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**Taxation (COVID-19 Support Payments and Working for Families Tax Credits) Bill:
First reading**

Legislative Statement

Presented to the House in accordance with Standing Order 272

Overview

The Taxation (COVID-19 Support Payments and Working for Families Tax Credits) Bill (the Bill) proposes amendments to the Tax Administration Act 1994 and the Income Tax Act 2007. These amendments relate to:

- the introduction of the COVID-19 Support Payments Framework (the CSP Framework amendments); and
- changes to Working for Families tax credit settings (the WFF amendments).

The CSP Framework amendments adapt the existing COVID-19 Resurgence Support Payment Scheme (CRSP Scheme) into the more general framework. The CSP Framework will provide the Government with the flexibility to continue to provide support to businesses under a variety of scenarios.

The WFF amendments provide for increases to the Family Tax Credit and Best Start Tax Credit rates, the Minimum Family Tax Credit threshold, and the Family Credit Abatement rate. These proposed increases will all apply from 1 April 2022. The WFF amendments also include minor remedial changes to the indexation settings for the Family Tax Credit and Best Start Tax Credit.

Policy background

COVID-19 Support Payments Framework amendments

The existing CRSP Scheme was enacted in February 2021, and authorises the Commissioner of Inland Revenue, on behalf of the Crown, to make grants to eligible businesses who have suffered a significant reduction of revenue as a result of the escalation of COVID-19 Alert Levels. The CRSP Scheme is linked to the current Alert Level Framework, requiring a resurgence in COVID-19 to activate the scheme by Order in Council and limiting eligibility to applicants who have suffered a revenue loss due to the escalation of Alert Levels.

However, the shift from the current Alert Level Framework to the COVID-19 Protection Framework, and the move from a COVID-19 elimination strategy to an approach based on minimisation and protection, means the CRSP Scheme needs to be adapted into the more general CSP Framework. The CSP framework will provide flexibility to continue to provide support to businesses under a variety of scenarios.

Working for Families amendments

The Working for Families Scheme was introduced in 2004 to support income adequacy and reduce child poverty, and to improve financial incentives for low-income earners to participate in the labour market. The Bill proposes adjustments to three of the four Working for Families Tax Credits (the Family Tax Credit, the Best Start Tax Credit and the Minimum Family Tax Credit) as well as minor, remedial changes to the Working for Families indexation settings.

Family Tax Credit increase

The Family Tax Credit provides financial support to low and middle-income families with children. The Family Tax Credit increase provided for in the Bill, combines a \$5 per week per child increase and a scheduled inflation-indexed increase. The inflation-indexed increase ensures the Family Tax Credit maintains its real value over time, and is triggered once the Consumers Price Index (CPI) has a cumulative increase of 5% since the last adjustment (in this case, 1 July 2018). In the September 2021 quarter, when the 5% threshold was exceeded, the cumulative CPI increases ultimately totalled 8.57%. The \$5 per week per child increase being made on top of the inflation-indexed increase is intended to help reduce child poverty and alleviate the financial pressure and hardship brought on by COVID-19 restrictions.

Family Credit Abatement rate increase

The Family Credit Abatement rate sets the rate at which Family Tax Credit and In-Work Tax Credit (not adjusted by the bill) payments reduce once a family's income reaches the abatement threshold of \$42,700. The increase proposed in the Bill is intended to more tightly target support to low- and middle-income families.

Best Start Tax Credit rate increase

The Best Start Tax Credit provides financial support to all families during the first year of their child's life and to low- and middle-income families during the second and third years of their child's life. The Best Start Tax Credit rate is indexed to inflation to maintain the real value of the tax credit over time, and is triggered and calculated on the same basis as the indexation of the Family Tax Credit.

Minimum Family Tax Credit threshold increase

The Minimum Family Tax Credit tops up the incomes of working families (not receiving benefit) to a guaranteed minimum income level (the threshold), so that sole-parent families are financially better off when they leave the benefit. The threshold is adjusted annually in line with increases to main benefits to ensure its policy intent is maintained.

Remedial indexation amendments

The Income Tax Act 2007 currently requires Family Tax Credit and Best Start Tax Credit rates to be indexed in line with cumulative increases to the CPI (all groups excluding cigarettes and other tobacco products) (CPIX) measure. Cabinet previously agreed that the CPIX measure would be used to calculate welfare payment increases until the end of 2020 (when annual tobacco excise tax increases ceased), at which point the measure would revert to the CPI (all groups) measure. The remedial indexation amendment updates the CPI measure referred to in the Income Tax Act 2007 accordingly.

Proposals in the Bill

COVID-19 Support Payments Framework amendments

The CSP Framework amendments propose adapting the current CRSP Scheme into the more general CSP Framework.

The CSP Framework retains the overall objective of the CRSP Scheme, namely supporting eligible businesses affected by COVID-19 restrictions, but it will not be specifically linked to the Alert Level Framework or limited to “an escalation in COVID-19 Alert Levels”. Instead, the CSP Framework will allow the Governor-General, by Order in Council, to authorise grants to be made to eligible persons financially affected by a public health measure, a business circumstance, or a matter related to COVID-19. This will provide flexibility to support businesses under the new COVID-19 Protection Framework.

As with the CRSP Scheme, the CSP Framework is to be provided for in the Tax Administration Act 1994 and Income Tax 2007. This will allow the Commissioner of Inland Revenue to use her existing tax administration powers for the purposes of administering the CSP Framework. The CSP Framework amendments do not make available any powers that are not already available under the current CRSP scheme.

Similar to the current CRSP Scheme, the CSP Framework will allow for activation criteria, eligible persons, circumstances of the payment, and calculation of payment amounts, to be set by Order in Council.

The Bill also includes minor amendments to the Income Tax Act 2007 and Tax Administration Act 1994 to ensure consistency with the CSP Framework changes. However, the general framework of the original CRSP Scheme has been retained.

It is proposed that the CSP Framework amendments will come into force on the day the Bill receives Royal assent.

Working for Families amendments

All Working for Families amendments proposed by this Bill will take effect from 1 April 2022, with the exception of the adjustment of Working for Families indexation settings which will take effect the day after the Bill is given Royal assent.

The Bill proposes to:

- increase the annual Family Tax Credit eldest child rate from \$5,878 to \$6,642;
- increase the annual Family Tax Credit subsequent child rate from \$4,745 to \$5,412;
- increase the Family Credit Abatement rate from 25% to 27%;
- increase the annual Best Start Tax Credit rate from \$3,120 to \$3,388;
- increase the Minimum Family Tax Credit threshold from \$31,096 to \$32,864;

- change the CPI measure used for the purposes of Working for Families indexation from the Consumers Price Index (All groups excluding cigarettes and other tobacco products) to the Consumers Price Index (All groups) measure; and
- reset the start date from which future cumulative increases in the Consumer Price Index are measured to 1 October 2021.