

Financial support from tax credits at the beginning of the economic downturn in 2008-9

Findings from the 2009 Panel Study of Tax Credits and Child Benefit Customers

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Executive summary

Introduction

This report is focused on changes in the financial situation of tax credits recipients during the period between the beginning of the economic downturn of 2008 and summer 2009. The aim is to explore how tax credits recipients managed financially during this period and whether the economic downturn led to any changes in their behaviour. Findings are presented from the Panel Study of Tax credits and Child Benefit Customers – a HM Revenue & Customs survey carried out by the National Centre for Social Research.

Timing of fieldwork in relation to the economic downturn

Customers were interviewed as part of the main face-to-face panel survey between October 2008 and February 2009 (this has been referred to as the '*start of the economic downturn*' for the purpose of this analysis). Customers were interviewed again between May and September 2009 by telephone (around eight months into the economic downturn – referred to as '*during the economic downturn*').

Research findings

Financial situation of tax credits recipients

The financial situation for around half tax credits recipients during the downturn was 'getting by all right'. The self-rated financial situation of tax credits recipients given at the start of the economic downturn in autumn 2008 was compared with their situation reported in interviews during the downturn (approximately eight months later in summer 2009). In this time period, the proportion of tax credits recipients who said that they were managing 'very well or well' decreased from one third (32 per cent) to one quarter (26 per cent). The proportion of those who said that they were 'getting by all right' increased from forty-seven per cent to fifty-three per cent, while the proportion of those who were 'not managing well financially' remained unchanged at twenty-one per cent.

The perceived financial situation for just over half of tax credits recipients was not affected detrimentally during the downturn, but a substantial minority of recipients felt their situation had deteriorated since the start of the economic downturn. When asked to compare their financial situation during the downturn to the start of the downturn (October 2008), around one third (38 per cent) of recipients said that their situation was worse. Approximately half (53 per cent) said that their situation had not changed and only one in ten (nine per cent) had seen an improvement in their situation.

Importance of income from tax credits

Four in ten (42 per cent) of tax credits recipients said that tax credits income was more important to them during the downturn than it had been before October 2008. Fifty-four per cent regarded tax credits to be as important and four per cent regarded tax credits as less important than before.

Tax credits recipients who were in a more vulnerable position financially were more likely to say that tax credits income had become more important for them. Specifically, the following groups of recipients saw tax credits as more important:

- *Recipients who had either stopped working themselves or whose partner had stopped working* – seven out of ten (69 per cent) saw tax credits as more important compared with four out of ten among those who were not in this situation.
- *Recipients who did not think they were managing well financially* – two-thirds (68 per cent) of those who were not managing financially thought tax credits were more important, compared with forty-one per cent among those who said they were 'getting by all right' and a quarter (24 per cent) among those who said they were managing 'well' or 'very well'.
- *Recipients who said that their financial situation had got worse since the beginning of the economic downturn* – six out of ten (61 per cent) in this group saw tax credits as more important, compared with three out of ten (29 per cent) among those who said that their financial situation had not changed and three out of ten (31 per cent) who said their situation had got better.
- *Recipients who at the start of the economic downturn said that they had problems with paying back debts in the previous 12 months* – about six in ten (58 per cent) of those who had problems 'almost all of the time' or 'often' said tax credits were more important to them compared with three in ten who had had no problems paying back debts.

During the economic downturn, most tax credits recipients reported that they were 'getting by all right' but there were a substantial minority who felt their financial situation had worsened or who felt more reliant on tax credits.

1 Introduction

Working Tax Credit (WTC) and Child Tax Credit (CTC) were introduced in 2003. The system was designed to support families, reduce child poverty, provide adequate financial incentives to work and reduce poverty among low-earners. Analysis of the Panel Study of Tax Credits and Child Benefit Customers provided the opportunity to explore how tax credits have supported the latter of these aims at the start of the economic downturn of 2008.

