

Appendix One – options for adjusting the Minimum Family Tax Credit for 2021/22

Option	Impact	Advantages	Disadvantages
<p>Option 1: Increase the MFTC threshold to fully reflect benefit abatement changes.</p>	<p>The MFTC threshold would increase to \$32,604 p.a. (or \$627 per week), which would have an ongoing fiscal cost of \$12 million per annum. (Note that this increase is more than was paid out in MFTC in tax year 2020)</p> <p>This full alignment is a 10.8% increase (\$3,172 per annum or \$61 per week) from the current threshold, a large increase relative to previous annual adjustments.</p>	<p>The MFTC threshold remains aligned with its policy intent.</p> <p>It is expected that approximately 4,900 families would benefit under this change, approximately 1,300 of these families would be newly eligible for the MFTC.</p>	<p>The range over which the MFTC is available is extended, resulting in a larger range of hours worked with a 100% EMTR, further reducing incentives to work greater hours for sole parents on low/minimum wage.</p> <p>The 1,300 newly eligible families would also experience a 100% EMTR meaning there is less incentive to increase hours of work.</p> <p>However, these may not have a significant impact on labour supply decisions in aggregate given that much of this group already face a 100% EMTR.</p> <p>Increasing the MFTC this significantly may also make future structural reform of WFF more difficult § 9(2)(f)(iv) particularly if there is a desire to avoid people being financially disadvantaged.</p>
<p>Option 2: Partially increase the MFTC threshold.</p>	<p>The MFTC threshold would increase to \$30,576 p.a. (or \$588 per week), which would have an ongoing fiscal cost of \$4 million per annum.</p> <p>This increase is \$1,144 per annum (\$22 per week) from the current threshold.</p>	<p>This option is fiscally less costly than a full alignment.</p> <p>Sole parents would remain financially better off working and receiving the MFTC than working and receiving a benefit.</p> <p>§ 9(2)(f)(iv)</p> <p>Increasing the MFTC threshold by a lesser amount now may make any future structural reforms of WFF slightly less costly.</p> <p>It is expected that approximately 4,000 families would benefit under this change, approximately 400 of these families would be newly eligible for the MFTC.</p>	<p>The MFTC threshold is not fully aligned with its policy intent.</p> <p>This means that couples could be theoretically better off working and receiving a main benefit, however, few couples are likely to qualify for a benefit if one person is working 30 hours a week. This is due to the '30-hour rule' where a person (or couple) are not eligible for Jobseeker Support if they are working full-time (defined as 30 hours a week).</p> <p>MFTC recipients gain less than how much they would gain through a full adjustment of the MFTC.</p> <p>The range over which the MFTC is available is extended, resulting in a larger range of hours worked with a 100% EMTR, reducing incentives to work greater hours for sole parents on low/minimum wage (but not as much as a full adjustment).</p> <p>However, these may not have a significant impact on labour supply decisions in aggregate given that much of this group already face a 100% EMTR.</p>
<p>Option 3: Do not adjust the MFTC threshold.</p>	<p>The MFTC threshold would remain at \$29,432 p.a. (or \$566 per week).</p> <p>This could have a net fiscal cost arising from the increase to benefit expenditure as families move on to benefit. We estimate this is likely to be small.</p>	<p>§ 9(2)(f)(iv)</p> <p>Not increasing the MFTC threshold now may make any future structural reforms of WFF slightly less costly.</p> <p>This option also has the lowest fiscal cost, which would allow funding to be directed to other priorities.</p>	<p>The MFTC threshold is no longer aligned with its policy intent and therefore some MFTC families may be financially better off working and receiving a benefit than working and receiving the MFTC, depending on the number of hours they work.</p> <p>As a result, there may be a small increase in the number of families receiving a benefit and a consequential fiscal impact, but this cost would be partially offset by the reduction of MFTC (as families would no longer receive the MFTC).</p> <p>This change would also result in confusion of when a person would be better off working and receiving a benefit or working and receiving the MFTC. This would be very challenging for customers to understand and for staff to communicate.</p>