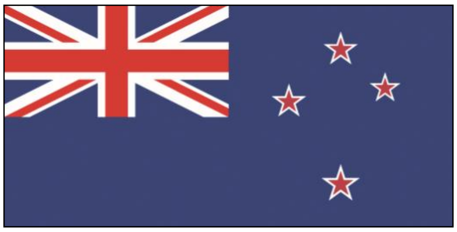
THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
New Zealand 2023



BETTER POLICIES FOR BETTER LIVES

THE OECD TAX-BENEFIT DATABASE FOR NEW ZEALAND

Description of policy rules for 2023

OECD contact: Eliza-Jane Pearsall, Jobs and Income Division, Directorate for Employment, Labour and Social Affairs. Email: Tax-Benefit.Models@oecd.org

National team: Alice Fitzgerald, Ministry of Social Development.

This version: October 2023

BETTER POLICIES FOR BETTER LIVES

JOBS AND INCOME DIVISION
DIRECTORATE FOR EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS

Table of contents

Preface

This report provides a detailed description of the tax and benefit rules in New Zealand as they apply to working-age individuals and their dependent children. It also includes output from the OECD Tax-Benefit model (**TaxBEN**), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families ("vignettes"), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click here for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leave benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)

TaxBEN web calculator

Methodology and user guide

OECD tax-benefit data portal

Network of national experts

Guidelines for updating this report (for national experts)

General guidelines

Detailed **guidelines for updating Section 5** "Net costs for Early Childhood Education and Care"

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **1 April 2023**.
- The symbol (i) in the text provides a link to the glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- **TaxBEN** variables are indicated in the text using the format `[variable name]`.

The OECD tax-benefit model for New Zealand: Policy rules in 2023

The provision of social security benefits in New Zealand is funded from general taxation and not specific social security contributions. All New Zealanders regardless of their employment history are covered by the benefits provided under the Social Security Act 2018. All benefits are payable without a fixed duration, although eligibility is reviewed on a regular basis. In addition to the specific qualifying criteria for each benefit, provision is subject to a New Zealand residence requirement and personal income (joint income in the case of married, civil union and de facto couples).

1. Reference wages

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available here)[1]. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth[2] to the latest available wage estimate.

The adult minimum wage **[MIN]** on 1 April 2023 is NZD $22.70 per hour. The annual minimum wage is computed by multiplying the minimum hourly wage by 40 hours and 52 weeks, i.e. NZD 22.70 * 40 * 52 = NZD 47 216.

The adult minimum wage is not automatically indexed. There is no legal requirement to increase the minimum wage however it has increased every year since the year 2000.

2. Unemployment benefits

2.1. Unemployment insurance

OECD note: This section provides information on Unemployment Insurance (UI) benefits. Unemployment Insurance amounts are typically calculated as a function of the previous earnings whereas benefit eligibility requires a previous employment record and/or previous social contribution payments. This distinguishes them from Unemployment Assistance benefits (UA – Section 2.2.), which are usually means-tested programmes that either provide a second-tier safety net for those who have exhausted their rights to UI, or serve as a principal form of income support for jobseekers who were not entitled to UI in the first place.

[1] Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

[2] Wage growth projections are based on OECD Economic Outlook and EU economic forecasts (for non-OECD countries).

Based on this definition, New Zealand does not have an Unemployment Insurance programme. However, an Unemployment Assistance benefit is available to support the income and facilitate effective job search of people who lost their job (Section 2.2.).

2.2. *Unemployment assistance (Jobseeker Support / Sole Parent Support)*

Code in the OECD tax-benefit model:[3] **[UA1_p; UA1_s]**

This is an unemployment assistance benefit. It is means-tested, taxable and non-contributory.

In some model specifications Jobseeker Support is classified as social assistance **[SA]**.

2.2.1. Eligibility conditions

Age: A person must be at least 18 years old, or 20 years old if they have one or more dependent children.

Contribution/employment history: Social security benefits for the unemployed are not funded from specific employee/employer contributions and there are no minimum working hours or earnings required in order for a person to be covered.

Behavioural requirements and related eligibility conditions: A person is entitled to Jobseeker Support provided they are available and willing to undertake full time paid employment. These latter provisions are known as the "work test". A person may also be eligible for Jobseeker Support if they are temporarily unable to work due to a health condition (see Section **Error! Reference source not found.**).

Full time work obligations apply to people receiving Jobseeker Support, as well as to partners of clients where there are no dependent children or where the youngest child is 14 years of age or over. Where partners have a youngest child aged 3 years or over but under 14 years part-time work test obligations apply. Work preparation obligations apply to partners with a youngest child under 3 years. Similar obligations are applied to sole parents (in this case the benefit is called **Sole Parent Support)**.

There are also requirements with respect to residency in New Zealand and other obligations. There is a range of work test exemptions that can be applied in specific circumstances, for example, during times of temporary illness.

TaxBEN assumes that these compulsory conditions are satisfied when simulating unemployment benefits.[4]

2.2.2. Benefit amount

Benefits are paid weekly. Entitlement is based on the family, not the individual. Each partner of a married, civil union or de facto couple usually receives half of the total benefit, but their benefit can be differently apportioned in some circumstances.

---

[3] The variable names ending with "_p" refer to the first adult (so-called "*p*rincipal" adult) whereas those ending with "_s" are related to the *s*pouse.

[4] Details on behavioural requirements and sanction provisions for unemployment benefits are reported at https://www.oecd.org/social/strictness-benefit-eligibility.htm

Benefit amounts are increased each year on 1 April to maintain the real value of assistance, called the Annual General Adjustment. From April 2020, the Annual General Adjustment of main benefits are indexed to percent increases in net average wages, rather than to the inflation rate.

Jobseeker Support rates as at 1 April 2023	
Family type	Gross rate (NZD per four weeks)
Single 18-19 at home *(not covered by the model)*	1,123.80
Single 18-19 away from home	1,334.96
Single 20-24	1,334.96
Single 25 and over	1,546.16
Sole parent	2,200.96
Married, civil union or de facto couple (with children)	2,759.60
Married, civil union or de facto couple (without children)	2,603.68

There is a range of payments or advances available to provide assistance in a financial crisis, including special needs grants, advance payments of benefit, recoverable assistance, or temporary additional support. The amounts available depend on individual circumstances and needs. *(not covered by the model)*

2.2.3. Benefit duration

People receiving Jobseeker Support are required to re-apply for the benefit every 12 months and undergo a comprehensive work assessment at the time of re-application. The benefit continues until a recipient is in full-time employment or receives income that fully abates the benefit.

The benefit is paid after a stand-down period of between one to two weeks, depending on the beneficiary's previous income and family circumstances. The length of the stand-down period depends on the person’s average weekly income (before tax) in the last 26 or 52 weeks and the number of children they have. If the person has a partner/spouse, the stand-down is based on whoever had the highest income over the last 26 or 52 weeks.[5]

If a person leaves their job without a good and sufficient reason, or is fired for misconduct, they may have to wait up to 13 weeks before payments start. Additionally, a 13-week non-entitlement period applies to people who:

- have failed their obligations for a third time in the last 12 months of continuous benefit receipt or
- have refused an offer of suitable employment (if they have work obligations)

The stand-down period is not simulated in the TaxBEN model.

5 The formula to calculate the initial stand-down period is available here: https://www.workandincome.govt.nz/map/deskfile/initial-stand-down/index.html

2.2.4. Means test

Income test

Net of tax Jobseeker Support payments are abated at a rate of 70 cents for each dollar after NZD 160 gross weekly earnings before tax. The unit of income assessment is personal income for single people, or joint income for married, civil union and de facto couples (abated at 35 cents per recipient for each $1 of joint income).

For sole parents receiving Jobseeker Support, the net of tax payments are abated at a rate of 30 cents for each dollar after NZD 160 gross weekly earnings before tax, and a rate of 70 cents for each dollar after NZD 250 gross weekly earnings. Note that there is a childcare cost exemption of up to NZD 20 a week (that is, sole parents who are paying for childcare out of pocket can earn up to NZD 180 a week before tax before Jobseeker Support is abated).

Asset test

There is no asset test for Jobseeker Support or Sole Parent Support.[6]

2.2.5. Tax treatment

Jobseeker Support is taxable with each spouse receiving half of the benefit entitlement for taxation purposes.

2.2.6. Interactions with other components of the tax-benefit system

Jobseeker Support is taxed as main income. Additional income from employment is taxed at a secondary rate. Generally, another main benefit or New Zealand Superannuation/Veteran's Pension cannot be received at the same time as Jobseeker Support; however recipients are often entitled to further supplementary assistance such as Accommodation Supplement.

The In-Work Tax Credit (Section 8.1.4) cannot be claimed while receiving Jobseeker Support or Sole Parent Support. The TaxBEN model assumes that recipients claim the In-Work Tax Credit instead of Jobseeker Support where it is more beneficial.

2.2.7. Combining benefit receipt and employment/starting a new job

Income is abated as per Section 2.2.4. There is no specific disregard for new jobs. Income is charged consistently.

To receive Jobseeker Support a person must not be in full time employment, which is defined as working 30 or more hours per week, with some exemptions. The two exemptions considered in the TaxBEN model are:

- Sole Parent Support recipients (single parents aged at least 20 years and with at least one child under the age of 14) are exempt

[6] If a client is a New Zealand citizen or permanent resident but have lived in New Zealand for less than 2 years and they are seeking Jobseeker Support on hardship grounds, they may be eligible for an Emergency Benefit which does have a cash asset test.

