

# Working Paper no.11:

## How the child support system could work to reduce child poverty

Expert Advisory Group on  
Solutions to Child Poverty

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### Purpose

1. This paper was prepared to provide the EAG with information on the current Child Support system, and identify possible ways the system could better support the goal of reducing child poverty.
2. The Child Support Act 1991 is under review with an amendment bill currently before a Parliamentary Select Committee. While the current proposed amendments do not include options for using child support as an instrument to reduce child poverty, this paper makes an argument for their inclusion.
3. This paper has informed the direction and recommendations of the EAG's *Solutions to Child Poverty in New Zealand: Issues and Options Paper for Consultation*. These are preliminary findings, and a final report will be published in December 2012. The findings in this paper do not necessarily represent the individual views of all EAG members.
4. The EAG wish to acknowledge the members of the Secretariat for their work on this paper.

### Introduction

5. Child support is the financial obligation of parents who don't live with their children to help support the children when a couple who have children split up, or, two people have children and aren't living together. Child support is intended to contribute to the financial well-being of children so that they do not suffer undue hardship from family breakdown.
6. Child support payments are a potential source of income to help meet the basic needs of many children living in poverty in sole-parent households.
7. In this paper, the relationship between child poverty and child support is discussed, and the case for a well-functioning child support system to help reduce child poverty is made. The current child support system is outlined, including proposed legislative amendments currently before a Select Committee. Finally,

recommendations are included that would improve the current system, and lead to reduced child poverty.

### **How is child support related to child poverty?**

8. Children who grow up in poverty have a high risk of poor life outcomes – they are more likely to drop out of school, be unemployed due to poorer educational achievement, participate in crime and be incarcerated, and suffer from poor mental and physical health than children who do not grow up in poverty. Socioeconomic factors in childhood are interlinked with a range of outcomes, shaping an individual’s ability as an adult to be successful in education, work, relationship and community life (see, for example, OECD, 2009).
9. There is an overlapping relationship between: (1) children eligible for child support payments; (2) children living in sole-parent households on income support benefit; and (3) children living in poverty.
10. As reported in Perry (2012), 25 percent of New Zealand children – 270,000 children – are living in poverty. Children living in sole-parent households experience significantly higher poverty rates than those in two-parent households and other family households (53 percent, 16 percent and 9 percent respectively). Overall, about half of children in poverty are in sole-parent households.
11. Being in a sole-parent household substantially increases a child’s risk of poverty, and being in a household receiving income support. In June 2012, there were 112,000 sole-parent households claiming Domestic Purposes Benefit (MSD, 2012), and a total of 234,000 children in beneficiary households. Two-thirds of sole-parent families on income support are living in poverty, resulting in 75,000 sole-parent households on income support, including 156,000 children, living in poverty.
12. Over 217,000 children, living in 136,700 households, were eligible for child support payments during the year ended 30 June 2011. 133,500 of these children were living in 81,200 sole-parent households receiving an income support benefit (and in accordance with our current system, had their child support payments withheld).<sup>1</sup>

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<sup>1</sup> Data provided by IRD.

13. The different data systems and definitions make it difficult to determine the exact number of children living in poverty who are also eligible for child support payments; a very conservative estimate would be 89,000.<sup>2</sup> In summary, there are:
  - 1.08 million children in NZ; 270,000 of these children live in poverty
  - 234,000 children live in sole-parent beneficiary households; 156,000 of these children live in poverty
  - 133,500 children live in sole-parent beneficiary households eligible for child support; 89,000 of these children live in poverty.
14. Given this overlap, it is obvious that promoting the welfare of children eligible for child support is a priority consideration when addressing child poverty.
15. The aim of the recommendations set out in this paper is to see the New Zealand Child Support system operate in a way to best benefit the children, ensure parents actively take responsibility for financial and other support of their children, avoid negative impacts of non-compliance, and see fewer children living in poverty. These recommendations have the potential to improve the circumstances for the majority of children for whom child support payments are intended.

