



Inland Revenue
Te Tari Taake



MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Changing Families' Financial Support and Incentives for Working

**The summary report of the evaluation of the
Working for Families package**

**Centre for Social Research and Evaluation
Te Pokapū Rangahau Arotake Hapori**

**Inland Revenue
Te Tari Taake**

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Disclaimer

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Executive summary

The Working for Families (WFF) package was a series of changes to social assistance for low-to-middle income families

The WFF changes were implemented by the Ministry of Social Development (MSD) and Inland Revenue (IR) between October 2004 and April 2007.¹ The objectives of WFF were to:

- make work pay by supporting families with dependent children so that they are rewarded for their work effort
- ensure income adequacy with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty
- achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports them into, and to remain in, employment.

The WFF changes affected 382,500 families with dependent children and cost an additional \$1.5 billion in the year to March 2008 compared with the year to March 2004

The WFF changes were designed to work together to meet the objectives. The changes made in October 2004 and April 2005 increased the number of families eligible for Accommodation Supplement and Childcare Assistance and increased the levels of payments. Also in April 2005, WFF Tax Credits² were changed: family tax credit rates were increased, the minimum family tax credit was increased and the child component of main benefits was removed.

The focus of the changes in April 2006 was on making work pay. Accommodation Supplement and Childcare Assistance changes had already addressed some of the financial barriers to families moving into work. The introduction of the in-work tax credit provided a specific financial incentive for families to be in paid work. At the same time, the WFF Tax Credits abatement thresholds were increased and the abatement rates were reduced.

The WFF changes aimed to strike a balance between the “income adequacy” and “make work pay” objectives

While specific changes focused on one or other of these objectives, the key parts of the package were designed so that:

- the introduction of the in-work tax credit would improve the financial incentive for families to be in paid work as well as improve incomes and reduce poverty among working families

¹ The WFF changes were implemented during a strong economy with low unemployment and a shortage of skilled and unskilled labour. Reforms which gave parents a greater choice in combining parenting and paid work accompanied the WFF package.

² In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

- the changes to the WFF Tax Credits abatement rates and thresholds would increase the net return from additional hours worked for low income earners by reducing their effective marginal tax rates (EMTRs)
- the abatement changes would also extend the payments to families with higher incomes and increase the family income of middle income families
- the increases in family tax credit would improve income adequacy and reduce the incidence of child poverty in low income families.

An anticipated consequence was an increase in the EMTRs of middle income families, which could lead to the reduced employment of couple parent families and reduced incentives for some low-to-middle income families to increase their earnings.

This report summarises the findings from the WFF evaluation. Results include an analysis of the impact of the WFF changes on sole parents' employment, couple parents' employment and poverty. The impact analysis included controls for the economic conditions over the WFF implementation period.

Did WFF make work pay?

Before the WFF changes many low income families with children were little or no better off in low paid work than if they were not working at all. As well as addressing issues of income adequacy the WFF changes were intended to improve the financial incentives for parents to be in paid employment. The changes that were designed to have an impact on the financial incentives for families to be in paid work included:

- introducing the in-work tax credit
- increasing the number of non-beneficiary families eligible for WFF Tax Credits and increasing the payments through both the in-work tax credit and changes to abatement thresholds and rates
- reducing the Accommodation Supplement abatements to enable families moving off a benefit to continue to receive support for their housing costs and increasing the number of eligible non-beneficiary families
- changing Childcare Assistance to increase the number of eligible non-beneficiary families and to increase the amounts received to reduce the financial barriers to working.

Sole parents' employment increased due to the WFF changes

In the quarter ended June 2007, there were an estimated additional 8,100 sole parents engaged in some paid work as a result of the WFF changes, and increased numbers of sole parents were working 20 hours a week or more. Sole parents' periods of benefit receipt were shorter and sole parents previously on benefit were staying off benefit longer. In 2007, two out of five sole parents who were not employed considered themselves available to work.

A more recent analysis suggests the economic downturn in 2009 has eroded most of this impact. The growth in Domestic Purposes Benefit numbers during the economic downturn was due both to an increase in grants and to a decrease in cancellations. The growth in the number of grants is equally distributed between those who have not received a benefit in the previous four years and those who have.

Sole parent families used minimum family tax credit to transition from benefit to paid work

In the tax year ended March 2008, 81% of recipients of the minimum family tax credit were sole parents. Families predominantly receive the minimum family tax credit for short periods. Of the 7,200 families who received the minimum family tax credit at some point between April 2003 and March 2008, 80% received a payment in only one year.

The WFF changes did not have any impact on the total hours spent in paid work by second earners in couple parent families

Although not an objective of the reforms³, the WFF changes gave couple parents greater choice about working and caring for their children by making it easier to manage on less income from the labour market. Families could reduce their hours of work or take lower paying jobs and have their income topped up by WFF Tax Credits payments. The WFF changes also reduced the net return from additional hours worked for those families whose payments were abating.

Although there was no impact on the total hours second earners⁴ in couple families were in paid work, 9,300 fewer second earners in couple parent families were in paid employment in the quarter ended June 2007 due to the WFF changes.

Effective marginal tax rates of low-to-middle income parents changed as a result of the WFF changes

Effective marginal tax rates (EMTRs) are an indicator of the financial incentive for individuals to earn additional income. They are the percentage of the next \$1 an individual earns that is lost due to tax, government deductions and social assistance abatements. The WFF changes were expected to change the EMTRs of some parents with dependent children by:

- removing the Accommodation Supplement abatement for beneficiary families, which would lower the EMTRs for beneficiary families
- removing the 18% abatement rate and reducing the 30% abatement rate to 20%, which would lower the EMTRs of low income families
- extending the package to higher income families, which would increase their disposable income but also increase their EMTRs.

The WFF changes decreased the EMTRs of families who previously received an abated amount of WFF Tax Credits and/or Accommodation Supplement. Non-beneficiary families with low incomes have lower EMTRs due to WFF.

The WFF changes increased the disposable income and EMTRs of the newly eligible. Non-beneficiary families receiving a main component of WFF with very low incomes or higher incomes can have high EMTRs. Newly eligible higher income families had both higher incomes and increased EMTRs although the impact on

³ Balancing working and caring was a policy priority for the government at the time. The Choices for Working, Caring and Living 10-year plan of action was released in August 2006.

⁴ Second earners in couple parent families are defined as the parent with the least attachment to the labour market.

employment is muted. Also, beneficiaries can have high EMTRs due to benefit abatement rules. Proposed changes to abatement thresholds made as part of the Future Focus reforms will have an impact on beneficiary families' EMTRs.

Did WFF improve income adequacy and reduce child poverty?

The WFF changes increased the amount of money low-to-middle income families received from financial supports

The WFF changes targeted low-to-middle income families: almost 60% of WFF Tax Credits recipients have an annual taxable family income of less than \$40,000.

The income from WFF Tax Credits has increased the disposable⁵ incomes of low-to-middle income families, while maintaining a gap between family income from benefit and family income from paid employment.

WFF payments increased the income of low and middle income families, which reduced the income gap between high income and low income households. The WFF package reversed the upward trend in this gap with a significant fall in inequality from 2004 to 2007. Households with incomes in the lowest 40% saw their income increase by 13–17%, while household incomes above the median typically grew by around 8–9%. The 2004 to 2008 period is the only one in the last 25 years when the incomes of low-to-middle income households have grown more quickly than those of households above the median.

The percentage of children living in poverty, using a 60% measure relative to 2004, dropped by 8 percentage points due to WFF. Without the WFF package, New Zealand's child poverty rate would have continued to climb from 2004, most likely reaching around 30% in 2008.

Using a non-income material measure, hardship rates for children in low-to-middle income households fell by 11 percentage points between 2004 and 2008.

The WFF changes to the Accommodation Supplement initially improved housing affordability for families with some income from paid work. More recently, the cost of housing has increased, eroding the gains in housing affordability for Accommodation Supplement recipients. For some families their increased housing costs will be due to paying more for better quality housing.

How was WFF delivered?

To achieve the goal of delivery that supported people into work, the MSD and IR worked together to streamline the social assistance system to make it easier for people to understand and get access to, and to introduce initiatives to improve take-up and enhance the effectiveness of delivery.

The number of families with children receiving one of the main components affected by the WFF changes increased by 41% from 270,900 in the tax year ended March 2004 to 382,500 in the tax year ended March 2008. Couple parent and non-beneficiary families now make up a larger proportion of the WFF Tax Credits recipients than they did in 2004.

⁵ Total income including net taxable income and payments from WFF Tax Credits, the Accommodation Supplement, Childcare Assistance and other transfers including Child Support.

95-97% of families eligible for WFF Tax Credits in the tax years ended March 2006 and March 2007 were receiving WFF Tax Credits. For the small group who were eligible for but not receiving WFF Tax Credits, a lack of awareness was one barrier to receipt. However, awareness rates were high – 88% of eligible families had heard of WFF in June 2006.

The percentage of families who were overpaid WFF Tax Credits decreased, but the number of overpayments and the mean overpayment amount have increased with the increase in the number of recipients and the value of payments.

Overall, the Working for Families changes met their objectives without significant disincentive effects

The evidence from the evaluation is consistent with the WFF changes being effective in meeting their objectives.

- The WFF changes met the “income adequacy” objective as low and middle income families received the bulk of the increased expenditure, and child poverty rates were reduced for lower income families with at least one adult in paid work. However there was no significant change in hardship rates for beneficiaries with children.
- The WFF changes met the “making work pay” objective as they were effective in supporting 8,100 sole parents into paid work and enabling them to remain in paid work, though some barriers to work still remain for sole parents.
- The WFF changes met the “delivery that supports people into work” objective as the funding for WFF is reaching the intended recipients in low and middle income families and feedback on the delivery of the WFF changes was predominantly positive.

For higher income families the WFF changes did result in increased disposable incomes and higher EMTRs. The impact of these on employment appears to be muted.

1 Introduction

1.1 The Working for Families (WFF) changes

The Working for Families (WFF) package was a series of changes to social assistance for low-to-middle income families

WFF was implemented by the Ministry of Social Development (MSD) and Inland Revenue (IR) between October 2004 and April 2007. The WFF changes were introduced in the 2004 Budget and included changes to in-work incentives and family entitlements as well as the adjustment of supports to meet childcare and accommodation costs for low-to-middle income families with dependent children. Further legislation passed in November 2005 made modifications, which extended the package to a larger number of recipients across a broader income range.

1.1.1 Objectives of the WFF changes

The objectives of the WFF changes as set out by Cabinet were to:⁶

- A) **Make work pay** by supporting families with dependent children, so that they are rewarded for their work effort.
- B) **Ensure income adequacy**, with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty.
- C) Achieve a social assistance system that **supports people into** work, by making sure that people get the assistance they are entitled to, when they should, and with **delivery that supports** them into, and to remain in, employment.

The changes were designed to work together to meet the objectives of the WFF package (Table 1). The changes made in October 2004 and April 2005 increased the number of families eligible for Accommodation Supplement and Childcare Assistance and increased the levels of payments. Also in April 2005, WFF Tax Credits⁷ were changed: family tax credit rates were increased, the minimum family tax credit was increased and the child component of main benefits was removed.

The focus of the changes in April 2006 was on making work pay. Accommodation Supplement and Childcare Assistance changes had already removed some of the financial barriers to families moving into work, and the introduction of the in-work tax credit provided a specific incentive for families to enter or remain in work. At the same time, WFF Tax Credits abatement thresholds were increased and abatement rates were reduced.

Full details of the WFF package and an implementation timeline are in Appendix B. Details of the delivery of WFF are in Appendix C.

⁶ Cabinet Policy Committee (2004).

⁷ In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

Table 1: WFF changes alignment with objectives and the change in annual expenditure

WFF changes	Objectives of WFF changes			Change in annual expenditure (2004–2008) ¹
	Make work pay	Ensure income adequacy	Delivery that supports people into work	
Increases in family tax credit rates		✓		+\$1,087m ²
Changes to the abatement regime of WFF Tax Credits	✓	✓		
Introduction of the in-work tax credit	✓	✓		+\$485m ³
Annual adjustment of the minimum family tax credit ⁴	✓	✓	✓	+\$5m
An increase in the Accommodation Supplement thresholds and rates	✓	✓		+\$177m
Increased Childcare Assistance for those eligible	✓	✓		+\$93m
Removal of the child component of main benefits	✓		✓	-\$297m
Replacement of the Special Benefit with Temporary Additional Support ⁵			✓	-\$3m
Total change in expenditure				+\$1,548m
				Total expenditure 2004–2008
Systems to support delivery of WFF changes			✓	+\$108m

1 Tax years ended March.

2 Expenditure on family tax credit and parental tax credit.

3 Expenditure on in-work tax credit and child tax credit.

4 Ensures no reduction in income when moving off benefit into paid work.

5 Estimated assuming every sole parent receiving DPB who had one child would have received \$27 child component a week, and those with two or more children would have received \$54 child component.

6 Temporary Additional Support is targeted at beneficiaries with higher financial costs.

1.1.2 Balancing the ‘income adequacy’ and ‘make work pay’ objectives

The WFF changes aimed to strike a balance between the ‘income adequacy’ and ‘make work pay’ objectives. While specific changes focused on one or other of these objectives, the key parts of the package were designed so that:

- the introduction of the in-work tax credit would improve the financial incentive for families to be in paid work as well as improve incomes and reduce poverty among working families
- the changes to the WFF Tax Credits abatement rates and thresholds would increase the net return from additional hours worked for low income earners by reducing their effective marginal tax rates (EMTRs)
- the abatement changes would also extend payments to families with higher incomes and increase the family income of middle income families

- the increases in family tax credit would improve income adequacy and reduce the incidence of child poverty in low income families.

One trade-off was an anticipated increase in the EMTRs of middle income families, which could lead to reduced employment of couple-parent families and reduced incentives for some low-to-middle income families to increase their earnings over time.

The Government considered alternatives to the WFF package including:

- Removing the child tax credit, increasing family tax credit⁸ and reducing benefit rates (by a smaller amount than the increases to family tax credit). This option was unlikely to fully address the make work pay objective.
- Making larger increases to family tax credit. Larger increases in family tax credit would ensure there was a financial incentive to leave benefit for employment, but they would create incentives to stay in low-paid jobs due to higher EMTRs spread across a longer family income distribution.
- A universal payment of either child tax credit or family tax credit. This option improved income adequacy without creating high EMTRs but did not address the make work pay objective. Also, very high income families would receive a payment.
- Tax reform to improve the after-tax return from paid employment. Changes to the low income tax rate would have had a relatively small impact on work incentives and did not target families with children. Wider tax reform had a greater fiscal cost than income-tested tax credits.
- Increasing the minimum wage to make work pay. Minimum wage changes have broader economic implications than to make work pay for families with children.

1.2 How the WFF changes affected families

The WFF changes affected 382,500 families with dependent children and cost an additional \$1.5 billion in the year to March 2008 compared with the year to March 2004

Between the tax years ended March 2004 (before the policy change) and March 2008, when the WFF changes were fully implemented:

- The number of families with dependent children receiving a payment from either WFF Tax Credits^{9,10}, the Accommodation Supplement or Childcare Assistance, the main components affected by the WFF changes, increased by 41% from 270,900 to 382,500.

⁸ Called Family Support at the time. Family Support was renamed to family tax credit in 2007.

⁹ In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

¹⁰ See Appendix A for the definition of terms used in this report.

- The percentage of all New Zealand families with dependent children receiving one of the main components increased from 55% in the tax year ended March 2004 to 74% in the tax year ended March 2008.
- Expenditure on the main components more than doubled from \$1.8 billion to \$3.7 billion a year. The increase in expenditure on the main components was offset by a reduction in expenditure in other areas of an estimated \$300 million.
- The average payment received by families with dependent children who received at least one of the main components increased by 60% from \$100 to \$160 a week.

Both the number of non-beneficiary families receiving a payment of each of the main components and the average payments of each of the components increased (Table 2, Table 3).

- The number of beneficiaries receiving payments of WFF Tax Credits, the Accommodation Supplement and Childcare Assistance dropped due to the declining number of beneficiaries (see section 1.3.1).
- The average payments of each of the main components to beneficiary families increased, though this was partially off set by a reduction in the child component of the main benefit.
- All of the growth in numbers of families receiving a payment in each of the main components was in non-beneficiary families.
- The average payment to non-beneficiary families increased for all of the main components.

Further details on the families receiving a payment and on expenditure are in sections 4.1 and 4.2.

Table 2: Number of families receiving WFF Tax Credits, the Accommodation Supplement and Childcare Assistance

Tax year ended March	Beneficiaries			Non-beneficiaries			All		
	2004 ¹	2008	% change	2004 ¹	2008	% change	2004 ¹	2008	% change
WFF Tax Credits	166,500	138,800	-17%	97,800	238,700	144%	264,300	377,400	43%
Accommodation Supplement:									
• Families with dependent children	126,300	104,700	-17%	23,000	49,500	115%	149,300	154,200	3%
• Singles and couples without children	183,000	133,000	-27%	31,000	47,000	52%	214,000	180,000	-16%
Childcare Assistance	31,000	26,900	-13%	10,000	36,700	267%	41,000	63,600	55%

¹ In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

Source: Linked MSD/IR datasets as at September 2009.

Table 3: Average weekly payments to families receiving WFF Tax Credits, the Accommodation Supplement and Childcare Assistance

Tax year ended March	Beneficiaries			Non-beneficiaries			All		
	2004 ¹	2008	% change	2004 ¹	2008	% change	2004 ¹	2008	% change
WFF Tax Credits	\$70	\$127	82%	\$71	\$130	82%	\$70	\$129	83%
Accommodation Supplement:									
• Families with dependent children	\$51	\$67	31%	\$44	\$59	35%	\$50	\$64	29%
• Singles and couples without children	\$24	\$32	35%	\$29	\$38	32%	\$24	\$34	38%
Childcare Assistance	\$24	\$34	44%	\$29	\$47	61%	\$25	\$41	66%

¹ In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

Source: Linked MSD/IR datasets as at September 2009.

1.2.1 Main components

The following were the main components affected by the WFF reform.

WFF Tax Credits are a group of tax credits targeted at low-to-middle income families with dependent children.

- **Family tax credit** is a payment for all low-to-middle income families with dependent children.
- **In-work tax credit** is a payment for families with dependent children aged 18 or younger who work the required hours each week.¹¹
- **Minimum family tax credit** ensures that the annual income (after tax) of a family with dependent children does not fall below a minimum threshold.¹²
- **Parental tax credit** is paid to families with a newborn baby for the first 56 days (eight weeks) after the baby is born.¹³

In most cases, Inland Revenue (IR) pays WFF Tax Credits but Work and Income, a service in the Ministry of Social Development (MSD), pays the family tax credit to most beneficiaries.

The **Accommodation Supplement** provides assistance towards accommodation costs, including rent, board or a mortgage.¹⁴ The Accommodation Supplement is paid by Work and Income.

¹¹ To be eligible for in-work tax credit, families must not be in receipt of a main benefit and couples must work at least 30 hours a week between them, and sole parents must work at least 20 hours a week.

¹² The before-tax minimum family tax credit threshold is \$24,493 as at April 2009. To receive minimum family tax credit, couples must work at least 30 hours a week between them, and sole parents must work at least 20 hours a week.

¹³ Families are only eligible for parental tax credit if they do not receive paid parental leave or an income-tested benefit.

Childcare Assistance is made up of two payments – the Childcare Subsidy and the Out of School Care and Recreation (OSCAR) Subsidy. Both payments offer financial assistance to low-to-middle income families with dependent children so they can get access to childcare services. Children under the age of five are eligible for the Childcare Subsidy. OSCAR is available for children aged five to 13 for before-school and after-school programmes, and school holiday programmes. Work and Income pays Childcare Assistance directly to the childcare services.

1.3 Other changes during the implementation period

1.3.1 Economic context

The WFF changes were implemented during a strong economy with low unemployment and a shortage of skilled and unskilled labour

During the implementation period (October 2004–April 2007) there was a strong economy, characterised by a sustained growth in employment and by labour shortages. The numbers of beneficiaries were low.

