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Office of the Minister for Social Development and Employment

Cabinet

Social Security (Benefits Adjustment) and Income Tax (Minimum Family Tax Credit) Amendment Bill: Approval for Introduction

Proposal

- 1 This paper seeks approval for the Social Security (Benefits Adjustment) and Income Tax (Minimum Family Tax Credit) Amendment Bill (the Bill) to be introduced on Tuesday 13 February 2024. The Bill is an omnibus bill that amends the Social Security Act 2018 (the Act) to index benefits currently listed in section 452A (Orders in Council: mandatory annual average weekly earnings adjustment of rates of main benefits) to inflation (any percentage movement upwards in the Consumers Price Index).
- 2 The Bill does this by repealing the current section 452A, and inserting the benefits listed in that section into section 453. It also makes other related and consequential amendments to the Act.
- 3 It also consequentially amends the Income Tax Act 2007 to implement a related increase in the Minimum Family Tax Credit (MFTC) threshold, in line with Cabinet policy.

Policy

- 4 The Bill implements the Coalition Government's commitment to index main benefits (for the purpose of this proposal, main benefits refers to those benefits contained in section 452A of the Act) to inflation (any percentage movement upwards in the Consumers Price Index), for the Annual General Adjustment (AGA) on 1 April 2024 [CAB-23-MIN-0490 refers].
- 5 To accomplish this, the Bill revokes the current section 452A of the Act, which requires main benefits to be indexed to net average wage growth. It also amends section 453, so that the benefits currently listed in section 452A are added to the rates that must be adjusted by inflation.
- 6 These benefits include:
 - 6.1 Jobseeker Support;
 - 6.2 Sole Parent Support;
 - 6.3 Supported Living Payment (with and without children);

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- 6.4 Youth Payment;
 - 6.5 Young Parent Payment;
 - 6.6 Rates of generally abolished former Widows' Benefits; and
 - 6.7 Rates of generally abolished former Domestic Purposes Benefit for solo parents.
- 7 Additionally, the Bill makes an amendment to section 453 so that an adjustment under section 453(1) also affects the maximum rate at which MSD may grant Emergency Benefit. It also revokes 453(3) as it is now spent and makes all required consequential amendments from these changes overall.
- 8 As the Bill amends the way that benefits are indexed, it also implements a related increase in the MFTC threshold to the Income Tax Act 2007. This is in accordance with Cabinet policy that requires the MFTC to ensure sole parent families are better off financially in full-time work and receiving MFTC than they would be on a main benefit on an annual basis [CAB-21-MIN-0116.33].
- 9 Cabinet previously agreed that the MFTC threshold increase from \$34,216 to \$35,360 (after tax) for the tax year beginning 1 April 2024 [CAB-23-MIN-0490 refers]. This was based on inflation being forecasted at 5.13% as part of the Half Year Economic and Fiscal Update 2023. However, the annual inflation figure that was released on 24 January 2024 is 4.66%.
- 10 The lower inflation rate means there will be a smaller than anticipated increase to the sole parent rate of main benefits. As such, the increase to the MFTC threshold has been revised accordingly, with the Bill instead increasing the threshold from \$34,216 to \$35,204 (after tax).
- 11 The amendments in the Bill to the Social Security Act 2018 will come into force the day after Royal Assent is received, with amendments to the Income Tax Act 2007 coming into force on 1 April 2024.

Impact analysis

- 12 The Treasury have confirmed that due to the nature of previous decisions, the impact analysis requirements require that a Supplementary Analysis Report (SAR) be prepared at this stage to analyse the proposal.
- 13 A SAR has been prepared for the Bill and is attached to this Cabinet paper. The scope of the SAR covers the policy change to index main benefits to inflation and does not extend to the MFTC. This is because the adjustment to the MFTC reflects existing Cabinet policy.
- 14 A Quality Assurance Panel including members from the Ministry of Social Development and The Treasury has reviewed the Supplementary Analysis Report: Indexing Main Benefits to Inflation prepared by the Ministry of Social Development and considers that the information and analysis summarised in the SAR partially meets the quality assurance criteria.