- Single parents who start working full time are exempt for up to 26 weeks (6 months)

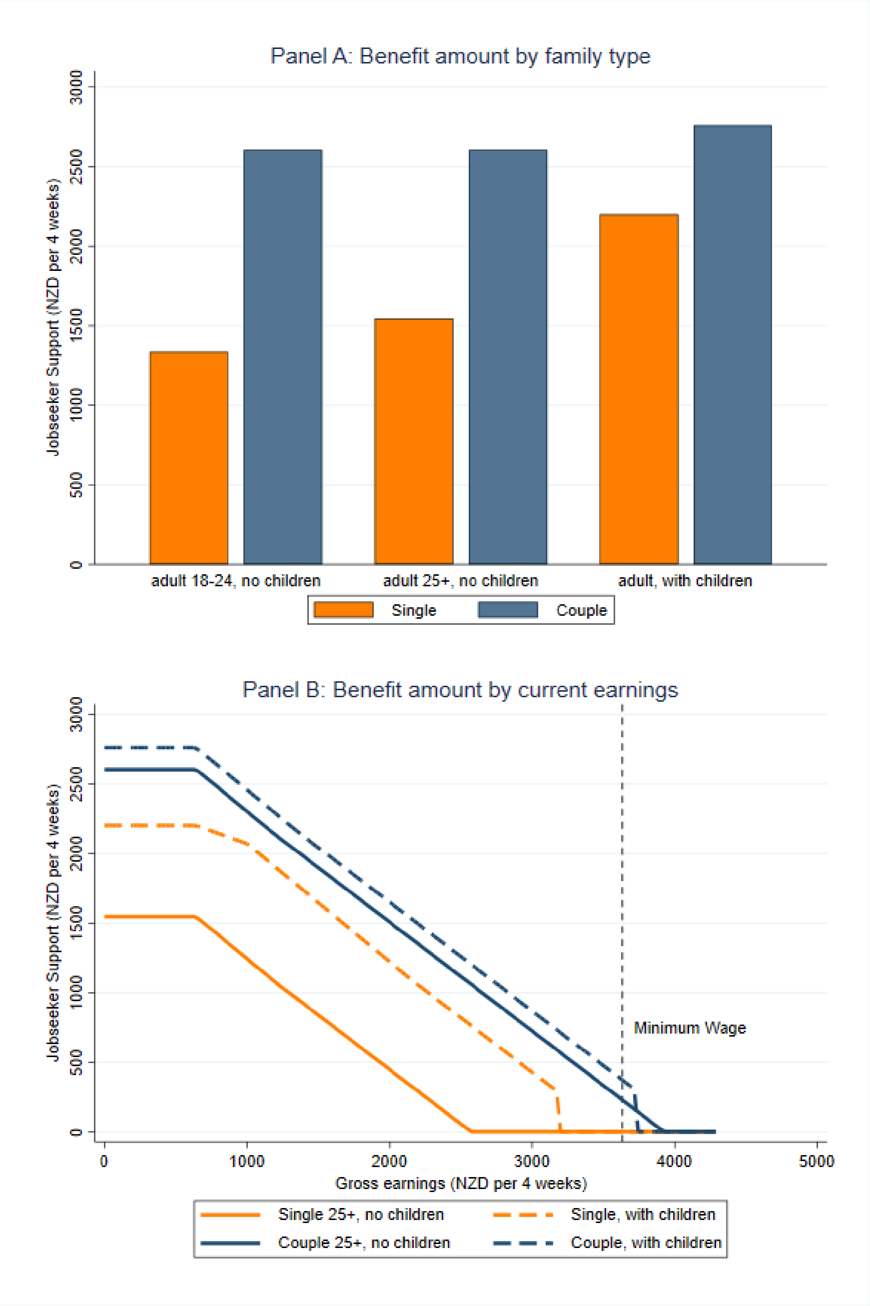
2.2.8. Indexation

Main benefit amounts (Section 2.2.2) are increased each year on 1 April to maintain the real value of assistance, called the Annual General Adjustment. From April 2020, the Annual General Adjustment of main benefits are indexed to percent increases in net average wages, rather than to the inflation rate. There is a legislative requirement under section 452A of the Social Security Act 2018 to adjust the rates of main benefits each year. For the year to December 2022 the Consumers Price Index rose by 7.22 percent while net average wage growth was 6.24 percent. In 2023 a discretionary decision was made to raise main benefit rates in line with the Consumers Price Index rather than the net average wage growth.

Main benefit abatement thresholds (Section 2.2.2) are not indexed.

Figure 1. Jobseeker Support

Single or couple with or without children



Note: The figure shows the total jobseeker support benefit for the family. In a couple, the second adult is assumed to be out of work and meeting the requirements for jobseeker support. The benefit amount is flat and does not depend on previous earnings or benefit duration. However, the benefit is reduced based on current earnings. Panel A shows the maximum benefit amount for a jobless family. Panel B shows reduction in the benefit amount if the first adult starts working part time (i.e. less than 30 hours per week). Recipients with children are assumed to lose the benefit when they would be better off receiving the In Work Tax Credit instead (see Section 8.1.4). The vertical line in the Figure shows when the total earnings of the first adult reach the level of the monthly minimum wage of a full-time worker.
Source: OECD Tax-Benefit Model, 2023.

3. Social assistance and housing benefits

3.1. *Social assistance*

There is no social assistance benefit in New Zealand. However, in some model specifications Jobseeker Support (described in Section 2.2.) is classified as social assistance **[SA]**.

3.2. *Housing supplement (Accommodation Supplement)*

Code in the OECD tax-benefit model: **[HB_main]**

This is a non-contributory benefit, means-tested and not taxable.

Accommodation Supplement provides assistance towards accommodation costs, including private rent, board and home ownership costs. The model considers the case of rental accommodation.

3.2.1. Eligibility conditions

There is no continuous residency period requirement. A person must still be ordinarily resident in New Zealand and either be a New Zealand citizen or hold a residence class visa. A person does not have to be receiving a benefit to qualify for Accommodation Supplement.

Young people aged 16-17 years are eligible to receive an Accommodation Supplement if they are financially independent. *(not covered by the model)*

People receiving New Zealand Superannuation or Veteran's Pension cannot receive an Accommodation Supplement if they have other income exceeding the appropriate income limit. *(not covered by the model)*

3.2.2. Benefit amount

Accommodation Supplement is paid weekly, or fortnightly if receiving NZ Superannuation or Veterans Pension. The calculation of the Accommodation Supplement is based on actual accommodation costs[7]. Accommodation Supplement provides for 70% of accommodation costs above the entry threshold, up to a maximum amount.

- The entry threshold is 25% of a person's net rate of benefit plus the under 16 year old first child rate of Family Tax Credit for people with children.
- For non-beneficiaries, the entry threshold is 25% of the relevant net Jobseeker Support rate plus the under 16 year old first child rate of Family Tax Credit for people with children.

Accommodation Supplement payments are capped according to median rents in different parts of the country. In the model, Area 2 (which covers Wellington) is assumed.[8]

---

[7] The standard TaxBEN indicators assume that rent is equal to 20% of the average wage (for all family types). This estimate serves as a benchmark for cross-country comparison. In the context of New Zealand, this is a relatively low rent. The TaxBEN web calculator allows choosing alternative rent amounts.

[8] This assumption was revised during the 2019 model update cycle. In the past, models for 2005-2018 policy years assumed Area 3. As of 2019, all models from 2001 to 2019 assume Area 2, which

Accommodation Supplement weekly maxima as at 1 April 2023 (NZD)				
Family type	Area 1	Area 2	Area 3	Area 4
Single person, 16+ years	165	105	80	70
Married, civil union or de facto couple or sole parent with 1 child	235	155	105	80
Married, civil union or de facto couple with 1 or more children, sole parent with 2+ children	305	220	160	120

3.2.3. *Benefit duration*

The Accommodation Supplement continues for as long a person meets the qualifying criteria. A review may be conducted either during a 52-week reapplication if they are receiving a main benefit or as part of a Review of Circumstances.

3.2.4. *Means test*

Beneficiaries do not have their Accommodation Supplement abated. Non-beneficiaries have their Accommodation Supplement reduced by 25% for each dollar of gross income above the relevant income threshold shown below:

Accommodation Supplement income thresholds for non-beneficiaries as at 1 April 2023	
Family Type	NZD per four weeks
Single 16+ years	2572
Married, civil union or de facto couple without children	3924
Married, civil union or de facto couple with children	4108
Sole parent	3344

A cash assets test is also applied. *(not covered by the model)*

OECD Note: When calculating the Accommodation Supplement, the entry threshold is rounded to the nearest dollar per week, and the final Accommodation Supplement amount is rounded up to the next dollar per week.

3.2.5. *Tax treatment*

The Accommodation Supplement is not taxable.

3.2.6. *Interaction with other components of the tax-benefit system*

People on a benefit, and people not on a benefit may be eligible for the Accommodation Supplement. A person who is only receiving an income-tested benefit such as Jobseeker

includes Wellington. Detailed geographical coverage of each area is available here: https://www.workandincome.govt.nz/map/deskfile/extra-help-information/accommodation-supplement-tables/definitions-of-areas.html

Support does not need to undergo an income test to receive the Accommodation Supplement.

3.2.7. Combining benefit receipt and employment/starting a new job

A person in employment can still receive the Accommodation Supplement. The amount received will depend on the income earned and accommodation costs.

3.2.8. Indexation

Accommodation Supplement maximum rates and Accommodation Supplement cash asset levels are not indexed. However, the design of the social assistance system includes a number of links between the rates and thresholds for different types of assistance. This means that changes to rates or thresholds for some forms of assistance will change the rates or thresholds for other types of assistance.

One example is the income threshold at which people stop receiving main benefits (the 'cut-out point') is the same value as the income threshold at which people have their Accommodation Supplement abated. This threshold is set at the cut-out point for Jobseeker Support. This ensures that people with earned income equivalent to Jobseeker Support receive the same amount of Accommodation Supplement as those who receive Jobseeker Support.

Examples of rates and thresholds that are indexed are:

- Accommodation Supplement entry thresholds – Accommodation Supplement entry thresholds increase as an automatic consequence of increases in benefit rates; there is no need for a specific authority.
- Accommodation Supplement income abatement thresholds for non-beneficiaries – From 1 October 2004 and as part of the Working for Families changes, abatement thresholds for non-beneficiaries were aligned to the relevant Jobseeker Support income cut-out point.
- Accommodation Supplement income limits for New Zealand Superannuation and Veteran's Pension – the convention is to adjust the limits by the CPI.