- There was 1.6% growth in the real Gross Domestic Product (GDP) in the quarter ended June 2005.¹⁵ Annual GDP continued to grow by 1.9% in the year ended June 2006 and 2.2% in the year ended June 2007.
- There was sustained growth in overall employment between 2000 and 2006, with full-time (30 plus hours) employment accounting for most of this growth. Growth in full-time employment averaged 3.3% a year, compared with 1.9% for part-time employment.¹⁶ During 2007, employment continued to increase and the labour market remained strong.¹⁷
- In March 2005, a peak of 26% of all employers reported labour as their main constraint on growth. Difficulty in finding unskilled labour grew considerably, peaking at around 49% in March 2005.¹⁸
- In June 2003, 33% of beneficiaries were receiving an unemployment-related benefit, but by June 2007 this proportion had more than halved.

1.3.2 Other WFF changes

Reforms which gave parents a greater choice in combining parenting and paid work accompanied the WFF package

Some of the other changes that occurred at the same time included:

- paid parental leave extended to the self-employed in July 2006

¹⁴ Recipients' accommodation costs must be more than a certain amount, and income and assets must be under certain limits. Housing New Zealand Corporation (HNZC) tenants are not eligible to receive the Accommodation Supplement.

¹⁵ Statistics New Zealand (2009a).

¹⁶ Statistics New Zealand (2007).

¹⁷ Statistics New Zealand (2009b).

¹⁸ New Zealand Institute of Economic Research, Quarterly Survey of Business Opinion, QSBO_-_Detailed_results.xls (available only to members), downloaded June 2010.

- Choices for Working, Caring and Living 10-year plan of action released in August 2006
- Working New Zealand: Job Search Service rolled out in September 2006
- 20 hours early childhood education (ECE) for three and four year olds in teacher-led services introduced in July 2007¹⁹.

1.4 Evaluating the effectiveness of changing financial supports and incentives for families

This report summarises the findings of the evaluation of changes to families' financial supports and incentives for working

This report summarises the findings from the WFF evaluation and aligns them with the three objectives of the WFF changes (see section 1.1.1).

- The impact of changes to financial incentives and support for working on paid employment (aligns with the make work pay objective).
- The impact of financial support on families' income adequacy and child poverty (aligns with the income adequacy objective).
- Delivering a social assistance system that supports families into paid employment (aligns with the supporting people into work objective).

The final sections of the report look at the possible effect of the economic downturn in 2009 on the gains made by the WFF changes, and draw some conclusions about the effectiveness of the changes.

The data and analysis used to inform this report are summarised in Table 4.

Further details on the evaluation and the evaluation objectives are available in Appendix D.

¹⁹ "20 hours ECE for three and four year olds" was renamed from "20 hours free ECE for three and four year olds" in January 2009.

Table 4: Summary of analysis used to inform the findings presented in this report

Data sources	Analysis used to inform the findings in this report
MSD and IR administration data	<ul style="list-style-type: none"> • Reporting of take-up of and expenditure on WFF Tax Credits, the Accommodation Supplement and Childcare Assistance • Accuracy of payments in 2007 and 2008 • Minimum family tax credit
Linked MSD/IR datasets	<ul style="list-style-type: none"> • Description of the customer base • Effective marginal tax rates • Survival analysis of the receipt of DPB-Sole Parent • Survival analysis and panel regression modelling on the number of earners in couple parent families
Surveys of families commissioned for the evaluation	<ul style="list-style-type: none"> • Communications and awareness of WFF package • Accommodation Supplement evaluation • Applying for Working for Families • Childcare Assistance evaluation • Coverage of WFF Tax Credits in 2006 and 2007 • Uses of WFF money
Interviews with WFF recipients commissioned for the evaluation	<ul style="list-style-type: none"> • Implementation of Childcare Assistance • Implementation of WFF • Awareness and barriers to take-up of Māori families eligible for WFF Tax Credits
Other survey data	<ul style="list-style-type: none"> • Difference in differences analysis on sole parent families' employment (Household Labour Force Survey) • Difference in differences analysis on couple parent families' employment (Household Labour Force Survey) • Living Standards report (Living Standards Survey) • Poverty report (Household Economic Survey)

1.4.1 Other publications from the WFF evaluation

Reports published by the WFF evaluation are:

- *Receipt of Working for Families*. Ministry of Social Development and Inland Revenue, Wellington: New Zealand.
(<http://www.ird.govt.nz/aboutir/reports/research/report-wfftc/> or <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/receipt-working-for-families/index.html>).
- *Receipt of Working for Families – 2007 Update*. Ministry of Social Development and Inland Revenue. Wellington: New Zealand.
(<http://www.ird.govt.nz/aboutir/reports/research/report-wfftc-update/> or <http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/receipt-working-for-families/receipt-working-for-families-sept-2007.pdf>).
- *Employment incentives for sole parents: Labour market effects of changes to financial incentives and support*. Ministry of Social Development and Inland Revenue. Wellington: New Zealand.
(<http://www.ird.govt.nz/aboutir/reports/research/emp-sole-parents/> or <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/receipt-working-for-families/index.html>).

- *Employment incentives for sole parents: Labour market effects of changes to financial incentives and support. Technical report.* Ministry of Social Development and Inland Revenue. Wellington: New Zealand.
(<http://www.ird.govt.nz/aboutir/reports/research/emp-sole-parents-2010/> or <http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/receipt-working-for-families/sole-parents-technical-report.pdf>).

This report has two annexes:

- *Effective marginal tax rates for Working for Families recipients. WFF Annex Report 01/10.* Ministry of Social Development and Inland Revenue. Wellington: New Zealand.
- *Employment incentives for couple parents: Labour market effects of changes to financial incentives and support. WFF Annex Report 02/10.* Ministry of Social Development and Inland Revenue. Wellington: New Zealand.

2 Impact of financial incentives and changes to support for working on employment

Before the WFF changes, many low income families with children were little or no better off in low paid work than if they were not working at all

Qualitative interviews with sole parents before the WFF changes consistently found the lack of financial incentives to take up paid employment kept some sole parents on benefit.²⁰ Many low income, predominantly sole parent, families were little or no better off in low-paid employment once work-related costs, benefit abatement, other entitlement abatements (eg the Accommodation Supplement and Childcare Assistance) and tax were taken into account.²¹

As well as addressing issues of income adequacy (see section 3), the WFF changes intended to improve the financial incentives for parents to be in paid employment by:

- increasing the financial reward for being in paid employment
- removing or reducing the financial barriers to paid employment (eg cost of childcare, transportation to work, reduced entitlement abatements)
- reducing the risks associated with moving from a benefit into paid employment by providing a stable source of income.

The changes that were intended to have an impact on the financial incentives for families to be in paid work included:

- introducing the in-work tax credit
- increasing the number of non-beneficiary families eligible for WFF Tax Credits²² and increasing the payments through both the in-work tax credit and changes to abatement thresholds and rates
- reducing the Accommodation Supplement abatements, to enable families moving off a benefit to continue to receive support for their housing costs and increasing the number of eligible non-beneficiary families
- changing Childcare Assistance to increase the number of eligible non-beneficiary families and to increase the amounts received to reduce the financial barriers to working.

2.1 Sole parent families' employment and benefit receipt

The WFF changes, particularly the introduction of the in-work tax credit and the changes to the minimum family tax credit, were expected to improve the financial incentive for sole parents to be in paid work.²³ Both the minimum family tax credit and the in-work tax credit require sole parents to be in paid employment for more than 20 hours a week.

²⁰ Levine et al. (1993) and Department of Labour and the Ministry of Social Development (2002).

²¹ Cabinet Policy Committee (2004).

²² In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

²³ Cabinet Policy Committee (2004).

The improved financial incentives to be in paid work increased sole parents' employment

In the quarter ended June 2007, there were an estimated additional 8,100 sole parents engaged in some paid work as a result of the WFF changes

Over the period of implementation, the proportion of sole parents participating in some paid work increased to the highest levels seen in the Household Labour Force Survey (HLFS) to date.

- Between the quarters ended June 2004 and June 2007, the percentage of sole parents in paid work for at least one hour a week increased from 48% to 58%. Around two-thirds of the increased employment rate of sole parents was due to the changes in financial support and incentives for working²⁴. In the quarter ended June 2007, there were an estimated additional 8,100 sole parents engaged in some paid work as a result of the WFF changes.

Increased numbers of sole parents were working 20 hours a week or more

- The percentage of sole parents working 20 hours a week or more increased from 36% to 48% between the quarters ended June 2004 and June 2007. Around three-quarters of this increase was due to the WFF changes.

Sole parents' periods of benefit receipt were shorter and sole parents previously on benefit were staying off benefit longer

With the WFF changes providing greater financial incentives and support for work:

- The numbers of all DPB recipients fell by 13,500 (12%) from 107,900 at the end of March 2004 to 94,300 at the end of March 2008 (see Figure 6). Immediately before the WFF changes, the numbers of DPB recipients had been fairly constant year to year. The WFF changes appear to have had more of an impact on those sole parent beneficiaries who were already in some paid work.
- The results from a survival analysis of DPB-Sole Parent recipients, which looked at changes in duration of benefit receipt and time off benefit, show the WFF changes have affected DPB-Sole Parent numbers by speeding exit from benefit and by reducing the rate at which sole parents return to benefit once they have left.
- The number of DPB-Sole Parent recipients who reported some income from other sources (an indicator of labour market participation) fell by 24% over the period March 2004 to March 2008. The large decline in the numbers of DPB-Sole Parents receiving other income indicates that more of those already working moved off benefit.

2.1.1 Minimum family tax credit

Minimum family tax credit provides income support for very low income working families who are independent of benefit and who meet the hours in paid work

²⁴ Controlling for the economic conditions at the time. For further details on methodology see Appendix E.

requirement.^{25,26} The WFF changes raised the minimum family income threshold and the amount of money recipients were entitled to receive each year from April 2006.

Minimum family tax credit supports sole parent families during their transition from benefit to paid work

- Sole parents are the largest group of minimum family tax credit recipients (Table 5). 81% of minimum family tax credit recipients in the tax year ended March 2008 were sole parent families.
- 60% of minimum family tax credit recipients in the tax year ended March 2008 had received a main benefit in the tax year ended March 2007.

Table 5: Families entitled to and receiving minimum family tax credit and mean annual entitlement

		Tax year ended March					
		2004	2005	2006	2007	2008	2009
All families	Entitled to and receiving a payment during tax year ¹	1,500	1,100	900	2,900	2,800	2,300
	Mean annual entitlement	\$2,296	\$2,309	\$2,342	\$2,867	\$2,977	\$2,820
Sole parent families	Entitled to and receiving a payment during tax year ¹	1,100	800	700	2,300	2,300	–
	% of entitled families	74%	73%	74%	79%	81%	–
Couple parent families	Entitled to and receiving a payment during tax year ¹	400	300	200	600	500	
	% of entitled families	26%	27%	26%	21%	19%	

– Not available.

¹ Entitlement for minimum family tax credit is calculated at the end of the tax year. Families who have short periods of low income may receive interim payments during this time, but their higher income during the rest of the year means they do not have an annual entitlement. People who have been overpaid minimum family tax credit may have the debt written off, and will not be required to pay back what they have received if it would cause serious hardship.

Source: IR data warehouse.

The number of families eligible and receiving the minimum family tax credit declined between the tax years ended March 2004 and March 2006. Between the tax years ended March 2006 and March 2007, the number of recipients more than tripled from 900 to 2,900. In the tax year ended March 2009 there were 2,300 recipients of minimum family tax credit.

Families predominantly receive minimum family tax credit for short periods

The period a family receives the minimum family tax credit is often very short. Of the 7,200 families who received the minimum family tax credit at some point between April 2003 and March 2008:

²⁵ To be entitled to minimum family tax credit, the before-tax annual family income in the tax year ended March 2009 must be less than \$22,253. To be eligible, families must be independent of benefit and in paid employment for more than 20 hours a week for sole parents and 30 hours a week combined for couple parents. See Appendix A for a description of the entitlement and conditions for receipt.

²⁶ Inland Revenue (2009). Minimum Family Tax Credit (mftc): Description of recipients. Unpublished report.

- 80% received a payment in only one year, 15% received a payment in two of the years, and only 1% received a payment in all five years.

2.1.2 Remaining barriers to paid work

Although the changes in financial incentives and support for work have contributed to making work pay for sole parents during the implementation of the WFF changes, barriers to work still remained for some.

For the two out of five sole parents who were not employed in 2007, but who considered themselves available to work, the main barrier is finding a job that suits them

In 2006, an estimated two out of five sole parents who were not employed considered themselves available to work. The most important factors that made it hard for them to get a job were:

- finding a job that suits²⁷ them (77% of sole parents available for work)
- getting work that pays enough (67% of sole parents available for work)
- getting enough hours for the job to be worthwhile (66% of sole parents available for work)
- having the skills employers want (64% of sole parents available for work).

2.2 Couple parent families' employment

Although not an objective of the reforms, the WFF changes gave couple parents a greater choice about working and caring for their children.²⁸ Changing the financial incentives to be in paid work for low income families also altered the incentives for middle income families who were previously not eligible for assistance. The WFF changes have affected the employment arrangements of middle and high income families, predominantly couple parent families, by:

- Making it easier to manage on a single income. The higher levels of financial assistance paid to couple parent families has reduced the amount of paid work required for the family to reach their desired income.
- Reducing the net return from additional hours worked. Extending the WFF Tax Credit abatement rates to families with higher incomes increases individuals' effective marginal tax rates (see section 2.3 for further details).

²⁷ Survey respondents were asked "Which of the following make it harder for you to get a job: 'Finding a job that suits you' ". No guidance was provided to respondents about this option. This option may have been interpreted in varying ways.

²⁸ Balancing working and caring was a policy priority for the government at the time. The Choices for Working, Caring and Living 10-year plan of action was released in August 2006.

As a result of the WFF changes, 9,300 fewer second earners²⁹ in couple parent families are in paid employment, but the second earners who are in paid work are working longer hours

2.2.1 Percentage of couple parent families with two earners

The percentage of couple parent families with two earners was around 2 percentage points smaller due to the WFF changes

After the introduction of the WFF changes, the percentage of couple parent families with two earners increased from 63% in the quarter ended June 2004 to 64% in the quarter ended June 2007. The increase may have been around 2 percentage points greater without the WFF changes.³⁰ In the quarter ended June 2007, there were an estimated additional 9,300 second earners who had left the labour market as a result of the WFF changes.

2.2.2 Couple parent families moving between one and two earners

The changes in the percentage of couple parent families with two earners are the net result of families transitioning back and forward between one and two earners (Figure 1).

- Only 11% of couple parent families did not change their employment arrangements between April 2003 and March 2008.³¹
- Some of the transitions between one and two earners are likely to be related to the summer school holidays. Around 20% of the transitions from two to one earners occurred during December, and around 30% of the transitions from one to two earners occurred during February or March (Figure 1).

The rate couple parent families moved from one to two earners was slower, and the rate they moved from two earners to one earner was faster

The analysis of the transitions between one and two earner couple parent families shows the WFF changes influenced the transitions by:³²

- reducing the rate at which one earner couples made a transition to two earners – the WFF changes led to longer periods where there was one earner in a couple

²⁹ Second earners in couple parent families are defined as the parent with the least attachment to the labour market. Labour market attachment was defined by the number of hours spent in paid work a week. Eighty-five percent of second earners in couple parent families with dependent children are female.

³⁰ See Table 21 in Appendix E for a summary of the evidence leading to the conclusion that the increase in second earners' employment rates may have been around 2 percentage points higher without the WFF changes.

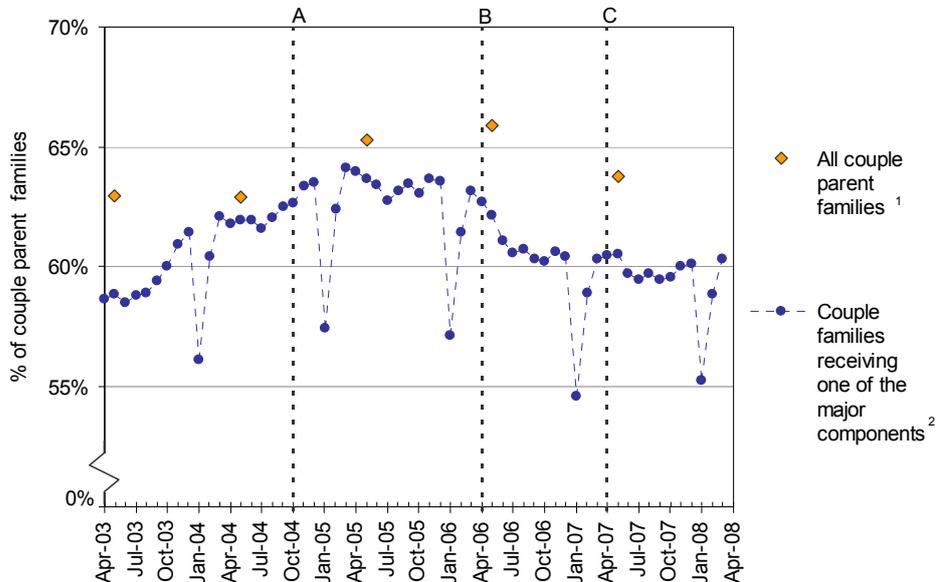
³¹ Base is couple parent families who received at least one of the major components of WFF and had no income from self employment.

³² Survival analysis of couple parent families without income from self-employment used monthly linked MSD and IR administrative data. The analysis looks at the impact of WFF while controlling for other factors such as the strength of the economy (GDP) and family characteristics (eg number of children and age of youngest child) as well as controlling for economic and demographic differences including GDP, number of children and age of youngest child.

- increasing the rate at which two earner couples made a transition to one earner – the WFF changes led to shorter periods where there were two earners in a couple.

The net result of these transitions led to the decrease in the percentage of couple parent families with two earners.

Figure 1: Percentage of couple parent families with two earners



A=First WFF changes.

B=Introduction of in-work tax credit.

C=Last WFF changes.

1 Source: Calculations based on unpublished Household Labour Force Survey data, June quarters.

2 Source: Linked MSD/IR dataset. Excludes couple parent families who had income from self-employment.

2.2.3 Hours parents in couple families are in paid work

The WFF changes had no impact on the total hours the adults in couple parent families spend in paid work each week.

- In the quarter ended June 2004, couples spent an average combined 60 hours and 49 minutes in paid work each week. In the quarter ended June 2007 this had increased by 11 minutes, to 61 hours.
- Despite the reduction in the employment rate of second earners between the quarters ended June 2004 and June 2007, there was no impact from the WFF changes on the number of hours a second earner spends in paid employment. This result suggests second earners remaining in paid employment are working longer hours as a result of the WFF changes.

The 30-hour eligibility requirement of the in-work tax credit had no impact on the combined hours spent in paid work each week by couple parent families

Couple parent families are required to spend at least a combined 30 hours a week in paid work to be eligible for an in-work tax credit. Before the changes, a high proportion of couple parent families were already meeting the hours requirement.

- In the quarter ended June 2007, 93% of couple parent families were meeting the in-work tax credit hours requirement. The percentage of couple parents whose combined hours in paid work is 30 or more a week would have remained at similar levels in the quarter ended June 2007 without the WFF changes.

2.3 Effective marginal tax rates

Effective marginal tax rates (EMTRs) are an indicator of the financial incentive for individuals to earn additional income. They are the percentage of the next \$1 an individual earns that is lost due to tax, government deductions and social assistance abatements.³³ The higher an individual's EMTR the lower their financial gain from taking on additional paid work.

We are interested in EMTRs as:

- EMTRs from taxation and the abatement of social assistance can combine so families can have a low financial return from taking on additional employment
- increasing EMTRs for large numbers of people could lead to a decrease in New Zealand's economic growth.³⁴

The WFF changes were expected to change the EMTRs of some parents with dependent children by:

- removing the Accommodation Supplement abatement for beneficiary families, which would lower the EMTRs for beneficiary families
- removing the 18% abatement rate and reducing the 30% abatement rate to 20%, which would lower the EMTRs of low income families
- extending the package to higher income families, which would increase their disposable income (see section 3.1), but increase their EMTRs.

