National Council of Women of New Zealand
Te Kaunihera Wahine O Aotearoa

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Submission to the Select Committee for Finance and Expenditure on the Taxation (Income–sharing Tax Credit) Bill (185-1)

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 51 nationally organised societies and national members. NCWNZ has 23 branches throughout the country attended by representatives of those societies and some 150 other societies. The Council's function is to serve women, families and the community through research, study, discussion and action.

This submission is prepared by the Economics Standing Committee, incorporating the opinions of nationally organised societies, branches and individuals together with a review by the Parliamentary Watch Committee and the NCWNZ Board. NCWNZ has welcomed the time and opportunity to thoroughly canvas membership on this complex issue. However, as in previous NCWNZ submissions on income splitting discussions, opinion is still divided on the merits of the Taxation Income–sharing Tax Credit Bill (ISTC).

Introduction

Most respondents expressed agreement with the objectives of this Bill, to give full–time parents economic visibility, and support them in caring for children. NCWNZ policy, although conflicting on the specific issue of income sharing, is generally in favour of supporting people caring for children and family members, including grandparents raising grandchildren and people who care for elderly or disabled relatives.

There was recognition across most of the membership that full time parenting in the early years provides the best outcomes for children. Some feel that the Bill will encourage that, and will also provide support for families on middle incomes who are not wealthy, nor poor enough to qualify for tax relief or benefits, yet still struggle financially. Many also welcome the recognition of vital unpaid work such as caring for children, much of which is done by women.

Part 2 Amendments to the Tax Administration Act 1994

Clauses 19 – **23** New **section 41C Return by person applying**:

Many respondents recognised the relative simplicity of replicating Working for Families administrative structures to implement ISTC. A few welcomed the freeing up of jobs that might ensue if more women left the workforce to care for children. One respondent pointed out the Bill's consistency with the Relationship Property Act, and removal of current anomalies when owning a business.

Although most respondents supported the objectives of this Bill, more than half were critical of the method.

NCWNZ's polices (resolutions) on the matter explain the difference of opinion which has been reflected in this submission. They are as follows:

4.7.1.4 That the National Council of Women support the policy of taxing all people as individuals and oppose income splitting by couples (married or de facto) for tax purposes. 1995

4.7.1.5 That NCWNZ support the proposition that all couples, married or de facto, should have the option of registering their partnership with the Inland Revenue Department, so that any income earned by either partner may be declared as partnership income, and each partner would pay tax on their own share of that income. 2000.

Clause 15 (1) "MG1" and "MG2" Income Tax sharing credit and who qualifies:
The most common concern was that the Bill was too narrow in focus, in that it reached only a limited number of families, did not recognise other family structures beyond the two–parent form and did not reach those families most in need.

Many respondents pointed out that caregivers who were not parents (e.g. grandparents) and dependents who were not children (e.g. elderly parents or disabled adults) were not recognised in this Bill. Many felt that solo parents were disadvantaged by the Bill. One respondent supplied a case study as an example of inequity: a man lost his ISTC status on the death of his wife, and although his mother moved in to care for the children, he still did not qualify for ISTC as she was not part of a 'couple'.[1]

Clause 15 (1) "MG2": Qualifications
The previous paragraph apart, there was a wide range of opinion on the Bill's limitation to couples with children aged to 18. Some felt that the expense of sending children to university should be recognised, given the means testing to qualify for student allowance, and that the age be extended to 25 in those circumstances. Some were concerned that the Bill was not aligned with the sole parent benefit, which work–tests parents when the youngest child reaches 6.

Another common objection was that families set to benefit the most from the tax credit outlined in this Bill were in upper–middle income levels and less likely to need the financial support than other family groups. The Regulatory Impact Statement from Inland Revenue reports that 78% of the value of credits paid will go to couples with a joint income of $70,000 or more.[2] Many respondents pointed out that a tax credit for people who hardly needed it was poorly targeted, meant less money in government coffers for families in serious poverty, and was not a good use of resources.

There was strong concern for children living in poverty, who were not likely to benefit from this scheme. Many saw it as further increasing the gap between rich and poor. One member society referred to the Child Poverty Action Group submission, which states "It is anticipated that income splitting will cost $450m, and as much as 43%, $194 million of that cost is expected to go to households with incomes over $120,000.[3]

Some respondents felt that women may have less incentive to stay in the workforce and invest in their careers, a concern also expressed by Inland Revenue's Regulatory Impact Statement. Others felt the tax credit gave parents at home a 'free ride', and in some cases women may be pressured to give up or avoid paid employment. Anecdotal evidence suggests that in self–employment situations such as business ownership, some women have been pressured in this way in order to retain the tax credit.

Clause 15 (1) "MG6" Shared care arrangements:

[1] Report of the Attorney-General, under the New Zealand Bill of Rights Act 1990 on the Taxation (Income-sharing Tax Credit) Bill
[2] http://taxpolicy.ird.govt.nz/publications/2010-ris-istc-bill/income-sharing-tax-credit
[3] http://www.cpag.org.nz/assets/Incomesplitting2010

In the area of shared care after separation, most respondents saw problems with administration where relationships are already strained or new partnerships are involved. Some felt that in this area especially the discrimination between couples and other family groups is the most marked. The Social Report 2010 found that in 2006, 28.1% of New Zealand families with children were single parent, and 120,996 of these were mother only, compared with 24,036 father–led families.[4] This suggests a marked discrimination against women should the ISTC pass into law, which is presumably not the intent of the Bill's objectives.

Alternatives
Although many respondents accepted ISTC as the best way to acknowledge and reward unpaid, full–time parenting, the majority did not. Most of these suggested a return to a universal child benefit, formerly known as the Family Benefit, as being the most equitable way to encourage full time parenting as valuable work, and lift children and their families out of poverty.

Variations on this child–linked benefit included an allowance for preschool years or a benefit to all caregivers. One member organisation advocates a guaranteed basic income for all residents including children, so that every individual enjoys economic status and visibility, and no family lives in poverty. NCWNZ policy includes a call for Government to investigate the feasibility of such a scheme, and promotes a universal child benefit as a matter of urgency.

Respondents also called for more work on gender pay equity, more subsidised Early Childhood Education hours and longer paid parental leave, as ways to recognise the economic and social importance of parenting, and to improve outcomes for children.

Conclusion
Overall, there has been a mixed reaction to the ISTC Bill. Very few respondents embraced the scheme in its entirety. A significant majority applauded the objectives while deploring the mechanism as being too narrow in focus to be equitable.

While some recognised the benefits of this Bill in correcting existing tax anomalies, others felt that more would be created and that these would be sharply divisive and less fair. Presumably these new anomalies will require further legislation and further administration costs, leaving less for social needs and public good.

NCWNZ appreciates the opportunity to comment on this Bill.

Elizabeth Bang
National President

Katherine Ransom
Convener, Economics Standing Committee

[4] The Social Report, 2010, Ministry of Social Development, November 2010; www.socialreport.msd.govt.nz; Page 19