



**MINISTRY OF SOCIAL
DEVELOPMENT**

TE MANATŪ WHAKAHIATO ORA

30 MAR 2021

On 2 March 2021, you emailed the Ministry of Social Development (the Ministry) requesting, under the Official Information Act 1982 (the Act), the following information:

- *A copy of any advice, analyses or recommendations provided to any Government Minister on how recent changes (e.g. www.beehive.govt.nz/release/government-delivers-promise-working-low-income-families) to abatement thresholds and benefits will impact the difference in income when comparing a full time job on the minimum wage to receiving Jobseeker Support or another main benefit.*

On 3 March 2021, you requested the same information from the Treasury. On 10 March 2021, this request was transferred to the Ministry to lead the response and provide you with the relevant information.

As you may know, the current Government has made a commitment that proposes increasing the abatement threshold for everyone on a benefit to \$160 per week and increasing the second threshold for Sole Parent Support and Supported Living Payment to \$250 per week.

Increasing the abatement thresholds will have a number of implications for the welfare system. It will improve incentives to work part-time for beneficiaries as they can work for longer before their benefit begins to abate, allowing them to keep a greater portion of their earnings. While the proposed increase to the thresholds better incentivises part-time work than full-time work, the proposal ensures that some (who may be currently facing reduced hours) can access financial assistance while still being attached to their job.

The Ministry has undertaken a search for the relevant information within the scope of your request, and has located the following documents:

- Report - *Implementing the manifesto commitment to increase abatement thresholds*, dated 13 November 2020
- Aide-memoire - *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit*, dated 4 April 2020
- Regulatory Impact Assessment - *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit*, dated 3 December 2020

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- Cabinet Paper - *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit*, dated 7 December 2020
- Appendix - *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit*, dated 7 December 2020
- Cabinet Minute - *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit*, dated 7 December 2020

Please find attached the following documents enclosed in this response:

- Report - *Implementing the manifesto commitment to increase abatement thresholds*, dated 13 November 2020
- Aide-memoire - *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit*, dated 4 April 2020

You will note that the names of some individuals are withheld under section 9(2)(a) of the Act in order to protect the privacy of natural persons. The need to protect the privacy of these individuals outweighs any public interest in this information.

Please also note that some information is withheld under section 9(2)(f)(iv) of the Act as it is under active consideration. The release of this information is likely to prejudice the ability of government to consider advice and the wider public interest of effective government would not be served.

The rest of the documents in scope are withheld under section 18(d) of the Act on the basis that the information requested is publicly available.

You can find these documents at the following link: www.msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/cabinet-papers/2021/increasing-main-benefit-thresholds.html.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government
- to increase the ability of the public to participate in the making and administration of our laws and policies
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public. The Ministry will do this by publishing this letter on the Ministry of Social Development's website. Your personal details will be deleted and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with this response regarding the recent changes to abatement thresholds for main benefits, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Yours sincerely

A handwritten signature in blue ink that reads "Polly Vowles".

Polly Vowles
Policy Manager
Income Support Policy



Report

Date: 13 November 2020

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development and Employment

Implementing the manifesto commitment to increase abatement thresholds

Purpose of the report

- 1 This report:
 - 1.1 provides policy and implementation advice on the Labour Party's 2020 manifesto commitment to increase abatement thresholds, and
 - 1.2 seeks your agreement to the proposed changes and the required legislative amendments for an implementation date of 1 April 2021, to inform a draft Cabinet paper.