EMTRs are only one way of looking at the financial incentive to take on additional work. They are not a good measure of the impact on choices about larger blocks of work, eg deciding whether to work or not, or choosing between full-time and part-time work. Other factors, such as the availability of childcare and access to transport, also contribute to the decision to increase participation in work.

This section discusses how WFF has changed families' EMTRs. Full details of the method used to calculate the EMTRs of families is presented in Appendix E.³⁵ Two examples of how WFF has changed the EMTRs for sole and couple parent families are in Appendix F.

³³ EMTRs can be calculated for any marginal increase in earnings, though the most common measure used is \$1.

³⁴ Karabegovic et al. (2004).

³⁵ Nine components were considered in the EMTR calculations: income tax; ACC levies; abatement of benefit, WFF Tax Credits, Accommodation Supplement, Childcare Assistance, and Student Allowance; child support obligations; and student loan obligations. The EMTR for a family was calculated by combining the contribution from each of the nine components. For couples, EMTRs were calculated for each individual, and the family EMTR was taken to be the highest EMTR faced by either person.

2.3.1 Changes in the EMTRs of families receiving one of the main components in the tax year ended March 2008

The WFF changes decreased the EMTRs of families who had previously received an abated amount of WFF Tax Credits or Accommodation Supplement

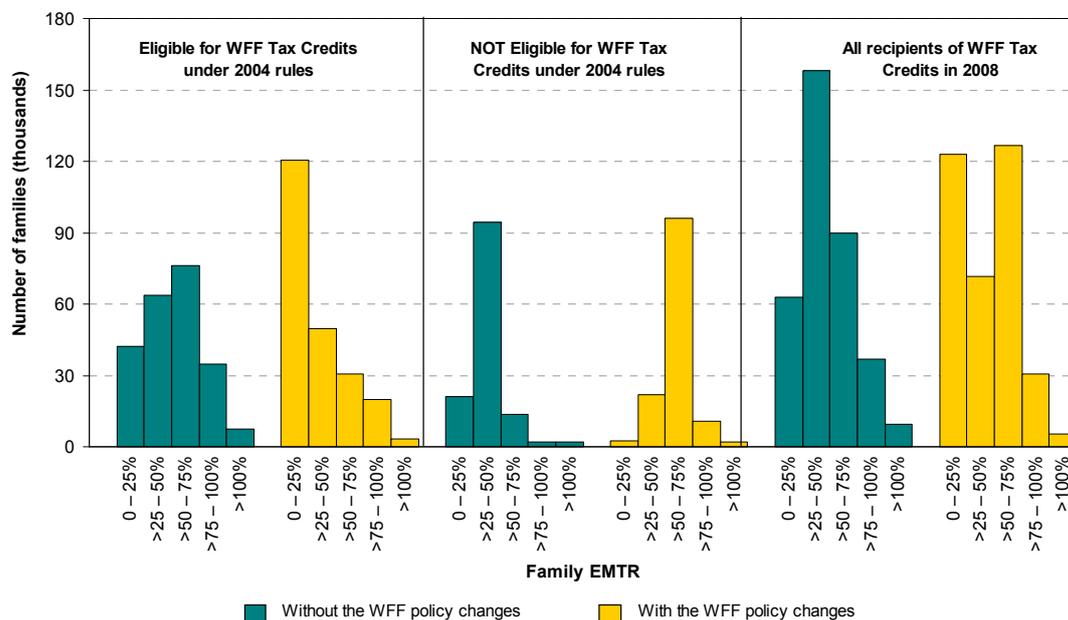
The WFF changes increased the disposable income and EMTRs of the newly eligible

Comparing the EMTR profile in the tax year ended March 2008 with the EMTR profile assuming the WFF changes had not been implemented illustrates the effect of WFF changes on families.

There was an increase of 59,800 in the number of families with EMTRs of 25% or less. This was due to the changes in WFF Tax Credits abatement rates and thresholds in April 2006. The removal of Accommodation Supplement abatement for beneficiary families in April 2005 also reduced the EMTRs for some low income families.

There was an increase of 36,800 in the number of families with EMTRs of between 51–75%. This reflects newly eligible families becoming eligible for an abated amount of WFF Tax Credits. Becoming eligible for WFF Tax Credits increased these families' disposable income and their EMTRs.

Figure 2: Family EMTR with and without the WFF changes, by eligibility for WFF Tax Credits under 2004 rules



Source: Linked MSD/IR dataset as at September 2009.

2.3.2 EMTRs of families who received a main component of WFF in 2008

Non-beneficiary families with low-to-middle incomes have lower EMTRs due to WFF

Non-beneficiary families with annual incomes between \$20,356 and \$35,000 in receipt of WFF Tax Credits (excluding minimum family tax credit) have lower EMTRs following the April 2006 WFF changes.

- In 2008, 45% of non-beneficiary families receiving a main component of WFF had an EMTR of less than 50%.
- In 2008, 163,200 or 83% of the families with EMTRs less than 50% had family incomes less than \$35,000.

Non-beneficiary families receiving a main component of WFF with very low or higher incomes can have high EMTRs

Non-beneficiary families with very low incomes in receipt of the minimum family tax credit face EMTRs just above 100%. The incentive to take on additional work is low for families receiving the minimum family tax credit unless they can start earning over the income threshold (\$22,253 before tax in the tax year ended March 2009), when their EMTR falls considerably.

- In 2008, there were 2,800 families receiving the minimum family tax credit and who had EMTRs greater than 100%.

Table 6: Number of families with dependent children receiving one of the main components of WFF with each level of effective marginal tax rate (EMTR), by benefit status, tax year ended March 2008¹

EMTR range	Beneficiary families				Non-beneficiary families		All families	
	Not in paid work		In paid work		Number	%	Number	%
0–25%	53,000	85	18,200	33	52,300	22	123,500	35
>25–50%	9,400	15	7,500	14	55,800	23	72,600	20
>50–75%	300	<1	9,600	17	117,800	49	127,700	36
>75–100%	0	0	18,000	33	9,900	4	27,900	8
>100%	0	0	1,800	3	3,700	2	5,500	2
Total	62,700	100	55,000	100	239,500	100	357,200	100

¹ For couple parent families, EMTRs were calculated for each individual, and the family EMTR was taken to be the highest EMTR faced by either person.

Source: Linked MSD/IR datasets as at September 2009.

Beneficiaries can have high EMTRs due to benefit abatement rules

Beneficiaries can have high EMTRs as their benefit abates at 70% or 30% on top of income tax and ACC levies. The removal of Accommodation Supplement abatement for beneficiaries, and the April 2006 changes to WFF Tax Credits income thresholds and abatement rules mean beneficiaries no longer face any WFF abatement.

- In 2008, 17% (19,800) of all beneficiary families faced EMTRs in excess of 75%. All beneficiary families with EMTRs greater than 75% had benefit abatement,

The 133,700 middle-to-high income families who became newly eligible to receive WFF Tax Credits as a result of the changes introduced in April 2006 had greater disposable incomes, but their EMTRs are higher as a result of the 20% WFF Tax Credits abatement.

Families approaching the Childcare Assistance income thresholds also potentially have high EMTRs. When families reach a threshold the hourly rate decreases rather than abates, which leads to very high EMTRs. The median EMTR of the 40 families in the tax year ended March 2008 sitting within \$1 of a Childcare Assistance threshold was 2,200%.

Second earners appear to be more sensitive to EMTRs than primary earners

In section 2.2, the impact of the WFF changes on couple parent families was to reduce the employment rate of second earners, despite second earners tending to have lower EMTRs than primary earners. In 2008, 85% of second earners had an EMTR of less than 50% compared to 43% of primary earners.

The average EMTR for all singles and couples without children receiving Accommodation Supplement dropped from 43% in 2004 to 22% in 2005, after the removal of the abatement of Accommodation Supplement for beneficiary families. In 2008, the average EMTR of singles and couples without children receiving Accommodation Supplement remained at 22%.

2.3.3 International comparisons of average EMTRs

The EMTRs faced by sole parents in paid work earning 67% of the average wage in New Zealand are lower than the OECD average, and lower than the EMTRs faced by similar sole parents in Australia (Table 7).

Table 7: International comparison of effective marginal tax rates of parents with two children, 2009^{1,2}

Earnings	Sole parent	Couple parent	
	67% of average wage ³	One earner on average wage ³	Two earners: 1st: average wage 2nd: 67% of average wage ³
New Zealand	21%	41%	41%
Australia	36%	52%	62%
United Kingdom	31%	31%	38%
United States	29%	45%	29%
OECD Average	32%	35%	37%

1 Marginal rate of income tax plus employee and employer contributions less cash benefits, by family-type and wage level (as % of labour costs).

2 Assumes a rise in gross earnings of the principal earner in the household. The outcome may differ if the wage of the spouse goes up, especially if partners are taxed individually.

3 Illustrative examples only. Most families have different family incomes.

Source: OECD Taxing Wages 2009: Draft of main report.

Couple parent families, with one earner on the average wage, or with one earner on the average wage and the other earning 67% of the average wage, have an EMTR

³⁶ Families whose child support is not administered by Inland Revenue are not included.

higher than the OECD average, but still lower than the EMTR faced by similar couple parent families in Australia.

2.4 Childcare

Before WFF, the cost of childcare was one of the most significant barriers to employment for families with children.³⁷ The WFF changes increased the number of families eligible for subsidised formal³⁸ childcare by increasing the Childcare Assistance income thresholds in October 2004 and by increasing Childcare Assistance rates by 10% in October 2004 and April 2005.

From August 2004 to August 2007, the number of non-beneficiary caregivers who received Childcare Assistance grew by 253% from 6,300 to 22,400.

Families are more likely to report using formal childcare for children aged under five and informal childcare for children aged five to 13 years

In April 2006, up to 396,200 low-to-middle income families were potentially eligible for Childcare Assistance as they had a child aged under 13. Fifty percent of the families had children aged under five, and 74% had children aged five to 13.

- 51% of families with children aged under five reported using formal care arrangements for these children and 14% reported using informal childcare.
- 13% of the families with children aged 5-13 accessed formal childcare services for these children and 19% used informal childcare arrangements.
- 80% of families reported that their formal and informal childcare arrangements worked well or very well.
- Some families do not use paid formal care for their children. The major reasons reported for choosing not to use paid formal childcare services include a preference to look after children themselves, children are old enough to take care of themselves, or family or friends are able to look after children.

Suitable childcare is still a barrier to paid work for some families

Fifty-six percent of families who reported needing childcare for work or training, said cost made it difficult to access the care they needed³⁹.

- Costs exceeding \$150 a week were significantly harder to meet than costs of \$50 a week or less.
- Informal arrangements were reported to be generally less expensive than formal childcare, even though families who choose informal childcare are not eligible for Childcare Assistance.

³⁷ Cabinet Policy Committee (2004).

³⁸ Formal services include organised before/after school programmes and licensed education and care centres (including kindergartens, licensed playgroups, bilingual or language immersion centres, playcentres, kōhanga reo, or organised home-based care networks). Informal services include relatives, friends and neighbours.

³⁹ Low-to-middle income families surveyed in April 2006.

3 Impact of financial incentives and support for working on income adequacy and child poverty

Before the WFF changes, the real value of WFF Tax Credits⁴⁰ had declined and eligible families were making more use of the Special Benefit to support their children. Many families on low incomes had insufficient money to provide their children with an adequate standard of living.⁴¹

The changes that were intended to have an impact on income adequacy included:

- Expanding the number of families eligible to receive a WFF Tax Credits payment to higher income families by changing the abatement rates and thresholds.
- Changing the WFF Tax Credits abatement rates and thresholds also increased the amounts of such payments. Other changes that increased the amounts of WFF Tax Credits payments were raising the amount of family tax credit, the introduction of the in-work tax credit and the establishment of an annual adjustment to the minimum family tax credit.
- Changing the Accommodation Supplement and Childcare Assistance thresholds and rates so more low income families became eligible to receive more money.

The WFF changes increased the amount of money low-to-middle income families received from financial supports

Both the number of families receiving a payment and the mean value of payments of each of the main components increased. Between the tax years ended March 2004 and March 2008:

- The number of families receiving a payment of WFF Tax Credits increased from 264,300 to 377,400 and the mean payment families received grew by 83% from \$70 to \$129 a week.
- The number of recipients of the Accommodation Supplement (including singles and couples without children) increased from 363,100 to 333,900 and the mean payment grew by 37% from \$35 to \$48 a week.
- The number of recipients of Childcare Assistance increased from 41,000 to 63,600 and the mean payment increased by 66% from \$25 to \$41 a week.

3.1 Family income of recipients

Almost 60% of recipients of WFF Tax Credits, the Accommodation Supplement or Childcare Assistance have an annual taxable family income of less than \$40,000

The WFF changes increased the number of families with taxable incomes above \$40,000 who receive a payment.

⁴⁰ In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

⁴¹ Cabinet Policy Committee (2004).

- The number of families receiving WFF Tax Credits, the Accommodation Supplement or Childcare Assistance who had a taxable family income of more than \$40,000 increased from 33,900 in the tax year ended March 2004 to 154,400 in the tax year ended March 2008 (Table 8)⁴².
- Although 49% of the increased expenditure on WFF Tax Credit recipients went to families with incomes above \$40,000, most of the extra money went to families with a family income below the median, when taking into account household composition.⁴³

Table 8: The number of families receiving any of WFF Tax Credits, the Accommodation Supplement or Childcare Assistance and their mean payment, by taxable family income

Taxable family income	Tax year ended March			
	2004 ¹		2008	
	Number of families	Mean weekly payment	Number of families	Mean weekly payment
Less than \$10,000	18,200	\$90	18,400	\$142
\$10,000–\$19,999	116,700	\$120	101,200	\$185
\$20,000–\$29,999	61,200	\$109	57,200	\$201
\$30,000–\$39,999	36,600	\$76	45,300	\$209
\$40,000–\$49,999	20,200	\$53	40,900	\$178
\$50,000–\$59,999	8,500	\$42	35,300	\$139
\$60,000–\$69,999	3,300	\$36	30,800	\$103
\$70,000–\$79,999	1,200	\$34	22,300	\$77
Over \$80,000	900	\$43	25,200	\$53
Unknown	4,400	-	6,000	-
All	270,900	\$100	382,500	\$160

1 In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

Source: Linked MSD/IR datasets as at September 2009.

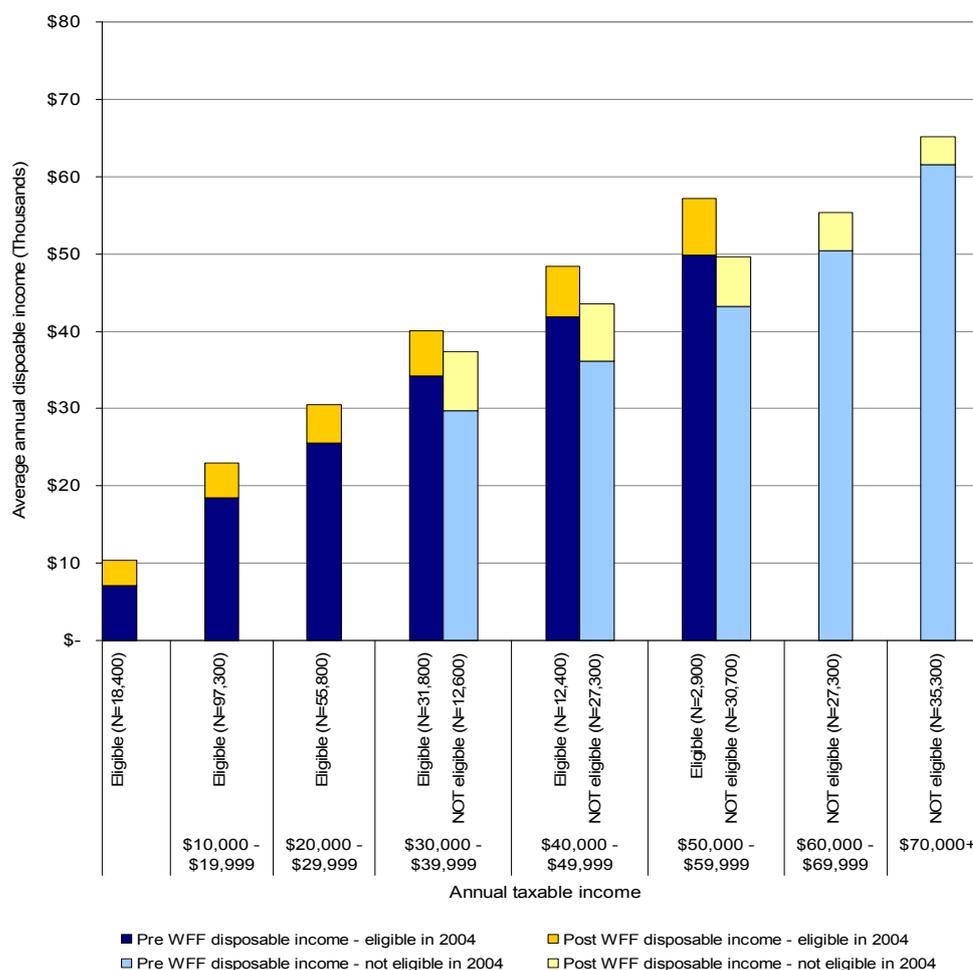
WFF payments increased the income of low and middle income families

- Families who would have been eligible for WFF Tax Credits in 2004 received greater amounts of assistance in the tax year ended March 2008. Their disposable income was greater by around \$100 a week (Figure 3).
- 133,300 of the WFF recipient families in 2008 would not have been eligible for WFF Tax Credits in 2004 as their incomes were too high relative to the number and ages of their children. These families have gone from not receiving WFF Tax Credits to receiving the tax credit at an abated rate, increasing their disposable income by around \$120 a week. A trade off of increasing their income is an increase in their EMTRs (see section 2.3).

⁴² Of the 2,700 families whose taxable income was above \$100,000 a year, and who were assessed as being entitled to receive WFF Tax Credits for the tax year ended March 2008, 44% had four or more children and the mean amount they received was \$84 a week. Another 31% had three children and the mean amount they received was \$35 a week.

⁴³ For taxable income, see Perry (2009a).

Figure 3: Taxable and disposable¹ family income of families receiving a WFF payment, by whether they were eligible for WFF Tax Credits in 2004 or not (tax year ended March 2008)



1 Total income including net taxable income and payments from WFF Tax Credits, the Accommodation Supplement, Childcare Assistance and other transfers including Child Support.
Source: MSD and IR linked datasets as at September 2009.

3.2 Child poverty and hardship

Growing up in poverty can affect every area of a child’s development. Child poverty hampers long-term economic performance and leads to other poor social outcomes. The WFF changes were intended to go “a long way to addressing child poverty”⁴⁴.

This section discusses how the increases in household income due to WFF have had an impact on income inequality and child poverty. It draws on previously published research on household incomes⁴⁵ and living standards⁴⁶. The two reports reflect the two approaches commonly used to assess material wellbeing and disadvantage in the richer nations. The first approach is to use a household’s income as an indication of the material wellbeing or living standards of the household’s members. The second

⁴⁴ Cabinet Policy Committee (2004).

⁴⁵ Perry (2009a).

⁴⁶ Perry (2009b).

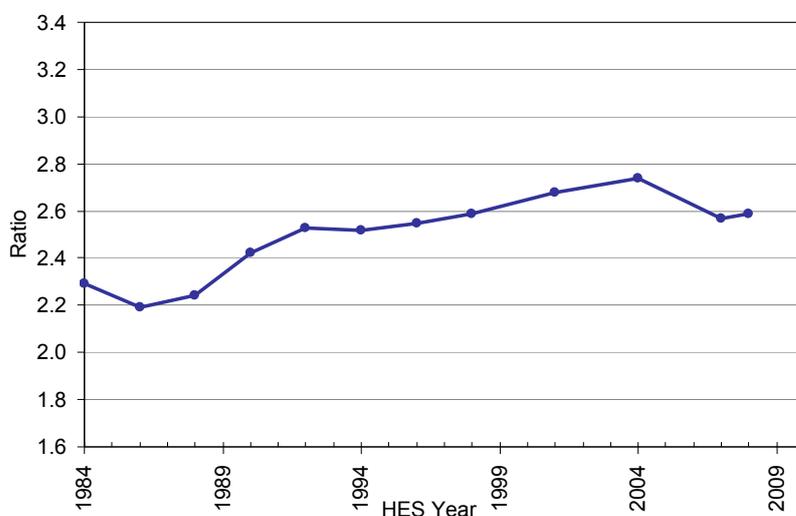
is to use a more direct non-incomes approach, looking instead at the actual day-to-day living conditions of families rather than at their incomes.