3.3. Winter Energy Payment

Code in the OECD tax-benefit model: **[WEP]**

This is a non-contributory benefit, not means-tested and not taxable.

The Winter Energy Payment was implemented on 1 July 2018.

3.3.1. Eligibility conditions

The Winter Energy Payment is available to those in receipt of a main benefit (in the TaxBEN model this is Jobseeker Support and Sole Parent Support) to heat their homes in winter by increasing the amount of money available to them over the winter months.

The Winter Energy Payment is also available for people in receipt of other benefits *(not considered in the model)*:

- New Zealand Superannuation – universal pension for people over 65;

- Veteran's Pension - payment (optional, instead of NZ Superannuation) for veterans who have qualifying operational service in the New Zealand Armed Forces;
- Supported Living Payment - assistance for people who: are permanently and severely restricted in their capacity to work due to a health condition, injury, or disability; or are caring for someone who requires full-time care and attention at home;
- Emergency Benefit – assistance that may be paid to those who can't support themselves and don't qualify for any other benefit;
- Youth Payment – assistance for young people aged 16 or 17 who can't live with their parents or guardian and aren't supported by them or anyone else;
- Young Parent Payment – assistance for young parents aged 16-19.

3.3.2. Benefit amount

Like all supplementary payments, the Winter Energy Payment is paid at the same time as the parent benefit, weekly for people receiving a main benefit and fortnightly for people receiving NZ Superannuation or Veteran's Pension. Between 1 May and 1 October 2023, single people without dependent children will receive a total of NZD 450 and couples and people with dependent children will receive a total of NZD 700.

3.3.3. Benefit duration

The benefit is paid for 22 weeks per year (from 1 May to 1 October inclusive). It is paid for as long as eligibility conditions hold.

3.3.4. Means test

Not means-tested separately, however must be receiving one of the above benefits, which are means-tested, with the exception of New Zealand Superannuation and Veteran's Pension.

3.3.5. Tax treatment

Not taxable.

3.3.6. Interaction with other components of the tax-benefit system

The eligibility is based on receipt of other benefits (see Section 3.3.1.)

3.3.7. Combining benefit receipt and employment/starting a new job

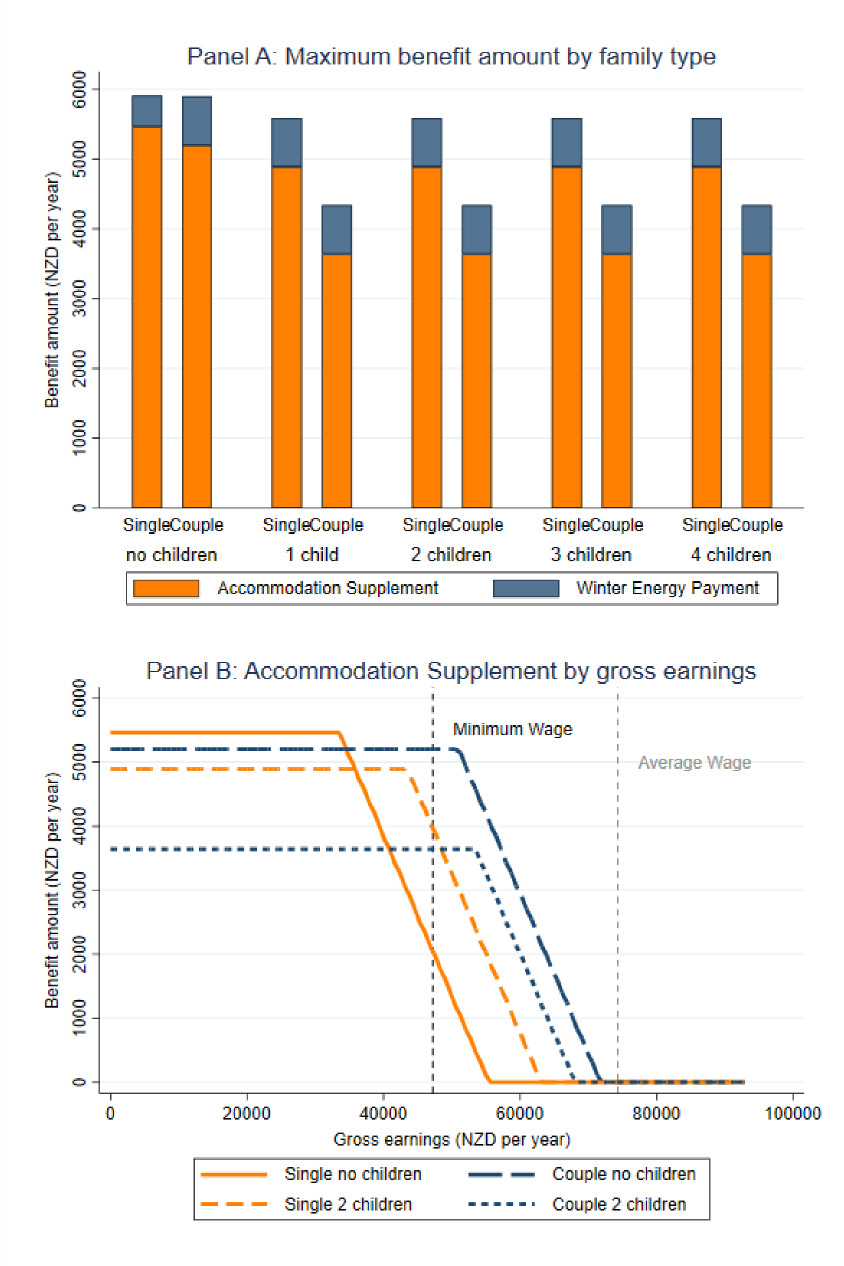
The Winter Energy Payment can be combined with employment if eligibility conditions hold (see Section 2.2.7. on how Jobseeker Support and Sole Parent Support can be combined with employment). There are no specific rules for new jobs.

3.3.8. Indexation

The Winter Energy Payment is not indexed.

Figure 2. Housing benefits

40-year old single person and couple with or without children



Note: A family is assumed to live in Wellington and paying rent that is equal to 20% of average wage (for all family types). Panel A assumes a jobless family that receives the main benefit (e.g. Jobseeker Support), and thus is eligible to both Accommodation Supplement and Winter Energy Payment. The figure shows the maximum benefit amount given the assumed level of rent. At low rent levels (as assumed in TaxBEN), the low entry threshold for single people without children leads to a higher benefit level compared to other household types. For higher rents, larger sized households receive higher rates due to the Accommodation Supplement cap (see section 3.2.2.). Panel B shows how Accommodation Supplement would decrease for a non-beneficiary if one adult in the family starts working.
Source: OECD Tax-Benefit Model, 2023.

4. Family benefits

In the model, two tax credits are classified as family benefits: Family Tax Credit (described in Section 4.1.) and Best Start Tax Credit (described in Section 8.1.4.). 4.1.

4.1. Family tax credit

Code in the OECD tax-benefit model: **[FIS]**

This is a refundable tax credit. In the model it is classified as a family benefit **[FB]**, non-contributory, means-tested and not taxable.

4.1.1. Eligibility conditions

Family Tax Credit is available to families with dependent children. "Work and Income" (the body under the supervision of the Ministry of Social Development) can pay a Family Tax Credit to the client provided they are a Principal Child Caregiver who has a dependent child or children.

- Beneficiary families are paid Family Tax Credit weekly or fortnightly with their benefit but can choose to receive it from the Inland Revenue Department directly.
- Family Tax Credit is paid to non-beneficiary families by the Inland Revenue Department, either weekly or fortnightly (with an end of year "square up"), or in one lump sum at the end of the tax year.

4.1.2. Benefit amount

Family Tax Credit rates depend on the number of children, the age of the children and family income.

Gross Family Tax Credit rates as at 1 April 2023	
Family Type	NZD per week
First or only child	136.94
Second or subsequent child	111.58

4.1.3. Benefit duration

As long as the eligibility conditions hold.

4.1.4. Means test

Each dollar of gross income, which includes earnings and unemployment benefits (see Section 2.2), in excess of NZD 42 700 reduces Family Tax Credit by 27 cents.

4.1.5. Tax treatment

The benefit is not taxable.

4.1.6. Interaction with other components of the tax-benefit system

The Family Tax Credit is one of four tax credits that make up Working for Families Tax Credits. Working for Families is aimed at providing additional support for low-income families to help meet the costs of children. The Family Tax Credit and the Best Start Tax

Credit are the only Working for Families tax credits that a person on a main benefit with children is eligible for, and they will receive the maximum amount. A person receiving a foster care allowance, orphan's benefit or unsupported child's benefit cannot receive the Family Tax Credit for the same child.

4.1.7. Combining benefit receipt and employment/starting a new job

Families with dependent children whose income is from employment are able to receive the Family Tax Credit. The Family Tax Credit is abated as described in Section 4.1.4.

4.1.8. Indexation

The Income Tax Act 2007 requires that the Family Tax Credit and Best Start Tax Credit payment rates must be adjusted for inflation once the total value of quarterly increases in the Consumers Price Index reaches 5% since the payment rates were last adjusted. Due to the current high rates of inflation, the 5% threshold was exceeded at the end of the September 2022 quarter. The annual inflation rate to the September 2022 quarter was 7.2%. Indexation occurs from 1 April based on the previous September quarter.