The Panel Study of Tax Credits and Child Benefit Customers was conducted by the National Centre for Social Research on behalf of HM Revenue & Customs. The first wave of the study was conducted between October 2008 and March 2009 (referred to as the start of the economic downturn) and involved face-to-face interviews with 3,706 current and previous tax credits recipients. A telephone interview with 1,200 people who had responded to the face-to-face study took place about eight months later in May through to September 2009 (referred to as during the early stages of the economic downturn in this report). Customers interviewed by telephone during the economic downturn were also asked to reflect on how their situation had changed since just before the start of the economic downturn (they were asked to think about their situation in October 2008 for these questions).

Please see the Technical Report for further details about both waves of data collection.¹

The aim of this report is to explore how tax credits recipients managed financially at the start of the economic downturn and whether it led to any changes in their behaviour.

Three areas are addressed:

- a) the financial situation of tax credits recipients;
- b) the importance of tax credits income for recipients;
- c) the way recipients dealt with the tax credits process.

All findings in this report refer to tax credits recipients who were in receipt of tax credits between 2007/2008 and 2008/2009.

All comparisons discussed in this and other sections of the report are statistically significant which means that the observed differences between groups are unlikely to have occurred by chance.

¹ Please refer to the technical report of the 2009 Panel Study of Tax Credits and Child Benefit Customers for the full details (see <http://www.natcen.ac.uk/study/tax-credit-child-benefit-study>).

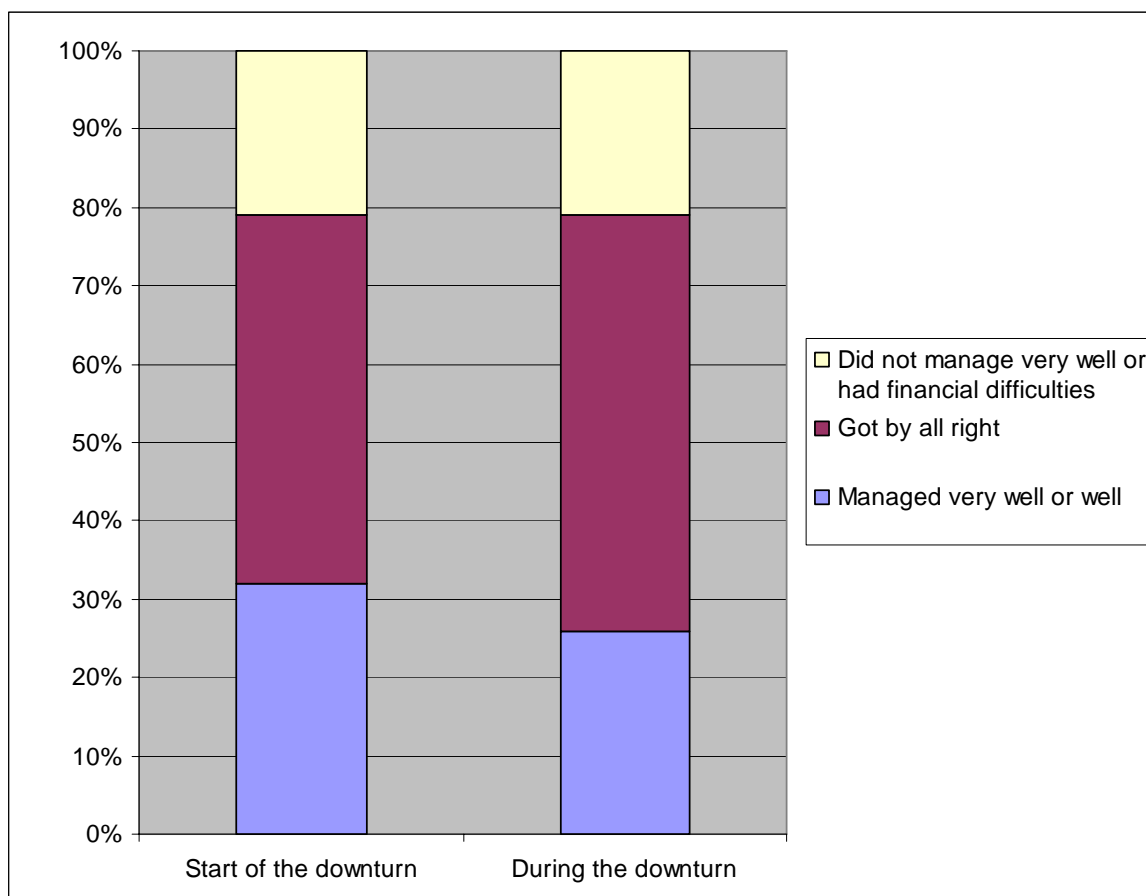
2 Research findings

2.1 Financial situation of tax credits recipients

How well did tax credits recipients manage at the start of 2008 economic downturn?

