

FACT SHEET | PUKA MEKA

Working for Families tax credits and family scheme income

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IS 26/12 FS 1

This fact sheet accompanies [IS 26/12: Working for Families tax credits and family scheme income](#), which gives an overview of eligibility for Working for Families tax credits and discusses the adjustments required to a person's net income to determine family scheme income.

RELATED DOCUMENTS | TUHINGA WHAI PĀNGA

- [IS 26/12: Working for Families tax credits and family scheme income](#)

Introduction | Whakataki

1. Working for Families tax credits help with the costs of raising a family¹. To be eligible for Working for Families tax credits, a person must satisfy eligibility criteria. The criteria vary for each type of credit.
2. In general, the person must be over 16, the principal caregiver for a dependent child and meet the residence test. There can be more than one principal caregiver in some shared-care situations. The principal caregiver may be someone other than a parent.

¹ The names of the four main types of credits are Family tax credit, In-work tax credit, Minimum family tax credit and Best Start tax credit.

3. Transitional residents are not eligible to receive Working for Families tax credits. The spouse, civil union partner or de facto partner of a transitional resident is also not eligible. In general, a transitional resident is a new tax resident or has not been tax resident here in the previous 10 years. They are exempt on most forms of foreign-sourced income for about 4 years. If a transitional resident applies to claim Working for Families tax credits, that is treated as an election not to be transitional resident. The election is irrevocable so care must be exercised before making an application.
4. A person's entitlement to credits will depend in part on the amount of their family scheme income. In general, as a person's family scheme income increases, their entitlement to credits decreases.
5. The starting point for calculating family scheme income is a person's net income. This is the person's annual gross income less total annual deductions for a tax year. For an employee with no other forms of income, net income will equal their salary or wages. The net income is then adjusted, as necessary, to arrive at family scheme income. The aim of the adjustments is to reflect the means actually available to a family and includes amounts that are not income for income tax purposes.
6. A person's entitlement to Working for Families tax credits is based on information held by the Commissioner and information the applicant provides. The person must verify the determination is correct and advise the Commissioner of changes that affect the calculation. The form [IR215](#),² can be used to inform the Commissioner of adjustments to net income. A person can also send a message in their myIR account.
7. Every person who is eligible to receive Working for Families tax credits must consider whether their net income needs to be adjusted and report those adjustments to the Commissioner. It is important that a person informs the Commissioner of changes in their circumstances, such as the start or end of a marriage, civil union or de facto relationship, and any adjustments. This helps ensure the person receives their correct entitlements and avoids debt arising due to overpayments.
8. Inland Revenue's [website](#)³ has more information about Working for Families tax credits, including how to apply and what changes are important.

² Adjust your income: Student loans and Working for Families – IR215 (form, Inland Revenue, April 2024).

³ ird.govt.nz/working-for-families/all-about-working-for-families

Key adjustments to net income

9. The rest of this fact sheet explains some of the more important adjustments that may need to be made to net income to calculate family scheme income. These adjustments are summarised in Figure | Hoahoa 1.

Adjustments for relationship periods that are not a year

10. Family scheme income is calculated for specific periods called relationship periods. There may be more than one relationship period in a tax year. A relationship period is an unbroken period in a tax year during which a person's relationship status and qualifying criteria for Working for Families tax credits stay the same. It is not solely about whether a person is in a relationship but also about whether the person has, for example, started to care for a dependent child or changed their tax resident status. If something changes, a new relationship period begins. It is important to inform the Commissioner of any changes.
11. Once these periods are worked out, the next step is to calculate the person's assessable income for a relationship period. For example, income from employment or government benefits is treated as if it was earned evenly each day during the time the person worked or received the benefit. The total amount received is divided by the number of days employed or on a main benefit and that amount is multiplied by the number of days in the relationship period.
12. If the relationship period is shorter or longer than a full year, the income is adjusted to show what it would be over a full year. This is done by multiplying the assessable income calculated for the relationship period by 365 and dividing by the number of days in the relationship period.
13. Within each relationship period, is the "entitlement period". This is the part of the relationship period during which the person's entitlement to one or more Working for Families tax credits remains the same. The entitlement period ends if the person stops meeting the continuing requirements (eg, they move overseas and are no longer a New Zealand tax resident, or they no longer have a dependent child in their care). In some cases, this will result in a person no longer being eligible for Working for Families tax credits. In other cases, the person may remain eligible, but a new entitlement period will begin because the amount or type of credits they are entitled to has changed. In general, credits are adjusted to reflect the length of an entitlement period and the extent of shared care.

Adjustment if a person is the settlor of a trust

14. If a person is the settlor of a trust, they may need to include their share of the trustee's net income in their family scheme income. The trustee's net income is an amount after the allocation of beneficiary income and before any losses carried forward. It cannot be less than zero. If the person is the settlor of more than one trust, they must do the calculation for each one.
15. If the trustee and associated persons have more than 50% of the voting interests in a company, the trustee's share in the company's income less dividends paid must be included in the trustee's net income. A net loss incurred by a company is treated as being equal to zero.

