



Tax policy report: Working for Families Review – Public Engagement

Date:	21 July 2022	Priority:	Medium
Security level:	In Confidence	Report number:	IR2022/274 REP/22/7/676

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report	25 August 2022
Minister for Social Development and Employment	Note the contents of this report	25 August 2022

Contact for telephone discussion (if required)

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21 July 2022

Minister of Revenue
Minister for Social Development and Employment

Cc: Rt Hon Jacinda Ardern, Prime Minister/Minister for Child Poverty Reduction
Hon Grant Robertson, Minister of Finance
Hon Kelvin Davis, Minister for Children

Working for Families Review – Public Engagement

Executive summary

1. Public engagement to inform the Review of Working for Families (WFF) took place from April to June 2022. The engagement sought feedback on how the current system of WFF could be improved to better meet the needs of whānau in Aotearoa. It did not seek feedback on proposed options for change and was not intended to be a representative sample.
2. We received 585 survey responses, 53 written submissions and ran 16 sessions with key stakeholders. The majority of feedback was from advocacy groups (or individuals connected to such groups) concerned with child poverty and broader social policy concerns, both in written submissions and targeted sessions with key stakeholders, and this is reflected in the feedback we received.
3. Through engagement we heard fairly consistent feedback from a large number of stakeholders and submitters that:
 - 3.1 Many whānau are struggling with inadequate incomes, and the recent increase in the cost of living and the housing crisis are putting pressure on whānau.
 - 3.2 Reducing child poverty and improving outcomes for children is important (although stakeholders had differing views on how to achieve better outcomes).
 - 3.3 Indexation of payments and thresholds is important to maintain support over time.
 - 3.4 Current rates of abatement are too high, and act as a disincentive to work or to increase hours.
 - 3.5 Supporting whānau with the costs of work is important, particularly childcare and transport costs.
 - 3.6 Debt is a significant issue that acts as a barrier to take-up and has a negative impact on whānau wellbeing.
 - 3.7 The current system is too complex to navigate, and is not designed for diverse family types or families with variable income and circumstances.
4. However, in other areas we heard opposing views from stakeholders and submitters, for example:
 - 4.1 Roughly half of stakeholders and submitters told us that reducing child poverty and improving income adequacy should be the sole objectives of

WFF, while other stakeholders urged us to retain the objective of supporting work incentives.

- 4.2 Around half of stakeholders and submitters argued the In-Work Tax Credit (IWTC) should be paid to all families, regardless of work and benefit status, while a minority cautioned against this due to the reduction in incentives to move off benefit and into paid employment.
 - 4.3 About 30% of submitters and almost half of targeted engagement stakeholders were supportive of increasing rates of payment, especially for those on the lowest incomes, while a minority thought more support should be provided to working families or through alternative labour market mechanisms which do not increase the cost of welfare.
5. The whānau Māori groups whom officials met with through targeted engagement also provided feedback on various aspects of WFF, including:
- 5.1 The high costs of living and the financial stress faced by many whānau, in particular due to debt. Some whānau Māori emphasised the important role of other family members (such as grandparents) in caring for tamariki, and the need to provide these family members with financial support.
 - 5.2 Many whānau Māori want to work but face barriers, such as the lack of certainty posed by variable income/hours and the need to support the wider community through unpaid 'heart mahi'. Whānau Māori highlighted the value of unpaid mahi and wanted this to be recognised as 'work'.
 - 5.3 Trust and relationships are important to Māori, and they had a general preference for face-to-face meetings. They noted the impact that past negative experiences with government support can have on WFF take-up. Māori emphasised the need to improve communications with them, and proactively at that, to improve take-up.
 - 5.4 The obligations the Crown has under Te Tiriti o Waitangi to support equitable outcomes for tamariki Māori and their whānau should be acknowledged.
6. The suggestions for change raised through engagement are broadly consistent with the types of options officials are exploring. The engagement provided useful insight into the types of changes stakeholders with different objectives are likely to support.
7. Stakeholders and submitters with a focus on child poverty reduction and income adequacy suggested options for change such as:
- 7.1 Removing the paid work requirements from WFF so all payments are available regardless of benefit/work status, and renaming the system to reflect a focus on children.
 - 7.2 Increasing the rate of payment, in addition to rolling the IWTC and the Minimum Family Tax Credit (MFTC) into the Family Tax Credit (FTC).
 - 7.3 Increasing the FTC abatement threshold and reducing the abatement rate.
 - 7.4 Providing greater support through childcare subsidies and subsidised transport to work.
8. Stakeholders and submitters who supported the objective of improving work incentives and making work pay suggested options such as:
- 8.1 Reducing the abatement rates of the FTC and IWTC, to incentivise increasing hours of work and reduce effective marginal tax rates.

- 8.2 Providing support for income adequacy through mechanisms outside of welfare support, such as support for training/study and wage increases.
 - 8.3 Providing more support when people are transitioning into work, such as temporarily providing extra support when a person resumes work.
 - 8.4 Providing support for the costs of work, such as childcare and transport costs.
 - 8.5 Making changes to the system to allow for greater variations in income and changes in circumstances.
9. Other suggestions to improve how the system functions included:
- 9.1 Making changes to reduce debt creation, such as shorter income assessment periods, and the introduction of grace periods or a buffer credit.
 - 9.2 Increased debt write-off and hardship provisions.
 - 9.3 Improving access to information and support, especially for families with a disability or where English is a second language.
 - 9.4 Moving to a single payment agency, preferably Inland Revenue (IR).
10. In conjunction with this report, Ministers will receive a report covering evidence and key concerns relating to WFF, and high-level options for change. Feedback from engagement has been used to support the development of those options, and a summary of relevant feedback from consultation has also been provided in that report to support your assessment of the options.

Recommended action

We recommend that you:

11. **note** the contents of this report.

Noted

Noted

12. **agree** to publicly release this report, subject to any redactions under the Official Information Act

Agreed / Disagreed

Agreed / Disagreed

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Background

13. In February 2022, Ministers agreed to proceed with both written and public engagement on the Review of Working for Families (REP/22/2/067; IR2022/053 refers). Public engagement on Working for Families (WFF) with submitters and stakeholders took place from 20 April to 31 May 2022. Members of the public were able to respond to an online survey and/or provide a written submission via email. We received 53 written submissions and 585 survey responses. For privacy reasons, we have not linked the specific feedback to individual stakeholders/submitters.
14. Officials held 16 targeted engagement sessions over May and June 2022, four of which were specifically with whānau Māori. A total of 41 stakeholder groups attended the targeted engagement sessions overall. Appendix 4 sets out the key questions officials asked stakeholders at these sessions.
15. The majority of feedback we received through written submissions and targeted engagement was from advocacy groups, and individuals connected to these groups, who have a strong focus on reducing child poverty. A very small number of submitters and stakeholders provided feedback with a more business-focussed or work incentive lens. This is reflected in the feedback we received and should be taken into account when reading this report.

Purpose of this report and key themes from engagement

16. This report briefs Ministers on the feedback received from the public engagement. The feedback is presented as the view of the stakeholder/submitter, with no supplementary commentary from officials. It is divided into ten sections, which are written so they can be read independently of each other:
 - 16.1 Objectives of WFF (page 5).
 - 16.2 Work incentives and the cost of work (page 6).
 - 16.3 Income adequacy and the level of support provided (page 9).
 - 16.4 Changing circumstances and variable income/hours (page 10).
 - 16.5 Debt (page 11).
 - 16.6 Complexity of WFF (page 14).
 - 16.7 Different types of families and whānau (page 14).
 - 16.8 Perspectives from Māori whānau (page 16).
 - 16.9 Perspectives from Disabled people and their families (page 17).
 - 16.10 Administration, accessibility, and take up (page 19).
17. The first three appendices contain further comments from submitters and stakeholders on WFF:
 - 17.1 Appendix 1 - Additional feedback from Māori on WFF (page 22).
 - 17.2 Appendix 2 - Technical comments on the specific WFF tax credits (page 23).
 - 17.3 Appendix 3 - Other points raised in submissions and targeted engagement (page 25).