Around half of tax credits recipients reported that they were 'getting by all right'. There was a small decrease in the proportion saying that they were 'managing very well' or 'managing well'. The proportion of tax credits recipients who felt they were 'managing very well or well' had decreased from about a third (32 per cent) at the start of the downturn to one quarter (26 per cent) during the downturn. At the same time, the share of those who said that they were 'getting by all right' had gone up from forty-seven per cent to fifty-three per cent. The proportion (21 per cent) of those who believed they were not managing very well² stayed the same.

Chart 1: Self-reported financial situation of tax credits recipients at the start of the 2008 economic downturn compared to responses during the downturn *.



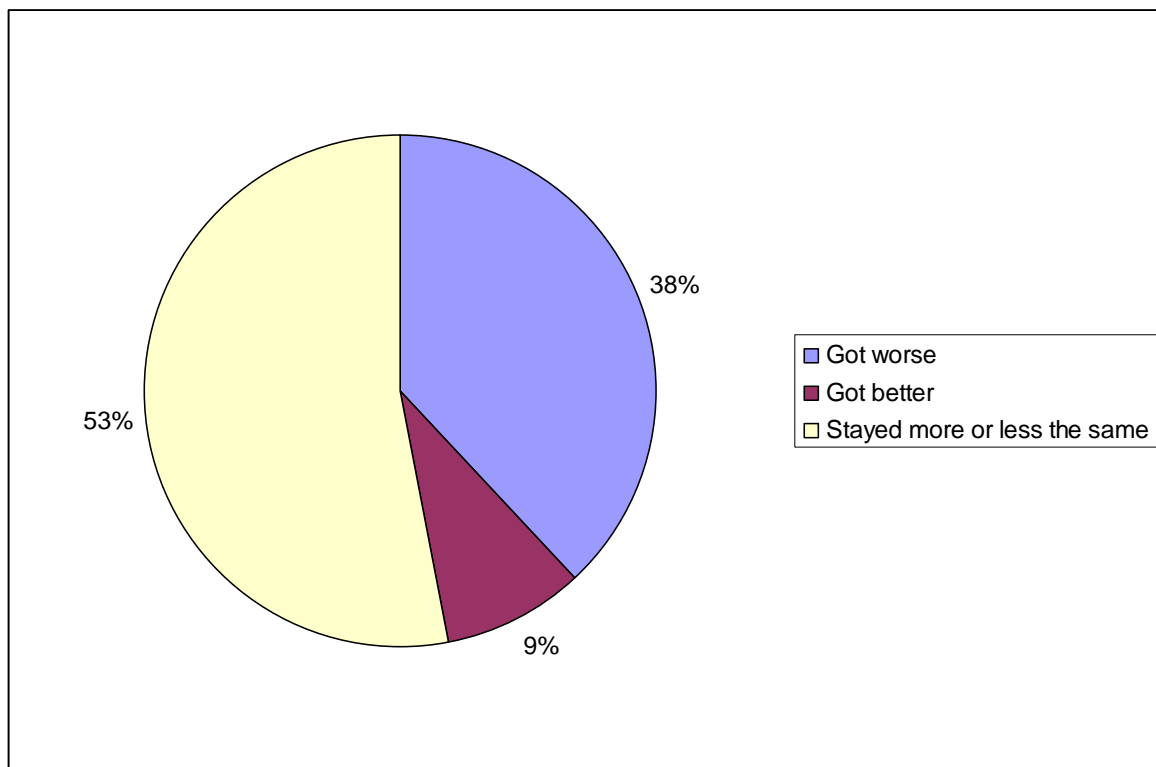
Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009. (n=1090) * Start of the downturn (autumn/winter 2008/09) compared to during the downturn (spring/summer 2009).

² This group includes tax credits recipients who said they were managing not very well, had some financial difficulties or were in deep financial trouble.