## **New Zealand's child support system**

### **Overview**

16. Child support is money collected from parents who do not live with their children to help financially support the children when the parents split up, or the parents are not living together.
17. The fundamental objective of the child support system, as expressed in the Child Support Act 1991, is to affirm the right of children to be maintained by their parents.
18. Further to this objective, a child support system acts to ensure both parents fulfil their responsibilities to financially support their children, so those children do not suffer undue hardship from family breakdown.
19. The Inland Revenue Department (IRD) administers the child support scheme, based on the Child Support Act 1991. It aims to ensure that parents take financial responsibility for their children when marriages and relationships end by collecting

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<sup>2</sup> Multiplying the 133,500 eligible for child support in sole-parent households receiving a benefit by the 2/3 rate of poverty in sole-parent beneficiary households.

the established support payments and administering the regime of sanctions and recovery when payments are not made. Received payments are passed on to the custodian parents, with the exception of those custodian parents who are in receipt of income support, like the Domestic Purposes Benefit. For these households, IRD pass on the payment to the Ministry of Social Development (MSD) to help offset the cost of benefits.

20. Separated parents can agree privately on child support payments. Some parents use IRD to transact payments as there are advantages in using an independent third party. IRD's child support scheme is most often used when separating parents cannot reach a private agreement. Using the child support system is voluntary, with the exception of those families in receipt of income support, who are obligated to use the system (and have child support passed on to MSD).
21. The current calculation formula is described in Appendix A.

### **Review of the child support scheme**

22. In 2008 the Hon Peter Dunne, Minister of Revenue, announced a review of the child support scheme.
23. In its public discussion document on child support, IRD states the purpose of a child support scheme is to deliver financial support to children to promote their ongoing well-being and healthy development following parental separation. This puts promoting child well-being as a central goal of the policy.
24. However, despite this statement, the goal of promoting child well-being was missing from those factors IRD identified as underpinning the child support review. The review instead listed the following reasons for amendment to the child support system (IRD, 2011):
  - over time there has been increasing emphasis on shared parental responsibility, however this is not accommodated by the standard formula
  - more parents are working, including part-time work
  - escalating levels of accumulated child support debt
  - the scheme is considered out-of-date, which undermines the incentives for some parents to meet their child support obligations
  - receiving parents are concerned about the instability of payments, including delays in receiving payments, and consider the level of payment insufficient to meet the real costs of caring for their children.

25. Any notion regarding the well-being of the child is captured only peripherally in the last point. This has meant that, to date, the opportunity to promote child well-being and reduce poverty through the child support review has been missed.
26. In September 2010 the Minister of Revenue released a discussion document on updating the child support scheme. The document included options for:
  - revising the child support formula to better recognise shared care arrangements, and to take into account the income of both parents, and the costs of raising children in New Zealand
  - improving payment through compulsory deduction of child support payments from salary and wages, and using parenting orders to determine a parent’s level of care penalties and debt
  - reducing debt including reducing penalties in later years or capping them, and increasing non-financial enforcement measures.
27. In July 2011 IRD published a summary of feedback on the discussion document. It noted “Broadly speaking, there is majority support for the main options canvassed, with the majority of submitters supporting, in particular, comprehensive change. There are, however, some areas where a significant minority opinion also exists, indicating that views on the specifics of any possible change do differ considerably. This is not surprising given the inherent potential for conflict in the child support area” (p1). There were 2,272 participants in the online consultation and a further 112 written submissions.

### **Research and commentary on the current system**

28. The Families Commission commissioned Colmar Brunton (2009) to undertake a quantitative study of separated parents with the object of finding out what arrangements separated parents make for the care of their children and their views on the child support scheme. Parents surveyed were either on Inland Revenue’s Child Support or Working for Families Tax Credits database. A total of 1,602 questionnaires were returned, a response rate of 16 percent. The sample comprised 983 parents who received or paid child support through Inland Revenue and 656 parents who received or paid child support through private arrangements.
29. Key findings from the survey included:
  - Those who arranged child support privately, rather than through IRD, had greater levels of satisfaction with their care arrangements.
  - Payers (usually men) were generally less content with their arrangements and wanted more contact with their children.