18. Alongside this report, Income Support Ministers will receive a report summarising evidence and key issues relating to WFF, and high-level options to address these. Where relevant, findings from engagement have also been included in that report.

Objectives of WFF

Child poverty and making WFF more child-centric

19. Roughly half of stakeholders/submitters expressed a strong preference for WFF to become more child-centric and equitable, and said that its objectives should be to reduce child poverty and ensure income adequacy rather than to provide work incentives. A small number of people referred to the Child Poverty Reduction Act 2018, the United Nations Convention on the Rights of the Child, the Universal Declaration of Human Rights, and the Child and Youth Wellbeing Strategy.

"To make WFF 'work' for families and in particular effective in reducing child poverty, this income support needs to be about children first and foremost and completely disconnected from incentives to work."

20. Many of these stakeholders/submitters thought the same amount of WFF should be paid regardless of work or benefit status, to ensure children received the same level of support. They emphasised the value of unpaid work, such as parenting and voluntary work, and recommended that this unpaid work qualify as 'work' for WFF. Some said that current settings were discriminatory for families in receipt of benefits, and that families should not be kept in poverty to incentivise them to work. A number of these stakeholders/submitters recommended changing the name of WFF, so that its emphasis was on supporting children (or families with children) rather than on paid work.

"WFF discriminates against parents who receive benefits. There is a lack of acknowledgement of the importance of WFF tax credits in reducing child poverty. And WFF fails to acknowledge the valuable unpaid work of parenting. Families on benefits must receive the full package of WFF tax credits."

Support for providing financial incentives to work

21. A small number of people supported work incentives remaining one of WFF's objectives. At one session, stakeholders commented that while many may recommend paying the IWTC to all families including those not in paid work, the underlying issue of benefits not providing families with adequate incomes should be kept separate from financial incentives to work. That is, if incomes are not adequate, this is a separate issue to how and whether work incentives should be provided. These stakeholders suggested that using different tools to address these two distinct issues could help prevent the issues being conflated, and instead of using WFF to fulfil both objectives, separate support could be put in place to address each issue (see paragraph 39 for comments regarding an Earned Income Tax Credit).

"[Organisation] recognises the social, emotional and financial benefits of being employed, and supports that the tax credits policy remains as an incentive to encourage people into paid work."

22. At another session, stakeholders argued that removing the IWTC's work requirement would undermine the policy intent of WFF, which was largely about work incentives and making work pay. They suggested that people who advocated for removing the work requirement did so because it was easier to modify an existing tax credit than to introduce a new one (such as a universal child tax credit).

23. Half of survey respondents thought the objectives of financially supporting low/middle-income families regardless of whether they were in paid work, and supporting families to get into and stay in paid work, were both equally important.

Work incentives and the cost of work

Cost of work

24. Work-related costs (such as childcare and transport costs, and having to purchase new clothes for work) were raised at more than half of the targeted engagement sessions. It was noted that the cost of childcare was now very expensive, and that it was “very devaluing” if a parent’s income from work was less than what they paid for childcare. One submitter said childcare costs were greater for sole-parent families, because there were no other adults in the family available to look after children while the sole-parent was at work.

“On top of the abatement will often be childcare fees. Therefore, the total cost of a parent returning to the workforce will be the reduction in WFF payments plus the cost of childcare. This could easily be sufficient to dissuade many parents from returning to the workforce.”

25. Some mentioned the opportunity cost of returning to work. Working parents could not look after their children, might not be able to take children to/from school, and had less time to source affordable food/essentials. They said this made some parents feel that work was not worthwhile, and could result in some only returning to work if they were promoted or offered flexible work hours.

“For parents the decision to engage in work brings with it a series of trade-offs for both them and their tamariki, that add to the already demanding and important mahi of caring for the next generation.”

26. Some noted that while discounted public transport could help with work-related costs, public transport was not available in all areas and fuel was now very expensive. Some stakeholders said that people in shift work, or with multiple jobs, often incurred comparatively greater costs, because they had to travel between job sites or pay for childcare outside of usual work hours. Some also noted the extra work costs and challenges disabled people face (see paragraph 89 for more information).

Current settings and work incentives

27. A number of people said current settings did not sufficiently reduce barriers to work, and therefore failed to effectively incentivise work. One stakeholder group felt that more support was needed for people on benefit transitioning into work, including when WFF recipients were still partially on benefit but in work as well.
28. Two submitters were concerned that providing WFF to people on benefit reduced work incentives too much, as the level of income received while on benefit could make working not worthwhile for some people. Another submitter said WFF and other support created incentives for recipients to misrepresent their incomes, so that they could continue to receive the same level of WFF/support even if they also received other income (e.g., from work). This submitter expressed concern about generational welfare, and the impact providing extra support for multiple children in a family could have on incentives.
29. Most survey respondents thought the availability of WFF was something people thought about when considering whether to take part in work. The majority of

respondents agreed that the IWTC, MFTC and the Best Start Tax Credit (BSTC) were important considerations for families when considering whether to take part in work. Most respondents also thought the amount of money a family received from WFF influenced the number of hours they worked.

Impacts of abatement on work incentives

30. A fifth of submitters said that the current abatement system is problematic. They said WFF currently begins abating at too low an income level, and that the abatement rates are too high. This resulted in high effective marginal tax rates (EMTRs) and a low return from work or increased hours, which was a barrier to work for some families. The current settings could result in there being little incentive to maintain or increase hours, especially given the trade-off of time spent with whānau.

"The Government also needs to change abatement thresholds, so that those with part-time work or low paid work can keep more of the money they earn. When abatement happens, it should be at a much lower rate, so that work becomes a worthwhile investment."

31. One submitter said that WFF 'has all the makings of a poverty trap'. They said that WFF, and current abatement settings in particular, could make accepting promotions at work less worthwhile:

"The disincentives for lower-paid earners to raise their incomes above the abatement threshold mean that while the package has short-term benefits as a cash boost to incomes, it has marginal if not negative benefits over the medium to long term."

32. A couple of people highlighted the compounding effect of abatement when WFF and the Accommodation Supplement were combined, because they abate at 27% and 25% respectively. They noted that this exacerbated existing issues with high EMTRs, and had a negative impact upon income adequacy and work incentives. High EMTRs were seen as particularly problematic, and it was suggested that improving the abatement system could help decrease EMTRs.
33. Most survey respondents thought it was more important for WFF to support as many families as possible while abating slowly, rather than providing more support to people on the lowest incomes but abating quickly.

Mixed views on IWTC as a work incentive

34. One stakeholder group said the IWTC positively impacted on sole-parent participation but negatively impacted on second-earner participation. Overall, they felt the IWTC was not a particularly effective work incentive tool, but that it helped with in-work costs. A small number of people said some customers were motivated to transition off benefit because they were tired of having their life examined by MSD, or took pride in coming off benefit, so preferred receiving tax credits when they returned to work (instead of remaining partially on benefit).
35. Many wanted to repeal the IWTC, or merge it into the FTC, so that all families on WFF received the IWTC whether they were on benefit or in paid work (refer to paragraphs 19 and 20 for discussion on making WFF more child-centric). They felt that removing the IWTC would have little impact on work incentives.

"Other factors that determine a parent's propensity for work include previous labour force engagement, skills and education, the restraints

and costs of childcare and transport, mental and physical health, [and] workplace culture.”

36. One submitter said current settings assumed parents lacked incentives to work and therefore required financial incentives, but that this was not supported by research.