Executive summary

- 2 The Labour Party's 2020 manifesto commitment proposed increasing the abatement threshold for everyone on a benefit to \$160 per week, and increasing the second threshold for Sole Parent Support and Supported Living Payment to \$250 per week.
- 3 Increasing the abatement thresholds will have a number of implications for the welfare system. It will improve incentives to work part-time for beneficiaries as they can work for longer before their benefit begins to abate, allowing them to keep a greater portion of their earnings. While the proposed increase to the thresholds better incentivises part-time work than full-time work, the proposal ensures that some (who may be currently facing reduced hours) can access financial assistance while still being attached to their job.
- 4 The increase to the thresholds will increase the benefit cut-out point, which has a number of flow-on impacts to other financial assistance:
 - 4.1 A significant number of non-beneficiaries who currently receive the Accommodation Supplement (AS) will gain from receiving more AS.
 - 4.2 A small number of non-beneficiaries (low-income working individuals and families) will become newly eligible for AS.
 - 4.3 A small number of non-beneficiaries will become newly eligible for a main benefit.
 - 4.4 There will also be other flow-on implications, such as for Temporary Additional Support, Childcare Assistance and Income Related Rent.
- 5 Overall, the proposed increase will benefit 82,900 individuals and families with an average gain of \$18 a week. Of the 82,900, approximately 50,200 are families with children. These changes are also estimated to reduce child poverty by around 6,000 (+/- 3000) on the AHC50 fixed-line measure and 2,000 (+/- 3000) on the BHC50 measure. Also, of the 82,900 individuals and families who stand to gain from the proposed increases, more than half (50,300) are non-beneficiaries receiving AS, who gain an average of \$12 a week.

- 6 A small number of people (currently estimated to be around 146) will be financially disadvantaged as a result of the flow-on impacts of the change, losing an average of \$16 a week. It is possible to compensate this group through a Transitional Assistance Payment.
- 7 Abatement threshold changes will also require decisions on the Minimum Family Tax Credit (MFTC). The MFTC has generally been adjusted annually to reflect changes in settings, such as benefit rates and abatement thresholds. Increasing the MFTC rate alongside abatement threshold changes would maintain the financial incentives provided by the MFTC to enter work at 20 or 30 hours a week.
- 8 However, given the proposed increase to the abatement threshold is substantial, the likely cost of increasing the MFTC rate would be significant. Also, it may exacerbate the existing issue of poor financial incentives to work full-time for sole parents. Further detailed advice on options for changes to MFTC settings, including the timing of those changes, will be provided to joint Ministers shortly.
- 9 The manifesto commitment also proposed to progressively increase abatement thresholds year on year in line with minimum wages, s9(2)(f)(iv)
- 10 Increasing abatement thresholds to \$160 and \$250 per week on 1 April 2021 s9(2)(f)(iv) is expected to cost \$290.568 million over the forecast period. In addition, operational costs to implement the one-off increase is expected to cost \$7.53 million. In order to implement the increases by 1 April 2021, we require Cabinet decisions and a pre-Budget commitment by 30 November. Subject to Ministerial decisions, officials will prepare a draft joint Cabinet paper seeking decisions on the abatement threshold and MFTC rate increases shortly.
- 11 Changes to abatement thresholds also require legislative amendments. To increase the threshold for 1 April 2021, an Order in Council under section 452(2)(c) of the Social Security Act 2018 and an amendment to the Veterans' Support Regulations 2014 are required. We will provide this report to the Minister for Veterans to seek the Minister's agreement on the required amendment to the Veterans' Support Regulations.

Recommended actions

It is recommended that you:

- 1 **agree** to progress a Cabinet paper to seek approval to increase the abatement thresholds on 1 April 2021 as set out below:

Abatement threshold (what beneficiaries can earn per week before their benefit begins to abate)	From 1 April 2021
Jobseeker Support	\$160
New Zealand Superannuation and Veteran's Pension with non-qualifying partner	\$160
Sole Parent Support, Supported Living Payment and Veteran's Pension (under 65) – Threshold One	\$160
Sole Parent Support, Supported Living Payment and Veteran's Pension (under 65) – Threshold Two	\$250

agree/disagree

- 2 **note** that the proposed increases to the abatement thresholds do not impact Youth Payment or Young Parent Payment as they have a separate abatement regime, and Orphan's Benefit or Unsupported Child's Benefit as these do not have an income test
- 3 **note** that an Order in Council under section 452(2)(c) of the Social Security Act 2018 is required to increase abatement thresholds for main benefits and New Zealand Superannuation, subject to Cabinet approval