Figure 3. Family Tax Credit

40-year old single person or couple with children

Note: The figure shows the maximum Family tax credit for a jobless family (at zero earnings) and how the amount is reduced if a family has earnings from work. The amounts and reductions are the same for single parents and couples.
Source: OECD Tax-Benefit Model, 2023

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 April 2023.**

Schooling is compulsory at the age of six in New Zealand, although the majority of children start school immediately after their fifth birthday. Most children attend some form of early childhood education (ECE) prior to starting school with 96.1% of children reporting attendance in the six months prior to beginning school. Early childhood education services include teacher-led ECE services, and parent or kaiako-led ECE services such as playcentres and kōhanga reo.

The Government provides several subsidies for ECE attendance, which are paid directly to ECE services.

The first major subsidy, the **ECE Funding Subsidy**, contributes to services' operating costs by paying for part of each hour each child aged two and under spends in ECE, to a maximum of six hours per child-place per day, and 30 hours per child-place per week (i.e. seven days). The ECE Subsidy is also available to children aged three to five years old and pays for a maximum of 10 hours of funding per week (two hours per day) over and above the 20 Hours ECE Subsidy described below.

Three- to five-year-olds enrolled in licensed early childhood education services are able to receive the second major subsidy, the **20 Hours ECE subsidy**, for up to six hours a day and 20 hours a week. The 20 Hours ECE Subsidy is a child-based subsidy paid at a higher rate than the ECE Funding Subsidy and is intended to enable families to access this amount of ECE at no charge.

ECE services receiving the 20 Hours ECE Subsidy are not permitted to request compulsory charges (fees) from parents but may request optional charges or donations, especially where they offer additional features above and beyond the regulated requirements for ECE provision. Services can charge fees to parents for children enrolled outside of the 20 Hours ECE programme, including those aged under 3, or enrolled for more than 6 hours per day or 20 hours a week.

Another smaller funding stream for ECE services is **equity funding**. This provides additional targeted funding to some early childhood education services. Equity funding is an `add-on' to the early childhood bulk funding subsidy. It is targeted to licensed early childhood education services:

- in low socio-economic communities
- that may have significant numbers of children with special education needs or from non-English speaking backgrounds
- in isolated areas
- that are based on a language and culture other than English (including sign language).

The Government also provides a small **Targeted Funding for Disadvantage payment** to some ECE services. Targeted Funding began in 2018 and allocates funding to services with high proportions (20% or above) of enrolled children from disadvantaged backgrounds. It aims to:

- counteract inequity in the ECE sector where disadvantaged children, on average, participate less

- reduce the early emergence of achievement gaps through raising the quality and affordability of ECE for children from disadvantaged backgrounds.

For more information on New Zealand's ECE funding system see the Funding Handbook: http://www.education.govt.nz/early-childhood/running-an-ece-service/funding/ece-funding-handbook/.

5.1. Gross childcare fees

Code in the OECD tax-benefit model: **[NZcc_cost]**

The ECE Subsidy and 20 Hours ECE Subsidy provide funding anywhere between NZD 4.05 and NZD 16.19 per hour per child to assist with the cost of licensed ECE services.[9] The payment varies according to the age of the child (under 2 or 2 and over), staff qualifications and the type of service. For example, teacher-led centres are eligible for higher funding rates if regulated (ratio) staff hours are covered entirely by certified teachers.[10]

Although ECE services may not charge fees for the hours covered by the 20 Hours ECE Subsidy, they are able to request optional charges and donations. They can also charge fees for hours not captured by the 20 Hours ECE subsidy, such as when a child is enrolled for more than 6 hours in a day. Gross fees are set autonomously by the providers. There are no national or local controls on the level of fees charged (outside of 20 Hours ECE Subsidy hours). The level of fees is moderated by competition between providers and affordability for parents.

Average gross hourly childcare fees in the TaxBEN model (NZD)[11]						
Age of child	2018	2019	2020	2021	2022	2023
0-1 year olds	7.33	7.56	7.73	7.89	8.21	8.51
2 year olds	6.95	7.17	7.33	7.48	7.79	8.07
3-5 year olds	8.28	8.54	8.73	8.91	9.28	9.61

5.1.1. Discounts for part-time usage

The fee subsidy is paid on an hourly basis, eligibility does not change if childcare is used on a part-time basis.

[9] Source: ECE: Funding handbook: Appendix one. http://www.education.govt.nz/early-childhood/running-an-ece-service/funding/ece-funding-handbook/

[10] A certificated teacher must be an ECE qualified teacher, a New Zealand qualified teacher or have a comparable overseas primary teacher qualification supported by an assessment from the New Zealand Qualifications Authority. They must hold a current practising certificate that has been issued by the Teaching Council, or a letter from the Teaching Council advising that certification has been approved and that the practising certificate will be mailed within four to six weeks.

[11] The figures used in TaxBEN are based on the most recent reliable data (2013 Survey of Income, Expenditure and Fees of Early Childhood Education Providers), indexed by the Stats NZ Early Childcare Education Consumer Price Index for the September quarter (available from November each year). The figure for 2 year olds is based on the cost for 2-5 year olds excluding children in 20 Hours ECE. The figure for 3-5 year olds is based on the cost for 3-5 year olds additional hours after 20 Hours ECE.

5.2. *Fee discounts and free provision*

The Ministry of Social Development administers the Childcare Assistance Programme which contains several forms of assistance to help with the costs of childcare. **The Early Learning Payment** *(not covered by the model)* is also included in this programme. This is a non-taxable payment that provides earlier access to ECE for certain families. The **Guaranteed Childcare Assistance Payment** *(not covered by the model)* provides financial support for young parents. The **Childcare Subsidy** is also included and will be discussed in Section 5.3.

5.2.1. Eligibility

To qualify for the Early Learning Payment, a person must be the caregiver of a dependent child aged 18 months to three years and must be enrolled in a Family Start or Early Start programme (long term and intensive home visiting services).

The Guaranteed Childcare Assistance Payment is for young parents aged 19 years or under who are participating in their youth activity obligations, or for young parents aged 18 years or under who are non-beneficiaries participating in secondary education.

5.2.2. Amount of discount or free provision

The maximum amount payable under the Early learning Payment is NZD 9.09 per hour as at 1 April 2023, for a maximum of 20 hours per week.

The rate of payment of the Guaranteed Childcare Assistance Payment can be up to NZD 6 per hour or up to NZD 300 per week per child. The amount payable depends on the number of eligible children the young parent has and the number of hours (including travel time) the young parent is undertaking through their youth activity obligations and paid employment, or secondary school.

5.2.3. Variation by income

A person cannot receive the Guaranteed Childcare Assistance Payment if they are employed full time or over 15 hours of part-time work.

5.3. *Child-care benefits for formal centre-based care*

Code in the OECD tax-benefit model: **`[cc_benefit]`**

5.3.1. Eligibility

The Childcare Subsidy is a non-taxable payment which assists low- and middle-income families to pay for their pre-school children (up to six-year olds) to attend licensed preschool facilities. Generally, children start school at age five, but some schools use cohort entry systems and from 2020 childcare subsidy will continue for a number of weeks after the child turns five until the next cohort intake at the child’s school.

People who are in work related activities or undertaking training may access up to 50 hours Childcare Subsidy per child per week for the time they are engaged in those activities, including people receiving a main benefit. Parents who have a child (or are someone) with a severe disability may also be able to access up to 50 hours of the subsidy.

If neither (or only one parent) is in an approved activity, they will be able to access up to 9 hours of Childcare Subsidy, subject to the income test.

The payment is made to the provider of the service on behalf of the parent.

5.3.2. Benefit amount

The following table shows Childcare Subsidy income abatement thresholds and maximum rates from 1 April 2023:

Childcare Subsidy income abatement thresholds and rates as at 1 April 2023		
Number of dependent children in the family	Gross income (NZD per week)	Childcare Subsidy (NZD per hour)
1	Less than 1 009	6.10
	1 009 – 1 836.99	4.86
	1 837 – 1 989.99	3.40
	1 990 – 2 143.99	1.90
	2 144 or more	Nil
2	Less than 1 160	6.10
	1 160 – 2 112.99	4.86
	2 113 – 2 280.99	3.40
	2 281 – 2 449.99	1.90
	2 450 or more	Nil
3 or more	Less than 1 299	6.10
	1 299 – 2 357.99	4.86
	2 358 – 2 556.99	3.40
	2 557 – 2 755.99	1.90
	2 756 or more	Nil

5.3.3. Benefit duration

A person may receive the Childcare Subsidy until the child turns 5 years old (with some exemptions) unless they no longer meet the other qualifying criteria.

5.3.4. Means test

Benefits are reduced according to gross income (see Section 5.3.2.).

5.3.5. Tax treatment

Not taxable.

5.3.6. Interaction with other benefits

A person cannot receive the Childcare Subsidy for the same hours that they are receiving the 20 Hours ECE. However, they can receive the Childcare Subsidy for any other hours not covered by 20 Hours ECE up to a combined total of 50 hours depending on their activities.

5.3.7. Combining benefit receipt and employment/starting a new job

The Childcare Subsidy is subject to income thresholds that vary depending on the number of dependent children in the household. The income thresholds and rates are shown in Section 5.3.2.

5.3.8. Indexation

Childcare Assistance consists of the Childcare Subsidy and Out of School Care and Recreation Subsidy. The rates and income thresholds for Childcare Assistance are adjusted annually on 1 April each year. The rates are adjusted by convention to increases in the Consumers Price Index (CPI). As part of Budget 2021, Cabinet agreed to index Childcare Assistance income thresholds annually by net average wage growth from 1 April 2022. Prior to this in 2010, the Government agreed to end CPI adjustments of the thresholds and return the thresholds to their 2008 levels. However, from April this year the Government agreed to increase the Childcare Assistance income thresholds to account for net average wage growth since 2010.