“[T]he central premise of WFF around supporting only whānau that are in employment is discriminatory and does not achieve the intended goal of encouraging people into paid employment, or support whānau who are in poverty.”

Ideas from submitters and stakeholders

37. Various ideas were put forward on how to improve work incentives and reduce barriers to work:

37.1 **Provide a higher entitlement rate or lump sum, or phase support payments out over a longer period, when a parent first returns to work.** This could be done for the first six to twelve months of employment, for example. This would help with the costs of going back to work, similar to how students receive support for course-related costs when they start studying.

37.2 **Raise and index the abatement thresholds.** People suggested raising the thresholds to between \$47,000 and \$60,000. One submitter disagreed with increasing thresholds, and suggested decreasing thresholds instead, to minimise the disincentives to work for low-income families.

37.3 **Change the abatement rate.**

37.3.1 **20% of submitters supported lowering abatement rates,** because doing so could improve EMTRs and work incentives. Most suggested lowering the rate to 20%.

37.3.2 **Around 10% of submitters suggested having multiple abatement rates,** such as having two rates or the tiered rates Welfare Expert Advisory Group (WEAG) suggested. This would ease the pressure for low/middle-income families, but ensure higher rates applied to high-income families for whom WFF was less likely to make a material difference.

37.3.3 A small number of submitters strongly recommended **aligning WFF with other income support thresholds and abatements to moderate interactions with tax thresholds.** These currently created very high EMTRs for low/middle-income earners, which was particularly problematic. One suggestion was to apply an overall abatement rate of 25% (and no more than 30% if a greater rate were preferred) to the Accommodation Supplement and WFF.

37.4 **There were mixed views on what changes, if any, should be made to the IWTC.** As mentioned above, many wanted to repeal the IWTC or merge it into the FTC. A small number of people recommended increasing the IWTC. One suggestion was adjusting the IWTC for inflation to \$82 per week, plus \$17 for the fourth and additional children. However, a couple of people cautioned against this because the IWTC abated last, and was therefore received by some families with relatively high incomes.

37.5 **Allow people to receive support if they are on benefit but also work part-time,** to help families transition off benefit and towards full-time work.

- 37.6 **Provide extra support to people with multiple jobs, who work outside of standard business hours, as well as to disabled people in work, because they face extra costs.**
38. **Some stakeholders suggested making employment-related costs, like public transport and childcare, more affordable.** Another idea was to give employers a tax break or an incentive to provide childcare, particularly for shift workers and people who work outside of standard business hours. It was noted that work could also be done to help people better understand what support they could receive when they returned to work.
39. **Some stakeholders and submitters supported introducing an earned income tax credit (EITC) as an alternative to the IWTC and the MFTC,** as recommended by the WEAG. An EITC would provide a work incentive for all people, and would reward part-time work performed while on benefit. A small number of people did not support introducing an EITC.

Income adequacy and the level of support provided

40. Many people commented on recent rises in the cost of living, including the impact of COVID-19 and high inflation. They said income inadequacy could cause families significant stress and WFF did not provide sufficient support. One stakeholder said some families really struggled to withstand even the most minor life shocks. Many were very concerned about increased housing costs, and some referred to recent high interest rates. They said that current abatement rates and payment levels did not provide enough support to keep children out of poverty, even for parents on the median wage. One submitter expressed concern that the lack of adequate support for working parents with children would lead to more families moving to Australia, because Australia had better systems for working parents with children.
- "Whānau are unable to make changes and achieve their aspirations within a system which fails to acknowledge the increasing financial pressures they face."*
41. A small number of people emphasised how income inadequacy had to led to families getting into debt to meet basic needs, often borrowing money from predatory lenders, and that this could lead to extreme financial stress. One submitter referred to the WEAG sample budgets (as updated by Fairer Futures earlier this year) for various household types, which highlighted income deficiencies. They emphasised that despite a modest real improvement in incomes, families still experienced income deficiencies. A small number of people said some WFF recipients struggled with wanting to be honest about income changes but also not wanting to risk losing support, with some working under the table to keep their entitlements.
42. Current abatement settings were also raised as an issue for income adequacy. Refer to paragraphs 30 to 33 for more discussion on abatement.

Ideas from submitters and stakeholders

43. Many submitters had suggestions regarding the level of support provided by WFF.
- 43.1 **Increase WFF, and index both WFF payments and abatement thresholds annually to wages and the Consumer Price Index (CPI).** WFF was currently only partially indexed, and any adjustments made were small and happened too slowly, which resulted in many families experiencing food insecurity and material hardship. Many wanted WFF to be indexed like NZ Superannuation and core benefits, although one stakeholder group said more frequent adjustments could be necessary in the current high inflation environment. Indexation would help ensure the level of support provided by

WFF, and its impact on reducing income inequality, did not erode over time. For more ideas regarding improving the current abatement system, see subparagraphs 37.2 and 37.3.

- 43.2 **Regularly calculate the level of support families need to achieve income adequacy.** Ideally, these calculations would be done by someone independent. The Government should ensure that families' incomes are topped-up, so they reach the calculated level of income adequacy. Current housing, transport and food costs need to be carefully considered. Some recognition also needs to be given to the different and rising costs associated with children of different ages. Babies cost more, as is recognised by the BSTC, but so do children at high school.
- 43.3 A small number of stakeholders suggested **adjusting the level of support provided to families that experience higher costs of living or costs of work because of where they live.** For example, people in rural areas may incur greater work costs because they live further from their workplaces, and others may live in areas where the cost of living is particularly high (such as people who do not live on the two main islands of New Zealand).
- 43.4 A small number of stakeholders **cautioned against increasing the level of support provided.** They said that increasing WFF could result in the cost of housing increasing, with the extra support just being passed on to landlords through higher rents. They said it could also increase clawbacks, create cliff faces, worsen EMTRs, and make it harder to achieve WFF's objectives. These stakeholders emphasised the importance of considering the long-term impacts/gains, rather than just focussing on providing extra short-term support to families. One submitter disagreed, however, and said carefully targeting WFF should minimise such risks, and that poverty-reduction policies should not be responsible for mitigating inflation risks.
44. Stakeholders at a quarter of targeted engagement sessions, and a couple of written submitters, were in favour of **allowing families to capitalise on their WFF entitlements**, because this would help families accumulate the money required to purchase their own homes. Many referred to previous family support that could be capitalised, and said this had helped their parents and grandparents purchase homes. One stakeholder said the BSTC could be a good candidate for capitalisation, given its universal application in the first year of a child's life, and that universality could be extended to cover all three years the BSTC is available. Alternatively, the FTC could be capitalised instead.

Changing circumstances and variable income/hours

WFF does not work well for families with variable incomes/hours

45. Many people were concerned that the current system did not work well for people with variable income/hours. Increasing amounts of part-time, shift, and casual insecure work, as well as the rise of the gig economy, had contributed to difficulties with WFF. Stakeholders said reporting income changes was difficult, and that the pandemic had exacerbated existing issues. People said families with variable incomes often struggled to budget, and did not know what their income was going to be in a given period. In addition, families struggled to determine how income changes might affect their entitlements, so could not necessarily make informed decisions about whether working more would be worthwhile.

"People with irregular incomes currently find it extraordinarily challenging to navigate WFF (and indeed the wider welfare system),

which all too often seems predicated on an outdated view of work being almost entirely permanent and full-time.”

46. Survey respondents reported mixed experiences when asked whether payments adjusted easily to changes in family circumstances or income.

More WFF support needed for seasonal workers

47. Some people said WFF presented challenges for seasonal workers, because they often only received income for part of the year. Some families had to relocate regularly to obtain more work, which negatively impacted on children. People said providing more support to these families could help them relocate less often.