4 s9(2)(f)(iv)

agree/disagree

- 5 **agree** to forward a copy of this report to the Ministers for Child Poverty Reduction, Finance and Revenue

agree/disagree

For the Minister for Veterans

- 6 **agree** to seek Cabinet approval to amend the Veterans' Support Regulations 2014 to increase abatement thresholds for Veteran's Pension in 2021.

agree/disagree

Fiona Carter-Giddings
General Manager, Welfare System and Income
Support

Date

Hon Carmel Sepuloni
Minister for Social Development and
Employment

Date

Hon Meka Whaitiri
Minister for Veterans

Date

Background

- 12 New Zealand's welfare system is designed to target people who are unable to fully support themselves through paid work. This targeting is achieved through the eligibility criteria and the benefit abatement regime, which gradually reduces payments that people receive as their other income increases.
- 13 Generally, the full rate of payment will be available to people earning up to a certain amount; this is the abatement threshold. Above this amount, payments abate as people's other incomes increase, but payment can abate in different ways and at different rates based on the type of benefit payment. The abatement rules, along with the benefit rate, determine the benefit cut-out point, which is the amount of income at which a benefit is reduced to zero.
- 14 The abatement threshold allows people to work for a small number of hours without having their benefit payment affected and is seen as a way to encourage labour market entry. It also recognises that there are additional costs associated with work, such as transport costs.
- 15 There are two main abatement regimes, which seek to align the financial incentives to work with the level of labour force engagement expected of the individual:
 - 15.1 **a part-time regime** has two abatement thresholds, with a relatively low abatement rate of 30 percent applied at the first threshold, and an abatement rate of 70 percent applied at the second threshold. This is designed to incentivise part-time work and applies to people receiving Sole Parent Support (SPS) and Supported Living Payment (SLP), as well as to those under 65 receiving the Veteran's Pension (VP).¹
 - 15.2 **a full-time regime** has a relatively high abatement rate of 70% which is designed to incentivise full-time work. This mainly applies to people on Jobseeker Support (JS)-related benefits, as well as Non-Qualifying Partners (NQP) of New Zealand Superannuation (NZS) and VP recipients.²

You have committed to increasing the abatement thresholds in 2021

- 16 The Labour party's 2020 manifesto commitment to support families towards better futures included a pledge to increase abatement thresholds so that people can keep more of what they earn while on a benefit.
- 17 The manifesto commitment proposes to increase abatement threshold for everyone on a benefit to \$160 per week, which allows for around 8 hours of work on minimum wage before abatement begins.³ The commitment also proposed to increase the second threshold for SPS and SLP to \$250 per week, which allows for around 12.5 hours of work on minimum wage. Table 1 below shows how the new abatement thresholds compare to current thresholds.
- 18 Note that changes to the abatement thresholds do not impact Youth Payment or Young Parent Payment as these benefits have a separate abatement regime, which is the same as for Student Allowance. The changes also do not impact Orphan's Benefit or Unsupported Child's Benefit as these do not have an income test on the caregiver.

¹ Veteran's Pension (under 65) is a grandparented income support payment, granted under the War Pensions Act 1954 to veterans who were unable to work due to illness or injury.

² From 9 November 2020, the option to include non-qualifying partners in payments for NZS or VP will no longer be available.

³ Based on minimum wage increasing to \$20 on 1 April 2021.

Table 1 - Labour Party's 2020 manifesto commitment to increase abatement thresholds

Abatement threshold (what beneficiaries can earn per week before their benefit begins to abate)	Current	From 1 April 2021
JS (abatement rate of 70%)	\$90	\$160
NZS/VP NQP (abatement rate of 70%)	\$115	\$160
SPS/SLP and VP (under 65) - Threshold One (abatement rate of 30%)	\$115	\$160
SPS/SLP and VP (under 65) - Threshold Two (abatement rate of 70%)	\$215	\$250

Increasing the abatement thresholds will increase the incomes of working beneficiaries and better incentivise part-time work...