The income gap between high income and low income households reduced after WFF

From 2004 to 2008, incomes for low-to-middle income households rose more quickly than incomes for higher income households (Figure 4).

- Inequality rose rapidly from the late 1980s to the early 1990s, followed by a slower but steady rise through to 2004.
- The WFF package reversed the upward trend with a significant fall in inequality from 2004 to 2007. Households with incomes in the lowest 40% saw their income increase by 13–17%, while household incomes above the median typically grew by around 8–9%.
- The 2004 to 2008 period is the only one in the last 25 years when the incomes of low-to-middle income households grew more quickly than the incomes of households above the median.
- The different pattern from 2004 to 2008 reflects the additional money from the WFF package paid in that period to low-to-middle income households with children.⁴⁷

Figure 4: Household income inequality¹ (1984 to 2008)



¹ Measured using a P80:P20 ratio of the equivalised disposable household income distribution. Source: Household Economic Survey.

⁴⁷ When household incomes are not adjusted for household size and composition, the WFF package is seen to apply not only to families with low-to-middle incomes, but also to a good number with incomes above the median (see Table 8, for example). However, when incomes are adjusted for household size and composition (equivalised), as is done in this section, almost all the new WFF money is shown to have gone to households below the median.

WFF changes had an impact on child poverty

New Zealand does not have an official income poverty measure, and several approaches to measuring poverty were used to analyse the impact of the WFF changes:

- The moving line or relative approach is where the poverty line is set at 60% or 50% of the median income in each survey year. This means the poverty lines move with the median. For example, if the median rises and the incomes of low income households stay around the same, then poverty rates will be reported as increasing, as the gap between low income and middle income has widened. We have used the two measures commonly used internationally in richer nations. The EU nations have agreed to use a poverty line of 60% of median household income, and the OECD uses the lower 50% of median poverty line.
- We have also used a fixed line approach where the poverty line is set at a given value in a reference year and held constant in real terms after that. This approach is useful for assessing changes in the 'absolute' level of income poverty.

Before the WFF changes, the percentage of children in poverty⁴⁸ was rising

- Table 9 shows the rising child poverty rate in New Zealand from 1998 to 2004 using the moving line measure set at 60% of the median. A large part of this increase was due to the rapid rise of the median income in the period, with the gap between middle and low incomes widening.
- After the WFF changes, the moving line poverty rate fell from 26% (2004) to 20% (2007), reversing the previous upward trend. In these years, the increases in incomes from the WFF package were large enough to overcome the impact of the rising median.
- When a 50% of median poverty line is used, the impact of the WFF package is similar to the 60% findings when using a fixed line (30% proportionate reduction using a fixed line with 2004 as the reference year), but no change is evident using the relative approach (steady at 13% to 14%). This is because the impact of the rapidly rising median offset the more modest WFF gains for beneficiary families who are more likely than working families to have incomes around 50% of the median.⁴⁹

⁴⁸ 60% of median income, moving line measure.

⁴⁹ There are extra measurement issues when using a 50% of median poverty line compared with those involved when using a 60% of median line. There is more uncertainty about the reliability of the income information this far down the distribution and (more importantly) there is more lumpiness in the distribution because of the clustering of beneficiary groups around similar income levels, especially 50% of the median for those receiving the Domestic Purposes Benefit.

Table 9: Child poverty rates using the 60% of median poverty line

Year	Moving line %	Fixed line (2004 reference) %
1998	20	–
2001	24	–
2004	26	26
2007	20	18
2008	22	18

Source: Household Economic Survey.

The percentage of children living in poverty is lower by 8 percentage points due to the WFF changes

Using the fixed line measure takes out the impact of the rising median income. On the fixed line measure, the child poverty rate fell from 26% (in 2004) to 18% (in 2008). The rapidly rising median by itself added around 4 percentage points to the 2008 poverty rate, while the WFF package pulled the rate down by around 8 percentage points (26% to 18%).

Without the WFF change, New Zealand's child poverty rate would have continued to climb from 2004, most likely reaching around 30% in 2008

A poverty rate of 30% is higher than the rate of any country in the European Union other than Turkey, and similar to those of Mexico and the United States.

Hardship rates for children in low-to-middle income households fell by 11 percentage points between 2004 and 2008

Income measures of poverty are complemented by non-income measures, which focus more on the actual living conditions of the population. For example, what food and clothing a household can afford, the household's ability to pay the bills on time, what economising has to occur to enable the basics to be purchased etc. Using the Economic Living Standard Index (ELSI) Levels 1 and 2 as the hardship measure:

- hardship rates for all children fell from 26% in 2004 to 19% in 2008
- hardship rates for low-to-middle income households with children, the group most affected by WFF, fell from 36% in 2004 to 25% in 2008 (Table 10)
- there was no significant change in hardship rates for beneficiaries with children indicating it was the improved circumstances for families in employment that drove the improvement in hardship rates for children
- in 2008, around half of the children in hardship were from beneficiary families and half from working families.

Table 10: Changes in hardship rates (%) for those in low-to-middle income households (2004 to 2008)^{1,2}

		2004 %	2008 %
Children (aged 0–17)	Beneficiaries	60	53
	Non-beneficiaries	24	15
	All children	36	25 ³
Sole parent households ⁴	Beneficiaries	55	54
	Non-beneficiaries	36	20 ³
Couple parent households ⁴	Beneficiaries	62	43
	Non-beneficiaries	20	14 ³

1 Hardship is defined as Levels 1 or 2 of the Economic Living Standard Index.

2 In 2008, there were around 750,000 children in low-to middle income households (200,000 in beneficiary families and 550,000 in 'market' families).

3 Statistically significant difference between 2004 and 2008.

4 All individuals in household.

Source: Living Standards Survey 2004 & 2008.

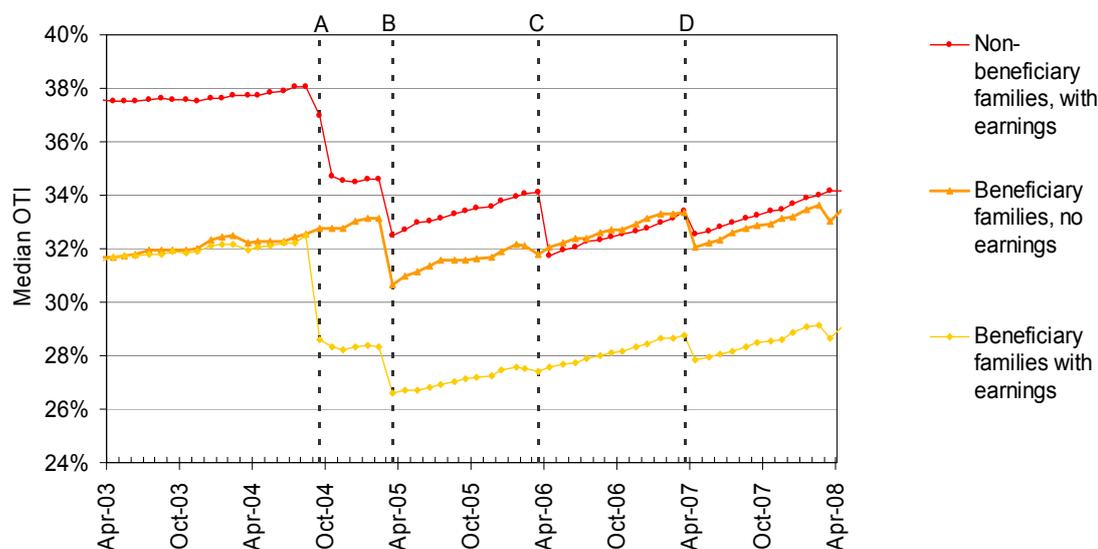
3.3 Quality and affordable housing

Households that had reached the limit of assistance available gained a boost in housing affordability when the maximum Accommodation Supplement available in some areas increased in April 2005. Other changes made as part of WFF decreased the percentage of a family's income spent on housing costs, eg including the removal of the Accommodation Supplement abatement for beneficiaries in October 2004 (which reduced the disincentive to go into paid employment), and the increases in family tax credit in April 2006 and April 2007.

The WFF changes to the Accommodation Supplement initially improved housing affordability for families with some income from paid work

The average housing outgoings-to-income (OTI) ratio is one measure of housing affordability. An OTI is the percentage of income a family spends on housing costs. Figure 5 illustrates the changes in the median OTI for different families.

Figure 5: Median housing outgoings-to-income ratios for families with children receiving the Accommodation Supplement



A=Abatement removed for beneficiaries. Entry thresholds decreased and abatement thresholds increased for non-beneficiaries.

B=Maxima increased in some areas with high housing costs. Increases in family tax credit rates.

C=Changes to WFF Tax Credits abatement rates and thresholds. Introduction of the in-work tax credit.

D=Increase in family tax credit rates.

Source: MSD Information Analysis Platform.

- Beneficiary families in paid work had the largest improvement in housing affordability. Their median OTI decreased from 33% in August 2004 to 27% in August 2005, after the October 2004 changes (Figure 5). By August 2007, after the WFF changes were fully implemented, beneficiary families in paid work have an OTI of 28%.
- Non-beneficiary families also benefited from a decreased OTI, which dropped from 38% to 33% between August 2004 and August 2005. In August 2007 the OTI of non-beneficiary families was 33%.
- The OTI of beneficiary families not in paid work dropped slightly after the April 2005 changes from 33% in August 2004 to 32% in August 2005. By August 2007 their OTI was back to 33%.

For some families increased housing costs will be due to paying more for better quality housing

The decline in housing affordability is not entirely due to rises in the cost of housing. The percentage of income a family spends on housing also increases when families choose to increase their housing costs to gain better quality accommodation. Sixty percent of families with children who received the Accommodation Supplement reported that the extra money had made a difference in helping them to improve their housing.⁵⁰

⁵⁰ In the 2006 WFF Survey, a number of respondents indicated they were still living in low quality housing. When asked if their house smelled damp or mouldy, 40% said parts of their house looked or smelt damp at some time of the year.

3.4 Uses of the money

Families find the money from WFF Tax Credits a big help or a very big help in meeting their family's needs

Most common uses of the money were on food and children's education costs

A survey of families receiving WFF Tax Credits in 2006 found that 59% of families said the money they receive was a big help or a very big help in meeting their family's needs, with another 39% saying it was some help in meeting their family's needs.⁵¹

Families on lower incomes (below \$40,000) most commonly reported they were using the money to buy food and groceries.⁵² The most commonly reported use of the money in families whose income was higher was on children's education costs. Other uses that came up frequently included: paying household bills and utilities (eg power), providing clothing for the family and children, and helping with accommodation costs.

⁵¹ Ministry of Social Development and Inland Revenue (2008).

⁵² Qualitative data was collected from survey respondents on how they used the money from WFF Tax Credits. They were able to give a list of uses. Their responses were coded into common themes for analysis purposes.

4 Delivering changes in financial support and incentives to work that support families into paid employment

Both agencies have placed significant emphasis on ensuring families get the assistance to which they are entitled

The third objective of the WFF changes was to “achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports people into employment”.⁵³ To achieve this goal the MSD and IR worked together to streamline the social assistance system to make it easier for people to understand and get access to, and to introduce initiatives to improve take-up and enhance the effectiveness of delivery.

This section discusses the effectiveness of the delivery of the package by looking at:

- The characteristics of those who receive a payment from one of the main components of the WFF package (WFF Tax Credits, the Accommodation Supplement and Childcare Assistance).
- The percentage of families eligible for WFF Tax Credits, the numbers receiving a payment, and the barriers to receipt as measures of the overall effectiveness of the delivery of the changes.
- Lessons learnt from the delivery of a cross-organisational policy change affecting 75% of New Zealand families.

4.1 Characteristics of families receiving a major component affected by the WFF changes

The number of families with children receiving one of the main components affected by the WFF changes increased by 41% from 270,900 to 382,500 between the tax years ended March 2004 and March 2008

Before the WFF changes, in the tax year ended March 2004, 270,900 families received at least one of either WFF Tax Credits⁵⁴, the Accommodation Supplement or Childcare Assistance.⁵⁵ Of the 382,500 families who have received a major component in the tax year ended March 2008 (Table 11):

- 99% received WFF Tax Credits, with or without the Accommodation Supplement and Childcare Assistance
- 53% received only WFF Tax Credits

⁵³ Cabinet Policy Committee (2004).

⁵⁴ In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments were still called Family Assistance.

⁵⁵ Numbers will differ from the numbers published previously, which looked at families' receipt across the entire tax year. Figures published here are counts of families who received a payment as at 31 March. Family units where parents have separated and the children are in a 'new' unit are not included. For example, if a couple separates and the children live with one parent, two families will appear in the data, but only the unit at the end of the tax year is counted.

- 30% received WFF Tax Credits and the Accommodation Supplement
- 7% received WFF Tax Credits and Childcare Assistance
- 9% of families received all three of the main components.

Table 11: Number of families receiving one of the main components affected by the WFF changes¹

	2004	2008
WFF Tax Credits only	110,600	201,400
WFF Tax Credits, the Accommodation Supplement and Childcare Assistance	29,400	36,300
WFF Tax Credits and the Accommodation Supplement	114,600	114,300
WFF Tax Credits and Childcare Assistance	9,800	25,500
Childcare Assistance and/or the Accommodation Supplement only	6,600	5,000
Number of families	270,900	382,500
Number of singles and couples without children receiving the Accommodation Supplement	213,800	179,700

¹ Numbers will differ from the numbers published previously, which looked at families receipt across the entire tax year.

Source: Linked MSD/IR dataset as at September 2009.

Couple parent and non-beneficiary families make up a larger proportion of the WFF Tax Credit recipients in the tax year ended March 2008 than in 2004

The WFF changes had an impact on the kinds of the families receiving WFF Tax Credits.

- The extension of the eligibility to WFF Tax Credits to families with higher incomes led to the percentage of recipients of WFF Tax Credits who were couple parents increasing from 36% in the tax year ended March 2004 to 49% in the tax year ended March 2008.
- The increased eligibility to WFF Tax Credits and the declining number of beneficiaries meant only 37% of the families in receipt of WFF Tax Credits in the tax year ended March 2008 were beneficiaries. Before the WFF changes, in the tax year ended March 2004, 62% of families receiving WFF Tax Credits were beneficiaries.
- In the tax year ended March 2008, beneficiaries received 42% of the expenditure on WFF Tax Credits.
- 26% of the families receiving WFF Tax Credits in the tax year ended March 2008 were Māori.⁵⁶ They received 29% of the expenditure on WFF Tax Credits.
- 9% of the families receiving WFF Tax Credits in the tax year ended March 2008 were Pacific peoples. They received 11% of the expenditure on WFF Tax Credits.

⁵⁶ Family ethnicity is determined by linking MSD administrative data with IR data. The ethnicity of 11% of families receiving WFF Tax Credits is unknown as they did not come in contact with MSD in the period April 2003 to March 2008. Family ethnicity is determined using hierarchical ethnicity.

- 43% of the families receiving WFF Tax Credits in the tax year ended March 2008 were European. They received 42% of the expenditure on WFF Tax Credits.

4.2 Receipt of main components and expenditure

The numbers of families receiving each of the components increased

Eligible families need to be receiving the main components they are entitled to for the WFF changes to have the intended impact on paid employment and financial support. An OECD review of in-work benefits states “if a country struggles to get a high take-up of the [in-work] benefit, employment and anti-poverty gains will be well below hoped for levels”.⁵⁷ The MSD and IR worked together to introduce initiatives to improve take-up and to enhance the effectiveness of delivery of the three main components.⁵⁸

By the tax year ended March 2008, total annual expenditure on the main components was over \$3.7 billion, up from \$1.8 billion in the tax year ended March 2004. Most of the growth was in payments made to non-beneficiary families.⁵⁹ The increase in expenditure on the main components was offset by a reduction in expenditure in other areas of an estimated \$300 million.

Most eligible families received WFF Tax Credits, likely as a result of both the multi-media campaign and initiatives such as direct mailing to DPB recipients, frontline staff signing up eligible families and outbound calling to potentially eligible families. The work of frontline staff and the promotional activities before the multi-media campaign likely led to the increases in families receiving the Accommodation Supplement and Childcare Assistance early on in the implementation period.

- The number of individuals receiving a payment of WFF Tax Credits increased by 48% from 277,500 to 410,300 between the tax years ended March 2005 and March 2008 (Table 12).
- In the six months following the changes in October 2004, the number of non-beneficiary families receiving the Accommodation Supplement grew by 29%.
- From August 2004 to August 2007, the number of non-beneficiary families receiving the Accommodation Supplement grew by 142% from 14,400 to 34,700.
- From August 2004 to August 2007, the number of non-beneficiary caregivers who received Childcare Assistance grew by 253% from 6,300 to 22,400.

⁵⁷ Immervoll and Pearson (2009).

⁵⁸ See Appendix G for further details on the changes in the number of families receiving WFF Tax Credits, the Accommodation Supplement and Childcare Assistance payments.

⁵⁹ See Appendix G for further details on how expenditure on the main components changed over the implementation period.

Table 12: Number of individuals receiving a payment of WFF Tax Credits, tax years ended March, as at September 2009

	Tax years ended March					
	2004	2005	2006	2007	2008	2009 ¹
Through year payments	241,900	232,900	236,500	318,100	334,000	340,800
End of year payments	45,200	44,600	61,000	79,800	76,300	48,200
Total	287,100	277,500	297,500	397,900	410,300	389,000

¹ Data for tax year ended March 2009 is likely to increase as a result of end of year assessments, which have yet to be paid.

Source: IRD Data Warehouse.

4.2.1 Percentage of eligible families receiving WFF Tax Credits

95-97% of families eligible for WFF Tax Credits in the tax years ended March 2006 and March 2007 were receiving WFF Tax Credits

The percentage of eligible families receiving WFF Tax Credits (coverage) was high. Beneficiaries, who interact regularly with Work and Income, had the highest coverage rates (Table 13).⁶⁰

- Coverage of WFF Tax Credits among non-beneficiaries was also high, reflecting IR's outbound calling and direct mailing to potentially eligible families as well as the automatic roll over of WFF Tax Credits receipt each year.
- In both the tax years ended March 2006 and March 2007, families with smaller entitlements and older parents had slightly lower coverage rates. There were no differences in coverage rates by ethnicity.
- The coverage rates for WFF Tax Credits in New Zealand are higher than those in similar programmes in the United States and the United Kingdom.⁶¹
- Although coverage has not been estimated since the economic downturn, it is likely to remain high – the number of families receiving WFF Tax Credits has increased, which is in line with likely increases in the number of eligible families.⁶²

⁶⁰ Spier, P. (2008). Working for Families Tax Credits: Did families take up their entitlements in the 2007 tax year? Unpublished report.

and

Spier, P. (2007). Working for Families Tax Credits Coverage Rate in the 2006 Tax Year: Technical Report. Unpublished report.

⁶¹ Evans, M., Knight, G. and LaValle, I. (2007). Literature Review of Evaluation Evidence for Working for Families. Unpublished report.

⁶² Average household incomes in households with dependent children declined over the period June 2008 to June 2009 suggesting more families will have become eligible for WFF Tax Credits. Over a similar period, August 2008 to August 2009, the numbers of families receiving WFF Tax Credits as a through the year payment increased by 5% (see section 4.2.1).