Impact of new relationships on WFF

48. A small number of people were concerned with how changes in a parent's relationship status could negatively impact upon their WFF entitlements, and potentially put families into debt if they were overpaid WFF after a relationship commenced. They did not consider it appropriate for entitlements to be reduced just because of a parent's new relationship, as the new partner might not provide the parent or their child with support. One stakeholder disliked how currently a parent's entitlement could be reduced if they were 'dobb'd in' for being in a relationship. They suggested only adjusting entitlements if a parent notifies IR/MSD of a relationship themselves. They also suggested updating the definition of relationship.

Ideas from submitters and stakeholders

49. **Introduce a tolerance threshold or grace periods.** This would enable families to work a certain amount of overtime, or retain the same entitlement for a certain period (e.g., four weeks or 90 days) after their circumstances change.
50. **Make the system more flexible, so that it deals with changing circumstances better.** It needs to be hyper-responsive to changes, and this should be reflected in the user interface technology. A web-based system with a very simple user interface could replace the current forms, which are confusing and difficult. Assistance could be provided for those who struggle with literacy.
51. **Support families with parents in seasonal work more,** so they can relocate less often. This could help improve outcomes for children in these families.
52. **Only adjust WFF entitlements after a parent notifies IR/MSD of a new relationship, and update definition of 'relationship'.**
53. Some ideas put forward by submitters regarding debt are also relevant to changing circumstances - see from paragraph 59 below.

Debt

Fear and stress of debt

54. A recurring theme was that debt was stressful and had a large impact on affected families. This was echoed by survey respondents, most of whom thought that debt creation was a significant issue. Fear of getting into debt impacted upon work incentives, as families worried about incomes from work causing overpayments and debt. Lump sum payments made debt less likely to form, but were not viable for low-income families as they needed regular support during the year.

"We are concerned that the WFF structure is driving the creation of debt for whānau who access support when they are most in need, only to be penalised for an increase in income, regardless of how desperately they needed financial assistance at the time."

55. Some families avoided WFF altogether because of its complexity and their fear of debt. Two stakeholder groups noted that overpayments could put low-income families into crisis, and that some families with WFF debt borrowed money from loan sharks to service that debt. One stakeholder said sole-parent families often had the most debt, so needed the most support. Some stakeholders felt debt just seemed punitive, and did not contribute positively towards the WFF objectives.
56. Survey respondents had mixed views regarding whether it was fair to make families repay overpayments caused by a change in circumstances or income.

Income estimates can lead to debt

57. Some people said it was difficult to accurately estimate income for the year in advance, and that estimates could result in debt if circumstances changed during the year. They said WFF debt penalised people for income increases (e.g., from pay rises, changing jobs, bonuses, or working overtime). One stakeholder felt it was unfair to expect customers to know how income changes would affect entitlements. One submitter said constantly adjusting their income and thinking about whether they would receive the correct amount of WFF was degrading and exhausting.

Families do not understand what creates debt

58. People said some customers did not understand what created debt, and did not know when to notify IR/MSD of changes to their income or circumstances. Some felt debt was created because of WFF's structure and system. Others said that some customers assumed entitlements changed automatically because IR was aware of income changes. Digital exclusion and a lack of in-person service access affected some customers' abilities to report changes, which could result in some families ending up in debt. Some people said that IR sometimes paid families the wrong amount of WFF even after being notified of a change in income or circumstances, so these families ended up in debt through no fault of their own.

Ideas from submitters and stakeholders

59. **WFF entitlements should be calculated more 'speedily', ideally in real-time** IR should also perform income calculations, especially where customers have struggled to report changes in their income.
60. **The year could be broken up into shorter periods of assessment, such as quarterly, biannually, monthly, or weekly.** This would help minimise overpayments and debt.
61. **Withhold a small amount of a family's entitlement during the year, then provide a lump sum at the end of the year.** People could be paid a base rate (which would be guaranteed) and then receive any extra amounts they are entitled to at the end of the year. This may not work for all families, as some may prefer to receive more during the year and risk being overpaid at the end of the year.
62. **Remove late payment penalties and interest,** except where a person is obviously gaming the system. Additional fees should not apply if a customer pays for late payment fees via the telephone when talking to IR.

63. **Families should be able to offset debt using future entitlements. Shift away from calling it debt - view WFF as over/under-payments over time instead.** This would reduce hardship, by ensuring families could continue to receive support even if they had already reached their entitlement for the year.
64. **Communicate with families more effectively**, so that they are more aware of when they need to notify IR/MSD of changes. Use multiple communication channels, including non-digital and person-to-person channels (such as live support from people online or on the phone). Use plain language, and ensure communications are friendly and supportive. There should be more thorough case management, or more effective use of staff to provide services that help households avoid debt. Enable customers to request calls from IR/MSD, and if a call back is delayed customers should not be required to repay overpayments that occur in the interim.
65. **Improve access to support and help people understand how to avoid debt and pay it off over time.** Stakeholders said that many families with debt did not know what options were available to them. They said that it needs to be easier for people in debt to deal with the system, and support needs to be streamlined.
66. **Prioritise certainty and stability over accuracy. Focus on ensuring people receive their entitlements instead of collecting debt.** Stability and certainty should be the core focus, so that families know how much they are going to receive each week. To this end, a couple of people suggested that entitlements should be based on prior year income. One stakeholder said entitlements should only be revised if there is a major change in a family's circumstances (for example, if the number of children in the family changes), in which case the recipient would be required to notify IR/MSD of the change. Another submitter suggested that for recipients who receive salaries or wages, investment income from non-associated parties of up to \$1,000 should be exempt. They said if the end of year square-up resulted in an underpayment, the recipient should receive a lump sum (as is currently the case), but any overpaid amounts should not be collected.
67. **Improve hardship and debt write-off provisions:**
- 67.1 **Debt incurred below a certain threshold should not be pursued.**
- 67.2 **Put hardship policies/arrangements in place.** Families in severe and persistent poverty should have debt forgiven, similar to how beneficiaries' debts are forgiven.
- 67.3 **Assess debt for all periods at the same time.** Families in hardship should not have to repeatedly apply for debt to be written off.
- 67.4 **Write-off debt incurred through no fault of the recipient.** For example, where IR/MSD have not updated an entitlement despite being notified of a change in circumstances or income. Also, families should not be expected to repay debt if they fail to do something many families would not necessarily think to do.
- 67.5 **Ensure expenses relevant to a child's wellbeing are accurately accounted for when assessing the affordability of WFF debt repayments.** Including WFF as income when assessing affordability could result in families having inadequate income to support their children.
68. **Split debt between parents**, instead of one parent having to repay all WFF debt.
69. **Use KiwiSaver to satisfy WFF debt.** One stakeholder suggested IR/MSD could dip into customers KiwiSaver accounts to satisfy WFF debt.

Complexity

70. Many people said the scheme was too complex and should be simplified. Having multiple WFF tax credits was confusing, and the rules around work hours, abatement, and care arrangements made WFF difficult. The complexity of the scheme sometimes made it difficult to calculate a person's entitlement. One stakeholder group expressed concern that the scheme must be overcomplicated if even well-educated people who provide advice on WFF struggled to understand and explain WFF. A small number of people said complexity led to greater inequity amongst WFF recipients; negatively impacted upon take-up, work incentives, and income adequacy; and made planning ahead difficult.

"The complex design of WFF has meant rather than helping a family into some essential support, it can leave them confused and without the proper payments they should be receiving."

71. A couple of people emphasised the need for simple rules and systems that customers could understand, so that customers could insist on receiving their entitlement. They said the complex rules currently in place aimed to stop people taking advantage of the system, but this complexity resulted in those most in need of WFF not receiving support. In a similar vein, one submitter emphasised the need for complexity to be balanced against the overall return on investment in children through WFF. They felt reducing complexity should reduce administration costs.
72. Survey respondents had mixed views on whether WFF should provide support which reflected different circumstances but be more complex, or if it should instead be simple but less responsive to different circumstances.