- 19 Increasing the abatement thresholds to \$160 per week and \$250 per week would benefit approximately 82,900 individuals and families by on average \$18 per week. Of the 82,900, approximately 50,200 are families with children. These changes are also estimated to reduce child poverty by around 6,000 (+/-3000) on the AHC50 fixed-line measure⁴ and 2,000 (+/- 3000) on the BHC50 measure⁵ in 2021/22.
- 20 The proposed increase will improve financial incentives to work part-time while on a benefit as beneficiaries can work for longer before their benefit begins to abate. Under current settings, JS clients can work up to around 4.75 hours on minimum wage before their benefit begins to abate; this will increase to around 8 hours under the proposed increase.
- 21 This means that working beneficiaries will be able to keep a greater proportion of their earnings. Around 29,500 individuals and families currently receiving a working-age benefit are expected to benefit from the change with an average weekly gain of \$29, as well as around 3,100 individuals and families with New Zealand Superannuation with an average weekly gain of \$21.
- 22 Appendix One provides a breakdown of the number of people affected by the proposed increase and the estimated amount they would gain per week.
- 23 The proposed increases will likely mean that working beneficiaries in part-time work will be less incentivised to move to full-time work as it reduces the financial gain from moving from part-time to full-time work. This is of most concern where financial incentives to work full-time are currently relatively weak, for example for sole parents on low/minimum wages with childcare costs. However, financial incentives to work are only one factor in people's decisions around work and the empirical evidence suggests that small changes in financial incentives are likely to have relatively small impacts on people's decisions.⁶
- 24 Given the economic impacts of COVID-19 and many people facing reduced hours, the increase in abatement thresholds ensures that those with reduced hours can access

⁴ AHC measures the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs, and is measured by the threshold line set at 50 per cent of the median income in 2017/18, after housing costs are removed.

⁵ BHC50 is a moving-line income measure, with the poverty threshold taken the year the data is gathered (low income, before housing costs – moving-line measure). BHC50 measures the number of children in households with much lower incomes than a typical household, and is measured by the threshold line set at 50 per cent of the median household income in the year measured.

⁶ Blundell, R. (2012) 'Tax policy reform: the role of empirical evidence', *Journal of the European Economic Association*, 10 (1), pp.43–77

financial assistance while still being attached to their job. Also, there is evidence that labour market entry, even for part-time work, is beneficial for long-term outcomes as it could provide a pathway into full-time work.

... and will result in people receiving more financial assistance and some people becoming newly eligible

- 25 Abatement thresholds determine the benefit cut-out point; increasing the abatement thresholds will push out the cut-out point, which has a number of flow-on impacts to other financial assistance.
- 26 A significant number of non-beneficiaries (low-income working individuals and families) who are already receiving the Accommodation Supplement (AS) will be eligible for a higher rate of payment.⁷ Of the 82,900 individuals and families who stand to gain from the proposed increases to the abatement thresholds, more than half (50,300) are non-beneficiaries receiving AS, who gain an average of \$12 a week.
- 27 In addition, the abatement threshold changes will mean that a small number of people will become newly eligible for AS; it is expected that around 4,000 additional people will take up AS as a result of the changes.
- 28 A small number of non-beneficiaries will also become newly eligible for a main benefit. It is estimated that around 7,000 additional people will take up a main benefit as a result. They will also become eligible for the Winter Energy Payment (during the winter period) as eligibility for the payment is linked to main benefits.

There are a range of other flow-on implications for the wider welfare system

There may be a reduction in the rate of some of the assistance payable to clients as a result of abatement threshold increases...

- 29 Changes in one type of assistance often cause a change in entitlement to other assistance. These interactions are mostly appropriate and intended to ensure targeting of supports. However, it means that the additional amount in the hand that families receive will likely be less than the increase in abatement thresholds and create unintended impacts and make people financially disadvantaged.
- 30 Some people may be financially disadvantaged as a result of the abatement threshold increases. Around 146 individuals and families are expected to lose an average of \$16 a week as a result of the proposed change. People are likely to be disadvantaged for the following reasons:
 - 30.1 **Temporary Additional Support (TAS)** – TAS recipients with high disability costs can receive additional support over and above the upper limit through an additional top-up called the disability exception. Some people will lose their disability exception as a result of increases to their rate of benefit or other supplementary assistance, resulting in them moving off the TAS upper limit and becoming ineligible for the Disability Allowance exception.
 - 30.2 **Childcare Assistance** – supplementary assistance payments, including AS, are included as income for the purposes of determining the rate of Childcare Assistance payable. Some may face a reduction in the hourly subsidy rate as a result of abatement threshold increases if they become newly eligible for AS or their AS payment increases.

