

# CHiLD POVERTY ACTION GROUP

Child Poverty Action Group  
PO Box 5611  
Wellesley St  
Auckland 1141

Web address: [www.cpag.org.nz](http://www.cpag.org.nz)

*Social Services Select Committee  
Parliament Buildings  
Wellington*

## **Submission: Child Support Amendment Bill**

Child Poverty Action Group (Inc) (CPAG) is a non-profit group formed in 1994, and made up of academics, activists, practitioners and supporters. CPAG has a strong education and research role which enables it to contribute to better informed social policy to support children in Aotearoa New Zealand, specifically children who live in poverty.

Contact:

Susan St John

E [s.stjohn@auckland.ac.nz](mailto:s.stjohn@auckland.ac.nz)

P +64 9 9237432

M +64 (27) 536 4536

## **We wish to speak to this submission**

### *Submissions*

- CPAG is concerned about the overall thrust of this Bill which prioritises the parent who is not the primary care-giver, usually the father, instead of the child's needs.
- Similarly, CPAG notes the Bill as a whole has a greater focus on government debt-recovery and the needs and wishes of liable parents, rather than a focus on receiving parents and children. Accordingly, we submit section 4(c) of section 4 of the principle Act should remain part of the Act.
- CPAG submits that changes to the assessment formula place too much emphasis on the needs and wishes of the non-custodial parent, and that any assessment must take account of who bears the brunt of child-related costs, including opportunity costs; that receiving parent income should only be taken into account in cases where the receiving parent's income is manifestly higher than that of the liable parent; and that where the custodial parent is in paid employment, recognition must be made of the double burden of the custodial parent.
- The definition of income for child support should be the same as for other social assistance including Working for Families.
- In keeping with the principle Act's emphasis on cost recovery for the Crown, this Bill continues to direct the child support payments of sole parent beneficiaries to off set the costs to the state of benefits. CPAG submits that pass on of child support to Domestic Purposes beneficiaries be included in the interests of improving the incomes of households facing serious hardship in many cases. To reduce the fiscal cost, there is no reason Child Support cannot be counted as income for the recipient for abatement purposes.

### *Overview*

CPAG welcomes a Government review of the Child Support legislation. This is an important once in a 20-year opportunity to improve the lives of parents and their children.

CPAG is concerned however that the focus on non-custodial parents oversimplifies the situation faced by many sole parents, most of whom are women, and that the needs of sole parent families, especially those on benefits, continues to be overlooked.

We believe reform of Child Support is long overdue, but are disappointed that the outcome of the consultation which has taken little account of the voices of women.

The Ministry of Social Development's 2009 figures show that the hardship rate for sole parent families is around 4 times that for those in two parent families (39% and 11% respectively). Over 50% of sole parents and their children who are supported by a benefit live in conditions described as "serious hardship" (Perry 2009 Table E2.8).<sup>1</sup> Inappropriate Child Support policy is part of a wider picture that keeps one in five New Zealand children below the poverty line.

Child Support reform must have the child's wellbeing at the centre, not the financial needs of the Crown or the non-custodial parent. It is clear that the current Child Support arrangements can often be destructive to family harmony, while failing to ensure that the custodial parent and their children are supported sufficiently to prevent hardship.

The Bill as a whole seems to have more of a focus on Government debt-recovery and the needs and wishes of liable parents, rather than a focus on receiving parents and children. This is reflected by the removal of s 4(c) from s 4 of the principal Act, a provision which affirms the right of caregivers of children to receive financial support in respect of those children from the non-custodial parents of the children. CPAG can see no reason for the removal of this provision from the principal Act. This provision should be retained in recognition of the state's duty to protect the rights of caregivers of children to receive financial support from the non-custodial parent of those children.

### *Pass on of child support to sole parent beneficiaries*

A significant improvement in the incomes of sole parent beneficiaries would be achieved if the primary caregiver and the child received Child Support payments directly rather than payments being used to offset the cost of benefits to the state. CPAG is disappointed that despite adding a great deal more complexity to the existing Act, this long-standing anomaly has not been dealt with in the Bill. We note the Regulatory Impact Statement<sup>2</sup> (RIS) did not recommend the passing on of child support payments to sole parent beneficiaries even though it acknowledged that this would improve the incentive to pay child support. The RIS noted on the one hand that pass on would involve significant fiscal cost to the Crown, however CPAG argues that this should be a lesser consideration than improving the incomes of households facing serious hardship in many cases. To reduce the fiscal cost, there is no reason Child

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<sup>1</sup> Perry, B. (2009). Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2008. Wellington: Ministry of Social Development.

<sup>2</sup> <http://taxpolicy.ird.govt.nz/sites/default/files/2011-ris-child-support.pdf>

Support cannot be counted as income for the recipient for abatement purposes. We also note that New Zealand is out of step with similar jurisdictions such as Australia and the UK in this regard.

