

**Submission to the Inland Revenue Department on Income splitting
for families with children**

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 46 nationally organised societies. It has 26 branches throughout the country attended by representatives of those societies and some 150 other societies as well as individual members.

This submission is a collation of current opinion from the membership, feedback submitted to the CEDAW report in 2006, and existing NCWNZ policies.

NCWNZ's current policy, passed in 2000, states:

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.

This policy supports the facilitating of the "option" to allow couples to register themselves as being in a partnership, to declare income as partnership income and that an undefined share of the tax paid is met by each individual. The intent behind this resolution is for partnership income to be the equivalent of "family income" as described in the discussion document. NCWNZ does not however take a position on what share or split should be used for such income, nor does it request a lower taxation rate, although again that would likely have been the intent behind the resolution.

To all intent and purposes, NCWNZ supports families having the option to classify their income in such a way that income and tax burden are shared. By adopting this policy, the 1995 resolution was overturned:

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.

Other relevant policies include:

That National Council of women forward to the Minister of Labour and Social Welfare our request that the economic and social policies of our country be so directed that no mother by reason of economic hardship be forced to take up paid employment outside the home.

That the National Council of women asks the Government to ensure that in legislation and social policy married couples are not disadvantaged e.g. in taxation and housing.

NCWNZ customarily updates existing policy as they relate to current consultations. A series of questions were asked of the membership to survey current opinion on income-splitting and the options presented in the discussion document. It should be noted however, that input to

submissions is not as entirely reflective as the debating and voting system used for bringing remits into active policy.

In 2008, opinions appear to be as divided as in previous years. Responses were received from group discussions within Branches and from individuals. The responses have been collated under the questions asked on page 4 of the discussion document.

Is income splitting the best way to provide additional support for families with children?

The tenor of all responses was support for initiatives aimed at financially assisting parents of dependant children. The contribution they make to the economy in raising children and the extremely important social investment in future generations needs to be recognised and encouraged. Women, and families, should have choices.

Those who supported income splitting believe that it acknowledges the at home work of parenting, and that it is not welfare. It was seen as most beneficial for those families where one spouse had no paid employment, because:

- it acknowledges the contribution the 'at home' partner makes to supporting the career of the partner in paid work and
- most importantly to the upbringing and care of the children;
- it would also be a mechanism that might encourage one parent to take full time care of the children while the other works.

Income splitting was also seen as a method to provide support for those not eligible for the Working for Families package.

Many of those in favour stated that they were unsure whether it was the best way of providing financial support to the family, although it was certainly one way to provide assistance, and that it favoured middle to upper income families where it would be the most useful method of promoting the wellbeing of the family.

Those who did not support the option of income splitting as they saw it as inequitable. They indicated that any government interventions should be aimed at children irrespective of the income of the parents or caregivers – that as many children as possible should receive equivalent opportunities. Some commented that Working for Families was a better option for providing support through the tax system. One also commented that if income splitting were to be added to Working for Families then there would be an even better case for the Human Rights Tribunal to take against the Government than with reference to Working for Families alone. They identified:

- the inequities in introducing a mechanism that favoured two parents over a single parent;
- the administrative burden of proving a family;
- the emotional and administrative issues when a partnership was broken, eg through death, divorce or separation;
- that it provided no relief to low or medium income families.

Respondents felt that instead of the extra tax going to the parents/caregivers of children this would be more beneficial going into funding the core services for children (health and education in particular) and to provide community support for families, including for example parenting courses, child protection courses and life skills development. Many also commented that they doubted this would be an option that would assist grandparents who have taken on the role of raising their grandchildren.

When preparing the response to CEDAW Article 13, Economic and Social life¹, NGOs opposed to income splitting said:

...the income-splitting involved is purely notional, and that income splitting benefits mainly middle- and upper-income male earners with non-earning or low-earning female partners.

NCWNZ has consistently upheld the value of the 'mother in the home' and called for economic recognition of her status and contribution to the family and society. The general feeling of this discussion document is that it presumes all households have equal say in how a household budget is managed which is not in reality what occurs and so income splitting will not achieve the desired results in these cases.

If not what other options could be considered to provide additional support for families with children?

The following suggestions were put forward as alternative options, though no-one provided information on the cost benefits for the options they were suggesting:

- Cut GST on food.
- Provide rebates for educational items such as uniforms, books, subject fees.
- Better fund schooling.
- Reinstate the Family Benefit.
- Reintroduce the Child Tax Rebate.
- Extend Working for Families.
- Pay a benefit for each child who actually attends school regularly, at the end of each term.
- Lower the tax rate to families with school age children. Some went as far as indicating the income threshold should be doubled.
- Increase preschool childcare subsidies/out of school care subsidies. One respondent indicated there were social implications of institutionalising parenting through these options, calling it baby farming.
- Remove penalties for part time workers.
- Tax those with families with second jobs the same as the primary tax rate.
- Increase community based family support funding.
- Increase the number of social workers /truancy workers in schools.
- Increase funding to Plunket, Parents as First Teachers, Strengthening Families, Heartlands, etc.
- Recognise volunteer work done by beneficiaries with children and halt penalties to benefits which WINZ subjects them to because they are not in paid work and choose to be with their children before and after school, during school holidays etc.
- Provide interventions similar to the Canadian model where allowances are available relating to children's physical health needs.
- Provide a midday school meal.
- Increase paid parental leave to five years (identified as a much more expensive option)
- Extend the Working for Families package.
- Ensure the provision of specialised health services and educational support (at a higher level than currently). Especially when a B4 check shows that a child needs specialised assistance.

¹ Women experiencing discrimination – NGO report. Comments to the UN CEDAW monitoring committee on New Zealand's progress in implementing the Convention on the Elimination of All Forms of Discrimination Against Women. National Council of Women of New Zealand, 2007. p. 89

Many indicated the preference for tax reduction or deduction over an increase in grants or other benefits as this rewarded those who were attempting to financially support their children themselves.

If income splitting is favoured should the split be on a 50/50 basis, a 70/30 basis or in some other way?

Everyone who commented indicated 50/50 as this split gives equal weight to the caregiver and the employed person. One suggested that a 70/30 split would be unfair to the income earner as that person deserved to be treated equally with the caregiver.

If income splitting is favoured, how should a “family” be defined?

Families are now very diverse – families of married, de facto, same sex couples; sole parent families; reconstituted families; families of divorced couples, widows and widowers; families caring for other dependent relatives, etc. That “family” is difficult to define should not be an impediment. The definition should align with those already existing in legislation or in use by government agencies.

For the purposes of income splitting, “family” should include the situation where two parent figures (ie adults) and a child or children are sharing a common residential address and the adults share an interest in rearing the children.

If income splitting is favoured, what restrictions should be placed on the children’s ages for a family to be eligible?

Most of our respondents referred to the children being minors, or in the educational system, or there were legislative requirements for their care. The children’s age should align with other Government schemes such as Schools Plus, where children are eligible for education to the age of 19.

If income splitting is favoured, should it be optional or compulsory?

The majority of respondents favoured optional, with people having a right to choose how they structure their household or family affairs.

Summary

The responses were nearly evenly split into three categories – those favouring income splitting, those against it, and those ambivalent about its effectiveness.

Income splitting is one choice that should be available to a partnership raising children as it gives status to the role of the caregiver in rearing children and recognises the contribution of each person in the partnership – the support of the working person to the caregiver, and the support of the caregiver to the person in paid employment.

NCWENZ appreciates the opportunity to contribute to the discussion on income splitting and would welcome the opportunity to further discuss its submission with officials from Inland Revenue and the Treasury.

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