31 s9(2)(f)(iv)

⁷ This is because the AS abatement threshold for non-beneficiaries are aligned to the JS cut-out point; as the JS cut-out point increases, the AS abatement threshold and the cut-out point also increase.

...but they could be compensated by a Transitional Assistance Payment

- 33 A Transitional Assistance Payment (TAP), which is a temporary non-taxable payment, could be considered for the small number of people who may be financially disadvantaged by the proposed abatement threshold increases.
- 34 A TAP was provided for clients who were financially disadvantaged on 1 April 2020 because of one or more of the changes from the Income Support and COVID-19 Recovery Packages, which included abatement threshold increases.⁸
- 35 TAP could be provided to people who will be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases. Clients do not need to apply for TAP as it is granted and paid automatically to clients who qualify. A welfare programme will need to be established under section 101 of the Social Security Act 2018, should you agree to providing TAP.

Abatement threshold changes will also require decisions on the Minimum Family Tax Credit

The Minimum Family Tax Credit ensures that families with children are better off in work than receiving a main benefit

- 36 The Minimum Family Tax Credit (MFTC) currently provides a guaranteed minimum level of after-tax income to families with children who do not receive main benefits and who work a minimum number of hours a week.⁹ The MFTC 'tops up' the net income they receive from work to a set level to ensure that they are better off in work than receiving a main benefit. Currently, it tops up a family's income to at least \$534 a week after tax (\$27,768 after tax on an annual basis).
- 37 To maintain the financial incentive provided by MFTC for families with children to enter work, MFTC has been adjusted annually since 2006 to reflect changes in various settings that have an impact on MFTC, such as benefit rates, the minimum wage and abatement thresholds. Note that adjustments were not made this year for the 2020/21 MFTC rate.

The proposed increases to abatement thresholds suggest a significant increase in the MFTC to maintain incentives to work 20 or 30 hours a week...

- 38 Therefore, an increase to the MFTC rate, along with the proposed abatement threshold increases would be in line with previous policy decisions around MFTC. An increase would ensure that a small number of families would remain better off in work than receiving a benefit (largely sole parents working 20 hours on a low/minimum wage). It would also improve income adequacy for this group. If MFTC rates remain unchanged, the financial incentive to work (20 or 30 hours a week)

⁸ *Income Support Package and COVID-19 Recovery Package (Transitional Assistance) Programme*, established under section 101 of the Social Security Act 2018.

⁹ 20 hours per week for sole parents and 30 hours for couples.

would reduce. Further advice will provide more detailed information on the estimated impacts on families.

...but this increase is costly and disincentivises working full-time...

- 39 However, given the proposed 2021 increases to the abatement thresholds are substantial, it is likely that the cost of the MFTC rate increase would also be larger than in previous years. The fiscal cost of adjusting the MFTC rate to be in line with the proposed abatement threshold increases (an increase to \$32,604), is expected to be \$24.7 million over the 2021/22 fiscal year.
- 40 While the MFTC incentivises a small number of families to work 20 hours a week (sole parents) or 30 hours a week (couples), it then strongly disincentivises this group from increasing their hours as it effectively abates dollar for dollar (an effective marginal tax rate of 100 percent). An increase to the MFTC of this size means that the 100 percent effective marginal tax rate would extend over a longer income range. For example, a sole parent moving from working 20 hours (on a low/minimum wage) and receiving MFTC to working 40 hours may receive little more income, or could even receive less income overall. This is likely to be a very small number of families.