Table 13: Estimated WFF Tax Credits coverage by benefit status

Benefit status ¹	Tax year ended March ^{2, 3}	
	2006	2007
All income from benefit	96 – 100%	97 – 100%
Some income from benefit ⁴	97 – 99%	97 – 100%
No income from benefit	91 – 95%	93 – 95%
Total	95 – 97%	95 – 97%

1 Families for whom benefit status could not be determined were excluded from the table. In a few cases, it was known the respondent was a beneficiary, but information was not available for the partner on whether their income was from benefit or employment, so the family could not be categorised in this table.

2 95% confidence intervals.

3 Coverage is not exactly 100% as some eligible families are not taking up their entitlements. As percentages are rounded, an upper bound of 100% reflects all values greater than or equal to 99.5%.

4 The family received some income from benefit and were in paid work.

Source: WFF survey data 2006 and 2007 and IR Data Warehouse.

4.2.2 Barriers to families receiving financial support and incentives for working

For the small group of families who were eligible for but not receiving WFF Tax Credits, a lack of awareness is one barrier to receipt

Although awareness of WFF Tax Credits among eligible families was high (see section 4.3.2), lack of awareness of WFF Tax Credits remains a barrier to receipt for some families. Uncertainty about eligibility, worry about overpayment and a lack of knowledge were common reasons given by families who knew about and who were eligible for WFF Tax Credits, but who were not receiving a payment in June 2006.⁶³

Nationwide, the coverage rates of WFF Tax Credits among Māori were high, though there were concerns that some Māori may be missing out. Qualitative research was commissioned to understand why some eligible Māori were not in receipt of WFF Tax Credits.⁶⁴ Some particular reasons identified were:

- A lack of awareness about WFF Tax Credits, particularly among those who inhabit a predominantly Māori world.⁶⁵
- The perception WFF Tax Credits was a benefit rather than an entitlement, particularly among grandparents who were caring for mokopuna.
- Changing family relationships and employment patterns which make claiming difficult. For example, sharing the care of children across the whānau and moving in and out of paid seasonal work.
- A lack of engagement with IR in the past or concern and uncertainty about a possible debt to IR.⁶⁶

⁶³ Ministry of Social Development and Inland Revenue (2007). Applying for Working for Families: Applicants' perspectives. Unpublished report.

⁶⁴ Wehipeihana, N. and Pipi, K. (2008). Working for Families Tax Credit: Barriers to Take-up from Potentially Eligible Families. Unpublished report.

⁶⁵ Individuals who inhabit a predominantly Māori world live and operate in an almost exclusively Māori world – they spend time in Māori 'places' with Māori people, they are immersed in te reo and tikanga Māori, they have children in Māori language learning environments and they are busy and focused on Māori specific activities.

Lack of awareness was also a barrier to receipt for those eligible for but not receiving the Accommodation Supplement

Reasons given by families who were potentially eligible for the Accommodation Supplement but not receiving a payment were uncertainty about eligibility, a lack of knowledge about the Accommodation Supplement and not wanting to apply.⁶⁷

Choices about parenting and childcare were the most common reasons for parents being eligible for but not receiving Childcare Assistance

Reasons families gave for not receiving Childcare Assistance were due to childcare preferences rather than to barriers. The main reasons were families preferring to look after children themselves or not needing any childcare.

4.3 Lessons learnt from delivering the WFF changes

4.3.1 Joint delivery of the WFF changes

Staff reported that the public responded positively to seeing the two organisations working together

The MSD and IR worked together to implement the WFF changes.⁶⁸ Frontline staff who were interviewed said working together enabled them to train each other in the components and processes of each other's organisations and that the public responded positively to seeing the two agencies working together. There were challenges for both organisations when activities, such as joint promotions, coincided with heavy workload periods in one of the organisations.

4.3.2 Raising awareness of the WFF changes

88% of eligible families had heard of WFF in June 2006

The joint communications strategy included a nationwide multi-media communications campaign with television advertising, a series of local public relations activities and the active engagement of delivery staff with families through initiatives such as outbound calling and direct mailing. Different promotional activities reached different groups of families.

- The nationwide multi-media communications campaign reached families who had never received social assistance from the Government and families whose income changes regularly, such as those self-employed. Just under half of the families who decided to apply for WFF Tax Credits for the first time in 2006 did so because of the advertising.⁶⁹

⁶⁶ The interviewers encouraged these families to contact IR and, in some cases, the back payment of WFF Tax Credits to these families was larger than their debt.

⁶⁷ Coverage of the Accommodation Supplement was not calculated, but based on reports of survey respondents, around half of potentially eligible families were not receiving a payment in 2006.

⁶⁸ See Appendix C for the delivery of the WFF changes, including a description of joint activities. The evaluation team had staff from both the MSD and IR who built strong links between and within the two agencies.

⁶⁹ Further findings from the evaluation of the communications campaign are reported in Ministry of Social Development and Inland Revenue (2007).

- Pamphlets put in work places reached families who had never received social assistance, though there was some resistance from employers to having promotional staff on-site. Local public relations activities, such as pamphlet placement in hospitals, also reached families who had a long history of receiving social assistance.
- Outbound calling and the actions of frontline staff informed families who moved between benefit and paid work about WFF. Families whose income changed regularly found out about WFF Tax Credits after Work and Income referred them to IR.

Early evaluation results found that Pacific and Asian families were less likely to be aware of WFF, and potentially eligible families living in more affluent⁷⁰ areas were less likely to relate to the advertisements. After altering the communications strategy, awareness among Asian and Pacific families increased and families living in more affluent areas thought the advertising was talking to someone “a lot like me”.

4.3.3 Applying for the main components

Families could apply for the WFF Tax Credits, the Accommodation Supplement and Childcare Assistance using forms available on the web, through the helpline and from IR community centres and Work and Income service centres. The most popular methods were in person or via forms sent out after calling the helpline (Table 14).

Table 14: Method of application of first-time applicants for WFF Tax Credits in June 2006 and description of families who use method

Method of application ¹ % who reported they applied using method	Types of families who use this method ²
Applied in person – 37% of new applicants	Families who move between benefit and paid work and families who already receive social assistance Over 90% who applied in person did so at Work and Income, suggesting beneficiaries prefer this method ¹
Calling the 0800 helpline – 34% of new applicants	All family types including those whose income changes regularly, such as the self-employed, and families who have never received a social assistance payment
Downloaded forms from the web – 13% of new applicants	
Letter from IR ³ – 8% of new applicants	
Other methods ⁴ – 7% of new applicants	

1 Source: Survey of families potentially eligible for WFF Tax Credits. Families who first applied for assistance in the last 12 months (N=142).

2 Source: Interviews with WFF Tax Credit recipients paid by IR.

3 IR sent letters to families who had previously applied for WFF Tax Credits but were ineligible if, after the changes, they became eligible.

4 Including via tax agent and accountant.

Twelve percent of families found the application process for WFF Tax Credits difficult

While most recipients found applying for the components easy, 12% found applying for WFF Tax Credits difficult, 12% found applying for the Accommodation Supplement

⁷⁰ Families living in affluent areas were identified by using by the New Zealand Deprivation Index.

difficult and 21% found applying for Childcare Assistance difficult. A survey of families potentially eligible for WFF Tax Credits in 2006 indicated that:

- families who found the application process easy said it was straightforward and that frontline staff were helpful
- the amount of documentation required and the information provided by frontline staff were given as reasons why 12% of families found the application process difficult
- one in five families found applying for Childcare Assistance difficult due to delays as a result of lost paper work or, for working parents in particular, problems in getting an appointment with a case manager.

4.3.4 Systems to support delivery

In most cases the changes to systems in both organisations proceeded smoothly with few problems. Systems successfully put into place included a 0800 helpline, a call transfer system between the MSD and IR, an outbound calling centre, an online application service and the centralised processing of childcare subsidy applications. During the implementation phases, two problems put pressure on frontline staff.

- There were delays in the arrival of printed promotional material early on in the implementation phases. Promotional staff had to create their own materials from electronic documents, which was time intensive.
- To provide IR with information on Work and Income clients, the MSD and IR databases were adjusted to allow automated information exchange. An error occurred in the first exchange, which required staff to make manual payments to ensure families received their entitlements.

4.3.5 Processes to reduce overpayments

The percentage of families who were overpaid WFF Tax Credits decreased, but the number of overpayments and the mean overpayment have increased

Underpayments and overpayments of WFF Tax Credits are an inevitable consequence of delivering weekly and fortnightly payments of an annual entitlement. If a family's circumstances change through the year, such as a change in income or in the number of children, or their actual income is different from their estimated income, an underpayment or overpayment will occur.

To reduce the incidence of overpayment and thus a debt, IR introduced a number of initiatives including accumulative adjustments, proactive actions and automated information exchange and a policy change to protect family tax credits.⁷¹

The accuracy of payments is only assessed for families who have had their tax credits paid by IR at some point during the tax year.⁷² Families who receive their entire entitlement at the end of the year are not overpaid or underpaid.

⁷¹ See Appendix C for a description of these programmes.

- The percentage of families who were overpaid decreased from 40% of those assessed in the tax year ended March 2004 to 30% in the tax year ended March 2008 (Table 15).
- As a percentage of the amount families were eligible to receive, overpayments decreased from 12% to 6% between the tax years ended March 2004 and March 2008 (Table 16).
- The mean weekly amount overpaid each year increased from \$18 to \$22 between the tax years ended March 2004 and March 2008. This reflects the increase in the amount of money families were entitled to.

Table 15: Number of recipients whose WFF Tax Credits payments were underpaid, overpaid or paid their correct entitlement

	Number of recipients and % of recipients who were assessed for tax year ended March									
	2004		2005		2006		2007		2008 ¹	
	No.	%	No.	%	No.	%	No.	%	No.	%
Total assessments of through year recipients	144,800	100%	137,300	100%	168,400	100%	223,400	100%	226,000	100%
Before assessment:										
• Paid correct amount ²	24,300	17%	23,800	17%	41,000	24%	51,000	23%	41,600	18%
• Overpaid	57,900	40%	52,300	38%	48,400	29%	60,400	27%	68,400	30%
• Underpaid	62,500	43%	61,200	45%	79,000	47%	112,000	50%	116,100	51%
Not assessed or end of year payment only ³	139,900		137,400		115,100		151,700		171,800	
Total recipients	284,700		274,700		283,400		375,100		397,800	

1 The number of assessments and the number of recipients for the tax year ended March 2008 will increase as more end of year processing is carried out.

2 Paid within \$50 of correct entitlement.

3 This includes situations where clients receive a lump sum payment at the end of the year: those who receive all their entitlement as a lump sum following the reconciliation process receive exactly the correct amount; and those who receive payments throughout the year but have not had an assessment. WFF Tax Credits recipients who receive all their payments through MSD often do not require an assessment as their payments match their entitlement. Another group whose information cannot be reconciled are those whose family income cannot be established. The majority of these are those self-employed who have not yet filed their income tax return.

Numbers may not add to total due to rounding.

Source: IRD Data Warehouse as at February 2009.

The percentage of families with large overpayments has reduced.

- For the tax year ended March 2008, 25% of assessed families were overpaid by more than \$4 a week, a decrease of \$4 a week compared to the tax year ended March 2004.

Initiatives to reduce overpayment can lead to underpayment, which is paid to the recipient after the annual assessment process at the end of the tax year.

- The rate of underpayment increased from 43% of recipients in the tax year ended March 2004 to 51% in the tax year ended March 2008.

⁷² Beneficiary families who are paid by MSD and who are in receipt of a benefit for the entire tax year will receive the correct amount, as their annual family income is under the abatement threshold. In some cases, these families will choose to have an assessment or will receive one for non-WFF Tax Credit related reasons.

- As a percentage of the amount of WFF Tax Credits families were eligible to receive, underpayments decreased from 12% of entitlement to 10% between the tax years ended March 2004 and March 2008 (Table 16).
- The mean weekly amount underpaid each year increased from \$16 to \$19 between the tax years ended March 2004 and March 2008. This reflects the increase in the amount of money families were entitled to.

Table 16: Underpayments and overpayments of WFF Tax Credits

		Tax year ended March				
		2004	2005	2006	2007	2008 ¹
Overpaid	Number overpaid	57,900	52,300	48,400	60,400	68,400
	Mean overpayment (weekly)	\$18	\$20	\$20	\$19	\$22
	Mean % of entitlement overpaid	12%	13%	6%	5%	6%
Underpaid	Number underpaid	62,500	61,200	79,000	112,000	116,100
	Mean underpayment (weekly)	\$16	\$17	\$17	\$23	\$19
	Mean % of entitlement underpaid	12%	13%	11%	11%	10%

¹ The number of assessments and the number of recipients for the tax year ended March 2008 will increase as more end of year processing is carried out.

Source: IRD Data Warehouse as at February 2009.

5 Working for Families during the 2009 economic downturn

During 2009, the economy contracted, unemployment rates increased and the demand for labour fell

Following the weakening of the housing market, a domestic drought, and the 2008 global financial crisis, the New Zealand economy contracted.

- Gross domestic product for the year ended June 2009 declined by 1.8%, although economic activity increased by 0.1% in the June 2009 quarter (following five quarters of decline).
- The unemployment rate increased to 6.5% as at September 2009. Annually, part-time employment (less than 30 hours) increased by 0.6% and full-time employment decreased by 2.5% in the year to September 2009.
- The demand for labour fell markedly: at the end of 2008, only 5% of all employers were reporting labour as the main constraint on growth.⁷³

As the labour market contracted the number of beneficiaries increased.

- In December 2008, there were 314,600 people receiving a main benefit from Work and Income.
- Between December 2007 and December 2008 the number of jobseekers increased by 28%.

WFF Tax Credits, the Accommodation Supplement and Childcare Assistance provided financial support for families during the economic downturn

During the economic downturn the number of families accessing WFF Tax Credits, the Accommodation Supplement and Childcare Assistance increased. Between August 2008 and August 2009:

- the number of families receiving WFF Tax Credits increased by 5%
- the number of families receiving the Accommodation Supplement increased by 7%
- the number of caregivers receiving Childcare Assistance increased by 15%.

The increase in WFF Tax Credit recipients may be due in part to the raising of abatement thresholds in October 2008 and to the changes in demand for through year payments. Between August 2008 and August 2009, the number of beneficiary families receiving WFF Tax Credits grew by 7% and the number of non-beneficiary families receiving WFF Tax Credits grew by 4%.

The number of singles and couples without dependent children receiving the Accommodation Supplement grew by 19% between August 2008 and August 2009. This reflects the increase in the number of beneficiaries in this group.

⁷³ New Zealand Institute of Economic Research (2009).

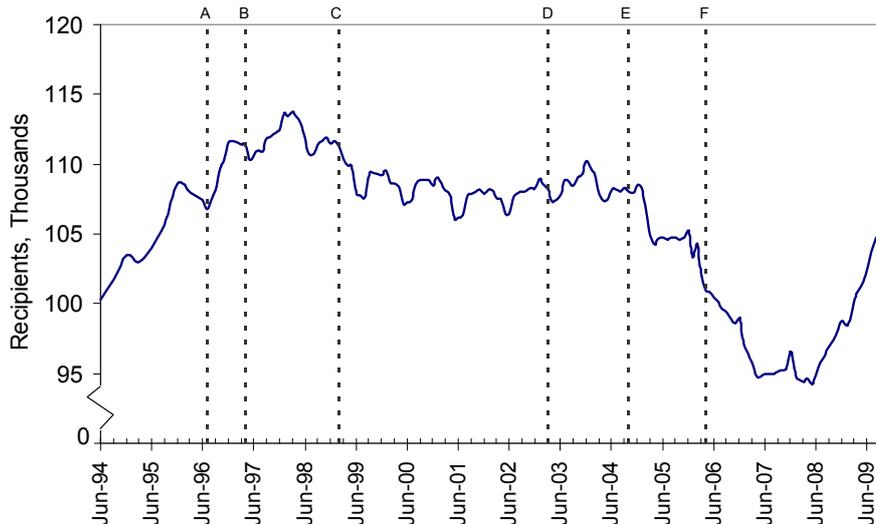
5.1 Changes to parents' employment during the economic downturn

The economic downturn has eroded the decrease in the number of DPB recipients caused by the WFF changes

Over the WFF implementation period, the numbers of all DPB recipients fell by 13,400 (12%) from 108,200 at the end of June 2004 to 94,900 at the end of June 2008 (Figure 6). Since the economic downturn, the number of DPB recipients has risen.

- At the end of June 2009 there were 102,700 DPB recipients, an increase of 7,800 (8%) since June 2008.
- Most of the increase is due to the increased number of DPB-Sole Parent recipients, which grew by 6,700 (8%).
- The number of working-age recipients of Emergency Maintenance Allowance (EMA) grew by 10%. Sole parents can be eligible for EMA if they share custody of the children and the other parent is claiming DPB.

Figure 6: Number of Domestic Purposes Benefit (DPB) recipients, 1994–2009



A=Dual abatement introduced (different abatement rates for work tested and non-work tested benefits).
 B=Part-time work or training test for parents whose oldest child is aged 14 or over.
 C=Full-time (youngest child aged 14+) and part-time (youngest child aged 6–13) work tests introduced.

D=Enhanced case management introduced. Work tests removed.
 E=First WFF changes.

F=Changes to WFF Tax Credits abatements and thresholds and introduction of in-work tax credit.

Source: MSD Information Analysis Platform.

The growth in DPB numbers during the economic downturn was due both to an increase in grants and to a decrease in cancellations. The growth in the number of grants is equally distributed between those who have not received benefit in the previous four years and those who have.

The numbers being granted DPB increased. In the year ended June 2009 there were:

- An estimated 900 more ex-clients returning from employment and 1,100 more new clients coming from employment, compared to the year ended June 2008
- An estimated 1,600 individuals granted DPB due to separation, compared to the year ended June 2008; some of these families will be receiving DPB for one parent and EMA for the other.

Individuals who had a longer history of DPB receipt may have found it harder to get employment during the economic downturn, as their cancellation rate dropped considerably during the economic downturn. The cancellation rates of individuals who were in receipt for less than a year also dropped during 2009. In the year ended June 2009 there were (Figure 7):

- 2,100 fewer (33% decrease) cancellations due to those who had been in receipt of DPB for **more than two years** obtaining employment, compared to the year ended June 2008
- 1,000 (11% decrease) fewer cancellations due to those who had been in receipt of DPB for **less than two years** obtaining employment, compared to the year ended June 2008.

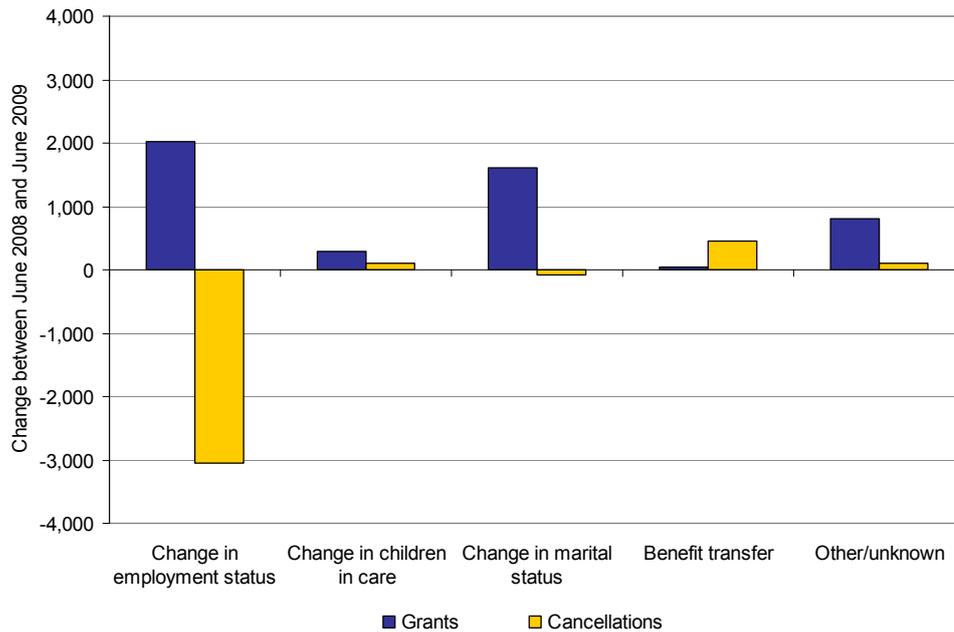
Despite the increase in DPB numbers, the sole mothers' annual average employment rate increased slightly in the early stages of the economic downturn, but has not started to fall.