5.4. Child care allowance for children not using child care centres

The Childcare Subsidy is only paid if the child is attending an approved early childhood programme. An early childhood programme means early childhood education provided by any of the following:

- A licensed early childhood service which includes:
  - early childhood education and care centres (e.g. day care centre, kōhanga reo, Playcentre, kindergarten)
  - home-based education and care service
  - hospital-based education and care service
- A playgroup that has been certified by the Ministry of Education

  and

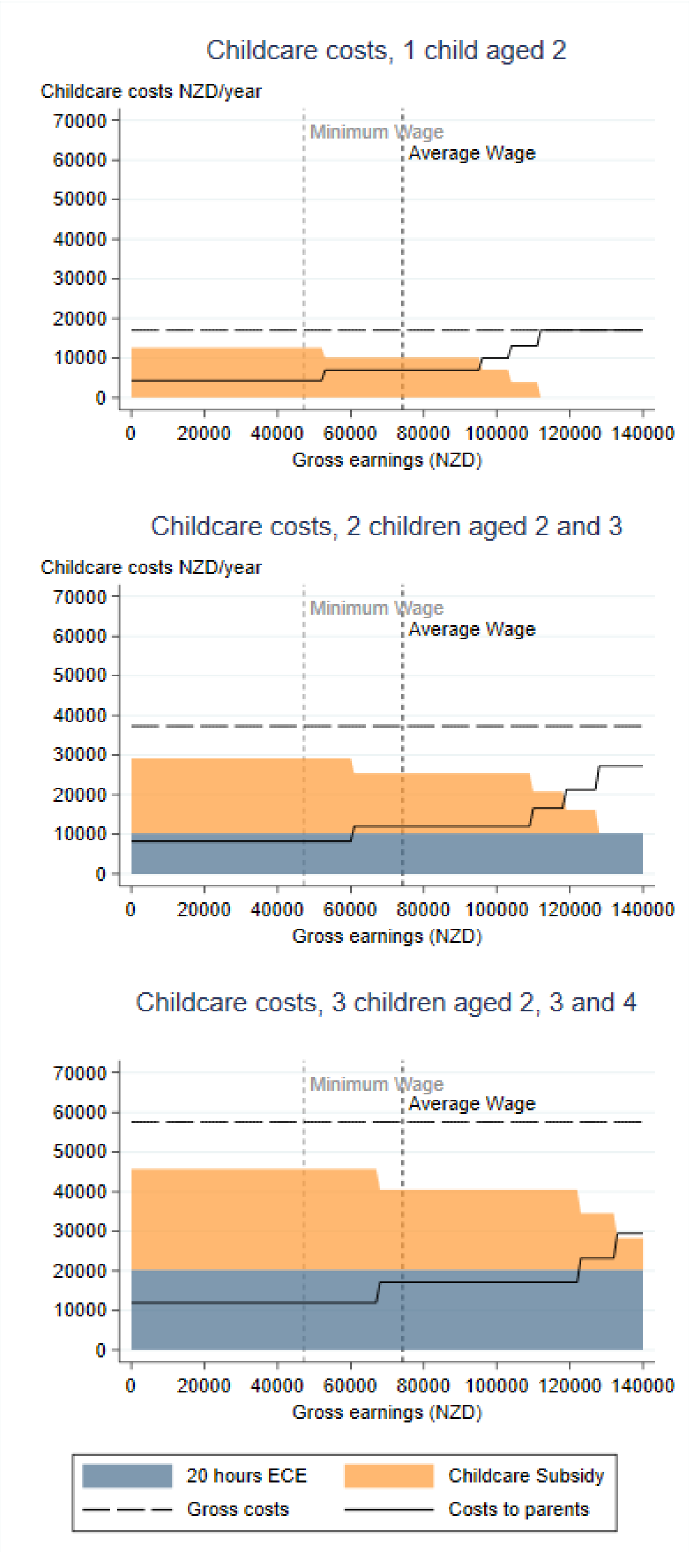
- For which a fee is charged for the children to participate in the programme.

The Childcare Subsidy is not payable for childcare provided informally (for example through friends or family who are not licensed to provide home-based education and care services) or a childhood centre or an unlicensed or uncertificated service.

5.5. Tax concessions for childcare expenditures

There are four tax credits that make up the tax part of Working for Families. Working for Families Tax Credits aim to provide additional support through the tax system for low-income families to help meet the costs of children. These tax credits are discussed more in Section 8.1.4. However, there are no tax concessions which depend primarily on childcare use or childcare expenses.

Figure 4. Childcare costs for families working full time



Note: Children are assumed to be in care 40 hours per week, 52 weeks per year. Parents are assumed to be in work-related activities for all hours the children are in care.
Source: OECD Tax-Benefit Model, 2023.

6. Employment-conditional benefits

In-Work Tax Credit **[IWP]** is paid to low-income working families with dependent children. There are no minimum hours of work required to get this payment as at 1 July 2020. However, people receiving an income tested main benefit are not eligible even if they are working part time. Minimum Family Tax Credit **[MinIncTaxCred]** requires the parent (or at least one parent in the case of couples) to meet an hours of work test. Independent Earner Tax Credit **[IETC_p; IETC_s]** is a non-refundable tax credit that requires people to earn a certain amount of income. These tax credits are classified in the model as in-work benefits **[IW]** (see description in Section 8.1.4.).

7. Social security contributions and payroll taxes

7.1. *Social security contributions*

Variable names: **[SC]**

New Zealand has no compulsory social security contributions to schemes operated within the government sector.

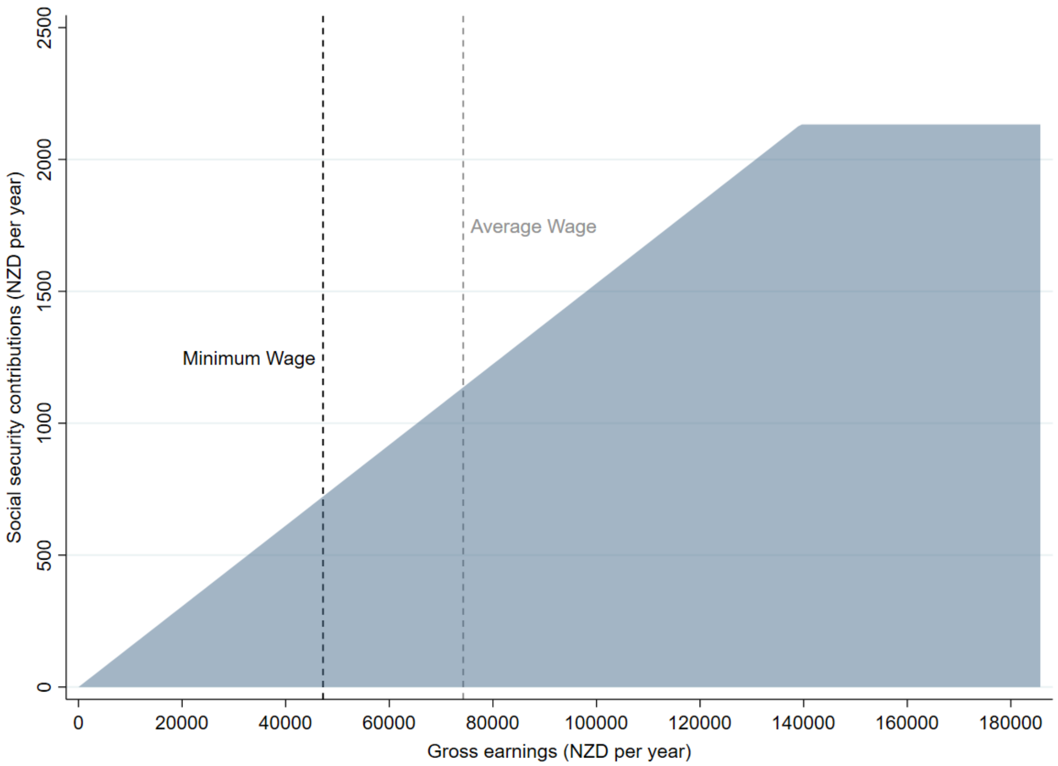
It should be noted that there is an Accident Compensation Scheme administered by the Accident Compensation Corporation (ACC) for residents and temporary visitors to New Zealand. This scheme is funded in part by premiums paid by employees and employers. Employees pay a premium of 1.53%[12] of their gross earnings up to a threshold of NZD 139,384 in April 2023- March 2024 tax year.

Employers pay a premium depending on their total payroll and their assessed accident risk; the average rate is 0.67% *(not covered by the model)*.

[12] This rate includes Goods and Services Tax (15% since October 2010).

Figure 5. Accident compensation scheme

40-year old single person without children



Note: Payments to accident compensation scheme do not depend on family composition. In the model, these payments are classified as non-tax compulsory payments.
Source: OECD Tax-Benefit Model, 2023.

8. Taxes

8.1. Personal income tax

There is a central government income tax, but there are no state or local income taxes. Family members are taxed as individuals.

Code in the OECD tax-benefit model: **[F_INCTAX_p; F_INCTAX_s]**

8.1.1. Tax allowances

None.

8.1.2. Tax base

Benefits are generally taxable with tax deducted at source and the net amount paid to the recipient. Additional amounts, such as Accommodation Supplement, are not taxable. In the TaxBEN model, the tax base is calculated as employment income plus Jobseeker Support or Sole Parent Support (the main benefits considered in the model).

8.1.3. Income tax schedule

Income tax thresholds are not automatically indexed.

Gross taxable income as at 1 April 2023 (NZD per year)	Statutory tax rate (%)
0 – 14 000	10.5
14 001 – 48 000	17.5
48 001 – 70 000	30.0
70 001 – 180 000	33.0
over 180 000	39.0

8.1.4. Tax credits

All tax credits described in this section are refundable.

Independent Earner Tax Credit `[IETC_p; IETC_s]` is available to individuals who earn between NZD 24 000 and NZD 48 000 (after expenses and losses) per annum. If your income is between NZD 24 000 and 44 000 – you receive NZD 10 per week (NZD 520 a year). If your income is between NZD 44 001 and 48 000 – your entitlement reduces by 13 cents for every dollar you earn over NZD 44 000.