- Those who received child support through IRD reported much lower levels of contact by the other parent than those who had private arrangements.
  - For many receiving parents the amount of child support was considered to be too little to meet the needs of their child. Many of those parents were beneficiaries. Conversely, paying parents complained that child support payments were too high and they wanted more consideration for other costs.
  - Many of those interviewed felt that a formula based on the needs/cost of the child would be more equitable than a formula based on the parent's income. Income should possibly be a mitigating factor, but not the main driver of the formula.
30. In August 2009 the Families Commission published an issues paper entitled 'What Separating Parents Need When Making Care Arrangements for Their Children'. The Commission made a case for:
- More integrated and impartial information and support services for separated parents to help them work through their support, care, contact and financial arrangements, including targeted services for fathers.
  - A more equitable child support formula.
  - Passing-on child support payments to custodial parents receiving a sole-parent benefit.
  - Increased flexibility in the child support scheme to accommodate the frequent changes in care arrangements experienced by separated parents.
  - More research to understand the needs of Māori families when negotiating care, contact and financial arrangements for their children.
31. The Child Poverty Action Group (2011) provides commentary on the main problems with the current New Zealand child support scheme as being:
- weaknesses in how the formula accounts for parents' costs and needs, including a failure to address the opportunity costs for a parent forgoing employment in order to care for children
  - the lack of any pass-on of child support payments where the custodial parent is on a sole-parent benefit
  - inflexibility with respect to shared care arrangements
  - administrative problems including the lack of advance maintenance provisions to ensure custodial parents' incomes are maintained when a custodial parent fails to keep up with payments.

32. The Welfare Working Group (2011) advised that the government should consider “how the system can be used to support parents taking personal responsibility for their children, and recognise the interests of the children. It also needs to consider how child support might affect decisions both parents might make about paid work” (p79).

## **Child Support Amendment Bill 2012**

33. The Child Support Amendment Bill 2012 (the Bill) presents a significant opportunity to update the Child Support Act 1991 (the Act) and reform the child support scheme since it was introduced two decades ago. It is in response to a review announced in 2008 by the Minister of Revenue, and based on the review and consultation process in 2010 and 2011. The Bill had its first reading on 8 May 2012.
34. The Bill is intended to provide for a fairer and more transparent assessment calculation for child support payments, taking a wider range of individual circumstances and capacities to pay into account. The Bill also includes changes to the rules relating to the payment of child support, the imposition of penalties, and the writing-off of penalties.

## **Proposed legislative changes**

35. The Regulatory Impact Statement accompanying the Bill (IRD, 2011) provides a comprehensive overview of the proposed changes and the predicted impact of those changes.<sup>3</sup> In assessing options for amending the child support scheme IRD considered two primary objectives:
- To improve the fairness of the child support scheme so that it reflects social and legal changes which have occurred since its introduction in 1992.
  - To promote the welfare of children, in particular by recognising that children are disadvantaged when child support is not paid, or not paid on time.
36. The Bill proposes changes in three broad areas which are summarised below:
- a new child support calculation formula
  - secondary changes to update the child support scheme
  - amendments to the payment, penalty and debt rules for child support.

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<sup>3</sup> See <http://taxpolicy.ird.govt.nz/publications/2011-ris-child-support/overview>.

## New child support formula

37. The new formula bases child support payments on:
- a wider recognition of shared care, based, in the first instance, on there being care of at least 28 percent of nights in a year;
  - the income of both parents; and
  - the estimated average expenditure for raising children in New Zealand.

38. IRD (2011, p18) describes how the new formula would work in practice as follows:

*“Under a new formula, each parent would be allocated a standard living allowance that would be deducted from his or her respective taxable income. If the net amount was negative, the taxable income would be treated as zero.*

*The two net amounts would be combined and each amount expressed as a percentage of this total. These proportions would then be applied to the expenditure relevant for that child so that the expenditure for raising the child or children would be split between the two parents based on their relative net incomes.*

*Each parent’s percentage of shared care would then be deducted from the result to produce a net liability for one of the parents. This would be the parent whose shared-care percentage is less than his or her share of total net income.*

*To recognise the care a parent provides for other dependent children, an amount (in addition to the living allowance) would be deducted from the parent’s adjusted taxable income before applying the basic formula. This amount would be calculated in the same way as the calculation described above. In this way other dependent children would be treated the same way as children subject to child support.”*

39. Determining a formula to apply across a wide range of circumstances is complex, and will inevitably not meet all needs. However, this amendment represents an improvement on the current formula, as it more accurately reflects the costs and contributions of both parents. This should increase compliance and ensure more children are supported.
40. Regarding the estimate for expenditure for raising children, the formula will use a new scale of costs. This scale is differentiated by age of child, with children aged 12 years and over attracting a higher rate. While this has some logic in calculating

basic clothing and food needs of older children, it does not reflect the true higher cost for very young children.

