



**Committee Secretariat
Finance and Expenditure Select Committee
Parliament Buildings
WELLINGTON**

**Taxation (Income-sharing Tax Credit) Bill
SUBMISSION**

November 2010

- 1.1 This submission is being made by **Family First NZ**, a charitable organisation that researches and advocates on family issues in the public domain.
- 1.2 Family First NZ **SUPPORTS** the Bill

PRINCIPLE

- 1.3 The Bill sends an important societal message that we value the choice of parents to raise their children full-time. For too long, the message has been that mums and dads should let the 'professionals' educate their young kids (day care) and parents should get out and get a real job
- 1.4 As property and welfare (including *Working for Families*) is assessed on a family unit – assessment of tax should also be on this basis. It is a fairer system and acknowledges the interdependence of the family unit.
- 1.5 Business owners can split income. Families should have this same option.

- 1.6 Income splitting will give parents more choice and potentially more ability to have a stay-home parent during the crucial early years of a child/children

COST v VALUE AND RECOGNITION

- 1.7 The cost of this proposal is simply diverting spending from the \$1.2b on early childhood education and other subsidies around before and after school programmes and holiday programmes
- 1.8 Some will argue that the scheme unfairly benefits the wealthy. But the scheme has a ceiling of \$140,000 household income as both individuals would then be deemed to be on the top tax rate. It also should be acknowledged that interest free student loans and the 20 hours free childcare also can benefit wealthy families.

NUMBER OF CHILDREN

- 1.9 A shortcoming is that by simply looking at income levels, it fails to take into account the number of children that a family is raising. We would recommend that some adjustment is made to reflect the number of children and the resulting household costs. This could be achieved through the ability to split income amongst the children – e.g. 2/3'rds between adults, 1/3'rd between children, or some similar variation

HUMAN RIGHT ISSUE

- 1.10 Income Splitting is also a Human Rights issue – the right of (predominantly) women and men who are full-time stay at home parents to be recognised as economic and productive units, contributing to the economy and welfare of the country. It recognises the contribution they make to society.
- 1.11 Income splitting allows families to make important work-life balance decisions without being financially penalised to the extent that they are when assessed individually.

USE INCOME SHARING TO CANCEL MARRIAGE ‘PENALTY TAX’

- 1.12 Family First submits that income splitting, while benefitting couples who are raising children together under the current definition used by *Working for Families*, should be especially targeted at married couples to encourage a marriage culture and family stability.
- 1.13 In NZ, 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, according to calculations obtained from the NZ Institute of Economic Research (NZIER)
- 1.14 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
- 1.15 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

- 1.16 * Effective tax rates reflect the combination of, where applicable, personal income taxes, ACC levy, Working for Families abatement and Accommodation Supplement abatement

- 1.17 We have created a system which contains perverse disincentives for parents to get or stay married. 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, thereby putting at risk the stability of the family and the welfare of children
- 1.18 Income splitting will go some way to address this anomaly and will promote marriage and stability in families.
- 1.19 Family First released a report in October 2008 (*“The Value of Family – Fiscal Benefits of Marriage and Reducing Family Breakdown in New Zealand”*) 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.
- 1.20 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 and tax issues concerning poverty and family breakdown. The decline of marriage, NZ’s high teenage fertility rate, and our rate of solo parenthood is not just a moral or social concern but should also be a concern of government and policymakers.

AGE ELIGIBILITY

- 1.21 We agree that the ability to split income should apply to families with children up to the age of 18. This is consistent with *Working for Families* and simplifies the administration of the system.

1.22 A case could be made for increasing the age to 25 where the dependant child is in full time study and ineligible for a student allowance on the basis of a parents' income.

1.23 **We wish to appear before the committee**

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