You cannot get Independent Earner Tax Credit if you receive:

- Working for Families Tax Credits[13]
- An income-tested benefit (in the model this is Jobseeker Support)
- Veteran's Pension or New Zealand Superannuation *(not covered by the model)*

In the model Independent Earner Tax Credit is classified as in-work benefit.

Family Tax Credit `[FIS]` is classified in the model as family benefit and is described in Section 4.1.)

In-Work Tax Credit `[IWP]` is available to families who do not receive a main benefit (in the model this is Jobseeker Support). Since 1 July 2020, there are no minimum hours of work required to get this payment. However, the person should be normally in paid work.

In-Work Tax Credit is up to NZD 72.50 per week for families with up to three children, increasing by NZD 15 for each additional child after the third. Eligibility for In-Work Tax Credit and the amount you receive also depends on family income. In-Work Tax Credit is reduced in the same way as Family tax credit, but the reduction starts only after the Family tax credit is fully withdrawn

Families receiving the following government transfers (not covered by the model) can still qualify for In-Work Tax Credit provided the client or their partner does not also receive an income-tested benefit, student support, or certain veterans' assistance[14]:

- NZ Superannuation
- Veteran's pension

[13] Working for Families Tax Credits are made up of four entitlement types: family tax credit, in-work tax credit, Best Start tax credit, and minimum family tax credit.

[14] Parent's Allowance and Children's Pension.

- a Foster Care Allowance, Orphan's or Unsupported Child's Benefit
- accident compensation for incapacity provided the person normally worked the required hours each week prior to their injury and had an accident after 1 January 2006.
- paid parental leave provided the family worked the required hours before taking leave due to the birth of a child.

In the model In-Work Tax Credit is classified as in-work benefit.

Minimum Family Tax Credit **[MinIncTaxCred]** is available to working families who do not receive an income-tested benefit or certain veteran's assistance[15] (in the model, this is Jobseeker Support).

- A sole parent qualifies if they work at least 20 hours per week.
- A two-parent family qualifies if the two parents work a combined 30 hours per week.
- Self-employed people are not eligible.

The Minimum Family Tax Credit ensures a minimum net income of NZD 34 216 per annum before Family Tax Credit and In-Work Tax Credit are included, as at 1 April 2023.

In the model Minimum Family Tax Credit is classified as in-work benefit.

It is not a statutory requirement to adjust the Minimum Family Tax Credit, but it is generally adjusted each year to reflect average wage growth and the anticipated wage-growth adjustment of main benefit rates from 1 April.

Best Start Tax Credit **[BSTC]:** This replaces the previous Parental Tax Credit, which applied to qualifying families for the first ten weeks after their baby was born or adopted.[16] The Best Start Tax Credit applies for qualifying families with children born after 1 July 2018. It is a payment to help families with the costs in a child's first three years. All families are eligible: working and non-working, those who receive a main benefit and those who don't.

The amount of the credit is up to NZD 69.85 a week (or NZD 3 632 a year) per child for a maximum of three years from the child's date of birth. The Best Start Tax Credit is a universal payment in the first year of a child's life. For children one year old or older, the total amount is reduced by 21 cents for every dollar the family income goes over NZD 79 000.[17] Families cannot receive Paid Parental Leave at the same time. The Best Start Tax Credit will begin once Paid Parental Leave has finished.

[15] Parent's Allowance and Children's Pension

[16] The model does not include the Parental Tax Credit as children under one year old are beyond the scope of the model. However, the Best Start Tax Credit is included in the model as it covers a broader child age range.

The tax credit rolled out gradually in the model. In 2019 model (policy reference date 1 April 2019), only children below 1 are eligible (this age range is not covered in the model, hence the tax credit is not simulated); in 2020 model (policy reference date 1 April 2020) – children below 2 are eligible; in 2021 and later models (policy reference date 1 April 2021 or later) – children below 3 are eligible.

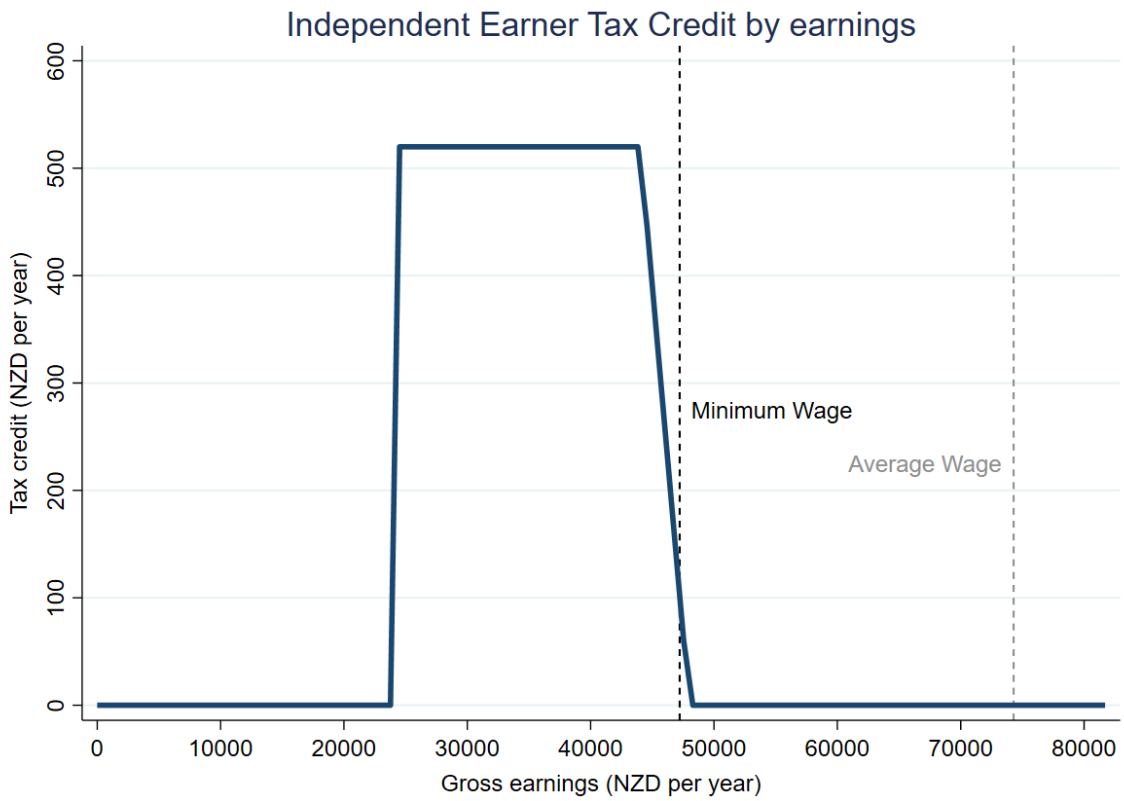
[17] The model considers only children starting from one year old, so the means test always applies. If there are multiple children, first the total benefit amount is calculated, then the reduction is applied.

The Income Tax Act 2007 requires that the Family Tax Credit and Best Start Tax Credit payment rates must be adjusted for inflation once the total value of quarterly increases in the CPI reaches 5% since the payment rates were last adjusted. Due to the current high rates of inflation, the 5% threshold was exceeded at the end of the September 2022 quarter. The annual inflation rate to the September 2022 quarter was 7.2%. Indexation occurs from 1 April based on the previous September quarter.

In the model, the Best Start Tax Credit is classified as family benefit.

Figure 6. Independent Earner Tax Credit

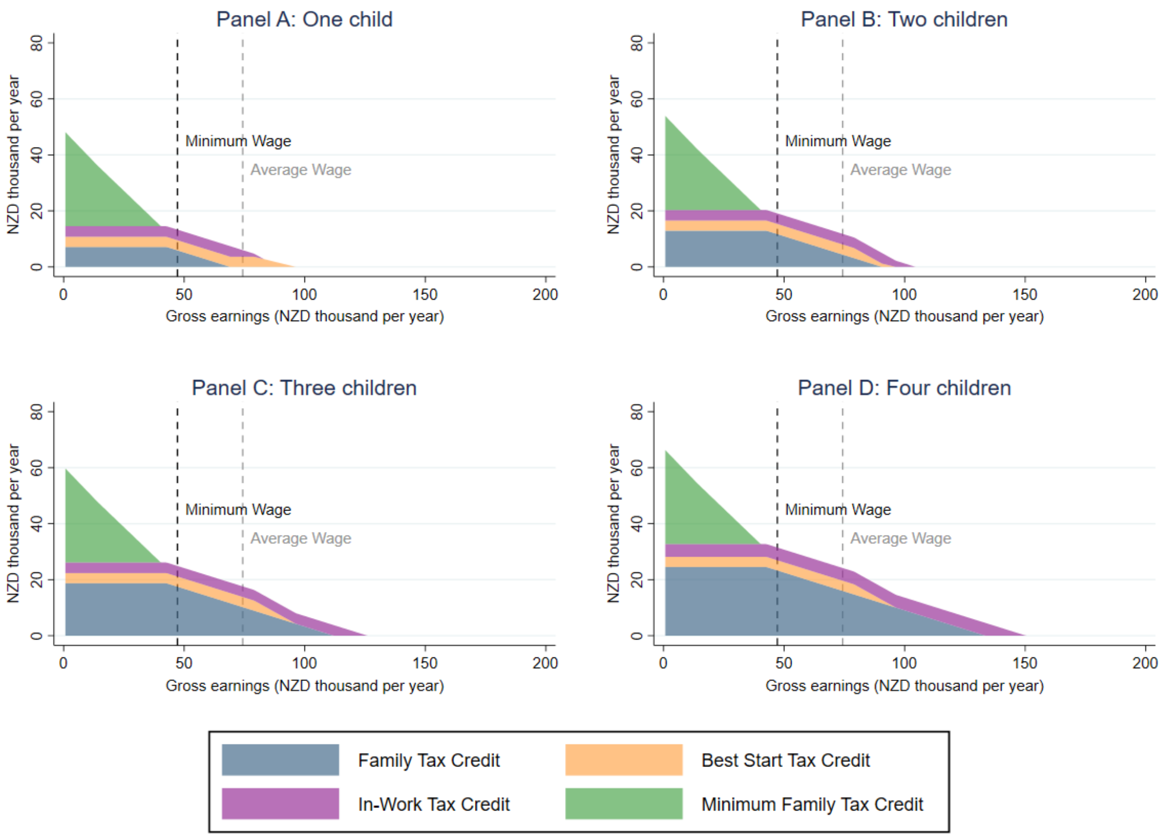
40-year old single person or couple without children



Note: The figure assumes no receipt of the main benefit. The amount of tax credit is the same for a single person and for a 1 earner couple without children.
Source: OECD Tax-Benefit Model, 2023.

