

J. 17 Legislative statement

Child Support Amendment Bill: Third Reading

This legislative statement is presented to the House in accordance with Standing Order 272.

The statement supports the Third Reading of the Child Support Amendment Bill. The Committee of the Whole House considered the Bill on 16 March 2021.

The Bill amends the Child Support Act 1991.

Policy Background

The child support scheme will move to Inland Revenue's new systems and processes in 2021 (Stage 4 of Inland Revenue's multi-year Business Transformation).

This move creates opportunities to improve the administration of the child support scheme.

In 2017, the previous Government released a discussion document *Making Tax Simpler: Better administration of social policy* (the discussion document). The discussion document explored proposals for improving the way social policy entitlements and obligations, including child support, are administered by Inland Revenue.

The discussion document set out a number of problems with the child support scheme that require legislative change. Some of the problems result in unfairness, while others have arisen because the situation was not contemplated, or the person's situation is unusual or complex. Those problems can lead to dissatisfaction with the scheme and reduced compliance. Adding to this, the rules for penalties are overly punitive and complex and work more as a disincentive rather than an incentive to pay.

The proposals in the Bill are aimed at, with respect to the scheme,—

- improving administration;
- reducing complexity;
- improving fairness; and
- increasing compliance.

Proposals in the Bill

Broadly, the policy proposals in this Bill fall into four main categories, namely measures to:

- simplify the penalty rules;
- introduce payment of financial support by compulsory deduction from source deduction payments made by an employer to newly liable persons;
- impose a time bar of four years; and
- amend the definition of "income".

The Bill also contains technical amendments to assist with the administration of the child support scheme.

Simplification of the penalty rules

The Bill simplifies the penalty rules by:

- moving the imposition of the second phase of the initial penalty to 28 days after the initial due date;
- repealing the rule that provides that the minimum penalty imposed is \$5;
- introducing a grace period of 60 days from the first due date during which a newly liable person, or a person returning to the child support scheme, will not be charged late payment penalties; and
- repealing monthly incremental penalties and simplifying the penalty write-off rules.

The amendments are aimed at simplifying the rules, reducing compliance and administration costs, and enabling Inland Revenue to work with customers to encourage ongoing compliance.

Introduction of compulsory deductions for newly liable parents

The Bill introduces automatic deductions from source deduction payments of financial support obligations. The amendment will apply to payments made by a newly liable person's employer. Currently, such deductions are made when a liable person opts to have deductions made or if the liable person has defaulted on their obligations.

The amendment will encourage compliance by helping newly liable parents get their payments right from the start.

Introduction of time bar for reassessments of child support

The Bill introduces time limits on reassessing child support years by introducing a rule that would restrict reassessments to a four-year period from the end of the relevant child support year.

The Bill also sets out a number of exceptions where the time bar would not apply – for example, if information provided by a person in the child support assessment is fraudulent or wilfully misleading.

The proposal will reduce uncertainty for parents.

Amending the definition of “income”

The Bill amends the definition of “income” used for child support by

- including investment income (interest and dividends) for salary and wage earners; and
- no longer allowing offsetting of losses from earlier years.

The changes will mean that the definition of income used for child support purposes better reflects a parent's financial capacity to support their children.

Technical amendments

The Bill also contains technical amendments to assist with the administration of the child support scheme, including when working with customers who have unusual circumstances.