means increased inequality. It means favouring wealthier households at the expense of poorer households. A couple where one partner earns \$140,000 and the other earns

² There were 234,679 children in benefit dependent household at the end of September 2010, 78% of whom were dependent on Domestic Purposes Benefit recipients

³ The marginal tax rate is the tax rate paid on the last dollar of one's income). In a graduated tax system, this rate will be equal to or higher than the tax rate paid on the person's entire income, since the tax rate is lower for the first dollars of income than for subsequent dollars of income.

nothing would be \$9,000 better off.⁴ On the other hand, a couple where both partners earn \$35,000 would get nothing (McGlinchey, 2010). This is a practical illustration of no credit being paid to partners with the same marginal tax rate.

3.8 Increased income inequality is potentially costly in both social and economic terms. Heightened economic inequalities have been associated with a variety of negative social factors including poorer health, higher infant mortality, increased teenage pregnancy, increased mental illness, higher levels of drug and alcohol abuse (see Wilkinson R, Pickett K., 2009), and increases in male youth suicide (Howden-Chapman, P *et.al.*,2005).

3.9 **The Bill is discriminatory**

The Bill is likely to be discriminatory to both Māori and women. Māori, because they are over-represented among low income and single parent families. Women because they tend to be the lower earning partner within couples.

3.10 The Bill's favouring of couples means Māori are less likely to benefit from this legislation. Māori have the highest rates of families headed by a sole parent. Māori also comprise 42% of Domestic Purposes Benefit recipients (MSD data). Sole parents will receive nothing under this Bill.

3.11 The Bill's favouring of those with higher incomes also means Māori are more likely to miss out. Māori and Pasifika peoples are more likely to be low income earners.⁵ They are also likely to have larger families. In short, Māori and Pasifika children are less likely to be in the types of families benefitting from this Bill (Fletcher, M and Dwyer, M. (2008), Kiro, C;et. al., 2010; McGlinchy, T, 2010; Ministry of Social Development, 2010; New Zealand Council Christian Social Services, 2010).

3.12 It may be possible to argue that the Bill results in indirect discrimination toward Māori and is therefore contrary to the Human Rights Act 1993. "Indirect discrimination occurs when an apparently neutral decision has a negative effect on a group with a particular personal characteristic." This challenge may be possible because of less favourable outcomes for Māori as a result of the Bill's provisions favouring high income households (Ministry of Justice 2000).

3.13 The Bill may also discriminate against women. Some have argued that the Bill's provisions may act as a disincentive to women's labour force participation. This is because women are frequently the lower earner within the

⁴ Brian Fallow has commented that in this situation "it would be cheaper to pay the non-earning partner the unemployment benefit" (Fallow, B, 2010).

⁵ As at September 30 2010, median European income was \$575.00 per week. Māori median income was \$458.00 per week (or 80% of the European median); and Pasifika median income was \$382.00 per week (or 66% of the European median).

couple.⁶ If the lower earner then acts to increase their income by increasing their labour force involvement, there is potential for the person on the higher income to lose their tax saving as a result of the reduced disparity between the two incomes.

3.14 The loss of the tax saving may then be exacerbated by additional costs associated with employment beyond the home, e.g. clothing, transport, lunches and personal grooming costs etc. The end result could be a disincentive for women to either return to the workforce or increase their hours of work, thus contributing to the pay gap between men and women.

3.15 The Inland Revenue Department is also concerned about possible discrimination. They state that the “proposed legislation may result in discrimination on the grounds of marital status that may be inconsistent with the New Zealand Bill of Rights Act 1990. It may be difficult to justify some of the discrimination identified” Inland Revenue Department, 2010, p.5.

3.16 **Mechanisms which could be used to help parents look after their children**

Children’s early years provide a crucial basis for the rest of their lives. As Waldegrave and Waldegrave have explained, *the partnership during childhood between a constant caregiver and child provides a pattern of interaction, information and feedback, alarm and comfort, question and answer, exploration, socialisation and learning that enriches the lives of young children, and enables them to adapt successfully to their environment* (2009, p.52). When parents cannot provide the necessities of life for their children, the associated stress gets in the way of this partnership (see Albee, 2006). Society then bears the social and economic costs associated with impoverished early lives.