...and a substantial increase in the MFTC could limit options in the review of Working for Families

- 41 We are also currently working with Inland Revenue, The Treasury, and the Child Poverty Unit at the Department of the Prime Minister and Cabinet to review Working for Families (WFF), which includes MFTC, as part of the welfare overhaul work programme. Increasing the MFTC in line with the proposed abatement threshold increases could limit potential options for long-term reform of WFF, §9(2)(f)(iv) as it would be likely to increase the costs associated with some reforms or make it more likely that some families would be financially disadvantaged.

Officials will provide further advice on the MFTC shortly

- 42 MSD officials' view is that judgements around the MFTC are finely balanced and require more comprehensive advice. You will receive more detailed advice on options around MFTC rate changes (along with the Minister of Revenue, Minister of Finance, and the Minister for Child Poverty Reduction) shortly, seeking decisions on whether to:
- 42.1 increase the MFTC rate in line with the proposed increases to the abatement thresholds, or
 - 42.2 increase the MFTC partially (not the full adjustment required to be in line with abatement threshold increases), or
 - 42.3 not increase the MFTC threshold.
- 43 Officials also considered whether to delay decisions on abatement thresholds until Budget 2021 to align with the timing of the advice on the scope of the WFF review. However, this is not recommended as it would delay the implementation of increasing benefit abatement thresholds until April 2022 at the earliest.
- 44 Subject to Ministerial decisions, officials will prepare a draft joint Cabinet paper to seek decisions on abatement threshold increases and MFTC shortly.

You have also committed to progressively increase the abatement threshold year on year in line with minimum wage increases

- 45 Alongside the increases to the abatement threshold for 2021, the manifesto commitment also pledged to progressively increase the abatement threshold year on year in line with minimum wage increases. Generally, abatement thresholds are increased through one-off changes, rather than being adjusted annually.

§9(2)(f)(iv)

period. The following table provides the expected cost of the proposal by benefit type:

Table 2 - expected cost of increasing abatement thresholds in 2021

	\$m - increase/(decrease)					
Vote Social Development	2019/20	2020/21	2021/22	2022/23	2023/24	Outyears
Minister for Social Development						
Benefits or Related Expenses:						
Childcare Assistance	-	(0.159)	(0.592)	(0.587)	(0.650)	(0.650)
Hardship Assistance	-	(0.541)	(2.255)	(2.051)	(1.860)	(1.860)
Jobseeker Support and Emergency Benefit	-	10.047	47.274	43.238	39.579	39.579
New Zealand Superannuation	-	0.848	3.354	2.985	2.741	2.741
Sole Parent Support	-	2.174	9.865	8.940	7.949	7.949
Supported Living Payment	-	1.025	3.985	3.442	3.052	3.052
Veteran's Pension	-	0.006	0.024	0.024	0.017	0.017
Minister of Housing						
Benefits or Related Expenses:						
Accommodation Assistance	-	8.498	36.206	34.542	33.205	33.205
Total Operating	-	21.898	97.861	90.533	84.033	84.033

	\$m - increase/(decrease)					
Vote Housing and Urban Development	2019/20	2020/21	2021/22	2022/23	2023/24	Outyears
Minister of Housing						
Non-Departmental Output Expense:						
Purchase of Public Housing	-	(0.286)	(1.162)	(1.159)	(1.149)	(1.149)
Total	-	(0.286)	(1.162)	(1.159)	(1.149)	(1.149)

- 54 The estimated cost of TAP for 12 months is around \$120,000, should you wish to provide TAP alongside the abatement threshold changes.
- 55 Alongside these costs, IT system changes and additional resources are required to implement the increases, which is expected to cost \$7.53 million. Note that this estimated cost is for one-off increase in 2021.

An Order-in-Council and regulation amendment are required to increase abatement thresholds on 1 April 2021

- 56 Changes to abatement thresholds require an Order in Council and regulation amendment. Abatement thresholds for main benefits and NZS NQP are set out in Schedule 2 of the Social Security Act 2018.¹¹ An Order in Council under section 452(2)(c) of the Social Security Act 2018 is required to make the abatement threshold increases for main benefits and NZS for April 2021.
- 57 Abatement thresholds for VP NQP and VP (under 65) are set out separately in regulation 42A of the Veterans' Support Regulations 2014, which will also require amendment. We will provide this report to Minister for Veterans to seek her agreement to the changes.