Ideas from submitters and stakeholders

73. **Switch to a more universal payment for families.** This was mentioned at half of targeted engagement sessions and was supported by a small number of submitters. People liked universality because it would remove issues like debt and inaccurate income estimates, as well as ensuring that no child missed out on support. One submitter said that the greater cost of a universal payment would be offset by reductions in other societal challenges and lower administrative costs. One stakeholder group noted that high-income families would also receive support under a universal model, but one submitter thought this was not a problem because higher income families could donate their payments or choose not to claim them.
74. **Simplify WFF by merging the IWTC and/or MFTC into the FTC.** Those who were in favour of making WFF more child-centric so that no distinction was made between families on benefit and in paid work (see paragraphs 19 and 20) would support this approach.
75. **Align abatement under WFF,** so that the tax credits abate uniformly and WFF abatement is better aligned within the wider welfare system.

Different types of families and whānau

76. **Sole-parent families:** A small number of people said that WFF was designed for two-parent families, but there were now many more sole-parent families. They said sole-parents needed the most support, because they would likely have lower leave provisions and greater costs. In a two-parent family, one parent could look after the children, but working sole-parents did not have this option. It was noted that WFF did not acknowledge that sole-parents could only work during the opening hours of childcare centres, whereas two-parent families were better able to work non-standard hours. One stakeholder group said the gendered element to sole-

parent families should be recognised. Women led over 80% of sole-parent families, and many women were in part-time or low-paid work.

77. **Shared care:** A small number of people said the rules and systems for shared care arrangements needed improvement. They emphasised that despite children only spending some time at each parent's home, both parents had to bear the same base costs associated with having a child (e.g., providing the child with a bed and a home). One submitter said family arrangements could change monthly, weekly, or daily, many families found the current system confusing, and many were unclear as to whom and when they needed to provide information. One stakeholder raised concerns regarding some of the terminology used in the WFF scheme (e.g., 'primary caregiver' and 'bed nights'), and the negative impact these terms could have on already strained relationships between (separated) parents.
78. **Grandparents:** Some stakeholders said it was becoming more common for grandparents to help raise grandchildren, and that grandparents needed support. They said some parents passed on WFF to grandparents, but others did not. Some stakeholders said that grandparents might not want parents to stop receiving WFF tax credits but still needed extra support themselves. One stakeholder group said Pasifika grandparents in particular might not understand what WFF support they were entitled to. Another stakeholder commented that the Government provided support for formal childcare costs but did not provide support if grandparents looked after a child instead. This stakeholder suggested that if grandparents effectively provided a service the Crown would otherwise have had to pay for, such as looking after a child, this should be recognised.
79. **Whāngai and other care arrangements:** Some people said WFF should recognise whāngai and other cultures' care arrangements. They said it was not always obvious who WFF should be paid to as care may be provided informally/without legal basis.

Ideas from submitters and stakeholders

80. **Introduce more flexible settings so that sole-parent families have more certainty about what support they will receive.** Also amend the abatement system to provide more equitable outcomes for these families.
81. **Support parents who share the care of a child, regardless of the proportion of time the child spends at each parent's home.** Each parent needs the whole amount of WFF because the needs of children cannot always be halved. Settings should be modified so that parents who have their children on weekends can receive WFF.
82. **Grandparents should receive financial support if they care for their grandchildren.** One idea was providing a tax credit to parents, which they could use to pay for formal childcare or pass on to grandparents.
83. **Whoever actually cares for a child should receive WFF,** even if they are not legally the child's caregiver.
84. **Make the system flexible regarding family settings and responsive to frequent changes in family arrangements,** without imposing onerous requirements. One suggestion was a colour-coded calendar app, which caregivers could use to provide information about which parent in a shared care arrangement had care of their children and when they were caring for the children.

Perspectives from Māori whānau

85. Officials had four targeted engagement sessions with whānau Māori, and some written submissions provided feedback relating to Māori whānau. Key points made specifically by or regarding Māori whānau are set out below.

"Māori must be supported to have authority over taonga such as their tamariki and over the affairs of their whānau, with financial support for whānau being a key aspect of addressing historic injustice. We commend this review of WFF as a means of identifying opportunities to better address inequalities for tāngata whenua."

- 85.1 **The Crown has obligations to Māori under Te Tiriti o Waitangi and the United Nations Declaration on the Rights of Indigenous People. WFF also needs to take into account Te Ao Māori.** Comments and suggestions included:

85.1.1 The Crown has a responsibility to consider and address debt traps created by the system for tāngata whenua.

85.1.2 Support whānau Māori, to address historic injustice and reduce the number of tamariki living in poverty. Article two guarantees Māori tino rangatiratanga over their kainga (homes), whenua (lands) and taonga (all things of value). Article three promises protection for Māori and guarantees equality with British subjects. Taken together, these articles may create an obligation to ensure Māori have sufficient resources to support their whānau and achieve equitable outcomes for tamariki Māori.

85.1.3 WFF policy should reflect the importance of tino rangatiratanga (independence and self-determination) at a whānau or hapū level. Policy should be designed by Māori for Māori, and incorporate matauranga and tikanga Māori (Māori knowledge and customs).

- 85.2 **Family is a broad concept for Māori.** It can include extended family members, such as uncles/aunties, nieces/nephews, and grandparents. One whānau Māori group said that Māori felt obligated to support family, and would take in other people's children even if they already did not have much available to support themselves. They emphasised that the system needed to be flexible, so that it could keep up with changes in whānau circumstances.

- 85.3 **Trust and relationships are important to Māori.** Some whānau Māori highlighted the good relationships they have with IR. They said having dedicated people within IR supporting whānau Māori made it significantly easier for them to access information about things like WFF.

- 85.4 **Proactively communicate to Māori that they are eligible for WFF.** Whānau Māori said generally Māori were very uncomfortable asking for help despite being entitled to support. However, they noted that some Māori might feel apprehensive about receiving communications from IR. One whānau Māori group said some people were too humble/proud to accept support, and would decline it as they thought other people were more in need of help.

"Whānau are hesitant coming into the IR or MSD office because they feel as if both organisations had labelled them as "bludgers" always looking for a handout before they had even walked through the door."

- 85.5 **Many Māori prefer talking to IR/MSD in person**, but appointments at IR/MSD offices often did not work because of transport issues, or because appointments were too rushed or were at unsuitable times. Face-to-face interactions through home visits and locally-held workshops would help with take-up. Some said they preferred dealing with trusted local IR/MSD staff, whereas others preferred engaging with staff from out of town because they preferred not to disclose personal information to local people they knew.
- 85.6 **Sharing data on Māori communities could help increase take-up.** If data were shared with whānau Māori, they could use it to help ensure others in their community were aware of the support they were entitled to (e.g., through holding workshops, running education programmes, or putting information in local newsletters). Without this data, whānau Māori said it was hard to know what extra information or support Māori might benefit from.
86. Whānau Māori also provided some feedback that was similar to points made by other submitters and stakeholders. Below is a high-level summary of this feedback; more detail on these points is set out in Appendix 1.
- 86.1 Pay WFF recipients the same amount regardless of work status. “Work” should take into account unpaid “heart mahi” undertaken to support the wider community, such as marae mahi.
- 86.2 Increase and index WFF, increase abatement thresholds, and provide extra support to people living in rural or remote parts of New Zealand. Rurality particularly affects some whānau Māori, as it can impact how whānau access support as well as increase both the cost of living and the cost of work.
- 86.3 The cost of work and variable income/hours are barriers to work.
- 86.4 Debt is scary and causes stress. It disadvantages low-income families, many of whom are Māori.
- 86.5 Māori often live intergenerationally. Other family members who care for children should receive support.
- 86.6 Simplify WFF and improve communications.
- 86.7 Previous bad experiences applying for support can affect take-up.