41. These extra costs do not include baby-related items, or more importantly, recognize the opportunity costs of young children. Time-use surveys indicate that direct and passive parental care time with children peaks from birth up to two years of age, then progressively falls until the teen years (Folbre et al, 2005). This means parents with young children are constrained from working or effectively pursuing careers, and their opportunity cost for this is much higher than the monetary expenditure on older children.
42. Providing a higher rate for younger children also reflects the significant scientific literature on the importance of giving children the best possible start in the first few years of their life.

### ***Recommendation 1***

*The new child support calculation formula should provide a higher rate for children aged under 5 years in the estimate for expenditure for raising children, reflecting the high opportunity cost for young children and the importance of giving children more financial support in the early years.*

### **Secondary changes to update the child support scheme**

43. The Bill proposes the following changes that will affect parents' ability to claim child support and the amount of child support that is to be paid:
  - allow Inland Revenue to rely on parenting orders and agreements when establishing care levels
  - introduce a Commissioner's discretion to make it easier for significant daytime care to be recognised for shared care purposes in addition to nights
  - more closely align the definition of 'income' for child support purposes with the broader definition of 'family scheme income' for Working for Families purposes
  - introduce a Commissioner's discretion to allow, in certain circumstances, various prescribed payments to be recognised for child support payment purposes
  - recognise re-establishment costs, following a separation, as an administrative review ground in certain circumstances

- reduce the qualifying age of children subject to the child support scheme from under 19 to under 18, unless they are 18 and enrolled in full-time secondary education.
44. The Bill also proposes changes to payment, penalties and write-off rules aimed at encouraging parents to make timely payments of child support:
- allows for compulsory deductions of child support from the employment income of paying parents
  - introduces a new two-stage initial penalty, with the current full 10 percent only being charged if the debt remains unpaid after 7 days
  - reduces the incremental monthly penalty from 2 percent to 1 percent after a year of non-compliance
  - changes the circumstances in which penalties can be written off, including when a paying parent enters into an instalment arrangement or is in serious hardship, when debt recovery is a demonstrably inefficient use of Inland Revenue's resources, or when only a low level of penalty debt is outstanding
  - allows IRD to write off assessed debt owed to the Crown, in relation to a receiving carer who is on a benefit, on serious hardship grounds.
45. The main concern with any of the secondary changes is that discretionary decisions and implementation of any sanctions will not consider the impact on the child. The child support system needs to incorporate the promotion of child well-being as a core objective, and ensure any decisions or actions do not have negative consequences for children involved.
46. This can be achieved by adding a descriptive purpose clause to the Bill asserting decisions are subject to primary consideration of the impact of that decision on the welfare and best interests of the child.

***Recommendation 2:***

*The Bill add new objectives to affirm the right of children to be maintained by their parents and the promotion of their ongoing wellbeing and healthy development following parental separation and to require that, in all decisions and actions made under the Act, the welfare and best interests of the child shall be a primary consideration.*

## What the bill does not include

### Towards a well-functioning child support system

47. A well-functioning child support system tries to ensure that levels of support are fair and adequate and mechanisms are in place to facilitate the transfer of funds. In the best cases, well-functioning systems can have a positive impact on the ongoing relationship between non-custodial parents and children, and improve the likelihood that non-custodial parents take responsibility for their children (see for example, OECD, 2011, and Skinner et al, 2008). Well-functioning systems in some jurisdictions have also been shown to reduce child poverty and the level of family dysfunction, abuse and neglect (Cancian et al, 2008, and Cancian et al, 2010). International studies show child support payments can reduce child poverty on average over 5 percent (Skinner et al, 2008).
48. Poorly designed systems can have perverse effects including reluctance to pay, less financial support, and less contact between non-custodial parents and children. Further comparison of models in other jurisdictions is included in Appendix B.
49. New Zealand's current system is primarily a mechanism to facilitate the transfer of funds. The proposed legislative changes in the system outlined above are intended to make it more fair and adequate. This still leaves significant short comings in promoting aspects of a child support system that would:
  - place the well-being of the child at the centre
  - increase the likelihood of both parents taking financial responsibility for their children
  - reduce child poverty
  - lessen family dysfunction.
50. There is significant scope to use the tools available through the child support system to reduce child poverty and improve incentives to parents who make their child support payments. There is an opportunity with the current Bill to ensure the legislation has a child-centred focus on poverty reduction. Two additional considerations include having the child support passed on to sole-parents on income support and advancing the child support payment to households to avoid instability and delays of payment. These are detailed below.