Next steps

- 58 Subject to Ministerial decisions, MSD, Inland Revenue and The Treasury will prepare a joint Cabinet paper seeking policy approval for the abatement threshold and MFTC

¹¹ Definitions for Income Test 1, Income Test 2, Income Test 3 and Income Test 4 in Schedule 2 set out the abatement rules.

increases, along with a pre-Budget commitment, to be considered by Cabinet on 30 November 2020.

- 59 Pending Cabinet approval, IT system changes and the required legislative amendments will be progressed to implement the abatement threshold increases by 1 April 2021.

File ref: REP/20/11/1045 | A12887664

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OFFICIAL INFORMATION ACT

Appendix One

- 60 This table provides the estimated number of benefit recipients gaining when abatement thresholds go up to \$160 and \$250 per week on 1 April 2021, broken down into the size of the weekly gain and the benefit type:

Benefit	Number of people affected (gaining)			
	\$10 or less	\$10.01 to \$20	\$20.01 plus	Total
EB	17	25	690	732
EMA	3	5	50	59
JS related	47	53	16,340	16,441
JSSH	2	2	3	8
Non-Beneficiary	11,592	292	38,449	50,333
NZS VP TRB	8	18	3,151	3,176
SLP related	48	82	4,437	4,567
SPS	29	49	7,520	7,598
Total	11,746	526	70,641	82,913

- 61 This table provides the estimated number of benefit recipients gaining when abatement thresholds go up to \$160 and \$250 per week on 1 April 2021, broken down into the size of the weekly gain and ethnicity:

Ethnicity	Number of people affected (gaining)			
	\$10 or less	\$10.01 to \$20	\$20.01 plus	Total
Māori	2,830	135	12,566	15,532
NZ European	5,027	130	28,216	33,373
Pacific Island	674	72	4,395	5,140
Other	2,194	88	13,936	16,218
Unspecified	1,021	100	11,527	12,649
Total	11,746	526	70,641	82,913

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Cabinet paper

Date: 4 December 2020

Security Level: Budget Sensitive

For: Hon Carmel Sepuloni, Minister for Social Development and
Employment

File Reference: REP/20/12/1178

Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustment to the Minimum Family Tax Credit

Cabinet Committee

Cabinet

Date of meeting

7 December 2020

Minister

You are presenting this Cabinet paper jointly with Hon David Parker, Minister of Revenue.

Proposal

You are seeking Cabinet agreement to increase main benefit abatement thresholds to \$160 and \$250 per week from 1 April 2021.

You are also seeking Cabinet agreement to adjust the Minimum Family Tax Credit (MFTC) for the 2021/22 year.

Talking points

Abatement thresholds

- I propose that the main benefit abatement thresholds be increased to \$160 and \$250 per week from 1 April 2021.
- While main benefit abatement thresholds were adjusted on 1 April 2020, prior to this, they have not been adjusted for almost a decade. This has meant that the value of what people could earn before their benefit is reduced has declined in real terms over time as wages have increased.
- The proposed increases mean that beneficiaries can work up to 8 hours on minimum wage before their benefit begins to reduce, up from around 4.5 hours under current settings.
- This will improve financial incentives to engage in work while receiving a main benefit and help beneficiaries to keep a greater proportion of what they earn.
- Better incentivising beneficiaries to enter the labour market, even for part-time work, is important as part-

time work could provide a pathway to full-time work by providing opportunities to connect with the labour market and become familiar with demands that can come with employment.

- This will also be delivering on our manifesto commitment.

Minimum Family Tax Credit

- I recommend we partially adjust the Minimum Family Tax Credit threshold for 2021/22 alongside the increase to abatement thresholds.
- This change ensures that sole parents, who account for approximately 90 percent of the Minimum Family Tax Credit recipients, remain better off working and receiving the Minimum Family Tax Credit than in work and receiving a benefit.