The employment rate of mothers in couple parent families increased during the initial stages of the economic downturn, but has since begun to decrease

In couple parent families, the second earner is predominantly female. The employment rates of mothers and fathers in couple parent families indicate how primary and second earners responded to the economic downturn.

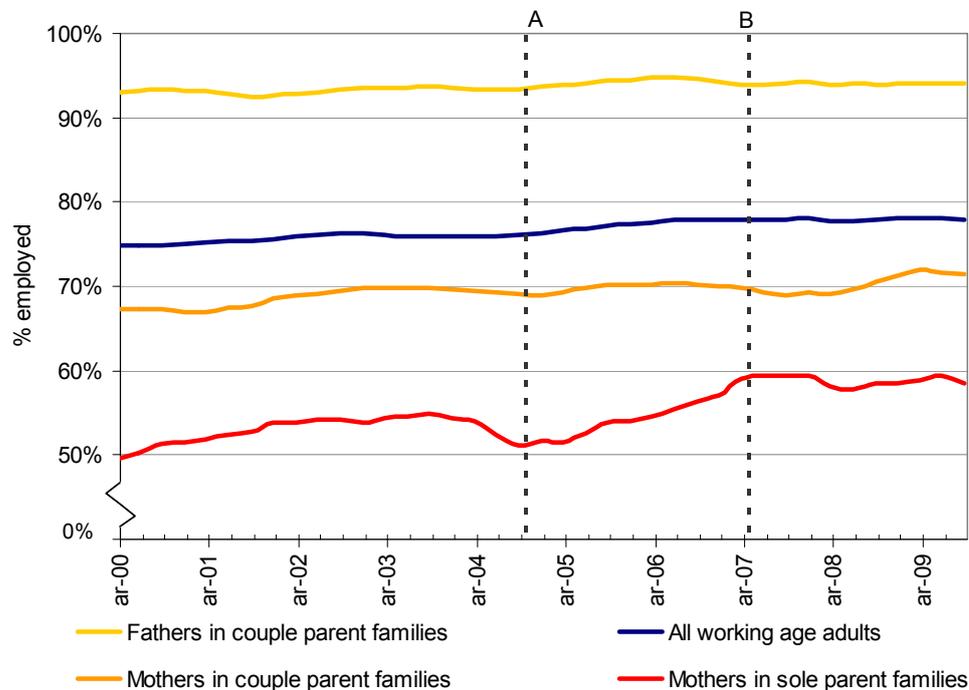
- At the start of the economic downturn, mothers with dependent children in couple parent families' average annual employment rates increased from 68% in the quarter ended March 2008 to 70% in the quarter ended March 2009 (Figure 8).
- More recently, the employment rate of mothers with dependent children in couple parent families has started to decrease, dropping back to 68% in the quarter ended September 2009, reflecting the tighter labour market.
- The employment rate of fathers with dependent children in couple parent families remained static over the economic downturn.

Figure 7: Changes in grants and cancellations of Domestic Purposes Benefit between the years ended June 2008 and June 2009



Source: MSD Information Analysis Platform.

Figure 8: Percentage of adults aged 15–64 in couple parent families with dependent children who are employed, by gender



A=First WFF changes.

B=Last WFF changes.

Smoothed by taking the average of the current and previous three quarters.

Source: Statistics New Zealand: Household Labour Force Survey, customised tables for population aged 15–64, annual average rates calculated by the MSD.

5.2 Changes to income adequacy and poverty post-WFF implementation

The cost of housing has increased, eroding the gains in housing affordability for Accommodation Supplement recipients

In the year ended June 2008, the median weekly expenditure on housing in all households rose by 20% from \$130 to \$156.⁷⁴ The increased cost of housing is reflected in the housing affordability of the Accommodation Supplement recipients.

- As of August 2008, the housing affordability of families receiving the Accommodation Supplement was in decline but had not reached 2004 levels. The median OTI of beneficiary families in paid work increased from 28% in August 2007 to 30% in August 2008. Non-beneficiary families' median OTI increased from 33% in August 2007 to 35% in August 2008.
- Housing was less affordable in 2008 than before the WFF changes for families whose only income was from a main benefit. In August 2004 their median OTI was 33% rising over the period of WFF implementation to 34% in August 2008.

⁷⁴ Statistics New Zealand (2008).

6 Conclusions

Each of the changes to WFF Tax Credits, the Accommodation Supplement and Childcare Assistance were designed to work together to meet the objectives of the WFF package. Consequently, many of the changes in expenditure contribute to more than one objective. This means that it is not feasible to use traditional cost-effectiveness methods which determine the value of the package.

To draw some conclusions on the effectiveness of the WFF changes, the evaluation considered the following questions:

- Were the objectives achieved?
- Were any negative consequences of the package minimised?

6.1 Was the “make work pay” objective achieved?

As well as addressing issues of income adequacy the WFF changes intended to “make work pay” by improving the financial incentives for parents to be in paid employment. The introduction of the in-work tax credit contributed towards to “making work pay” by creating an appreciable difference between family income on benefit and family income from paid work. Other changes to the Accommodation Supplement and family tax credit reduced the disincentive to work by lowering EMTRs for non-beneficiary families with low-to-middle incomes.

To achieve the objective of “making work pay” the WFF changes needed to both support parents’ into paid work and enable them to stay in paid work.

The impact of WFF on sole parents’ employment indicates that the WFF changes were effective in supporting 8,100 sole parents into paid work

The employment rate of sole parents was six percentage points greater and the percentage of sole parents in paid work for more than 20 hours a week was nine percentage points greater in the quarter ended June 2007 than they would have been without the WFF changes.

While it is not possible to separate out the impact of the introduction of the in-work tax credit in isolation, its introduction did provide an unambiguous incentive to leave benefit entirely and to work at least 20 hours a week. It is likely that this was a key driver behind the observed effects on sole parents’ labour market behaviour.

The minimum family tax credit is also likely to have had some impact on sole parents’ employment as 81% of recipients are sole parents and the periods of receipt are short.

The WFF changes enabled sole parents’ to remain in work as they slowed sole parents’ rate of return to benefit

The WFF changes significantly slowed the rate of return to benefit for sole parents who had exited benefit.

Sole parents' benefit receipt patterns in the recent economic downturn are an indication of the sustainability of the effect of WFF⁷⁵. There was only a small increase in the number of benefit grants in the year ended June 2009 to those sole parents' who left benefit during the WFF implementation period. This suggests the WFF changes enabled sole parents' to stay in work over this time. It is likely that the WFF changes were less effective in supporting sole parents' to move into work during the economic downturn, as decreases in the benefit cancellation rate were a key driver for much of the increase in the number of DPB recipients over the period June 2008 to June 2009.

The WFF changes have not fully addressed sole parents' barriers to paid work

While WFF went a long way towards "making work pay" for sole parents, barriers to work remain for some. Two out of five sole parents not in paid employment in 2007 considered themselves available to work.

6.2 Was the "income adequacy" objective achieved?

The WFF changes aimed to strike a balance between the "income adequacy" and "make work pay" objectives. Two changes that were intended to have a sizeable impact on income adequacy were expanding the eligibility for WFF Tax Credits to higher income families and increasing the amount lower income families were eligible to receive.

As well as contributing to the "make work pay" objective, the introduction of the in-work tax credit also contributed to the "income adequacy" objective as greater numbers of higher income families became eligible for this payment.

To achieve the "income adequacy" objective, the WFF changes had to be delivered primarily to low and middle income families and the amounts received needed to support incomes at an adequate level.

When taking into account household composition, most of the additional expenditure went to families below the median family income

The number of families with children receiving one of the main components affected by the WFF changes increased by 41% from 270,900 in the tax year ended March 2004 to 382,500 in the tax year ended March 2008. In the tax year ended March 2008, 86% of the families receiving a payment of WFF Tax Credits, the Accommodation Supplement or Childcare Assistance had a family income of less than \$70,000. As a consequence of raising the incomes of lower income families, the WFF changes reduced the income gap between high and low income households.

The WFF changes improved income adequacy and reduced child poverty for lower income families with at least one adult in paid work

The WFF changes increased the disposable income of lower income families, those eligible for WFF Tax Credits in 2004, by around \$100 a week. Consequently, there have been significant improvements in reducing the incidence of child poverty. The

⁷⁵ The evaluation has not estimated the long-term impact of WFF on sole parents' employment.

percentage of children living in poverty⁷⁶ is 8 percentage points lower than it would have been without the WFF changes.

Looking at “income adequacy” using non-income material measures, rates of hardship among children in low-to-middle income households fell by 11 percentage points between 2004 and 2008, likely due to the WFF changes. Families with low incomes indicated the WFF money was of some help, and most commonly reported using the money to buy food and groceries.

Legislation passed in November 2005 extended the WFF package families on middle incomes. The changes increased the disposable income of those not eligible for WFF Tax Credits in 2004, by around \$120 a week. Families in middle income brackets reported spending this additional money on their children’s education costs. Only a small proportion of the funding goes to families with relatively high incomes. These higher income families generally have significant numbers of children or who are at the ‘tail’ of the abatement regime.

The WFF changes initially improved the housing affordability of low income families receiving the Accommodation Supplement: with the percentage of beneficiaries’ income spent on housing dropping from 33% in August 2004 to 27% in August 2005 and the percentage for non-beneficiary families dropping from 38% to 33% over the same period. For some families the more recent increases in the cost of housing have eroded the impact of WFF on housing affordability.

6.3 Was the “delivery system that supports people into work” objective achieved?

The third objective of the WFF changes was to “achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports people into employment”. Effective delivery of the WFF changes was required for all three objectives of the changes to be achieved. As an OECD review of in-work benefits states “if a country struggles to get a high take-up of the [in-work] benefit, employment and anti-poverty gains will be well below hoped for levels.”⁷⁷

For the “delivery system that supports people into work” objective to be achieved, the target low-to-middle income families had to be receiving the payments they were entitled to, and the application process had not be a barrier to receiving a payment.

The funding for WFF is reaching the intended recipients who are low and middle income families

By the tax year ended March 2007, 95-97% of families eligible for WFF Tax Credits were receiving them.

Feedback on the delivery of the WFF changes was predominantly positive

Most families reported that applying for the WFF components was easy, though 12% found applying for WFF Tax Credits difficult, 12% found applying for the Accommodation Supplement difficult and 21% found applying for Childcare

⁷⁶ Using a fixed line poverty threshold set at 60% of the 2004 median household income

⁷⁷ Immervoll and Pearson (2009).

Assistance difficult⁷⁸. Overpayments can be a barrier to receipt as they can lead to debt to IR. The percentage of families who were overpaid WFF Tax Credits decreased, but with the expansion of the number of families eligible, and the increased amounts available, the number of overpayments and the mean overpayment amount have increased.

6.4 Were the trade-offs minimised?

An anticipated consequence of increasing the income adequacy of middle income families was an incidental increase in their EMTRs, which could have led to reduced employment of couple-parent families and reduced incentives for some middle-to-high income families to increase their earnings over time.

The WFF changes increased EMTRs for the families who became newly eligible from April 2006, though the impact on employment appears to be muted

The effect of the WFF changes, including the increased EMTRs faced by couple parent families, was to decrease the percentage of couple parent families with two earners by around two percentage points. The net loss to the labour market was minimal as those second earners who remained in paid work worked longer hours, which offset the decreased employment rate of second earners.

6.5 Overall, the WFF changes met their objectives without significant disincentive effects

The evidence from the evaluation suggests the WFF changes were effective in meeting their objectives (Table 17).⁷⁹ Table 18 shows changes in annual expenditure aligned with the WFF objectives.

- The WFF changes met the “income adequacy” objective as low and middle income families received the bulk of the increased expenditure, and child poverty rates were reduced for lower income families with at least one adult in paid work. However there was no significant change in hardship rates for beneficiaries with children.
- The WFF changes met the “making work pay” objective as they were effective in supporting 8,100 sole parents into paid work and enabling them to remain in paid work, though some barriers to work still remain for sole parents.
- The WFF changes met the “delivery that supports people into work” objective as the funding for WFF is reaching the intended recipients in low and middle income families and feedback on the delivery of the WFF changes was predominantly positive.

⁷⁸ One in five families found applying for Childcare Assistance difficult due to delays as a result of lost paper work or, for working parents in particular, problems in getting an appointment with a case manager.

⁷⁹ The WFF changes have been operating in a period of relatively high growth (by the standards of recent New Zealand economic history) in income and employment. This has meant the environment has been benign towards delivering the wider objectives sought by the package. Access to employment is the primary factor in raising income and eliminating poverty and that ‘driver’ is obviously dependent on the state of the wider economy. A less benign environment may have made the achievement of those objectives more difficult.

The WFF changes did result in higher EMTRs for some non-beneficiary families but the impact of these on employment appears to be muted.

Table 17: Evidence from the evaluation of the effectiveness of Working for Families

Requirements of achieving objective	Key evaluation findings contributing to objective
Make work pay	
The package is supporting people into work and enabling them to remain in work	<p>The percentage of sole parents working 20 hours or more a week increased from 36% in the quarter ended June 2004 to 48% in June 2007. Around three-quarters of this increase was due to the WFF changes.</p> <p>In the quarter ended June 2007, there were an estimated additional 8,100 sole parents engaged in some paid work as a result of the WFF changes.</p> <p>The WFF package increased the number of families with EMTRs of 25% or less by 59,800 and increased the number of families with EMTRs of between 51–75% by 36,800.</p>
Ensure income adequacy	
Take-up of the programme by those entitled to assistance, particularly low and middle income families, is high	<p>Between the tax years ended March 2005 and March 2008, the number of individuals receiving a payment of WFF Tax Credits increased by 48% from 277,500 to 410,300. 95-97% of families eligible for WFF Tax Credits in the tax years ended March 2006 and March 2007 were receiving WFF Tax Credits.</p> <p>From August 2004 to August 2007:</p> <ul style="list-style-type: none"> • the number of non-beneficiary families receiving the Accommodation Supplement grew by 142% • the number of non-beneficiary caregivers who received Childcare Assistance grew by 253%.
The package has positive impacts on poverty, particularly child poverty	<p>The percentage of children living in poverty dropped by 8 percentage points due to WFF.</p> <p>Hardship rates for children in low-to-middle income households fell by 11 percentage points between 2004 and 2008.</p>
The package has contributed to affordable housing costs and childcare	<p>From August 2004 to August 2007, the number of non-beneficiary caregivers who received Childcare Assistance grew by 253% from 6,300 to 22,400.</p> <p>Suitable childcare is still a barrier to paid work for some families.</p> <p>There were 241,900 individual recipients of the Accommodation Supplement in March 2008. While the number of beneficiaries receiving the Accommodation Supplement has dropped, the number of working families receiving Accommodation Supplement increased from 14,400 to 34,700 between August 2004 and August 2007.</p> <p>Beneficiary families median OTI ratio (% of income spent on housing) decreased from 33% in August 2004 to 27% in August 2005, after the October 2004 changes. Non-beneficiary families OTI dropped from 38% to 33% between August 2004 and August 2005.</p>
The programme is ensuring that low-to-middle income families are receiving adequate income	<p>WFF payments increased the income of low and middle income families. The disposable income of families:</p> <ul style="list-style-type: none"> • who would have been eligible for WFF Tax Credits in 2004 was greater by around \$100 a week • who would not have been eligible for WFF Tax Credits in 2004 was greater by around \$120 a week.
Delivery that supports people into work	
The greatest proportion of the funding goes to families with dependent children and low-to-middle incomes	<p>In 2008, 86% of the families receiving WFF assistance had incomes below \$70,000. These families received 95% of the total expenditure.</p>
Recipients find it easy to access WFF	<p>Most recipients found applying for the components easy, but 12% found applying for WFF Tax Credits difficult, 12% found applying for the Accommodation Supplement difficult and 21% found applying for Childcare Assistance difficult.</p> <p>The percentage of families who were overpaid WFF Tax Credits decreased, but the number of overpayments and the mean overpayment amount increased with the increase in the number of recipients and the value of payments.</p>

Table 18: WFF changes alignment with objectives and the change in annual expenditure

WFF changes	Objectives of WFF changes			Change in annual expenditure (2004–2008) ¹
	Make work pay	Ensure income adequacy	Delivery that supports people into work	
Increases in family tax credit rates		✓		+\$1,087m ²
Changes to the abatement regime of WFF Tax Credits	✓	✓		
Introduction of the in-work tax credit	✓	✓		+\$485m ³
Annual adjustment of the minimum family tax credit ⁴	✓	✓	✓	+\$5m
An increase in the Accommodation Supplement thresholds and rates	✓	✓		+\$177m
Increased Childcare Assistance for those eligible	✓	✓		+\$93m
Removal of the child component of main benefits	✓		✓	-\$297m
Replacement of the Special Benefit with Temporary Additional Support ⁵			✓	-\$3m
Total change in expenditure				+\$1,548m
				Total expenditure 2004–2008
Systems to support delivery of WFF changes			✓	+\$108m

1 Tax years ended March.

2 Expenditure on family tax credit and parental tax credit.

3 Expenditure on in-work tax credit and child tax credit.

4 Ensures no reduction in income when moving off benefit into paid work.

5 Estimated assuming every sole parent receiving Domestic Purposes Benefit who had one child would have received \$27 child component a week, and those with two or more children would have received \$54 child component.

6 Temporary Additional Support is targeted at beneficiaries with higher financial costs.

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Appendices

Appendix A: Definitions used in this report

Accommodation Supplement receipt

A person is in receipt of the Accommodation Supplement if they received \$1 or more of the Accommodation Supplement in the period of interest.

Accumulative adjustments

Accumulative adjustments refers to recalculating a family's entitlement for the remainder of the year when their circumstances change. The recalculation takes into account payments they have already received.

Automated information exchange

The MSD and IR exchange certain family and benefit data automatically, providing up-to-date information to enable the accurate calculation of entitlements for recipients who are moving from a benefit into work or transitioning back to benefit.

Beneficiary family

A beneficiary is a person or family in receipt of a main benefit: Unemployment, Domestic Purposes, Widow's, Sickness, Invalid's, or Independent Youth Benefit or an Emergency Maintenance Allowance. In relation to a period of time, such as a month or a tax year, beneficiary status does not necessarily indicate current benefit receipt or imply continuous benefit receipt. In a two-parent family, one or both parents may have received a benefit in the period of interest.

Childcare Assistance receipt

A family is in receipt of Childcare Assistance if MSD data indicated they received at least \$1 of Childcare Subsidy or OSCAR Subsidy in the period of interest.

While the subsidy is paid directly to the childcare provider, caregivers are still regarded as the recipients.

Coverage

Coverage means the proportion of all families eligible to receive WFF Tax Credits in a particular tax year who actually received a payment.

Family

The term 'family' is used for one or two parents and their dependent children (aged under 18).

Singles or couples without children may be eligible for the Accommodation Supplement, but they are not referred to as families.

Housing affordability

The term 'housing affordability' describes the extent to which a household lives in good quality housing, in an area of their choice, while being able to meet their

housing costs and having enough money left over to have a reasonable standard of living.

Outgoings-to-income ratios (OTIs) are a measure of housing affordability, though they do not take into account the quality of housing.

Linked MSD and IR administrative data

Much of the information in this report is drawn from datasets containing administrative data from both the MSD and IR for all families who have received a payment of a main component or have taken part in a WFF evaluation survey since April 2003. Final data is not available until at least one year after the end of a tax year.

Non-beneficiary family

Non-beneficiary families are those who do not receive any income from a main benefit in relation to a period of time. (See the definition of beneficiary family for more detail.)

Poverty line

Three poverty lines are used in this report:

- BHC (changing): set at 60% of the median family income each year before housing costs are taken into account.
- AHC (changing): set at 60% of the median family income each year after housing costs are taken into account.
- BHC (fixed): set at 60% of the median family income in 1998 before housing costs are taken into account.