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- 15 The analysis of options in the SAR has been constrained to the option chosen by Cabinet. Given this, the panel considers that the information in the SAR is as complete as could reasonably be expected in the timeframes and it identifies the main benefits and impacts of the options given the stated policy objectives. The SAR notes that consultation has not been possible given time constraints.

Compliance

- 16 The Bill complies with:
- 16.1 the principles of the Treaty of Waitangi;
 - 16.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 16.3 the disclosure statement requirements (the draft disclosure statement is attached);
 - 16.4 the principles and guidelines set out in the Privacy Act 2020;
 - 16.5 relevant international standards and obligations;
 - 16.6 the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee.

Consultation

- 17 Inland Revenue contributed to the parts of this proposal that relate to amending the Minimum Family Tax Credit threshold, as it requires the amendment of the Income Tax Act 2007.
- 18 The Treasury was consulted on this proposal, and the Department of the Prime Minister and Cabinet (Policy Advice Group) has been informed.

Binding on the Crown

- 19 The Social Security Act 2018 and the Income Tax Act 2007 are binding on the crown and the amendments contained in the Bill will follow this position.
- 20 The legislation will not create a new agency.
- 21 The legislation will not amend the existing coverage of the Ombudsman Act 1975, the Official Information Act 1982, or the Local Government Official Information and Meetings Act 1987.

Allocation of decision-making powers

- 22 The draft legislation does not involve the allocation of decision-making powers between the executive, the court, and tribunals.

Associated regulations

- 23 The Bill does not require regulations to bring its amendments into operation.

Other instruments

- 24 The Bill does not include any provision empowering the making of other instruments that are deemed to be legislative instruments or disallowable instruments (or both).

Definition of Minister/department

- 25 The Bill does not contain a definition of Minister, department, or chief executive.

Commencement of legislation

- 26 The amendments in the Bill to the Social Security Act 2018 will come into force the day after Royal Assent is received, with amendments to the Income Tax Act 2007 coming into force on 1 April 2024.

Parliamentary stages

- 27 The Bill should be introduced by Tuesday 13 February 2024, and passed under urgency by Thursday 15 February 2024 to allow changes to be in place for the 2024 AGA.

Proactive Release

- 28 I propose to proactively release this Cabinet paper, associated minutes, and key advice papers with appropriate redactions when the Bill is introduced. The expected introduction date for this Bill is Tuesday 13 February 2024.

Recommendations

I recommend that Cabinet:

- 1 note that the Social Security (Benefits Adjustment) and Income Tax (Minimum Family Tax Credit) Amendment Bill fulfils the Coalition Government's commitment to index main benefits to inflation;
- 2 note that the Bill amends the Social Security Act 2018 to:
 - 2.1 repeal section 452A, which requires benefits listed in this section to be adjusted each year by any percentage movement upwards in average ordinary time weekly earnings;
 - 2.2 insert main benefits into section 453, which requires them to be adjusted each year by inflation (any percentage movement upwards in the Consumers Price Index);
- 3 note that the Bill consequentially amends the Income Tax Act 2007 in line with these changes, to adjust the Minimum Family Tax Credit threshold, as required by Cabinet policy;
- 4 agree to rescind the previous Cabinet decision to increase the Minimum Family Tax Credit threshold from \$34,216 to \$35,360 (after tax), as the rate of inflation is lower than that previously forecasted [CAB-23-MIN-0490 refers];

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- 5 agree that the Minimum Family Tax Credit threshold be increased from \$34,216 to \$35,204 (after tax);
- 6 approve the Bill for introduction, subject to the final approval of the government caucus and sufficient support in the House of Representatives;
- 7 agree that the Bill be introduced on Tuesday 13 February 2024;
- 8 agree that the Government pass the Bill under urgency by Thursday 15 February 2024;
- 9 note that the amendments to the Social Security Act 2018 contained within the Bill come into force the day after the Bill receives Royal Assent;
- 10 note that the amendments to the Income Tax Act 2007 contained in the Bill come into force on 1 April 2024.

Authorised for lodgement

Hon Louise Upston

Minister for Social Development and Employment

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