



MEDIA RELEASE
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Penalty Tax For Being Married As High As \$15,000

A married couple both working and on low incomes, or a family with a full-time parent are being penalised by up to \$15,000 in their household income compared with a couple who separates or divorces. Low income families are being hardest hit by NZ's 'marriage penalty tax' and poverty trap.

Following today's release of a report estimating the price of family breakdown and decreasing marriage rates to be costing the taxpayer at least \$1 billion per year and \$8 billion over the past decade, Family First has released calculations obtained from the NZ Institute of Economic Research (NZIER) showing that under current tax schemes, married couples from low income families would be up to \$15,000 better off in terms of income in the hand if they separated.

For a married couple who are both working and receiving low incomes (for example \$40,000 each) and have 3 children, their joint income is \$14,715 lower than if they were separated or divorced because of the interaction of family income assistance programmes such as the Working for Families Tax Credit and the Accommodation Supplement.

For a married couple where one parents full-time and the other is on a low income (\$40,000) the parents could be \$12,000 better off by separating before allowing for Child Support and changes in expenses. In addition, if the parents each receive a small pay increase, the family tax rate on this extra income can be as high as 69%.

	BOTH PARENTS WORK				ONE PARENT	
	High Low	Both Low	High Low	High High	High	Low
Income from Work	100,000	40,000	90,000	70,000	70,000	40,000
	12000	40,000	12,000	70,000		
Children	3 teens	3 young	3 young	3 young	3 young	3 young
When married, your joint income is lower by	\$ 8,458	\$14,715	\$ 9,137	\$ 6,845	\$ 12,452	\$ 12,047
If your annual income increased by \$100 the effective tax rate* on this extra earnings is	26%	54%	47%	40%	47%	69%
Notes:	\$400 mortgage	\$400 mortgage	\$400 mortgage	\$400 mortgage	\$300 rent	\$300 rent
* Effective tax rates reflect the combination of, where applicable, personal income taxes, ACC levy, Working for Families abatement and Accommodation Supplement abatement						

"The government has created a system which contains perverse disincentives for parents to get or stay married," says Bob McCoskrie, National Director of Family First NZ. "The NZIER report and calculations show that the presence of marriage penalties in our tax system means that some people are discouraged from entering into or remaining in a relationship in the nature of marriage because of the family income assistance system."

Poverty traps occur when, due to taxation and the clawback of assistance, there are few or no financial incentives for people to enter into or remain in work, or to increase their hours of work or wage rates.

According to a 2002 OECD report, NZ has some of the highest effective tax rates in the world. It is argued that this is contributing to high levels of family breakdown.

“With the report showing the huge fiscal cost of family breakdown and these figures showing the tax disincentives for marriage, it is urgent that these factors be included in research on policy issues concerning poverty and family breakdown, and that the government get over its ideological opposition to talking about and strengthening marriage,” says Mr McCoskrie.

The NZIER Marriage Tax Calculator can be downloaded here

http://www.familyfirst.org.nz/index.cfm/research/the_value_of_family.html

ENDS

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