Figure 7. Working for Families Tax Credits, by earnings of full-time workers

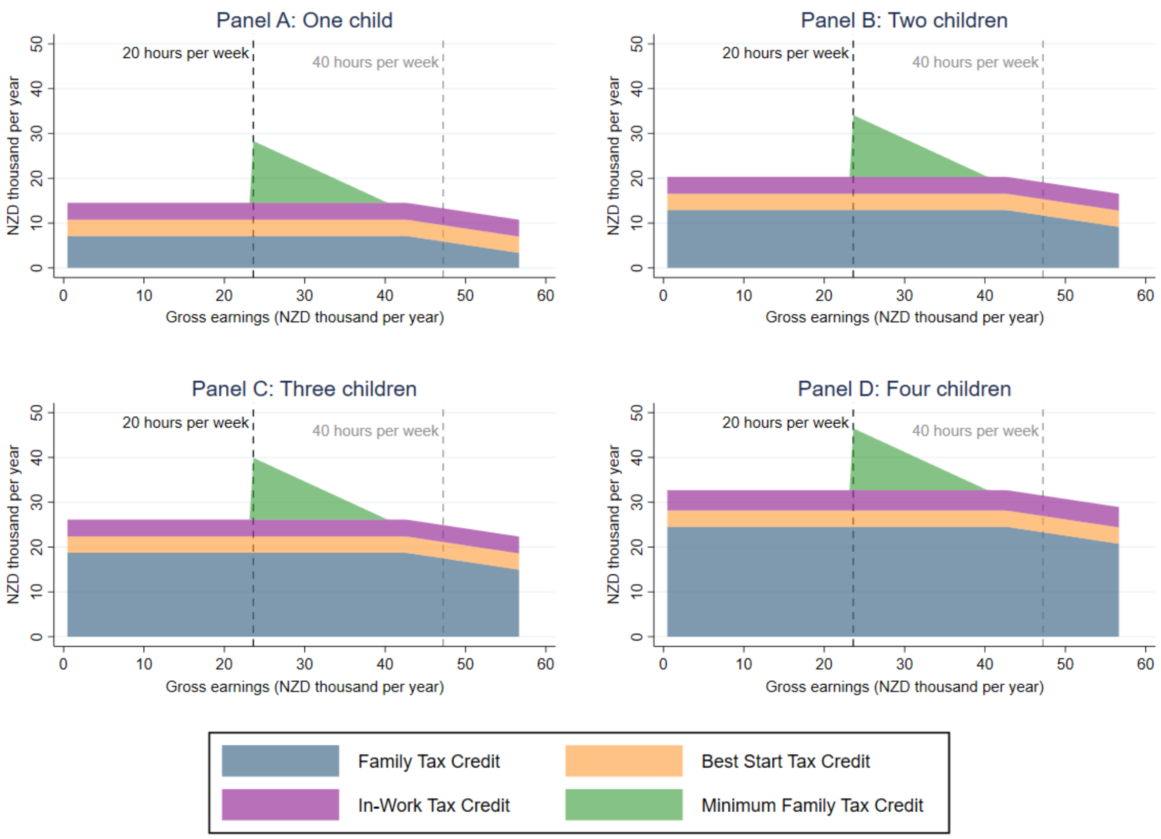
40-year old single person or couple with children



Note: The figure assumes no receipt of the main benefit. The calculations assume that the first adult works full-time (even if earnings are very low). In reality, a person would receive at least minimum wage, which at full-time hours would provide annual gross earnings of NZD 47 216. Thus, the segment of the Figure below this earnings threshold is purely illustrative. The partner (if any) is assumed to be out of work. The children are 1, 6, 8 and 10 years old.
Source: OECD Tax-Benefit Model, 2023.

Figure 8. Working for Families Tax Credits for lone parents, by working hours at minimum hourly wage

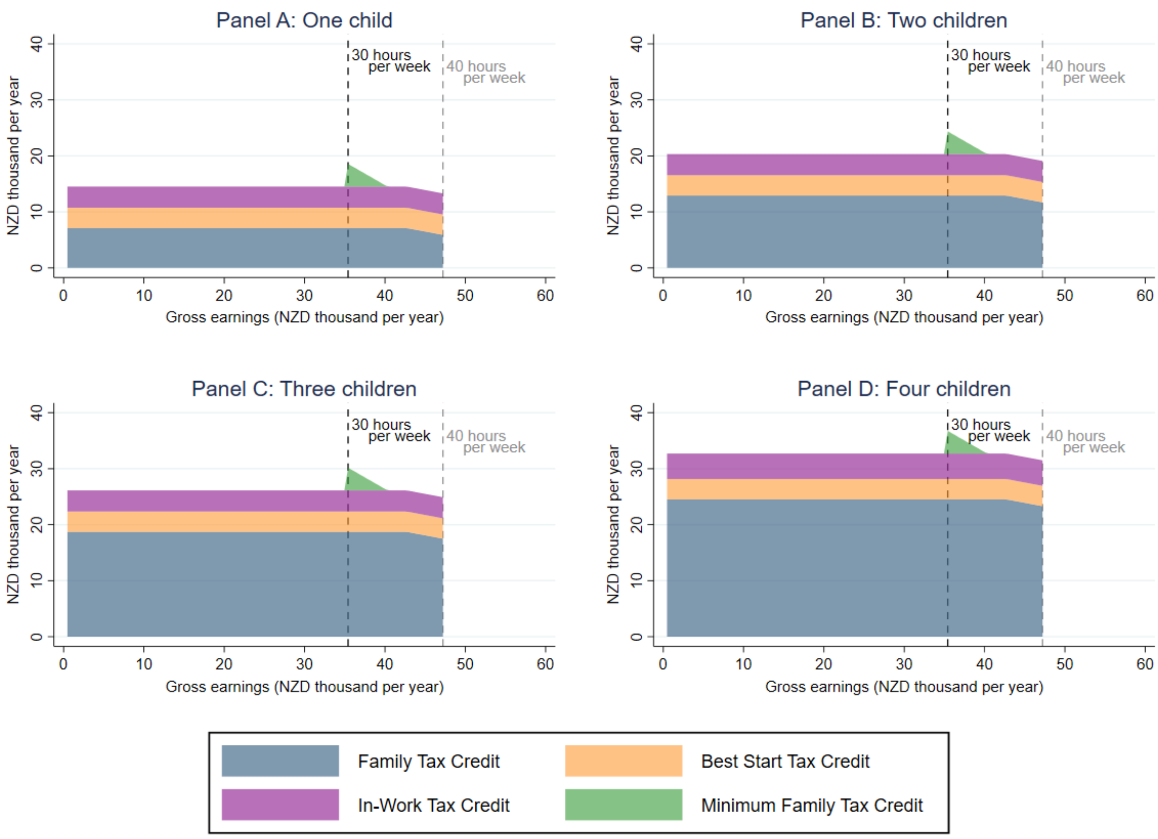
40-year old single person with children earning minimum wage



Note: The figure assumes no receipt of the main benefit. The calculations assume that the adult earns minimum hourly wage and increases working hours 1 to 40 hours per week. The lone parent is eligible for Minimum Family Tax Credit once he or she works at least 20 hours per week (provided no receipt of the main benefit). The children are 1, 6, 8 and 10 years old.
Source: OECD Tax-Benefit Model, 2023.

Figure 9. Working for Families Tax Credits for one-earner couple, by working hours at minimum hourly wage

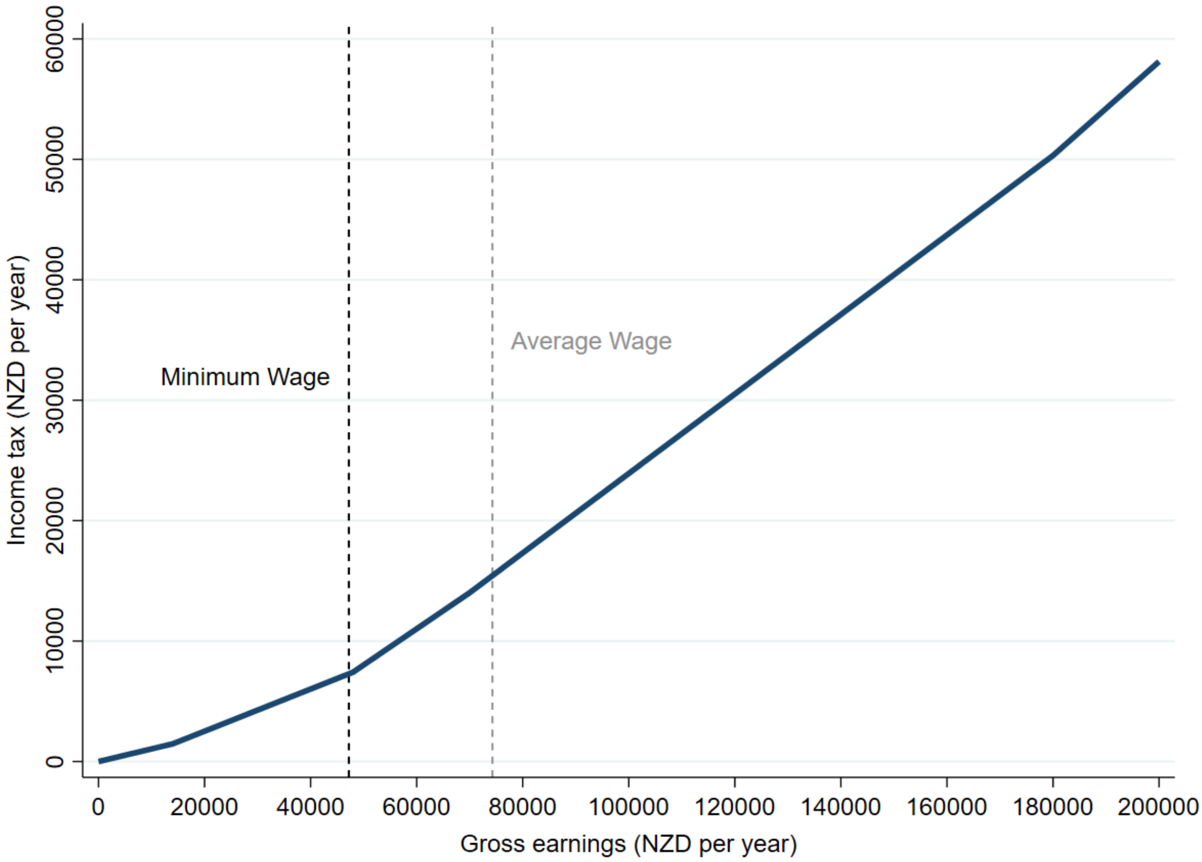
40-year old 1 earner couple with children, earning minimum wage