Proactive actions

This describes a process where the actual family income is monitored by IR against the estimated income. If the actual income is likely to be greater than the estimated income, WFF Tax Credits payments are adjusted downwards.

Protected family tax credit (formerly known as ring-fencing)

Protected family tax credit is a strategy that protects family tax credit payments made to beneficiaries when they move into work. The aim is to ensure those moving off benefit into paid work are not faced with repaying the family tax credits received while on a benefit.

Recipient

The person within the family who receives the payment of interest. Families can have more than one recipient if different family members receive payments for different components. The linked MSD/IR administrative data allows the identification of recipient families in addition to those individuals who are recipients.

WFF Tax Credits

The components of WFF Tax Credits have had a number of name changes over the years they have been in effect.

Current name	Previously known as
Working for Families Tax Credits (WFF Tax Credits)	Family Assistance Family Assistance Plus
Family tax credit	Family Support Family Support Tax Credit
Minimum family tax credit	Family Tax Credit Guaranteed Minimum Family Income
In-work tax credit	In-work payment
Child tax credit	Independent Family Tax Credit

WFF Tax Credits receipt

Families for whom administrative data indicated they received any amount of WFF Tax Credits relating to a particular tax year (either regular weekly/fortnightly payments, or a lump sum after the end of the year) were taken as being WFF Tax Credits recipients for that year.

Appendix B: The WFF package

The Working for Families package combined substantial changes to in-work incentives and family entitlements to social assistance with specific additional support to meet childcare and accommodation costs. The Ministry of Social Development and Inland Revenue jointly implemented the WFF changes in stages between October 2004 and April 2007 (Table 19).

Table 19: Major changes introduced as part of Working for Families

<p>Oct-04 Purpose</p>	<p>The Accommodation Supplement and Childcare Assistance – reduced abatements and increased rates</p> <p>Reducing the Accommodation Supplement abatements enabled families moving off a benefit to continue to receive support for their housing costs and increased the number of eligible non-beneficiary families. Those earning while in receipt of a benefit no longer had the Accommodation Supplement abated.</p> <p>Childcare Assistance changes increased the rates by 10%, brought Out of School Care and Recreation (OSCAR) rates in line with support for younger children and increased the number of eligible non-beneficiary families.</p>
<p>Apr-05 Purpose</p>	<p>Family tax credit increased by \$25 a week for the first child and \$15 a week for additional children</p> <p>Child component of main benefits moved into family tax credit</p> <p>The Accommodation Supplement areas increased from three to four, and maximum rates increased</p> <p>Family tax credit began to be treated as income for the Special Benefit</p> <p>Family tax credit changes increased the amount of money families were receiving and increased the number of non-beneficiary families eligible for support.</p> <p>Moving the child components of the main benefit aimed to simplify the benefit system. It meant the net increase in family tax credit for beneficiary families was less than that for working families.</p> <p>The new Accommodation Supplement areas acknowledged there were areas with much higher housing costs than the rest of the country, particularly in Auckland.</p> <p>Increased maximum rates of the Accommodation Supplement provided more assistance for people with high costs.</p>
<p>Oct-05 Purpose</p>	<p>Childcare Assistance rates were increased by another 10%</p> <p>Increased payments for childcare reduced financial barriers to working.</p>
<p>Apr-06 Purpose</p>	<p>In-work tax credit replaced the child tax credit, paying a maximum of \$60 a week for eligible working families with up to three children and a maximum of \$15 a week for each additional child</p> <p>Thresholds were raised and abatements standardised to 20% for WFF Tax Credits</p> <p>Temporary Additional Support introduced to replace the Special Benefit</p> <p>Minimum family tax credit amount increased</p> <p>The focus of these later changes was on making work pay, with the introduction of the in-work tax credit providing an incentive for families to enter into or remain in work.</p> <p>More non-beneficiary families became eligible for WFF Tax Credits and received more money due to both in-work tax credit and changes to abatements.</p>
<p>Apr-07 Purpose</p>	<p>Family tax credit rates increased by \$10 per child per week</p> <p>Minimum family tax credit increased</p> <p>Family tax credit payments increased for both beneficiary and non-beneficiary families.</p>

Appendix C: Delivering WFF

The implementation of the WFF programme was a major initiative for both the MSD and IR due to the size and scope of the changes to the components of the programme. Dedicated implementation teams were established within each organisation as well as a joint implementation steering committee to manage the integration of the changes between the two organisations.

Raising awareness of the WFF changes

A high-level strategy for the WFF communications campaign ensured a collaborative joint approach between Work and Income and Inland Revenue. The campaign started in August 2004 and was rolled out over three years, coinciding with the key WFF implementation dates, and ended in April 2007. It included:

- Advertising – national and regional television, national and community radio (in particular Māori and Pacific networks), national and community newspapers, magazines, bus shelter and in-bus advertisements. Brochures were delivered to households nationwide.
- A website – a WFF website was developed (<http://www.workingforfamilies.govt.nz>), to provide more information in a more accessible way. It contained information to answer questions including how to apply, and calculators to allow customers to estimate their eligibility. This was a single information point for WFF, with clients being directed to the appropriate organisation to apply.
- Community engagement – a joint community engagement programme was established with MSD and IR staff attending community events and visiting large employers to provide information about WFF.
- Brochures – existing brochures were rewritten to incorporate new WFF products and entitlements, and a new brochure, *Working and Raising a Family*, was produced.
- Mailouts – the MSD sent letters to all its clients throughout all phases of the implementation, advising them of changes to their entitlements and promoting WFF. In addition, some targeted letters for specific groups were sent, such as to those likely to benefit most from the introduction of the in-work tax credit. IR sent letters to its clients to collect information on hours of work for the in-work tax credit.

The MSD established new positions for WFF case managers and childcare co-ordinators to promote WFF to families likely to be eligible. IR recruited staff to deal with the increased customer base entitled to WFF Tax Credits.

Applying for the main components

The training of service centre and call centre staff took place throughout the implementation period. MSD delivered training through dedicated training sessions, workplace training, and staff communications. IR had a substantial training programme which included interactive online learning modules. Due to the joint nature of the WFF implementation, MSD and IR staff needed to learn about the other organisation's products and services.

The implementation of WFF allowed enhancements to be made to systems and processes which reduced the complexity for customers. Rather than having to re-enrol each year, the majority of IR customers continue to be paid their entitlements.

MSD and IR application forms were redesigned to enable the collection of information required for the changes, and new forms were designed where necessary. The size of the IR registration document for new recipients was reduced from 40 pages to four, and the letters and statements were redesigned to clarify and simplify them.

One of the key principles of WFF was that no existing clients were to be disadvantaged, so it was necessary to ensure clients did not experience an unrelated drop in their payments that could be misinterpreted as being due to the WFF changes. The MSD implemented Exceptions Management Plans to manage such scenarios.

Payments were checked well in advance for every client affected by a policy change and manually corrected if necessary at that point. At the time of the policy changes being implemented, IT systems rejected any further reduction in payments on a client's record so it could be manually investigated first. The Transitional Supplement was introduced as a mechanism to identify and pay any clients disadvantaged as a result of the WFF changes.

Systems to support delivery

Significant information technology changes were needed throughout the implementation period in both the MSD and IR, so clients could apply for and be paid their WFF entitlements. These changes required business process design, system design, and building and testing for each IT change.

The changes included Accommodation Supplement geocoding and address validation. Geocoding allocates a unique latitude and longitude co-ordinate to each residential address location. This enables an accommodation area code to be automatically assigned to a client's address, ensuring the correct rate of Accommodation Supplement is paid. Address validation also ensures the address supplied by the client is a recognised address. The MSD worked in collaboration with Statistics New Zealand, Terralink, and the Department of Housing to implement geocoding and address validation.

Processes to reduce overpayments

Legislative changes enacted for WFF enabled additional processes to improve the accuracy of WFF Tax Credit payments. Accumulative adjustments, automated information exchange, protected family tax credits (also known as ring-fencing) and a weekly payment option were introduced as part of WFF, while proactive actions were enhanced to include the self-employed. These initiatives required information technology changes, new business processes and specialist training for staff to implement complex operational changes.

The **accumulative adjustments** process automatically readjusts regular payments when a customer notifies IR of changes affecting their entitlement to WFF Tax Credit. The process helps to avoid overpayment as a 'square-up' is performed each time a reassessment occurs. This change required an amendment to section 82 of the Tax Administration Act 1994.

Automated information exchange automatically transfers customers' details from the MSD to IR when a family tax credit recipient no longer receives a benefit. This has greatly reduced the debt created due to overlapping payments and/or the lack of benefit details. As part of the information exchange process, extension payments can be paid by either the MSD or IR to beneficiaries who cancel or who have their benefit suspended as they transition from benefit to work. The information exchange required a formal agreement between the MSD and IR, and consultation with the Privacy Commissioner.

Protected family tax credit (ring-fencing) permits people who have periods of work and benefit receipt to receive the maximum value of WFF Tax Credit while they are receiving a benefit without being assessed with debts as a result of any periods of earnings above the family tax credit abatement threshold. This recognises these are the periods in which a family must receive the maximum amount of family assistance to meet their daily living expenses. This required particularly complex IT changes.

Appendix D: Evaluating WFF

The evaluation of WFF encompassed the delivery, implementation and take-up of the package, as well as the effectiveness of the package in achieving its three central aims. As the WFF changes affected a number of components designed to work together, it was essential the evaluation addressed the delivery, take-up and impacts of the package as a whole as well as of the component parts.

The evaluation assessed:

- A) The implementation and delivery of the package as a whole and of its components.
- B) The impact of the package in ensuring families get their entitlements (package receipt), including identifying barriers and facilitators to receiving the package.
- C) The impact of the package on net incomes, income poverty and living standards for all those affected by the changes, especially for low-to-middle income families with dependent children.
- D) The degree to which the package improves employment-related outcomes for adults from low-to-middle income families with dependent children.

Table 20: How the information in the report relates to the WFF policy objectives and the evaluation objectives

Research question	Information in report
Objective A: To assess the implementation and delivery of the programme as a whole and of the various components	
What are the strategies in place to inform eligible and potentially eligible people about the WFF changes, their entitlements and how to apply for them?	4.3.2 Raising awareness of the WFF changes
To what extent were policy interventions delivered as intended and what were the barriers and facilitators to delivery?	4.3 Lessons learnt from delivering the WFF changes
Additional questions relating to WFF Tax Credits	4.3.5 Processes to reduce overpayments
What are frontline staff attitudes to the WFF components?	4.3.4 Systems to support delivery
What is the interface between IR/MSD and what is the impact of the interface on the delivery of the policy interventions?	4.3.1 Joint delivery of the WFF changes

Research question	Information in report
Objective B: To assess the impact of the programme in ensuring people get the assistance to which they are entitled (and barriers and facilitators to taking up the programme)	
What is the extent of target group awareness of WFF by the eligible and potentially eligible population, as well as the understanding of eligibility and application processes?	4.3.2 Raising awareness of the WFF changes 4.3.3 Applying for the main components 4.1 Characteristics of families receiving a major component affected by the WFF changes 4.2 Receipt of main components and expenditure
What is the extent to which eligible customers/clients have taken up entitlements and what are the reasons?	1.2 How the WFF changes affected families 4.2.1 Percentage of eligible families receiving WFF Tax Credits
Why have entitlements not been taken up?	4.2.2 Barriers to families receiving financial support and incentives for working
What is the expenditure on components of the WFF package by total cost and by cost of the newly-eligible?	4.2 Receipt of main components and expenditure
How have stakeholders (employers and service providers) responded to the changes?	4.3.2 Raising awareness of the WFF changes 4.3.3 Applying for the main components
Objective C: To assess the degree to which the package improves employment-related outcomes for adults from low- to middle- income families with dependent children	
What are the interactions between the labour market and the WFF interventions?	1.3.1 Economic context
What are the impacts of the WFF components on the employment behaviour of customers/clients?	2.2 Couple parent families' employment 2.1 Sole parent families' employment and benefit receipt
To what extent have employment changes been sustainable?	5.1 Changes to parents employment during the economic downturn
Objective D: To assess the impact of the programme on net incomes, income poverty and living standards for all those affected by the changes, especially for low-to-middle income families with dependent children	
What are the impacts of the WFF components on the incomes of customers/clients?	3.1 Family income of recipients
What are the impacts of EMTRs on entry into employment?	2.3 Effective marginal tax rates
Have there been any changes in the overall quality of life of the target groups?	3.2 Child poverty and hardship 3.4 Uses of the money
What other impacts are associated with and potentially attributable to the introduction of the package?	3.2 Child poverty and hardship 3.3 Quality and affordable housing

Appendix E: Summary of methods

The choice of methods to carry out this analysis was made after the Policy Studies Institute, United Kingdom, carried out a review of suitable impact methodologies and gave the MSD and IR specific guidance.⁸⁰ The approaches needed to be appropriate for evaluating a programme where most of the eligible families were participating in the programme, and to control for the strong economic conditions of the time. The approaches were chosen because of the data available and its complementary strengths.⁸¹ The following methods were used.

Difference-in-differences of employment rates

When a policy is targeted at a group of interest (the 'treatment' group), difference-in-differences compares the change in an outcome over time for that group with the corresponding change for a group for which the policy should have no effect (the 'comparison' group). The intuition behind difference-in-differences is that, in the absence of the policy, the outcomes for the treatment and comparison groups would have changed in similar ways over time. The effect of the policy is estimated by examining any change in the treatment groups' trend after implementation. Household Labour Force Survey data was used in the difference-in-differences analysis.

The results in this report that were estimated using the difference-in-differences method were:

- impact on sole parents' employment rates and percentage of sole parents' in paid work for more than 20 hours a week
- impact on the second earner in couple parents' employment rate and hours spent in paid employment per week.

Survival analysis

Survival (or duration) analysis is a method of analysing data on the time taken for an event of interest to occur. The survival analysis for sole parents used a 25% random sample of DPB-Sole Parent recipients from the linked MSD and IR administration datasets August 2008 update.

The survival analysis of the number of earners in couple parent families was also carried out using the linked MSD and IR administrative information. Monthly data on labour market (salary and wages) income was used for a subset of couples with dependent children. Couples with children were included in the analysis if they received any WFF between April 2003 and March 2008, they did not earn self-employment income, and they were together as a couple with at least one of them earning labour market income for a continuous period of at least six months. Around 26% (over 80,000) of the couples in the datasets met these criteria. Variables were included in the analysis to control for the prevailing economic conditions.

⁸⁰ Bryson, A., Evans, M., Knight, G., La Valle, I. and Vegeris, S. (2006). Methodological considerations for evaluating MSD programmes. Unpublished report.

⁸¹ For further details on the methods used see: Dalgety et al. (2010), and Ministry of Social Development and Inland Revenue (2010b).

The results in this report that were estimated using survival analysis were:

- impact on sole parent families' rates of exiting from benefit and re-entry into benefit
- impact on couple parents families rates of moving between one and two earners, and between two and one earners.

Panel regression model

The couple parent families analysis also used a panel data regression model, applied to the same monthly administrative data for couples with children as was used in the survival analysis. Variables were included in the analysis to control for the prevailing economic conditions.

The result in this report that was estimated using the panel regression model was the impact on the percentage of couple parent families' with two earners.

Impact of WFF changes on couple parent families with two earners

The reported impact of the WFF changes on the percentage of couple parent families with two earners was a decrease of around 2 percentage points. The evidence that supports this result comes from three sources (Table 21).

Table 21: Summary of the results from analysis examining the impact of the WFF changes on the percentage of couple parent families with two earners

Method	Impact on percentage of couple parent families with two earners ¹	Base
Difference-in-differences analysis ²	2.3 (± 3.5) percentage point decrease	All couple parent families
Panel regression model ³	2.2 (± 0.6) percentage point decrease	Couple parent families who: <ul style="list-style-type: none"> • received at least one of the major components of WFF over the period April 2003 to March 2008 • had no income from self-employment
Predicted impact of WFF: ⁴ <ul style="list-style-type: none"> • TaxModB model of labour supply • Impact of increasing EMTRs 	1–3 percentage point decrease 3,600 'married earners' leave the workforce 9,000 secondary earners leave the workforce	All couple parent families

1 95% confidence intervals in brackets.

2 Calculations based on unpublished Household Labour Force Survey data, June quarters.

3 MSD/IR linked dataset.

4 Johnson, N. (2005). 'Working for Families' in New Zealand: Some Early Lessons. (<http://www.fulbright.org.nz/voices/axford/docs/johnsonn.pdf>).

Calculating effective marginal tax rates

Nine components were considered in the EMTR calculations:

- income tax
- ACC levies
- student loan obligations
- child support obligations
- abatement of benefit
- abatement of WFF Tax Credits
- abatement of the Accommodation Supplement
- abatement of Childcare Assistance
- abatement of Student Allowance.

The EMTR for a sole parent family was calculated by combining the contribution from each of the nine components. For couples, EMTRs were calculated for each individual, and the family EMTR was taken to be the highest EMTR faced by either person.

A summary of how each component could contribute to a family's EMTR is outlined in Table 22. In some situations where multiple components are abating, interactions may mean that some EMTRs are lower than those shown in the table.

Table 22: Summary of payments and assistance contributing to the calculation of effective marginal tax rates

Component		Description of contribution to EMTR for family	% of \$1 lost
Payments	Income tax ¹	Dependent on individual's highest current tax rate in 2004 to 2008.	0%, 15%, 16.5%, 19.5%, 21%, 33% or 39%
	ACC levies	Changes from year to year and is different for salaried earners and self-employed earners.	0% or averages range from 1.2%–4%
	Pays Student Loan	Required to pay 10c in the dollar after income crosses a threshold, which changes year to year.	0% or 10%
	Pays Child Support	Dependent on the number of children and whether children spend time in care of other caregiver.	0% or ranges from 12%–30%
Abatement of social assistance	Receives a benefit ²	Dependent on type of benefit, amount of income from other than benefit, and partnership status.	0%, 30%, 35% or 70%
	Minimum family tax credit	Dependent on income tax rate. Combines with income tax to add to 100%.	0%, 79% or 85%
	WFF Tax Credits ³	Decreases after annual income crosses a threshold. Changed from a two-tiered abatement to single abatement in 2006.	0%, 18%, 20% or 30%
	Receives the Accommodation Supplement	Decreases after weekly income crosses a threshold. Changed to no abatement for beneficiaries in 2004.	0% or 25%
Changes in entitlement	Receives Childcare Assistance	When income increases past a Childcare Assistance threshold, the hourly rate the family is entitled to decreases.	0%, 100% or if the family crosses the income threshold by \$1, the amount they receive decreases by more than \$1
	Receives a Student Allowance	In 2004, when income increased over a threshold students lost their entire Student Allowance. From 2005 onwards students lost \$1 for every \$1 earned over the threshold.	

1 Income sources subject to income tax included: salary and wages, self-employment, partnership income, shareholder-employee salaries, main benefits, paid parental leave, taxable pensions, student allowance, ACC payments received, interest and dividends, rents, estate and trust income, scheduler payments, Māori authority distributions, overseas income, other IR3 income, net losses brought forward, losses from a loss attributing qualifying company. An income tax rate of 0% applies to those people incurring a loss.

2 Includes all main benefits, and those receiving New Zealand Superannuation or Veteran's Pension as a non-qualifying spouse.

3 Excluding minimum family tax credit.

For full details of the EMTRs faced by families receiving one of the major components of WFF and technical details about how they were calculated, see: Ministry of Social Development and Inland Revenue (2010a).

Appendix F: Examples of how changes to WFF Tax Credits altered the effective marginal tax rates for families

Example 1

Susan is a sole mother with two children. She has the option of working 30 hours a week for \$17 an hour. As Table 23 illustrates, after the WFF changes:

- Susan has a higher income, whether she is in paid work or not.
- Susan's disposable weekly income would increase by \$207 a week if she took the option to work, compared to a weekly increase of \$99 before the WFF changes.
- Once in work, Susan would lose 21c of each dollar earned in income tax if her employer offered her a higher paying job or longer hours, giving her an EMTR of 21%. Before the WFF changes, Susan would have also lost 18c of WFF Tax Credits for every additional dollar she earned, giving her a total EMTR of 39%.