Perspectives from Disabled people and their families

More support is needed for disabled people and their families

87. A small number of people expressed concern that insufficient financial support was provided to disabled people and their families, who generally faced higher costs. For example, extra costs to attend medical appointments/therapy sessions, or to purchase medication that is not Government-funded. They said the first thousand days were very important for infants with disabilities, but families received little financial support to stay home during this time.

Disabled people and their families face greater barriers to work

88. Some people said that disabled families were particularly disadvantaged by the scheme’s current focus on work incentives. Many disabled parents wanted to work but were discriminated against by potential employers, so for the Government to say they needed to try harder to find work was very demoralising. Some parents and extended family members might not be able to return to work, or might find it difficult to work consistently, because they had to look after a disabled child or

adult. Disabled households were therefore more likely to be poorer, in part-time or casual work, underemployed, and less likely to qualify for the IWTC and the MFTC.

"It is not always possible for parents to enter or return to paid work for a myriad of reasons, including health and disability among parents and/or children. For whānau with children with disabilities, pursuing adequate income through paid work could circumvent the pursuit of a thriving whānau."

89. Stakeholders said some disabled people, or their families, might decide that it was better to be on benefit than to work. This was because of the greater certainty and consistency associated with the benefit, and unlike work, it involved no extra costs. One stakeholder said it was harder for disabled people to actually attend work consistently, because some needed support to prepare for, and get to, work. They said an added barrier for disabled people was Government support for personal care and household management ceasing after they returned to work.
90. Providing more financial support could help more parents in families with disabilities return to work, however one stakeholder said they thought this on its own would be insufficient to address the barriers to work faced by disabled people. They suggested implementing separate measures to reduce barriers for disabled people, such as an allowance for employers to help with the costs associated with hiring disabled people.

Accessibility and administration for families with disabilities

91. Some stakeholders expressed concern that disabled people and their families experienced difficulty accessing WFF. One stakeholder highlighted the issues that tāngata whaikaha and whānau whaikaha Māori, as well as Pasifika disabled people, had accessing WFF, compared with Pakeha disabled people. They said this meant Māori and Pasifika disabled people tended to receive less support. This stakeholder said ethnic disparities became worse as complexity increased, and stressed the importance of simplifying WFF to minimise ethnic disparities. They also said the onus should not be on disabled people to apply for support or provide information to IR/MSD. Some people said there was a lack of specialised assistance for disabled people, and that the shift to online Government services had created a divide between those who were digitally capable and those who were not. However, one stakeholder said IR's website was already surprisingly accessible for blind people.

Ideas from submitters and stakeholders

92. **Provide more financial support to disabled people and their families**, to help with the extra costs they face. Ideas included providing a top-up WFF payment, or a tax credit, specifically to these families. Support should be available whether a family has a disabled child or adult, and people should not have to 'jump through hoops' to prove how disabled they are to qualify.
93. **WFF should take into account the impact of looking after a disabled child or adult**. Family members who support a disabled child or adult may have variable hours, or may not be able to return to work at all. More generous abatement rates might be one way to help with this.
94. **Minimise ethnic disparities amongst disabled people by simplifying WFF, and improve accessibility for disabled people**. For example, the deaf community needs interpreters and advocates. Disabled people may struggle with digital literacy and with communicating over the phone. Blind people may also struggle with some websites, depending on how they are designed.

Administration, accessibility, and take-up

Communications and take-up

95. Some people emphasised the effect of the tone used in communications on take-up. A quarter of stakeholders raised communication issues for non-native English speakers and/or disabled people, and how this affected engagement and understanding. Some preferred talking to real people, while others said digital communication channels, such as apps, would be helpful.
96. Stakeholders said difficulties applying for WFF affected take-up, as did limited digital literacy/access. One stakeholder said some people may be hesitant or unwilling to share personal information to receive WFF. Others said fear/distrust of the Government affected take-up, which particularly affected Asian, Māori, and Pasifika families, as well as non-New Zealand citizens. They also said some customers shared their WFF experiences, and bad experiences could impact take-up by others.
97. One stakeholder group said WFF was not sufficiently promoted to certain customer populations, which affected take-up; IR/MSD made assumptions without actually listening to customers, and failed to properly explain what support customers could receive; and some customers felt both discriminated against and demoralised.
98. Most survey respondents found it easy to find general information about WFF, however, they had mixed views on how easy it was for families to understand what they were entitled to. Most survey respondents would look for information about WFF through the IR website.

Administration by IR and MSD

99. **Inconsistencies caused by dual-agency model:** Some said that having two different agencies administer WFF resulted in gaps and inconsistency, and that customers should be treated the same regardless of the agency they dealt with. Another stakeholder felt there were two systems: one for people in paid work or business (IR), and another for welfare recipients (MSD), and that this was inequitable.
100. **IR:** People who provided feedback in this area generally preferred dealing with IR. They said IR was less punitive, easier to deal with regarding issues, more knowledgeable, and more likely to both get WFF payments right and provide favourable outcomes. They liked how IR offered different payment frequency options, could write-off debt, and could enter into repayment arrangements. Some said getting through to IR could be hard because of long wait times on the phone, engaging with IR could be stressful, and IR did not always communicate effectively.
101. **MSD**¹: One stakeholder said in-work support from MSD motivated people more, and another said MSD staff were normally helpful. One stakeholder said blind people had issues transitioning between the blind benefit and WFF through MSD. Another stakeholder said MSD failed to clearly communicate and deliver customers' entitlements and did not have a mana-enhancing approach. MSD was more likely to have overpayment issues, and its website seemed to prioritise repaying debt over wellbeing. Issues with long wait times on the phone were also mentioned.

Payment frequency

102. A small number of people commented on payment frequency. They liked how IR provided various options, and generally preferred regular payments during the

¹ Comments about MSD include those made about Work and Income.

year because they helped with budgeting. There was no expressed preference for receiving payments on particular days of the week (e.g., on the same days as other support payments from the Government).

"Higher-income families can receive WFF annually which avoids debts, but for lower-income families who rely on regular payments, this is not a feasible option."

103. Most survey respondents thought weekly or fortnightly WFF payments were better than end of year lump sums. Responses were mixed when asked if weekly or fortnightly payments were still better if it meant families were overpaid and would later have to repay some of the WFF they had received. Most respondents thought concern about incurring debt influenced when people decided to receive their payments.

Ideas from submitters and stakeholders

104. **Improve communications to reduce language barriers.** See paragraphs 92 and 94 for more feedback on supporting disabled people.
105. **Make information about WFF more accessible.** Introduce more communication channels (e.g., texting, and online channels such as apps, Tiktok and Facebook). Some people may have limited digital access/literacy, however, and many customers (particularly Pasifika and Māori) prefer engaging in person.
106. **Make it easier for people to apply for WFF and use the system.** One submitter said means-testing should not be so administratively burdensome that it prevents families accessing WFF. Another suggested introducing a direct phone line for customers to connect with financial advisors.
107. **Automate more of the system, including families' entitlements, and notify customers when they are eligible for support.** Many people supported more automation, except when entitlements were reduced, in which case a real person should process the change in entitlement. They thought automation would improve take-up, reduce overpayments, and require customers to provide less information.
108. **Improve understanding and awareness of WFF** to improve take-up, as some customers did not fully understand WFF. For example, some people did not know that they had to cancel their benefits to receive the IWTC. One stakeholder suggested raising awareness through local MPs, champions, and case workers.
109. **Make the Government more joined up so that customers only have to submit information once,** to reduce stress and ensure families received the support they were entitled to. Ideas included a centralised application portal, or agencies automatically sharing eligibility information when people applied for support. People also suggested standardising definitions across agencies.
110. **Have only one agency administer WFF,** to reduce gaps and ensure consistent treatment. The small number of stakeholders who suggested this generally preferred IR administering and paying WFF. This was because it would reduce delays and gaps when people transitioned on/off benefit; IR already holds various information; IR is more flexible and reliable; and IR has tools such as IRD numbers it can use to ensure WFF is administered correctly. One stakeholder suggested if IR were sole administrator, the ringfence around the FTC (which traditionally applies when the FTC is received by someone on a benefit) should remain.
111. **Retain both agencies but modify their roles and responsibilities.** A few stakeholders suggested this. For example, IR could collect information and calculate entitlements, and MSD could engage with and pay customers.