3.17 If Government wishes to assist our children, there are existing mechanisms for doing so which still use the combined income of the parents and avoid the marginal tax problems associated with the current Bill. *Working For Families* already uses tax credits to redistribute income to families with children aged 18 or under on the basis of combined income. It does, however, does not apply to families in receipt of social welfare benefits.

3.18 Other possible measures to assist couples with children government might wish to investigate include: reducing socio-economic inequalities, reintroduction of the universal child benefit, access to the work Tax Credit component of working for Families for those families on benefits, increased benefit levels, support for breastfeeding, increased parental leave, or improved early childhood education provisions.

⁶ The Bill results in the first dollar of the lower income being taxed at the same marginal tax rate as the last dollar of the higher income (Jones, G, Savage, E 1996).

4. **Summary**

Government is wise to be concerned about children's wellbeing. The OECD recommends *New Zealand "take a stronger policy focus on child poverty ..., especially during the early years when it is easier to make a long term difference."* They also note New Zealand spends far less on children than the OECD average (OECD, 2009). Children can be disadvantaged in a number of ways. One of these is economic hardship (see Kirkwood, T. et. al., 2008). The Bill does nothing to ameliorate economic hardship for children. Its provisions favour couples in wealthier households, and are not going to assist poor households. If Government is concerned about children's wellbeing, then it is advisable to improve assistance to low income, single parent and benefit dependent families.

5. **Recommendations**

5.1 NZCCSS recommends the Finance and Expenditure Committee set aside the Taxation (Income-sharing Tax Credit) Bill.

5.2 NZCCSS recommends consideration is given to other measures which are likely to assist parents in looking after their children. Such measures could include: reducing socio-economic inequalities, reintroduction of the universal child benefit, access to the work Tax Credit component of working for Families for those families on benefits, increased benefit levels, support for breastfeeding, increased parental leave, or improved early childhood education provisions.

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Appendix I – Overview of NZCCSS

The New Zealand Council of Christian Social Services (NZCCSS) has six foundation members: the Anglican Care Network, Baptist Union of New Zealand, Catholic Social Services, Methodist Church of New Zealand, Presbyterian Support New Zealand Inc and the Salvation Army.

Collectively, these six members are responsible for over 500 social service delivery sites in their networks throughout New Zealand. Our members deliver a wide range of services that cover such areas as child and family services, services for older people, food-bank and emergency services, housing, budgeting, disability, addiction support, community development and employment services.

This size and diversity in services are amongst the many reasons for NZCCSS to celebrate its membership and the work that they do to meet people's needs throughout New Zealand.

NZCCSS Mission and Role

NZCCSS works for a just and compassionate society in Aotearoa New Zealand. We see this as a continuation of the mission of Jesus Christ. In seeking to fulfil this mission, we are committed to:

- giving priority to poor and vulnerable members of our society
- Te Tiriti O Waitangi

The key roles of NZCCSS are to represent the common interests and vision of our members at the national level; to supply information and networking opportunities to support members provide quality services; and to develop, critique and advocate for policies that will assist poor, vulnerable and disadvantaged members of society.

A national Council, made up of two representatives from each denomination, governs NZCCSS. A small Secretariat team carries out the day-to-day work of the Council. This includes gathering and distributing information, research on social policy issues, and building relationships with government officials and others working in the community sector.

A Policy Group oversees the policy and research work that NZCCSS does in three key areas: child and family, housing and poverty and services for older people. Each Policy Group is made up of at least two council representatives plus social services managers, academics or others with particular expertise in that area. This means that the work that NZCCSS does is well informed by what is happening in our members' communities.

www.nzccss.org.nz or www.justiceandcompassion.org.nz