Note: The figure assumes no receipt of the main benefit. The calculations assume that the first adult earns minimum hourly wage and increases working hours 1 to 40 hours per week. The second adult is out of work. The couple is eligible for Minimum Family Tax Credit once they together work at least 30 hours per week. The children are 1, 6, 8 and 10 years old.
Source: OECD Tax-Benefit Model, 2023.

Figure 10. Income tax

40-year old single person without children



Note: The figure shows gross income tax before any tax credits. The amount of gross income tax does not depend on family composition.
Source: OECD Tax-Benefit Model, 2023.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for New Zealand 2023. TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the project website. The figure shows outputs for four scenarios:

- By weekly hours of work, defined as a % of full time work (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

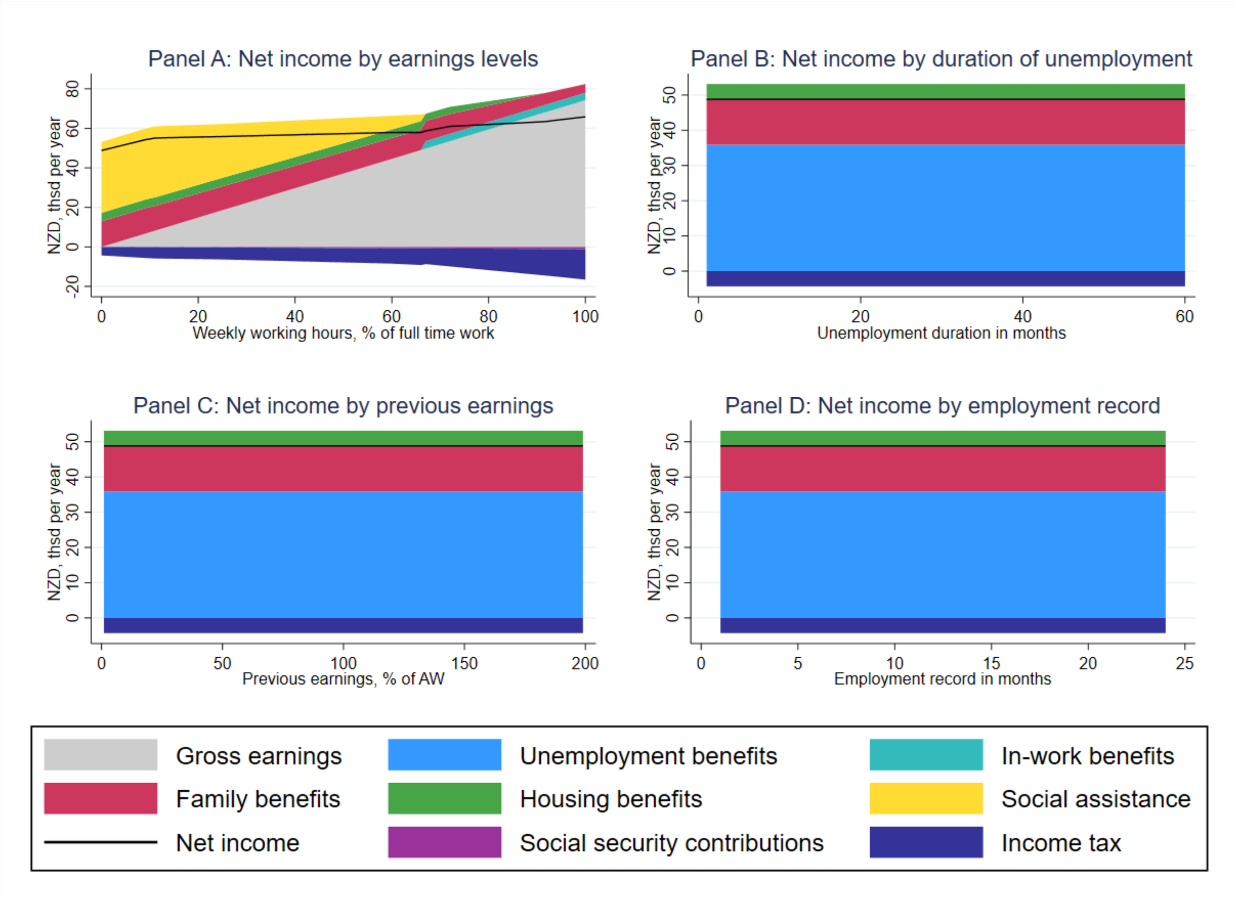
Results refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Panel A assumes that one adult family member (called 'second adult' according to the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired), whereas the other adult member (the 'first adult') is employed full-year and works at different weekly working hours with a (fixed) wage equal to the average hourly wage. When earnings of the first adult are zero this person is assumed to be out of work and claiming unemployment assistance, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment assistance, whereas the first adult is also out of work and claiming unemployment benefits. In Panels B and C the first adult is assumed to have a 'long' employment record of 264 consecutive months before the job loss. The horizontal axis in Panel B measures the time of benefit receipt, starting from the first month. The horizontal axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2nd month of unemployment benefit receipt whereas Panel D considers the case of previous earnings equal to the average wage. Previous earnings in Panel B are also equal to the average wage.

Figure 11. Selected output from the OECD tax-benefit model

40-year old couple with two children



Note: The average wage used to produce the charts is NZD 74 280
Source: OECD Tax-Benefit Model, 2023.

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in New Zealand that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

New Zealand offers a range of financial assistance to support low income families. The availability of support varies based on a family's situation and their need. Most assistance is means-tested, using income and in some instances cash asset tests. In order to reflect the varied needs and means of families, the welfare support system has three tiers of assistance.

The first tier is the main benefits, providing a basic income for people who are not able to support themselves through paid work. In addition to Jobseeker Support and Sole Parent Support (see Section 2.2.), it includes Supported Living Payment, Youth Payment and Young Parent Payment (see description below).

The second tier is additional assistance paid to people in particular situations or with specific on-going costs. This includes the Accommodation Supplement (see Section 3.2.) and Working for Families tax credits (see Section 4.1.) as well as the Winter Energy Payment (introduced on 1 July 2018 and described in Section 3.3.).

The third tier is tightly income and cash asset tested and provided generally to people in hardship (whether on benefit or not) as one-off grants or may continue over a relatively short period. The third tier assistance includes for example Special Needs Grants and Temporary Additional Support (see description below).

Supported Living Payment

The Supported Living Payment is a means-tested taxable main benefit for people who are not able to work because they are permanently and severely restricted in their capacity for work because of a health condition, injury, or disability, or are blind. It is also for people who are caring for someone who needs fulltime care and attention.

Youth Payment and Young Parent Payment

The Young Parent Payment is for young people with at least one dependent child, and the Youth Payment is for young people who are unsupported by their parents.

To qualify for the Young Parent Payment, applicants must be 16 to 19 years old and have a dependent child. To qualify for the Youth Payment applicants must be 16 or 17 years old and either be unsupported by their parents or be married, in a civil union, or in a de facto relationship. They must also be in, or willing to pursue, education or training. Those on Young Parent are also expected to be in education unless their child is under 6 months, or they are between 6 and 12 months but they don't have access to a Teen Parent Unit.

Young people receiving the Youth Payment have a range of obligations to meet, primarily to provide them with essential life skills. They are expected to be enrolled and undertaking further education, participating in budgeting courses and when required attend interviews with the youth service provider. These are the same obligations for Young Parents, however they also need to be participating in parenting education and ensure their child is enrolled in primary healthcare and Early Childhood Education.

Special Needs Grants

Special Needs Grants provide supplementary non-taxable, one-off recoverable or non-recoverable financial assistance to clients to meet immediate needs.

Applicants must meet an income and cash asset test in order to qualify for a Special Needs Grant, and must have an essential need that they themselves cannot meet.

When a Special Needs Grant is for goods and services the grant must be paid to the seller/ supplier except in exceptional circumstances.

Temporary Additional Support

Temporary Additional Support is a non-taxable supplementary support that is a last resort to help clients with their regular essential living costs that cannot be met from their chargeable income and other resources.

Clients must ensure that they are accessing all other assistance available to them and take reasonable steps towards reducing their costs and increasing their chargeable income.

A client does not have to be receiving a main benefit to qualify for Temporary Additional Support.

Temporary Additional Support is paid for a period of 13 weeks, with the potential for reapplication after this period.

The calculation of this support depends on the income and living costs of individual households, and is calculated and paid on a weekly basis.