

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**September 2018**

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# Tax Working Group submission

## Summary

**The current tax system – in combination with welfare benefit abatement rates and the casualised labour market – creates a poverty trap.** Depending on the number of income hours worked, people can be financially worse off than on welfare payments alone, potentially experiencing over 100% 'taxation' on their overall income.

This poverty trap means a working person in casual minimum-wage employment, who is reliant on welfare payments for part of their income, **needs to be ideally employed between 4 to 12 hours a week to be financially better off**, and may otherwise have their overall income reduced by a greater amount than they earn, while also incurring employment expenses – such as travel costs, uniform laundry, clothing, shoes, equipment, make-up for presentation. They **will not retain any increase in their overall income until they are nearly in full-time employment** – approximately 28-30 hours per week.

This level of income is severely restrictive for people who must run a household on part-time income alone due to personal circumstances, and exacerbates negative outcomes for people in certain demographics. Changes to tax settings could greatly improve living standards for those in lower income deciles, reduce inequality, and improve social mobility.

## Main points

This is because tax rates for low-income people are:

- **17% personal income tax + 12% student loan + 3% Kiwisaver** = totalling 32% tax deduction – though with casual labour rates including holiday pay could effectively be **30.5% income tax**.
- With no weekly income, a low-income person would be eligible for Temporary Additional Support (TAS), to cover the high accommodation costs which are now 'normal' in the urban areas where employment opportunities are. There has been a stark rise in housing costs over the last decade, although the accommodation supplement has remained static, resulting in increased hardship and food poverty (Treasury reluctant to increase the accommodation supplement due to perceived 'landlord capture'). For example - \$37 TAS payment on \$240 per week rent.
- If the person has **less than 4 hours employment a week they will be worse off financially** than on welfare alone, as they will lose entitlement to the TAS payment. For example – a single 3 hour shift, minimum wage casual contract, \$16.50×3 hours minus 30.5% income tax = \$34.40 nett, minus travel costs \$5.50, therefore \$28.90.
- Once the person works **more than 5.75 hours** minimum wage (\$5,200 annual income threshold, triggering deductions after \$96 per week), **the overall income deductions amount to over 60%**. The main *Work and Income New Zealand* (WINZ) payment is abated at 30 cents in the dollar, plus 30.5% income tax, and the person will also incur employment-related expenses such as travel costs.
- Once the person works **more than 12.25 hours, the overall deduction could be more than 100%**. They trigger the next WINZ income threshold (\$10,400 annual, \$200 per week), resulting in 70 cents abatement in the dollar – while also paying 30% income tax, *and* incurring employment expenses.

- Working **between 12-28 hours on minimum wage, the person may not receive any financial improvement in their circumstances and incur expenses** greater than income earned – they are effectively working for WINZ payment ‘clawback’. This high level of income reduction was confirmed in a question to parliament regarding abatement rates – that over a certain number of hours, someone may effectively earn only \$1 per hour, while also incurring employment-related expenses to meet those work commitments.

The intersection of government economic policy settings – particularly around tax, welfare, the labour market, education, and housing – contributes to poverty and reduces social mobility for those already negatively impacted by structural inequality. For example:

- Single people may need to rely on part-time income to run a household – the poverty rates for single-adult households are only marginally better than child poverty rates.
- Women may need to work part-time due to child or other care commitments.
- People may need to work part-time only due to health reasons – the welfare system does not support people to not work just because they have health issues.
- Mature workers may need to retrain for employment, so only work part-time while meeting study commitments.
- The WINZ income abatement system is not well suited to the characteristics of shift-work or the casual employment arrangements typical for the ‘working poor’. For example, income must be declared each week BEFORE Friday 6PM even though the income week includes Saturday and Sunday. It is very easy to incur an ‘overpayment’ for undeclared income, automatically triggering debt repayments which are automatically recovered at \$10.50 per week. If someone is unable to afford the weekly debt repayment amounts – which most likely will come out of money needed for groceries within a restricted budget – there are obstacles, such as a two-week wait for an appointment and security guards restricting access. Weekly debt repayment amounts can only be reduced in an appointment with a client officer in a WINZ office.
- Increases in the minimum wage may not necessarily improve the personal financial circumstances of a person in part-time work. The WINZ income abatement thresholds remain unchanged and so any extra income earned is captured by WINZ payment deductions.
- Employers, in a casualised labour market, may consider they have no obligation to provide employees with a sustainable standard of living – they determine employment as a casual only “take it or leave it’ contract arrangement. An employee may have little choice or control over the number of hours they can work. Although it might seem ‘economically rational’ to not work if for no overall gain, it may be imperative to work the hours offered to retain good will with your employer.
- Employees who undertake education to improve employment prospects may still be negatively affected by underemployment, discriminatory employment practices, and a globalised employment market which employers can easily access for ‘skills shortages’, rather than investing in internal staff training. Employees pay the cost of retraining, potentially through student loan repayment tax, and there is no ‘guaranteed’ professional employment upon graduation. Graduate underemployment is an increasing global trend, as is the ‘gig economy’ where career progression is non-existent. For

example, being able to buy student textbooks online at a cheaper price was one of the few examples of the market system working in my favour when I was a student, and so closing this tax 'loop-hole' is an economic decision that would have socio-economic class impacts.

- The housing market appears to be currently set to favour middle-class property investors who want to increase their personal wealth base – but steep housing costs create food poverty and hardship for those reliant on low-income wages and an insecure labour market.

## Recommendations

1. **Change income tax policy to create social mobility out of the poverty trap and minimum decent living standards for all New Zealanders.** So, for example, that people in the lower income decile range are not negatively penalised for working additional hours. People should not be worse off financially when they work – especially if they are near the bottom of the income distribution. Social mobility will allow people to move upward into the middle income deciles where they will pay more income tax in the future.
2. **Assist low-income people with a GST exemption on food** (preferably fruit and vegetables, and healthy food however that is defined by public health experts), **and some services** – for example, medical and dental services, optometrists.
3. **Use the tax system to make housing more affordable for New Zealanders** – particularly for people who are long-term renters or first home buyers. Consider a capital gains tax, or some other tax measure that could ameliorate the negative impacts of rising house prices from property speculation and foreign investment.
  1. Dis-incentivise, particularly where wealthy foreign investment companies are using the property and rental market as a way of moving wealth around the global financial system.
  2. Being a landlord is a business, providing an accommodation service with the intent of earning a profit and increasing your personal/family wealth base. But this legitimate 'business' right should not over-ride the right of low-income people to affordable accommodation or protection from food poverty, perhaps where low-income working people are forced to make a choice between becoming homeless or household heating and an adequate weekly grocery bill.
4. If possible, make changes in the tax system that will **protect New Zealanders from potential future negative impacts of a changing global labour market.**

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*I do not wish to present in person to the Tax Working Group. Janet Gudmun, Monday, 30 April, 2018.*