Table 23: Illustration of the effect of the WFF changes on family income of sole parent families¹

Susan, a sole parent with two children ²		Before the WFF changes ³ Tax year ended March 2004		After the WFF changes Tax year ended March 2008	
		Susan not in paid work	Susan in paid work	Susan not in paid work	Susan in paid work
Family income	Net weekly earnings	\$253	\$403	\$256	\$403
	WFF Tax Credits	\$109	\$58	\$139	\$199
	Disposable ⁴ weekly family income	\$362	\$461	\$395	\$602
	Gain from Susan being in paid work	\$99		\$207	
EMTR	Susan	21%	39%	21%	21%

1 Example takes into account income tax and payments from tax credits only. Family may be eligible and receiving other forms of social assistance, or paying other levies or obligations.

2 Susan has two children at primary school. Susan has the option of working 30 hours a week for an annual salary of \$27,000.

3 In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits in the periods when the group of payments were still called Family Assistance.

4 Total income including after-tax income and payments from WFF Tax Credits.

Example 2

Stan and Aroha have two children. Stan is in full-time paid work and earns an annual salary of \$43,000 and Aroha is in paid work for 30 hours a week earning \$17 an hour. As Table 24 illustrates, after the WFF changes:

- Stan and Aroha are better off as they have a higher family income.
- If Aroha decided to stop working, the family would lose less money than they would have before the WFF changes.
- If Aroha's employer offers her more hours or a higher paying job, she pays an additional 21c in income tax for each dollar earned and the amount her family received from WFF Tax Credits decreased by 20c, giving her a total EMTR of 41%. Without the WFF changes her EMTR would have been 21%.

- If Stan were offered additional hours or a higher paying job, he would pay an additional 33c in income tax for each dollar earned and the amount his family receives from WFF Tax Credits would decrease by 20c, giving him a total EMTR of 53%. Before the WFF changes, Stan's EMTR would have been 33%.

Table 24: Illustration of the effect of the WFF changes on family income of couple parent families¹

Stan and Aroha, a couple parent family with two children ²		Before the WFF changes ³ Tax year ended March 2004		After the WFF changes Tax year ended March 2008	
		Aroha not in paid work	Aroha in paid work	Aroha not in paid work	Aroha in paid work
Family income	Net weekly earnings	\$642	\$1,045	\$642	\$1,045
	WFF Tax Credits	0	0	\$168	\$66
	Disposable weekly ⁴ family income	\$642	\$1,045	\$810	\$1,111
	Gain from Aroha being in paid work	\$403		\$301	
EMTR ⁵	Stan	33%	33%	53%	53%
	Aroha	21%	21%	41%	41%

1 Example takes into account income tax and payments from tax credits only. Family may be eligible and receiving other forms of social assistance, or paying other levies.

2 Stan and Aroha have two children at primary school. Stan is in full-time paid work and earns a salary of \$43,000 and Aroha is in paid work for 30 hours a week earning \$17 an hour.

3 In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits in the periods when the group of payments were still called Family Assistance.

4 Total income including after-tax income and payments from WFF Tax Credits.

5 The family EMTR is defined as the highest EMTR of each individual in the couple. In both cases, this will be Stan's EMTR.

Appendix G: Numbers receiving and expenditure on the main components

WFF Tax Credits

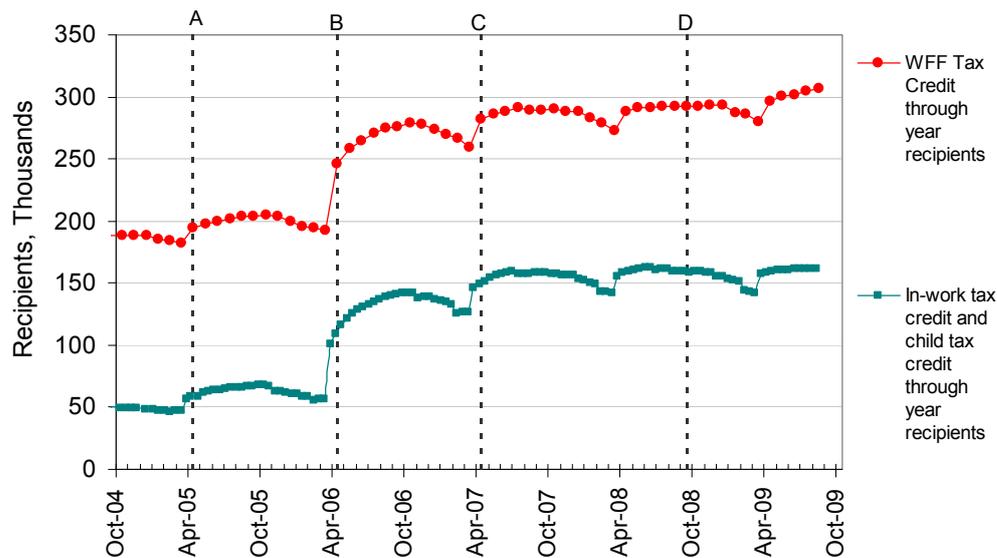
Initiatives such as direct mailing, frontline staff signing up eligible families, and outbound calling to potentially eligible families have resulted in an increased number of WFF Tax Credit recipients (Figure 9).

- The number of families receiving WFF Tax Credits increased by 48% to 410,300 between the tax years ended March 2005 and March 2008.

The largest growth in numbers of families receiving WFF Tax Credits occurred after changes to the WFF Tax Credits abatement regime in April 2006 and the introduction of the in-work tax credit.

- The number of families receiving WFF Tax Credits grew by 34% to 397,900 between the tax years ended March 2006 and March 2007.
- The annual pattern of a decline in numbers receiving through year payments towards the end of the tax year is due to proactive actions.

Figure 9: Number of recipients of WFF Tax Credits, in-work tax credit and child tax credit (through year recipients)



A=Increase in family tax credit rates.

B=Changes to WFF Tax Credits abatements and thresholds and introduction of in-work tax credit.

C=Increase in family tax credit rates.

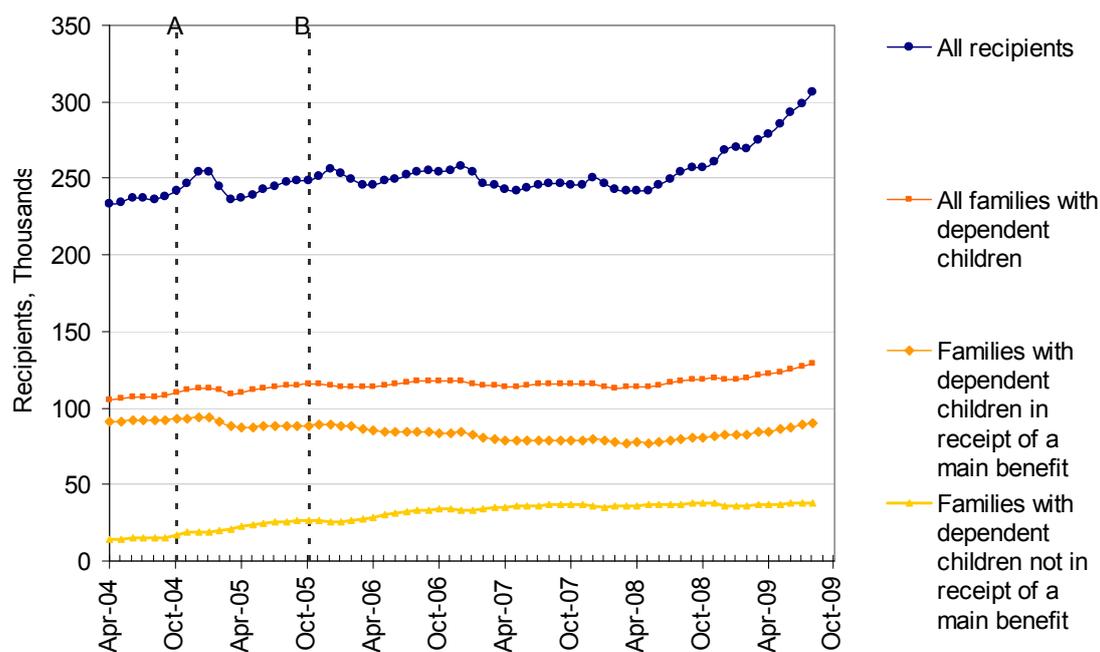
D=Increase in abatement thresholds.

Source: IRD data warehouse.

Receipt of the Accommodation Supplement

The number of recipients of the Accommodation Supplement began to increase after the first changes in October 2004, before the advertising campaign (Figure 10). The increased numbers demonstrates the effectiveness of the promotion staff and frontline staff in both organisations in signing up eligible families (see section 4.3.2). In the six months following the changes in October 2004, the number of non-beneficiary families receiving the Accommodation Supplement grew by 29%.

Figure 10: Number of recipients of the Accommodation Supplement



A=Abatement removed for beneficiaries, entry threshold decreased and abatement thresholds increased for non-beneficiaries.

B=The maximum housing costs recipients can claim for increased in some areas with high housing costs.

Source: MSD Information Analysis Platform (IAP).

Most of the growth in the number of families receiving the Accommodation Supplement was due to the increased number of non-beneficiary families eligible for a payment after the WFF changes.

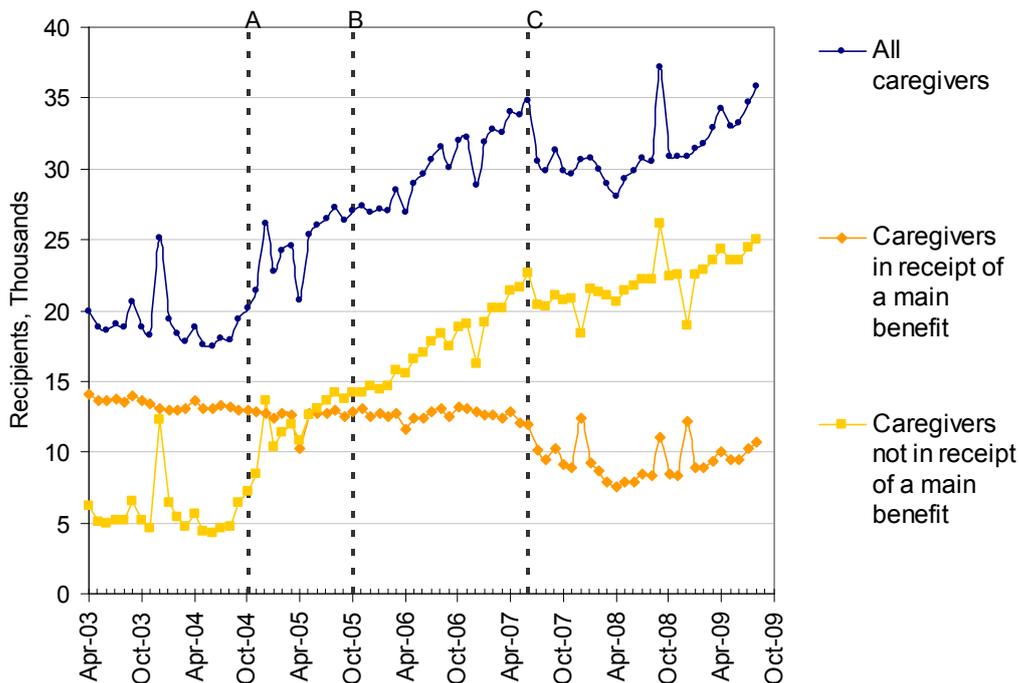
- The number of families and singles and couples without children receiving the Accommodation Supplement grew by 4% to 246,200 between August 2004 and August 2007.
- In August 2007, 30% of the families receiving the Accommodation Supplement were not in receipt of a main benefit, compared to only 13% in August 2004.
- The number of non-beneficiary families receiving the Accommodation Supplement grew by 142% from 14,400 to 34,700 from August 2004 to August 2007.

Childcare Assistance

The number of caregivers receiving Childcare Assistance increased after the first set of changes in October 2004.

- The total number of families receiving childcare increased by 58% to 33,400 over the period August 2004 to August 2007.
- The number of caregivers who received Childcare Assistance, but who were not in receipt of a main benefit, grew by 253% to 22,400 from August 2004 to August 2007.
- After the introduction of 20 hours ECE in July 2007, the number of caregivers receiving Childcare Assistance declined by 4% between August 2006 and August 2007. As beneficiary families cannot receive both 20 hours ECE for three and four year olds and Childcare Assistance, there was a larger decline in the number of beneficiary caregivers receiving Childcare Assistance (25% between August 2006 and August 2007).
- In August 2007, 18% of Childcare Subsidies were paid for children in OSCAR services. Before the October 2004 WFF changes, children receiving OSCAR subsidies made up only 8% of Childcare Assistance payments.

Figure 11: Number of caregivers receiving Childcare Assistance (seasonally adjusted)¹



A=Childcare Assistance rates increased by 10%, Out of School Care and Recreation (OSCAR) rates brought in line with Childcare Subsidy rates.

B=Childcare Assistance rates increased by another 10%.

C=20 hours ECE introduced for three and four year olds (not part of WFF package).

¹ Seasonally adjusted using additive X-11 method.

Source: MSD Information Analysis Platform (IAP).

Changes in annual expenditures

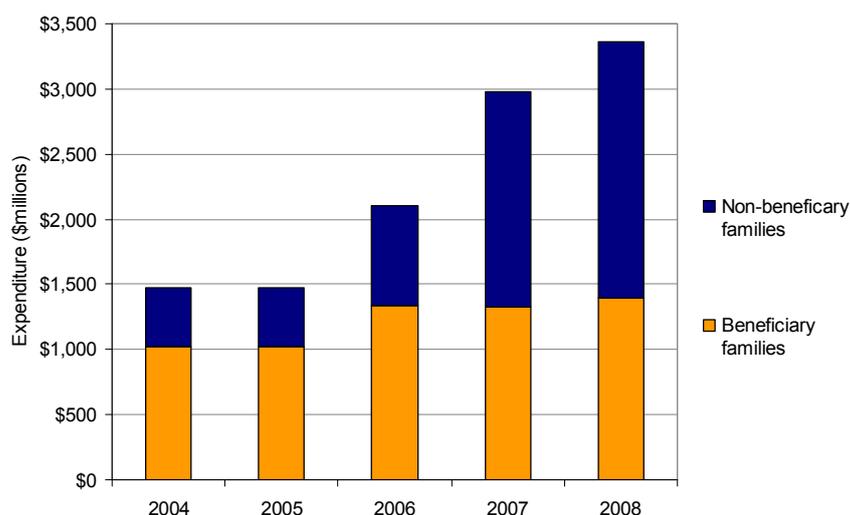
Total expenditure on the main components grew by 109% between the tax year ended March 2004 and the tax year ended March 2008 (Figure 12). By the tax year ended March 2008 total expenditure on the main components was \$3.7 billion. Over the implementation period, between the tax years ended March 2004 to March 2008:

- total expenditure on beneficiary families grew by 37%, though this was off-set by a reduction in spending on the child component of main benefits in 2006
- total expenditure on non-beneficiary families grew by 336%.

Over the same period, expenditure on non-beneficiary families grew considerably: WFF Tax Credits increased by 351%, spending on the Accommodation Supplement increased by 189% and spending on Childcare Assistance increased by 506% (Figure 13).

Full details of the changes in the receipt of and expenditure on the main components have been published previously by the MSD and IR.⁸²

Figure 12: Expenditure on the main components¹



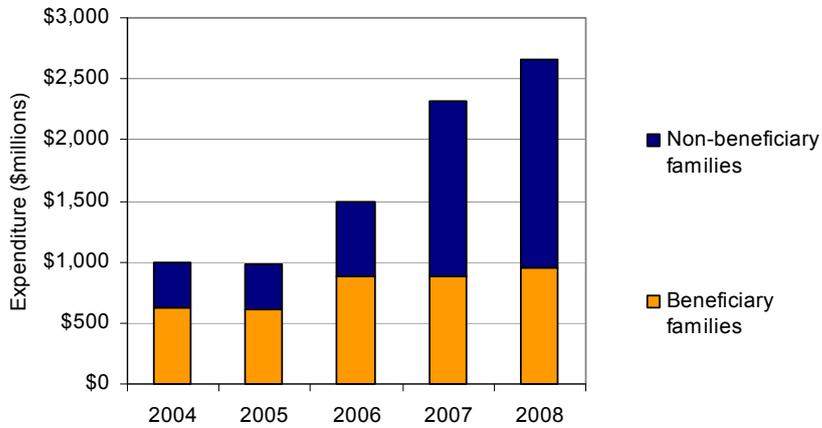
¹ Breakdown by benefit status is based on the linked MSD/IR datasets as the MSD and IR use different rules for reporting expenditure. Therefore, figures will differ from expenditure reported in other publications.

Sources: IR data warehouse, MSD Information Analysis Platform and linked MSD/IR datasets.

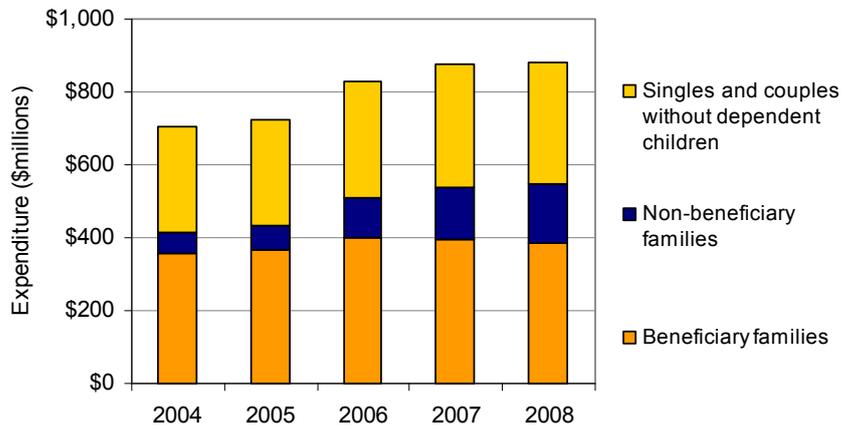
⁸² Further details about the changes in the numbers receiving WFF Tax Credits, the Accommodation Supplement and Childcare Assistance as well as the average payments are available in the reports: Ministry of Social Development and Inland Revenue (2007), and Ministry of Social Development and Inland Revenue (2008).

Figure 13: Expenditure on WFF Tax Credits, the Accommodation Supplement and Childcare Assistance¹

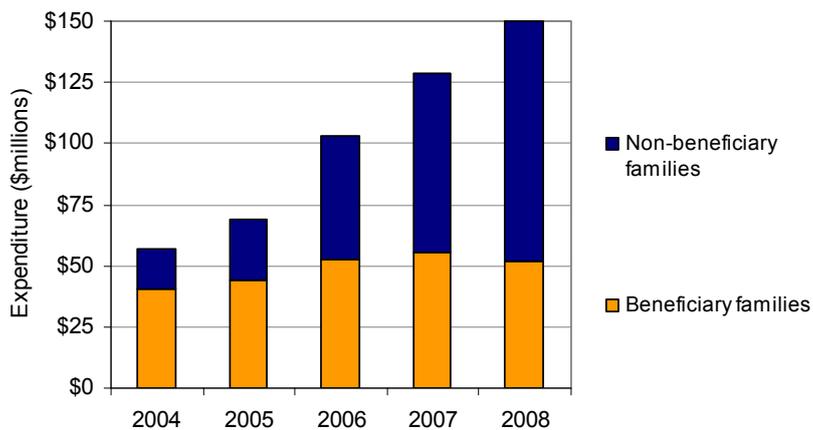
WFF Tax Credits



Accommodation Supplement



Childcare Assistance



¹ Breakdown by benefit status is based on the linked MSD/IR datasets as the MSD and IR use different rules for reporting expenditure. Therefore, figures will differ from expenditure reported in other publications. Sources: IR data warehouse, MSD Information Analysis Platform and linked MSD/IR datasets.