Child Support reform must act to ameliorate child poverty for children in families supported by a benefit or low income. CPAG supports the Families Commission which has suggested that the parent who is the primary caregiver on a benefit should always be better off when child support is paid rather than the family see no benefit at all up to the level of the DPB.

### *Alignment with Working for Families*

The definition of income for child support should be the same as for other social assistance (see *Social assistance integrity: defining family income*<sup>3</sup>). Working for Families (WFF) tax credits should recognise the ongoing weekly costs of the child(ren). Unfortunately shared care is defined differently for Child Support and for working for families, and this is confusing and inequitable. The changes to shared care outlined in the Bill, including provisions to include day care in some cases, is likely to create further confusion. In some instances sole parents can be bearing the bulk of the financial costs and the opportunity costs and still have their WFF payments reduced significantly because of minimal child sharing by the other partner. While there is provision to align income as between child support and WFF income, there is no similar provision to align the definition of shared care.

Part of WFF can be paid to the other parent on a pro rata basis. For instance, under the old rules even if she looks after the child(ren) for all the days in the working week and every second weekend, she may be able to stretch the hours to qualify for 12 days a year by including some over night stays. She may have full responsibility for the child during the working week taking it to preschool, looking after when sick and for the times when the child is not at school while he may have the entire working week free to work and every second weekend free. WFF payments are apportioned because the IRD deem this to be shared care and she has only 9/14 of her entitlement while he has 5/14. He is entitled to the IWTC denied to her because she does not work the required number of hours. For a one child family his Working for Families becomes \$93 ( $\$60 + (5/14) * 92$ ) if his income is below the threshold for abatement, because he can also access the IWTC while hers is reduced to  $\$60 (9/14) * 92$ .<sup>4</sup> But the IWTC is for the child and ought to be paid to the caregiver. This therefore is a double anomaly and it is a situation that has not been taken into account in the Child Support formula. We note other family assistance measures such as paid parental leave and the parental tax credit have not been considered.

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<sup>3</sup> <http://taxpolicy.ird.govt.nz/publications/2010-ip-social-assistance-integrity/overview>

<sup>4</sup>  $[\text{In-Work Tax Credit}] \$60 + (5/14) * [\text{Family Tax Credit}] 92 = \$93$ ;  $(9/14) * [\text{Family Tax Credit}] 92 = \$60$ .

### *Opportunity costs of the caregiver*

The comments here reflect CPAG's concern particularly for children who are supported by a sole parent on a benefit.

The needs of very young children have a significantly different time component required from the primary caregiver. Work of any substantial nature by the mother is often precluded. The needs of the child, including when sick and unable to attend preschool can make employment of sole parents of young children difficult, and unattractive to employers. This is a particular issue for sole parents who do not have high income earning potential and/or young and sick children or older children with special needs.

The new scale of costs in the Bill takes no account of the opportunity costs of the mother's caregiving. In the early years these costs might be counted as the costs of providing full time day care. These costs are independent of the ongoing costs of the child - food, housing, healthcare, beds, cots, toys, high chairs, transport etc. This implies a sole parent looking after a child herself she is donating at least \$300 of unpaid time. If this opportunity cost is counted as 40 hours of work at the minimum wage then the value is \$540. The DPB is higher than the unemployment benefit in recognition of the extra fixed costs of having two or more people to provide for but there is no recognition of the work opportunity costs she donates. If the unemployment benefit level is the part of the payment that is for her alone, then the opportunity costs can be taken as at least  $\$540 - 205 = \$335$ .

Thus CPAG queries the reasoning behind differential cost-of-children percentages for younger and older children. While older children are more expensive in most cases, the Bill takes no account of the opportunity costs involved in caring for younger children. Data from the Ministry of Social Development shows that of the 140,000 sole parent beneficiaries at the end of December 2011, 62% were caring for a child aged 6 or under. This represents a significant investment of time and a corresponding lack of earnings from this group of parents, and this ought to be recognised by the child support formula.

### *Changes to child support formula*

The Bill reflects concerns around inequities in the allocation of shared care and the respective incomes of parents. We note this does not take account of many of the costs of the primary caregiver, and will result in some parents receiving reduced payments. CPAG is also concerned about the option to include daytime care as shared care (although we note this is by application to the Commissioner). Our chief concern is how this will be applied in practice, especially when parents are not willing to cooperate.

### *Conclusion*

CPAG is disappointed this Bill has failed to consider child support holistically and take into account issues of the caregiver's opportunity costs, the way WFF tax credits operate, other government initiatives redefining family income for social assistance, and the role of pre-school and school fees. We are also concerned that the Bill

appears to take no account of recent changes to social assistance. While the Bill states its aim is to bring the child support regime up to date, it has been selective in what it has chosen to update. CPAG's concern is that this will ultimately leave some families worse off.