## Passing on child support to sole-parents on income support

51. 'Pass-on' means that, instead of being retained by the Crown, child support payments are passed on to the beneficiary receiving parent.
52. The benefit levels for sole-parent families are not always adequate to meet basic needs. Accommodation supplement or temporary additional assistance, are often required as additional top-ups for sole-parent families.
53. As noted above, the New Zealand child support scheme is compulsory when a caregiver is receiving a sole-parent benefit. These child support payments are retained by the Crown to help defray the cost of the benefit and any excess is passed on to the caregiver. In the month of March 2011, IRD withheld child support payments for 101,880 sole-parent beneficiary custodians, with just 300 eligible for any pass on.<sup>4</sup>
54. This policy impacts children in families who are experiencing most hardship. It also has the negative impact of dis-incentivising parental responsibility, as the paying parent sees their child is no better off whether they pay child support or not.
55. This option was included in the IRD Regulatory Impact Statement (RIS), but not recommended. It was noted that this option 'may' increase the incentive to pay child support. This is clearly understated, as it has been demonstrated in many international studies that it definitely does incentivise payment. Also, the most important benefit, not stated in the RIS, is that it would improve the well-being of these children currently living in poverty.
56. The RIS also notes this option "*would involve significant cost or, alternatively, would create uncertainty or hardship where pass-on payments not paid*". The RIS did not quantify the costs, but our analysis below shows this to be manageable, not significant. Also, any hardship from missed payments could not be worse than the current situation, where they receive no payments.
57. Robust international evidence by Cancian, Meyer and Caspar (2008) shows that "when the custodial mothers keep all child support paid on their behalf, paternity establishment occurs more quickly, non-custodial fathers are more likely to pay support, and custodial families receive more support. These outcomes are achieved at no significant government cost."

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<sup>4</sup> Data provided from IRD. Those eligible for some pass on included those on benefit less than a full month and those whose child support exceeded their benefit rate.

58. Further analysis through a randomized trial of this policy demonstrated that child maltreatment reported to the child welfare system is also reduced for children where the child support was passed on (Cancian, Shook and Lang, 2010).
59. The current policy disadvantages children in sole-parent benefit-supported households:
- Abating the full amount of child support to cover the benefit does not fit with the principle that both parents contribute to the costs of the child. Child support is not intended to support the household of an ex-partner as by definition, child support is intended as a contribution to child costs only.
  - The best interests of the child should be the greater concern, but the abatement is to the benefit of all taxpayers (to try and reduce welfare bill) rather than to the benefit of children entitled to that support from their non-custodial parent.
  - It treats sole-parents on a benefit differently from those who re-couple within other beneficiary households.
60. Passing on the child support will have additional benefits:
- It incentivises the paying parent to take financial responsibility for their child.
  - It incentivises sole-parents to disclose the identity of their child's father.
  - It will get additional income to families most in need.
  - It aligns with the practice in many OECD nations that use this policy to improve child welfare.
  - It aligns with recommendations by the Welfare Working Group that the government should consider how the [child support] system can be used to support parents taking personal responsibility for their children, and recognize the interests of the children.
  - It can impact on broader issues for vulnerable children, including lowering the incidence of abuse and neglect.
  - It will be an effective and predictable means of reducing child poverty.
61. Passing on the child support payment will benefit some 133,500 children in sole-parent households receiving income support, and potentially lift a portion of these out of poverty.