Adjustment if a person receives payments from a trust

16. If a person is not a settlor of a trust, they may need to include payments received from the trust in their family scheme income. For example, payments of retained trustee income to a beneficiary need to be included. Payments which are beneficiary income do not need to be included as they will be part of net income.

Adjustment if a person is a major shareholder in a close company

17. If a person is a major shareholder in a close company, they may need to include their share of the company's income in their family scheme income. They need to do this calculation for each relevant company. A company's income cannot be less than zero.
18. In general, a close company is one where more than 50% of the voting interests are held at a time by five or fewer natural persons or trustees. A major shareholder has at least 10% of the voting interests in the company.
19. A major shareholder also needs to include their share of any interest in the company held by a dependent child.

Adjustment for losses

20. In general, a person cannot offset the loss from one activity against the profit from another activity. For example, if a person cannot offset the loss from a rental property against the profit from a lawn mowing business. The loss is added back to net income in calculating family scheme income.

21. Offsetting is possible if the two activities are of a kind that are usually carried out together. The activities must be carried on by the same person.

Adjustment for passive income of dependent children

22. If a dependent child earns more than \$500 from passive income, the person must include their share of the amount over \$500.
23. In general, passive income includes interest, dividends and beneficiary income.

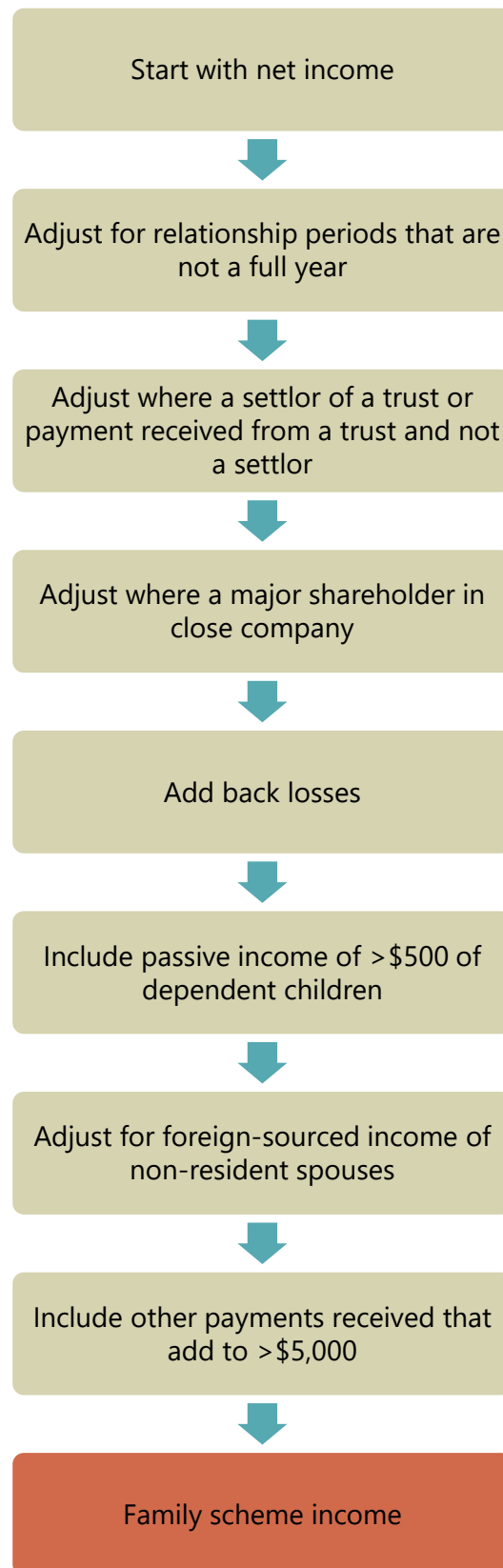
Adjustment for non-resident spouses

24. If a person's spouse, civil union partner or de facto partner is non-resident, their foreign-sourced income must be included in the person's family scheme income. This is the case even if the income is not sent to New Zealand. In general, a person is non-resident for this adjustment if they are not ordinarily resident in New Zealand.

Adjustment of other payments over \$5,000

25. If a person receives a payment and it is used to replace income or for usual living expenses, a person may need to make an adjustment to their family scheme income if the total of all payments is over \$5,000. If the total is over \$5,000, the whole amount must be included.
26. There is a long list of exclusions. For example, loans on ordinary commercial terms and an inheritance are excluded in calculating whether total payments are over \$5,000. Also, excluded are payments that are included in family scheme income elsewhere. For example, salary or wages are included in net income so are excluded from this category.

Figure | Hoahoa 1 – Summary of adjustments to family scheme income



About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views, a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further [Status of Commissioner's advice](#) (Commissioner's statement, Inland Revenue, December 2012).