

Tax Working Group Public Submissions Information Release

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



24 April 2018

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RE: Submissions on the Future of Tax

Dear Tax Working Group

Background

I write to you on behalf of the Home Early Learning Organisation, HELO. HELO was launched in late 2012 as a new and stronger voice to lead the home-based Early Childhood Education sector in fostering strong and cooperative relationships with Government agencies. This also includes working to communicate and expand the benefits of in-home early childhood learning, where we believe quality learning comes from the strength of the relationship between the child, the family and the educator/nanny or au pair in a secure home environment.

HELO represents most of the largest home-based ECE Service Providers: Au Pair Link, PAUA, Home Grown Kids, and PORSE. We represent over 20% of all child enrolments in home-based ECE. Home-based ECE represents 10% of all ECE service types with close to 19,000 children enrolled in home-based ECE. We are funded and regulated by the Ministry of Education (MoE) and our job is to arrange childcare in a home environment. Close to \$120m p.a. is provided to the home-based ECE sector in subsidy funding from MoE. Educators or Nannies care for a maximum of four children in a home environment. Most nannies are employed directly by their families (whose homes they work in) and Educators generally work in their own homes as self-employed/independent contractors.

Current inconsistencies that need to be addressed

We appreciate the opportunity to input our thoughts into the tax system and be part of any reforms that may result from this work. Our aim, like you, is to ensure a robust tax system that is equitable, fair and meets the needs of the 21st century. Unfortunately, this has not been some of our experiences to date. Over the years, some providers, such as PORSE and Home Grown Kids, have been through an extensive process with Inland Revenue in relation to how Educators and Nannies are set up, and the flow of Government and parent money through these arrangements. However, there has been no consistent application to the other 151 current services (and over 400 licences) that exist in home-based ECE which has resulted in unfair competition causing economic harm. Some providers have blatant disregard to the regulations, while others have incurred significant costs and processes, such as registering as a PAYE Intermediary. We acknowledge your paper that notes that “another important aspect of fairness is procedural fairness. Taxpayers should have as much certainty of their tax situation as possible and should be treated fairly by the tax department”. We hope this occurs at some point in the future.

As with all providers in the home-based sector, the inter-relationship with Parents, Nannies, Home Educators and funding agencies (such as the Ministry of Education and Ministry of Social Development) is governed by overlapping regulations, agreements, registration or application forms

and other documentation. The broad consensus within the sector is that the Service Provider provides the educational framework, maintains the ECE licences and thereby facilitates and monitors arrangements for nannies and educators to provide the education, care and comfort directly to the children. Essentially, to comply with the statutory framework and maintain ECE licences, Service Providers play a quasi-regulator role. This is consistent with the statutory framework as set out in the Education Act 1989, Education (Early Childhood Services) Regulations 2008 and the Licensing Criteria for Home-based Education and Care Services 2008.

However, Inland Revenue have differing interpretations and thought that GST should apply parent payments (for the Educator) and payments from W&I (that parents apply for but have to flow through a Service Provider) and that the Service Provider should be responsible for the GST. Inland Revenue also considered that any Service Provider that administers wages on behalf of families (as the employee for Nannies) should be PAYE Intermediary registered. While PORSE and Au Pair Link are PAYE Intermediary registered, most other providers who offer this same service are not.

This is an area where there are significant inconsistencies in the market and in the current tax system and this needs to be addressed to ensure equity and fairness with the current system.

GST exemption options and rationale

Exemption for home-based Educators

The other area we would like the working group to consider is assisting the sector to consider GST exemptions for home-based Educators and ensure there remains strong incentives for Educators to work from their home and receive tax benefits so they can maintain a living, contribute to society and also allow for other women to maintain their positions in the labour workforce following having children.

Ninety eight percent of home-based ECE Educators are women. Many of these women work for the love of what they do and make a very modest living. Not many Educators would reach the GST threshold of \$60k p.a. However, ECE plays an important role, particularly home-based in allowing for flexible and responsive care based on parent's needs. Not all parents can work a 9am – 5pm job and home-based ECE plays an important role in providing flexible care arrangements. We should be encouraging women to enter into this workforce and breaking down the barriers to ensure it is a sustainable business; a GST exemption could assist with this group given they are low-income earners but play a vital role in society with social benefits. The public good component of this group of workers is beneficial to society.

Exemption for all of ECE

Alternatively, there is strong support in the sector to allow for early childhood education to be zero-rated and not exempt; ideally providers can still recover all GST they incur and GST on cost would not be recoverable. This approach is consistent with Australia and other jurisdictions given the strong social contribution early childhood education contributes to society.

We understand the rationale behind Australia's reforms was to ensure consistency and provide an equal playing field. For example, like health and medical care, education receives significant government assistance. This Government is keen to ensure that public primary and secondary education is provided free of charge and there is a strong push for more public ECE services and more services appear to be achieving charitable trust status with tax benefits while still following the same

regulatory requirements. The Working Group needs to ensure that the tax system minimises any discrimination between private and public provision of goods and services for any GST-free areas.

Public good and benefits for lower social economic groups and generational change

Finally, Government funding, which we heavily rely on, has not increased over the last five years for current services. While there has been an increase this has been to allow for the increase in new services that have been established to meet previous Government's Better Public Services Programme with the aim to increase participation in ECE to 98% of all new entrants by 2016. There have not been any increases to allow for CPI. However, more costs have been imposed on providers (such as paying for Police Checks for each core worker; approximately \$10 per check unless you have charitable status and ensuring teachers are paid fair salaries for the important work that they do).

GST exemptions can help ensure the longevity of ECE services and would go some way to recognise the importance that high quality ECE can play for our future generations. This is specifically important when it comes to low income earners where there is substantial evidence that shows high quality ECE for the lower socio-economic groups or vulnerable children can help with academic achievement and provides positive impacts on literacy, numeracy and problem-solving skills which leads to higher levels of achievement and better social outcomes.¹

International and longitudinal studies have also found that participation in high quality ECE can translate into improved longer-term outcomes. Several studies have identified links between participation in ECE and better social and economic outcomes for children when they reach older ages (Wylie et al, 2009).² This link is, again, strong for disadvantaged children. Some studies have also identified positive relationships between ECE participation and the affect on wider societal outcomes; for example, ensuring participation in the labour force and in building labour force capability (Ministry of Women's Affairs, 2004).³

If you would like to further discuss our submission or any of the points raised, please feel free to contact Kerry Henderson on [1]

Nāku noa, nā

[1]

Kerry Henderson
President

¹ <https://www.educationcounts.govt.nz/statistics/indicators/main/student-engagement-participation/1923>

² <https://www.educationcounts.govt.nz/statistics/indicators/main/student-engagement-participation/1923>

³ <https://www.educationcounts.govt.nz/statistics/indicators/main/student-engagement-participation/1923>