Key issues

Increasing abatement thresholds to \$160 and \$250 per week

What does this change mean?

- This change is expected to benefit approximately 82,900 individuals and families by an average of \$18 per week.¹
- Of these, approximately 50,200 are families with children. These changes are estimated to reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure and 2,000 (+/- 3,000) on the BHC50 measure in 2021/22.
- The proposed increase will increase the benefit cut-out point², which has a number of flow-on impacts to other financial assistance:
 - Of the 82,900 individuals and families, around 50,300 are non-beneficiaries who currently receive the Accommodation Supplement (AS), who will become eligible for a higher rate of payment (average gain of \$12 a week);
 - A small number of non-beneficiaries (approximately 4,000) will become newly eligible for AS;
 - A small number of non-beneficiaries (approximately 7,000) will become newly eligible for a main benefit; they will also become eligible

¹ This modelling factors in flow-on impacts of the proposed abatement threshold changes, including likely increase to the Minimum Family Tax Credit (MFTC). The overall number of people affected by the abatement threshold changes include families who are expected to gain through increases in the MFTC. The modelling is also based on the Pre-Election Economic and Fiscal Update 2020 forecasts. These forecasts were prepared during a time of high uncertainty, and actual volumes of benefit receipt have tracked lower than the forecast. Therefore, the actual numbers may be lower once more recent forecasts are considered.

² The point at which a person's payment is reduced to zero because of their income or assets.

for the Winter Energy Payment during the winter period.

- As at the end of November 2020, around 35,000 main beneficiaries (out of approximately 383,000) have declared income from work for themselves or their partners.

How does this change fit with government priorities?

- This change is a 2020 Labour Party manifesto commitment to support families towards better futures.
- It is consistent with the Welfare Expert Advisory Group's recommendation to increase main benefit abatement thresholds.

When will this be implemented and how much will it cost?

- This will be implemented from 1 April 2021.
- This change will incur a fiscal cost of \$387.496 million over the next five years.
- An additional \$6.403 million is needed for operational costs.

Adjusting the MFTC for 2021/22

What does this change mean?

- On 30 November 2020, Cabinet agreed to retrospectively increase the MFTC thresholds for the 2020/21 tax year to \$29,432 to reflect the \$25 increase to main benefit rates made on 1 April 2020 in response to COVID-19 [CAB-20-MIN-0490 refers].
- This change proposes a further adjustment of the MFTC for the 2021/22 year to \$30,576 per annum, to partially reflect the increase in main benefit abatement thresholds.
- This adjustment ensures that sole parents, accounting for approximately 90 percent of MFTC recipients, remain better off working and receiving the MFTC than in work and receiving a benefit
- The partial increase to the MFTC threshold will benefit around 4,000 families on MFTC, and an additional 400 families would become newly eligible for the MFTC.

When will this be implemented and how much will it cost?

- This change will be implemented from 1 April 2021.
- It will incur a fiscal cost of \$17 million over the forecast period.

Why is a full adjustment of MFTC in line with abatement thresholds not being recommended?

- A full adjustment of the MFTC, in line with abatement thresholds, would reduce the financial incentives for families receiving the MFTC to work over the minimum hours required (20 hours for sole parents, 30 hours for couples).

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- A full adjustment would also incur a significant fiscal cost and make options for reform through the upcoming review of Working for Families more costly.
 - The partial increase is preferred as it reduces the impact of financial disincentives to work, has a lower fiscal cost, and has less of an impact on the cost of options being considered as part of the review of Working for Families tax credits. It still ensures sole parents remain better off working and receiving the MFTC than working and receiving a benefit.

Other issues

A Transitional Assistance Payment (TAP) will be provided for a small number of people

- A TAP will be provided for 12 months for the small number of people who may be financially disadvantaged as a result of the abatement threshold increases on 1 April 2021.
- This will cost an additional \$80,000.
- §9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]

Author: §9(2)(a) [REDACTED]

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