***Recommendation 3:***

*The government should "pass on" child support payments to sole parents on state-provided benefits.*

62. There will be some fiscal cost to government compared to the current policy. For example in 2011, \$159.3 million in child support payments was retained by the Crown to offset sole-parent benefits paid. This amount may be partially offset by reductions in payments for temporary additional assistance, accommodation supplement, or emergency grants that will no longer be required for many of the households now receiving the child support.
63. This is more cost effective and efficient than introducing other poverty reduction initiatives to increase income support for these families and children. For example, in a British panel study by Ian Walker & Yu Zhu (2008) child support is shown to leverage better outcomes than other forms of income support in improving outcomes for children in poverty. Child Support received has an effect which is at least 10 times as large as that associated with variations in other sources of total household net income for two key educational outcomes: namely school leaving at the age of 16, and attaining 5 or more, good GCSEs. The study shows that this remarkable and strong result is robust and, in particular, can be given a causal interpretation.
64. There are many variations on how the pass-on of child support could be implemented, and further detailed modelling would be required to develop specific parameters of the pass on.

### **System to advance child support payments**

65. Instability and delays of child support payments negatively impacts many children.
66. IRD stated that in assessing options for amending the child support scheme, one of the two primary objectives was to promote the welfare of children, in particular by recognising that children are disadvantaged when child support is not paid or is not paid on time.
67. For many children living in poverty, in households not receiving welfare benefits, child support contributions are vital to providing for their basic needs. Instability and delays receiving payments can put these children into severe hardship. IRD reports that 65 percent to 69 percent of child support payments are made regularly and on time. This leaves on average one-third of New Zealand households expecting a child support payment uncertain whether they will receive their payment this month or not. The majority are in households with low income levels.
68. Many countries have dealt with this risk by advancing the payments to the recipient parent. Over half of OECD countries make advance payments when the paying parent does not meet his/her obligations. *"In counties where advance*

*payments are made, the government takes on the costs of pursuing non-resident parents to re-claim the advanced funds... Such a system can be very effective in poverty reduction.” OECD (2011). The OECD analysis confirms that (for the countries where data on advanced maintenance payments is available) the effect on poverty rates is small but significant.*

69. Advance payment would manage the risk when the paying parent fails to pay, as the Crown would make advances of child support to the eligible receiving household. This would ensure many families in fragile circumstances receive their entitled child support on time.

#### ***Recommendation 4:***

*The government should advance the child support payment to households to avoid instability and delays of payment.*

70. This would expand IRD’s functions and would result in extra costs to administer and manage the risk. However, it sits well with the range of amendments included in the Bill to manage non-payment.
71. Having IRD make advance payments will lift many low-income households from poverty and prevent many others from experiencing severe hardship due to missed and late payments. This would have positive impacts for at least tens of thousands of children living in households with very low income that currently experience unpaid or late child support payments.
72. There are many variations on how the advance payment of child support could be implemented, and further detailed modelling would be required to develop specific parameters of the advance payment scheme.

## **Conclusion**

73. There is an overlapping relationship between (1) children eligible for child support payments, (2) children living in sole-parent households on income support benefit, and (3) children living in poverty. There are:
  - 1.08 million children in NZ; 270,000 of these children live in poverty.
  - 234,000 children live in sole-parent beneficiary households; 156,000 of these children live in poverty.
  - 133,500 children live in sole-parent beneficiary households eligible for child support; 89,000 of these children live in poverty.

74. Given this overlap, it is obvious that promoting the welfare of children eligible for child support is a priority consideration when addressing child poverty.
75. A well-functioning child support system tries to ensure that levels of support are fair and adequate and mechanisms are in place to facilitate the transfer of funds. In the best cases, well-functioning systems can have a positive impact on the ongoing relationship between non-custodial parents and children, and improve the likelihood to take responsibility for their children and reduce child poverty.
76. New Zealand's current system is primarily a mechanism to facilitate the transfer of funds, and there are significant opportunities to improve the system and to place the well-being of the child at the centre, increase likelihood of both parents taking financial responsibility for their children, reduce child poverty, and lessen family dysfunction.
77. Key recommendations are to ensure the child support system has a child-centred focus and uses available levers to give effect to broader child poverty reduction goals. This could be achieved by having the child support passed on to sole-parents on income support and advancing the child support payment to households to avoid instability and delays of payment.