112. **Improve the culture at IR/MSD and commit to mana-enhancing service.** Some people said a culture-shift and commitment to service delivery guided by manaakitanga was needed, so that customers were respected, received their full entitlements, and could better avoid debt.

Next steps

113. A separate options report on WFF will be provided to Ministers alongside this report. Both reports will be discussed at a joint Ministers meeting proposed for 9 August 2022. Officials will also follow up with the stakeholders who attended the targeted engagement sessions after this report is publicly released, to acknowledge their contributions and (to the extent possible) update them on the next steps of the WFF review.

Appendix 1: Additional feedback from Māori

114. **Pay WFF recipients the same amount regardless of work/benefit status.** One whānau Māori group emphasised that in rural areas it could be difficult for whānau to get paid work due to limited job opportunities, as many of the jobs available were for people with greater qualifications. They suggested a training tax credit could help Māori in these areas upskill and increase their likelihood of finding employment. They also said that 'heart mahi', such as marae mahi, was very important to Māori, but was unpaid. The whānau Māori group thought that this sort of unpaid work should qualify as 'work' for WFF. One submitter said that Māori were more likely to be in caregiving roles within their whānau, and that existing settings exacerbated stigma around Māori as welfare recipients. They noted that financially disadvantaged Māori were less able to afford formal care or were likely to have fewer labour market resources.
115. **Increase and index WFF, increase abatement thresholds, and provide extra support to people living in remote parts of New Zealand.** Concerns with the cost of living were mentioned at each session with Māori. They said some whānau lived in garages, and others could not build houses on their own land because it was so expensive. Ideas to help with the cost of living included allowing whānau to capitalise WFF to help with purchasing homes; providing people in remote areas with extra support to help with greater living costs; and providing Best Start as a lump sum at the beginning of the year when a child is born.
116. **The cost of work and variable income/hours are barriers to work.** Childcare and transport costs were particularly expensive (especially for Māori in rural areas), and extra support for Māori to transition into work would be welcomed. Seasonal, uncertain, or limited work opportunities sometimes made staying on benefit more appealing, because the benefit was predictable. Some settings discouraged people from earning more, which was contrary to WFF's objective of incentivising work.
117. **Debt is scary and causes stress. It disadvantages low-income families, many of whom are Māori.** Some Māori took deliberate steps to avoid debt, and were apprehensive about WFF because they had previous bad experiences with WFF debt. Some Māori did not know when IR/MSD had to be notified of changing circumstances or that repayment arrangements were available. Ideas to reduce debt included WFF case managers regularly checking in with families regarding their circumstances; automating entitlements; and removing penalties.
118. **Māori often live intergenerationally. Other family members who care for children should receive support.** Some Māori parents had to care for their children and the elderly. Other whānau members who look after children (e.g., grandparents and aunties/uncles) often had difficulties accessing financial support.
119. **Simplify WFF and improve communications.** Ideas included using apps to declare income changes or to request contact from IR/MSD, while still recognising that some Māori were not digitally literate or had limited digital/internet access. Māori may be less likely to engage with complicated information, so presenting information simply is important, as is the tone used in communications. Whānau Māori suggested take-up could be improved by providing information in various places in the community, using campaign vehicles, and via online platforms.
120. **Previous bad experiences applying for support can affect take-up.** Some Māori experienced prejudice, hostility, and condescension when engaging with IR/MSD. Ideas included improving relationships between MSD connectors and staff, and improving the treatment of Māori by IR/MSD staff so that Māori feel valued and respected.

Appendix 2: Technical comments on the specific tax credits

Family Tax Credit (FTC)

121. People expressed support for the FTC, with some saying it was as important as New Zealand Superannuation but for children. Some suggested merging some or all the other WFF tax credits into the FTC, to simplify WFF and shift its emphasis away from work incentives and towards alleviating child poverty. Ideas included:
- 121.1 **Increase the FTC and index it annually to wages and prices. Also increase the abatement threshold and lower the abatement rate.** 10% of submitters recommended increasing the credit to \$170 for one child and \$120 for subsequent children.
 - 121.2 **Pay a flat-rate per child.** Larger families experienced more poverty, and different rates indirectly discouraged people from having more children.

Best Start Tax Credit (BSTC)

122. Some stakeholders mentioned that they felt BSTC was important. Ideas for change included:
- 122.1 **Better integrate the BSTC into WFF.** A few stakeholder groups said keeping BSTC separate increased complexity. Abatement could be particularly severe depending on a child's age. One idea was to align the BSTC's abatement system with that of the other WFF tax credits.
 - 122.2 **Provide the BSTC in the first 1,000 days even if a parent has returned to work. Also provide it to parents on paid parental leave (PPL), and pay the BSTC before a baby is born.** One stakeholder group said ceasing the BSTC because a parent returned to work was punitive and deprived them of helpful extra support. A submitter said the BSTC should be provided to people on PPL, because PPL addressed income lost following a pause in employment whereas the BSTC provided support for the extra costs of raising another child. A small number of people suggested paying the BSTC before babies were born to ensure they received the 'best start' in life.
 - 122.3 **Provide greater support for younger children and a top-up for low-income families. Consider extending support to children under five.**
 - 122.4 **There were mixed views on universality.** A small number of people favoured better targeting towards low-income families. Others supported universality in year one and then targeting the BSTC in subsequent years, while some supported the BSTC applying universally for all three years.
 - 122.5 **Increase the eligibility thresholds for years two and three.** One stakeholder group said \$79,000 was too low a threshold, because few families would be able to survive on one pre-tax income of that level.
 - 122.6 **The BSTC needs to cater for large families better.** One stakeholder group said the BSTC did not seem to cater for large families particularly well.

In-Work Tax Credit (IWTC)

123. Many people suggested repealing the IWTC or merging it with the FTC, so families received the same support regardless of work/benefit status². Other ideas included:
- 123.1 **Make the eligibility criteria as accessible and broad as possible, and increase the IWTC.** One stakeholder group said there needed to be more emphasis on the IWTC. A small number of people suggested increasing the IWTC to \$82 per week, plus \$17 for fourth and additional children.
- 123.2 **Only provide the IWTC to salary/wage earners and sole traders.** One submitter said if others (e.g., self-employed people) wanted to claim WFF, they should be on payroll records and show as wage earners.
- 123.3 **Pay a flat-rate per child.** One stakeholder group disagreed with having different rates, as these indirectly discouraged people from having more children. However, another stakeholder questioned whether the IWTC should even provide extra amounts for additional children.
- 123.4 **Provide the IWTC to people partially on benefit and working, and provide it to parents in training or study.** Alternatively, provide a separate training/study tax credit.

