

Income splitting tax credit
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A Submission to Policy Advice Division, Inland Revenue Department, on

“**An Income-splitting tax credit for families with children**: an official issues paper”.

From: *Parents As Partners*, a lobby group for income splitting

Background

Parents As Partners was established in 1997 following the failure of an attempt by a couple to have their partnership recognised by Inland Revenue for tax purposes when they shared responsibility for raising a family. Since then it has attracted significant support from across the social and political spectrum, and has approximately 300 couples on its email group list.

Major Points of this submission:

- *Parents As Partners* strongly supports the proposal contained in the issues paper for income splitting.
- *Parents As Partners* maintains that family incomes should be split 50/50 as the work of each partner in income generation or care-giving is of equal importance for the support of a family.
- *Parents As Partners* supports using the same definition of a “family” as used by Working for Families, for consistency and administrative simplicity.
- *Parents As Partners* supports a limit on children’s age to be 18 years, again to be consistent with Working for Families, although in fact a case could be made for increasing the age to 25 if the dependent child is in full time tertiary study and ineligible for a student allowance on the basis of parents’ income. This change should also apply to Working for Families.
- *Parents As Partners* supports the optional implementation of the income splitting provision, (although it is difficult to imagine why a couple would opt not invoke it).
- *Parents As Partners* supports registration for income splitting online through the same system used to provide Working for Families tax credits. In fact income splitting would create a smoother curve of support received by low

income to higher income families as families transitioned from Working for Families support to income splitting tax credits, and up to no support at all for higher incomes.

- Paper forms for registration should be made available to any person upon request.
- *Parents As Partners* generally supports the rules proposed for eligibility for income splitting, again creating consistency with Working for Families. The principle is that if a couple elects to forgo a whole or part of an income in order to care for their children, then the income should also be shared. This principle is already reflected in our social welfare law in that a non-earning spouse or partner is not eligible for a benefit in their own right as they are expected to be supported by their earning partner.
- With regard to the suggestion that couples should be required to confirm their eligibility for an income splitting tax credit through an annual declaration, *Parents As Partners* believes the same criteria should apply as for Working For Families or any other benefit. The onus should be on the couple to inform the department of a change in their circumstances, with penalties for failure to do so. Otherwise it should be assumed that the arrangements of the previous year continues, until the youngest child reaches the age of 18, information which would be held by IRD anyway following the initial registration.
- Changes to a couple's eligibility for income splitting such as when a child leaves home during the year, or the couple's relationship ends, should allow for partial application of the income splitting tax credits, in proportion to the proportion of the year in which the criteria were met. This is consistent with the proportions allowed for shared parenting, or when a child turns 18, or becomes economically independent.
- Couples with shared care of a child should be eligible for income splitting in proportion to the proportion of the time allocated to care, with a minimum of one third of the time. Any less than this would arguably not affect their availability for employment or paid work.

General Comment

Parents As Partners believes that this proposal for income splitting is critically important for the health and well-being of the future of New Zealand society and families. It is our investment in parenting the next generation.

The Brits are also coming to recognise the same failure to “recognise marriage [or relationships] in the tax system”, according to a recent article in the Guardian Weekly (1 Jan 2010). “If you look at the way in which most tax and benefit systems work, it looks as if the group that gets the raw deal in Britain compared to other advanced western countries is one-earner couples...The second adult being invisible in the tax credit system is very odd indeed.” The same could be said for New Zealand.

Parents As Partners wishes to thank Inland Revenue for the opportunity to make this submission and would welcome further consultation by officials of Policy Advice

Division of Inland Revenue on any points contained in this submission of in the issues paper, or on the issue generally.

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