## Appendix A

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### The current child support scheme<sup>5</sup>

1. The scheme is legislated through the Child Support Act 1991, and is administered by Inland Revenue which is responsible for assessing contributions, collecting and passing on payments. If a caregiver is receiving a sole-parent benefit, child support payments are retained by the Crown to help defray the cost of the benefit and any excess is passed on to the caregiver.
2. A standard formula is used to calculate child support:  
$$(a - b) \times c$$
where:  
“a” is the child support income amount  
“b” is the living allowance  
“c” is the child support percentage.
3. For most paying parents, the child support income amount is their taxable income in the preceding income year. The maximum child support income that can be assessed is set at two and a half times the national average earnings for men and women as at mid-February of the tax year immediately preceding the most recent tax year. The maximum is currently \$120,463.
4. There are six separate living allowance levels, ranging from \$14,158 to \$35,868, depending on whether the paying parent is living alone or with a partner and/or other children. The allowance is based on benefit rates plus a set amount for each dependent child up to a maximum of four children.

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<sup>5</sup> Most of this appendix reproduces text from: Inland Revenue (2010) *Supporting Children: A Government Discussion Document on Updating the Child Support Scheme*. Inland Revenue, Wellington, p9-10.

5. Once the living allowance has been deducted from child support income, the product is multiplied by the child support percentage relevant for the number of children being supported. The standard percentages are:

<b>No. of children</b>	<b>Child support % (sole care)</b>
1	18
2	24
3	27
4 or more	30

6. There is a minimum amount of child support payable each year, the current minimum amount being \$815.
7. The above percentages are reduced if parents share the care of their child. Under the Child Support Act, care of a child is regarded as being shared when each provider of care shares the ongoing daily care of the child “substantially equally” with the other care provider. A paying parent who looks after a child for at least 40 percent of nights is considered to meet this test. If a parent does not meet this test, he or she may qualify under an alternative test based on the court’s interpretation of ‘substantially equally’. This is at least 50 percent of the responsibility in relation to the factors constituting care other than overnight care. If shared care is established, parents can cross-apply for child support. This involves respective liabilities being offset to produce a net amount for one parent to pay.

### International perspective on child support systems

1. The OECD report *Doing Better for Families* (2011) includes an analysis of child support systems<sup>6</sup>. The report notes “Child support systems can have a number of different aims, including:
  - increasing the income of children living in sole-parent families, with direct positive consequences for child poverty and indirect positive consequences for other child outcomes
  - reducing the fiscal burden on taxpayers from having to support resident parents and their children
  - ensuring that non-resident parents take financial responsibility for their children
  - promoting gender equality in family income (more women are resident parents)
  - promoting shared parental care of children” (p225).
2. The OECD also notes that the population of children affected by child support may be large – it includes both the recipients of child support and the children living in families who pay child support.
3. The OECD notes “The most relevant differences in the methods used for calculating the child-support payments across countries include: the tax treatment of payment and receipt of child support; the extent to which child-support payments are used to offset welfare payments made to the resident parent; and the abatement of assessed child support on account of shared care time” (p227). Further, “OECD countries are evenly divided between those where the government makes advance payments when the non-resident parent does not meet his/her obligations and those that do not. In countries where advance payments are made, the government takes on the cost of pursuing non-resident parents to re-claim the advanced funds ... Such a system can be very effective in poverty reduction, but it does not encourage parents to find shared parental-care arrangements” (p228).

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<sup>6</sup> For another concise comparison of international child support systems see <http://www.oecd.org/dataoecd/52/8/41920285.pdf>.

4. The OECD considered the effect of child support payments on child poverty (there is no New Zealand data for this analysis). It found that:
  - For the three countries where data on advanced maintenance payments is available (Finland, France and Poland), the effect on poverty rates is small but significant.
  - The effect of receipt of child support payments on overall child poverty is considerable – from 2.5 percentage points (Denmark, Germany, Switzerland and Sweden) to 1 percentage point in the United States.
  - Child support payments have very little effect on overall child poverty rates of children in paying families.
  - In some countries (eg Nordic countries, Poland and Switzerland) child support schemes are an important policy tool in reducing child poverty in sole-parent families.

