

Transitional Relief Package

This is a time-limited package of assistance for people who have been made redundant and who have been in the same job for at least six months. They will be eligible for:

- A Working for Families top-up equivalent to the in-work tax credit, and
- An increase of \$100 in the maximum weekly accommodation supplement.

This assistance will be available until they get another job and their circumstances improve, or for up to 16 weeks, whichever is shorter.

The aim of this assistance is to ease the income shock caused by people losing their jobs as a result of the downturn in the economy. It allows them to make a more manageable transition back into the paid workforce, or – in the worst-case scenario – into a longer period of time on a reduced income.

The assistance is targeted at people who lose their jobs, and as a result either go on to a benefit or rely on the income of a relatively low-paid spouse or partner.

This is in contrast to Labour's relief package, which includes generous payments to people who are made redundant yet have a well-paid spouse and limited outgoings.

National's relief package will initially be available for two years, at which time it will be monitored to determine whether or not it should continue, either in whole or in part.

The cost of the package will depend largely on the state of the economy, and therefore employment conditions, but is unlikely to exceed \$42 million a year.

It will be funded from within the allowance for new spending in future Budgets, as described in National's fiscal policy.

In more detail, the components are:

1. A Working for Families top-up

Working for Families contains two main tax credits:

- The **family tax credit**, which is paid to families whether they are working or not, and
- The **in-work tax credit**, which is paid only to families not receiving a benefit and who are in full-time work (couples must normally work 30 hours a week between them, and sole parents must normally work 20 hours a week).

Under current rules, if a person (or their spouse or partner) is getting regular Working for Families payments which include both the family tax credit and the in-work tax credit, and is then made redundant, they may well lose their eligibility for the in-work tax credit.

This happens if they go on to the Unemployment Benefit, or if their partner works less than the required number of hours to be considered a full-time worker.

This constitutes something of a 'double whammy' – not only does the person suffer a significant drop in income from being made redundant, but they also immediately lose eligibility for the in-work tax credit.

The point of the in-work tax credit is to improve the returns from work for low- to middle-income families, by ensuring they are better off in work than they are on a benefit. However, people who have lost their jobs in an economic slowdown have no real choice about this, at least in the short term.

Therefore, for families in this position, who have lost their eligibility for the in-work tax credit, National will pay a top-up to their Working for Families payments equivalent to the maximum in-work tax credit, for up to 16 weeks.

The maximum in-work tax credit is \$60 a week if a family has three or fewer children. For larger families, the maximum in-work tax credit is \$60 plus \$15 a week for each child after the third.

National's top-up will be over and above the family tax credit component of Working for Families, which the family is still entitled to while receiving the Unemployment Benefit or while on a low income.

2. An increase in the maximum Accommodation Supplement

The Accommodation Supplement is an extra benefit that provides assistance towards a person's accommodation costs, whether they are renting, boarding, or paying off a mortgage.

Beneficiaries are eligible to receive the Accommodation Supplement, as are many lower-income working people. Eligibility is subject to certain conditions: people must not have cash assets above a specified amount, for example, and they must not be renting a Housing New Zealand property.

The Accommodation Supplement pays for 70% of a family's accommodation costs, where those costs are above a specified threshold. The supplement cannot, however, be greater than a maximum weekly amount, which depends on the size of the family and the area it lives in. These maximum weekly amounts are shown in Table 1.

Non-beneficiaries have their Accommodation Supplement abated to reflect their income.

As at 30 June 2007, some 243,000 people were receiving the Accommodation Supplement, of whom 52,000 were lower-paid non-beneficiaries. Next year, the government is expected to spend almost \$1 billion on the Accommodation Supplement.

Table 1 – Current maximum Accommodation Supplement weekly payments (\$)¹

	Area 1	Area 2	Area 3	Area 4
3 or more person family	225	165	120	75
2 person family	160	125	75	55
any other person	145	100	65	45

Those people who have previously been working, but who have been made redundant will, in many cases, have difficulty meeting their existing mortgage or rent payments and, as a result, in the short term at least, will be poorly placed to cope with what is a sudden drop in income.