Minimum Family Tax Credit (MFTC)

124. Some people suggested repealing the MFTC because few families received it, it caused high EMTRs, it discriminated against people on benefit, and it could result in families getting into debt. However, one stakeholder felt the MFTC was particularly valuable for people transitioning off benefit. Ideas for change included:
- 124.1 **Change the hours test or completely remove it.** Some suggested allowing the test to be applied over a longer period, e.g., fortnightly or annually. One submitter said failing the hours test caused significant stress, and that illness or public holidays could prevent people satisfying the test.
- 124.2 **Adjust the abatement rate.** The current rate was challenging for people with variable hours/income, and made working more hours less worthwhile.
- 124.3 **Increase and index the MFTC.** A few recommended this to make working more worthwhile, compared with staying on benefit. It was noted that \$632 was less than the amount that would be paid for 30 hours of work on the minimum wage, and might not provide enough support to achieve income adequacy.
- 124.4 **Provide the MFTC to people on benefit and working.**
- 124.5 **There were mixed views about whether it was preferable for people transitioning off benefit and into work to receive the MFTC or a partial benefit instead.** One stakeholder group said people should be able to stay on benefit as they transitioned into work, instead of receiving the MFTC. Another stakeholder group disagreed, and said people took pride in coming off benefit, so would rather receive the MFTC than a partial benefit. This was the case even if the same amount of financial support were to be provided via the partial benefit or the MFTC.

² See paragraphs 19 and 20 for discussion regarding making WFF more child-centric, and paragraphs 34 to 36 above regarding work incentives and the IWTC.

Appendix 3: Other points raised in submissions and targeted engagement

What people like about WFF

125. One stakeholder **liked that work incentives were still an objective of WFF.**
126. About 20% of submitters and 25% of stakeholder groups **expressed support for WFF.** Many felt WFF provided important support for low/middle-income families, especially given increased living costs. One submitter thought WFF was important for Māori, who were more likely to both have low incomes and access welfare.
118. One stakeholder group said **some of the WFF tax credits provided good support,** but the abatement thresholds made it hard to realise the benefit of the credits. Another stakeholder **liked how WFF had increased,** but that WFF should increase more. One stakeholder **liked how tax credits were progressive.** They said tax credits were an effective way to provide support to low-income people.
119. A few people had **positive comments about the IWTC.** They appreciated recent changes to the IWTC, and how it supported parents who returned to work to improve their family's life/situation. One stakeholder said the IWTC 'feels like the right thing' because it acknowledged work costs and helped make work sustainable. A couple of people had **positive comments about the BSTC.** One submitter said they liked how the BSTC is universal. Another said they thought the BSTC was important. One stakeholder group **liked the FTC,** and thought it was particularly important because New Zealand would likely face a "deep recession" soon.
120. One submitter said **WFF was administered well.** Another liked WFF's payment frequency and its broad eligibility criteria. One stakeholder group liked the WFF application process, because it was kinder, less invasive, and more transactional than other application processes. Two people liked IR's updates and alerts.

Other feedback on WFF

121. **WFF reforms must take into account the wider welfare and support system:** A small number of people said WFF should be considered holistically alongside the wider welfare and support system. One stakeholder group said there needed to be a cross-Government collaborative approach for children. One submitter said many support payments did not fit well together, because they partially or completely negated each other, and encouraged a joint IR/MSD review of family income support payments to consider how they fit together. A few stakeholder groups said other welfare and support changes have had unintended consequences for WFF. For example, minimum wage increases might increase a person's work income but reduce their WFF by a greater amount because of abatement settings. Some mentioned WFF could also affect the Accommodation Supplement.
122. **Long-term impacts must be considered:** One stakeholder said sometimes providing support could do more harm than good. They said long-term impacts were not focussed on, and people were often viewed critically if they asked about long-term impacts. They provided the housing crisis as an example, and said providing more money to pay rent could result in increased rents, which benefited landlords, but the actual recipients of Government support ended up no better off themselves.
123. **Caution against greater targeting:** One submitter said there were various problems with targeting, including greater complexity; high abatements rates and sudden cliffs/drops in support; more gaming of the system by people seeking to artificially reduce their incomes; and the greater stigma attached to more targeted

payments. They said New Zealand's welfare system was already highly targeted, and there was no compelling argument to make WFF even more targeted.

124. **WFF compensates for low wages:** A few people said WFF subsidised employers by topping up low wages received by WFF customers, and this meant taxpayers took on a burden that should instead be borne by employers. If wages increased then WFF could better focus on supporting children, issues with abatement rates and work incentives would likely be minimised, and WFF would cost less.
125. **WFF negatively impacts business and economic growth:** One submitter said WFF discouraged people from accepting promotions, or encouraged employees to demand greater pay increases, because abatement settings made pay increases less worthwhile. They said unions had sought to convert overtime payments into time in lieu entitlements because of WFF, to prevent income increases which would reduce WFF and negatively impact overall family incomes. They were concerned that over time, WFF would result in unsustainable wage claims, which would be exacerbated if increases to the minimum and living wages put upwards pressure on wages generally. They said WFF acted directly counter to the goal of economic growth, by discouraging people to increase their skills and productivity.
126. **WFF negatively impacts retirement savings:** One submitter said the effect of KiwiSaver contributions on families receiving WFF could disincentivise saving and reduce KiwiSaver take-up. They said the Government had not assessed the interrelationship between KiwiSaver and WFF to see what inefficiencies might exist.
127. **Repeal WFF:** Three submitters did not support WFF. Two suggested repealing it. Alternative ideas to WFF including adjusting personal tax rates and thresholds, or resolving the housing crisis and then targeting support to low-income families.
128. **Eligibility criteria for non-citizens/residents:** One submitter said currently, families were excluded from WFF where the New Zealand citizen/resident in the family worked full-time but their partner and children were not citizens/residents. Whether a family with one resident/citizen parent qualified depended on which parent was the primary caregiver. They said given the delays and backlogs with processing residency applications, eligibility for WFF should not be dependent on individual family circumstances.
129. **Definition of income:** A couple of people said child support should not count as 'income' for WFF because often child support was not paid, so families missed out on WFF support during the year. One submitter recommended reviewing the definition of family scheme income because of its complexity, especially when trusts were taken into account. They recommended the scheme focus on standard scenarios and have de minimis thresholds for certain income types, and that a separate system be introduced for people with business income. Another idea was removing the business test for payments, which looks through to businesses and trusts, because most people were unlikely to commit fraud and the current rules were overly complex.
130. **Community groups and intermediaries:** Some people said community groups had to help customers because of failures by IR/MSD, and because WFF was so complex. One stakeholder said community groups could help improve agencies' cultures. Intermediaries and community groups helping agencies to improve take-up was discussed at some sessions. However, one stakeholder cautioned against the Government partnering with non-governmental organisations (NGOs) to provide WFF, because of potential issues with transparency and accountability. This stakeholder preferred the Government having contracts with NGOs instead of partnerships with them. They stressed it was also important not to reduce the number of choices people had, and that if WFF were to be partially delivered through NGOs, customers should retain the ability to receive their entitlements directly from the Government if they preferred.

Appendix 4: Key questions asked at targeted engagement sessions

131. The key questions officials asked stakeholders at the targeted engagement sessions included:
- (a) How can we better support:
 - Low-income working families?
 - Families with changing hours, shift-work, or part-time hours?
 - Different family and whānau make-up and care arrangements, such as the shared care of children?
 - (b) What are your views on how WFF is administered?
 - (c) What do you like about WFF and would like to ensure is retained?
 - (d) What concerns do you have about WFF?
 - (e) What changes would you make to WFF and why?
 - (f) Do you have any comments about the specific WFF tax credits?
 - (g) Do you agree with the policy intent or objectives of Working for Families?³
 - (h) Do you have any comments on the current structure and impacts of financial work incentives?

³ Officials asked questions (g) and (h) at the more technical targeted engagement sessions, such as those with academics and WFF experts.