### *United Kingdom*

5. The UK child maintenance system has undergone significant reform in recent years. Changes arose from a concern about child poverty. Key changes have included:
  - From October 2008 all parents were free to chose their own child maintenance arrangements. Previously parents claiming benefits were required to use the statutory service provided by the Child Support Agency (CSA).
  - The Child Maintenance and Enforcement Commission (a Crown non departmental public body) was established. It is responsible for the child maintenance system. The Commission has two delivery bodies: the CSA, which administers the statutory schemes; and Child Maintenance Options, which provides information and support services. The Commission is accountable to the Secretary of State for Work and Pensions.
6. In 2011 the UK government consulted on proposals to further reform the child maintenance system. The primary goal of the reform has been to rebalance the child maintenance system so that more parents are supported to make their own family-based arrangements. The reformed child maintenance system will have the following key features:
  - Support for child maintenance will be joined up with other types of support for separating and separated families.
  - Parents will be charged for using the statutory child maintenance system. Charges will include: an application fee, ongoing maintenance collection

fee, fees for any enforcement actions that need to be taken for non-compliance (fees will be a heavily subsidised proportion of the full costs). Charging is being introduced as a means of encouraging both parents to actively work towards having a family-based arrangement.

- Families on benefits will retain 100 percent of their welfare benefit entitlement, a heavily discounted application fee, and maintenance payments will remain non-taxable.
- Further work is being undertaken to explore the feasibility of making family-based arrangements enforceable.

### *Australia*

7. In Australia an independent Ministerial Taskforce on Child Support found that the child support scheme needed to be updated to reflect a greater emphasis on shared parental responsibility and a growing recognition of the importance of both parents remaining actively involved in their children's lives after separation. The Australian government began reforms in 2005 which were adopted in 2008. Key elements of the reforms included:

- A new child support formula calculates child support payments based on the costs of raising children and uses the combined income of both parents to calculate child support payments, treating both parents' incomes in the same way.
- Increasing the minimum payment so child support payments keep pace with inflation.
- Recognising both parents' contributions to the cost of their children through care and contact.
- Treating children of first and second families more equally.
- Differentiating between children aged below 13 years, and those who are older, to reflect that teenagers are generally more expensive than younger children.
- Attempting to more fairly reflect the level of care of both parents in the child support liability calculations. The new minimum threshold for recognition under the formula begins at 14 percent of nights, at which point it is considered that the parent will need some allowance for accommodation for the child to stay overnight regularly. This allowance is the same for any level of care between 14 percent and 34 percent of nights. At 35 percent of nights parents are considered to have shared care of the child, and that point the child support arrangement becomes based on a shared care formula, effectively a transfer from the wealthier parent to the

less wealthy parent after accounting for the amount of time the child spends in the care of each parent.

- Providing access to Family Relationship Centres, the Family Relationship Advice Line and other expanded services, to help separating parents agree on arrangements for their children.
- Strengthening the Child Support Agency's capacity to ensure parents pay their child support payments in full and on time.

### *Sweden*

8. In Sweden, separated parents make their own arrangements and disputes are handled by the court. The child support benefit (guaranteeing a minimal level of support to children in single-parent families) was reformed in the late 1990s in an effort to get non-custodial parents to provide more financial support. The reform linked the court-ordered support awards more closely to the non-custodial parent's income and eliminated the indexing of the minimum support benefit. In cases where the non-custodial parent is not able to pay at least the minimum, the government pays (advance payment by the public social insurance office).
9. Courts decide on child support maintenance according to individual circumstances. The child's needs are expressed as a proportion of a standard monthly amount, which is the basis for adult benefit rates, depending on age: aged 0-6 65 percent of standard monthly amount; aged 7-12 80 percent; and aged 13+ 95 percent.
10. There are questions about the equity of paying advance maintenance to resident parents who are well off. Means-testing was considered but rejected as having a negative effect on resident parents on low incomes (who make up the majority of lone parents) without offering significant public expenditure savings.
11. Since the 1980s there has been a general trend to ease the burden on non-resident parents and improve the situation for the second family, thus placing the responsibility for the first family on society at large. If there is a second family, the basic principle is to equate the needs of all the children, therefore reducing support to the first family.

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