¹ Area 1 includes Auckland and the North Shore. Area 2 includes West and South Auckland, Tauranga, Wellington City, Nelson and Queenstown. Area 3 includes Hamilton, Christchurch, Dunedin, Porirua, the Hutt Valley, and many provincial cities. Area 4 comprises those parts of the country not covered by Areas 1-3. For a detailed breakdown of areas see http://www.workandincome.govt.nz/manuals-and-procedures/deskfile/extra_help_information/accommodation_supplement_tables/definitions_of_areas.htm.

The Accommodation Supplement will give them some help towards their mortgage or rental costs but the existing maximum payments are relatively modest.

Therefore, for people who have been made redundant, National will increase the maximum Accommodation Supplement they are entitled to by \$100 a week, for up to 16 weeks (Table 2).

Table 2 – Transitional maximum Accommodation Supplement weekly payments (\$)

	Area 1	Area 2	Area 3	Area 4
3 or more person family	325	265	220	175
2 person family	260	225	175	155
any other person	245	200	165	145

In effect, this means that families who experience a redundancy, and as a result go on the Unemployment Benefit or rely on one lower-paid spouse, will receive up to \$100 more per week than they would under current rules, for up to 16 weeks.

The actual amount they will receive as a result of this transitional increase in the Accommodation Supplement will depend on whether or not they are eligible to receive the supplement, on the size of their rent or their minimum mortgage payments, and – if they are not on the Unemployment Benefit – on the amount of their spouse's income.

Example 1

Louise is a sole parent with one child who earns \$35,000 a year. She lives in Christchurch and pays rent of \$275 a week. She has little in the way of cash assets.

Louise has a disposable income of \$712 a week, made up of:

Earnings after tax and ACC	\$545
Working for Families	\$146
Accommodation Supplement	\$21

Louise is made redundant from her job. Under current rules, she would receive \$425 a week from the government, made up of:

Unemployment Benefit	\$264
Working for Families	\$86
Accommodation Supplement	\$75

Under National's relief package, Louise would receive an additional payment for up to 16 weeks of \$116 a week, making a total of \$541 a week from the government over this period. The additional \$116 a week Louise receives from National's package is made up of \$60 working for families top-up and \$56 additional Accommodation Supplement.

By contrast, under Labour's relief package Louise would receive no additional payments.

Example 2

Keith and Emma have two children. Keith is the sole earner in the family and earns \$70,000 a year. They live in Wellington and have a \$281,000 mortgage and pay the minimum \$500 a week in repayments. Keith and Emma have little in the way of cash assets.

Keith has a disposable income of \$1,077 a week, made up of:

Earnings after tax and ACC	\$998
Working for Families	\$79

Keith is made redundant from his job. Under current rules, he would receive \$618 a week from the government, made up of:

Unemployment Benefit	\$307
Working for Families	\$146
Accommodation Supplement	\$165

Under National's relief package, Keith and his family would receive an additional payment for up to 16 weeks of \$160 a week, making a total of \$778 a week from the government over this period. The additional \$160 a week Keith receives from National's package is made up of \$60 working for families top-up and \$100 additional Accommodation Supplement.

By contrast, under Labour's relief package, Keith and his family would receive no additional payments.

Example 3

Jane and Duncan are a couple who both earn \$100,000, live in Auckland, and have no children. They own their own apartment mortgage-free and have a lot of cash assets. Jane and Duncan have a disposable income of \$2,684 a week.

Duncan is made redundant from his job but Jane continues to earn \$100,000. Under current rules, Jane and Duncan would receive no assistance from the government.

Under National's relief package they would also receive no assistance from the government.

By contrast, under Labour's relief package, Duncan would receive \$307 a week from the government through the Job Search Allowance, for up to 13 weeks – a total of almost \$4,000.