How did the perceived financial situation of tax credits recipients change during the economic downturn?

When asked to compare their financial situation during the downturn to the start of the downturn in October 2008³, slightly more than half of the tax credits recipients (53 per cent) said that their situation was more or less the same (Chart 2). Almost four out of ten (38 per cent) said their situation was worse and only one out of ten (nine per cent) reported that their situation was better during the downturn.

Chart 2: Change in financial situation in the downturn compared to situation just before the start of the downturn*



Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009. (n=1089)

*spring/summer 2009 (during the downturn) compared to the start of the downturn in October 2008.

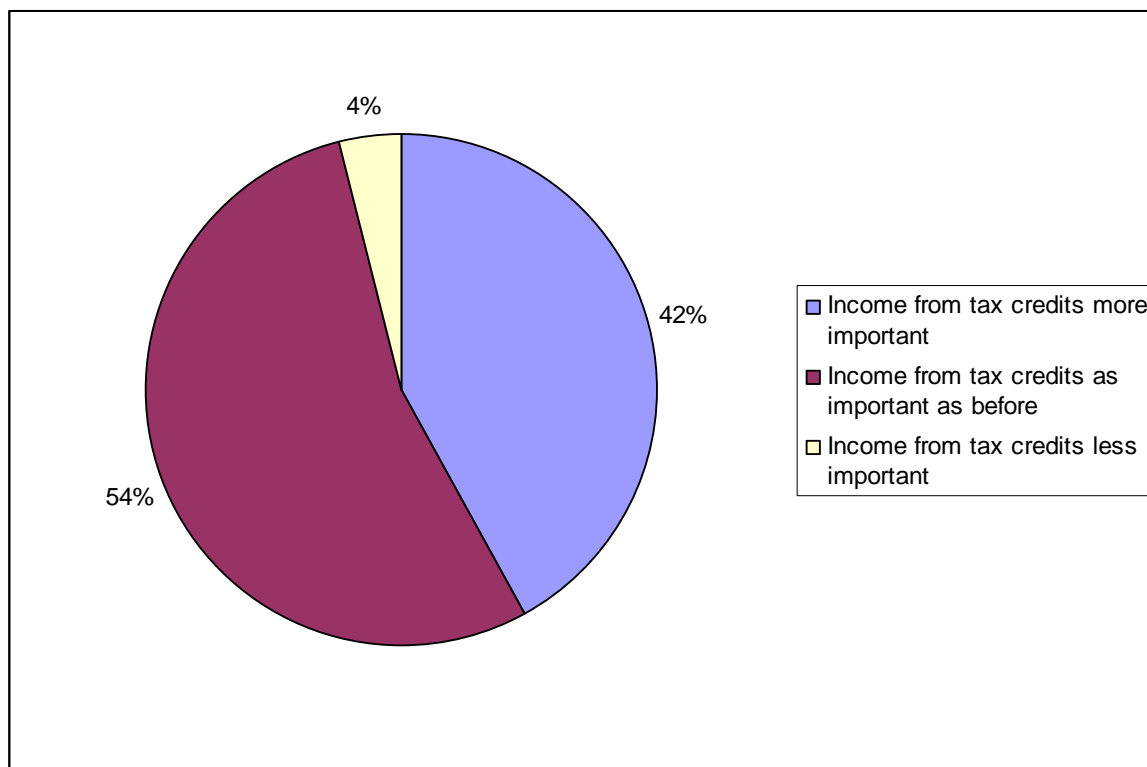
2.2 Importance of income from tax credits

Did tax credits income become more important during the economic downturn?

Fifty-four per cent of tax credits recipients said tax credits income was as important as before and two out of five (42 per cent) tax credits recipients said it was more important to them during the downturn than it was just before the start of the downturn in October 2008 (Chart 3). Only four per cent regarded tax credits income as being less important.

³ Recipients' financial situation in autumn 2008 / winter 2009 (i.e. when they were first interviewed) may already have been affected by the economic downturn, so respondents were asked to think back to the time immediately before the economic downturn (i.e. October 2008).

Chart 3: Importance of tax credits income during the downturn compared to just before the start of the downturn*



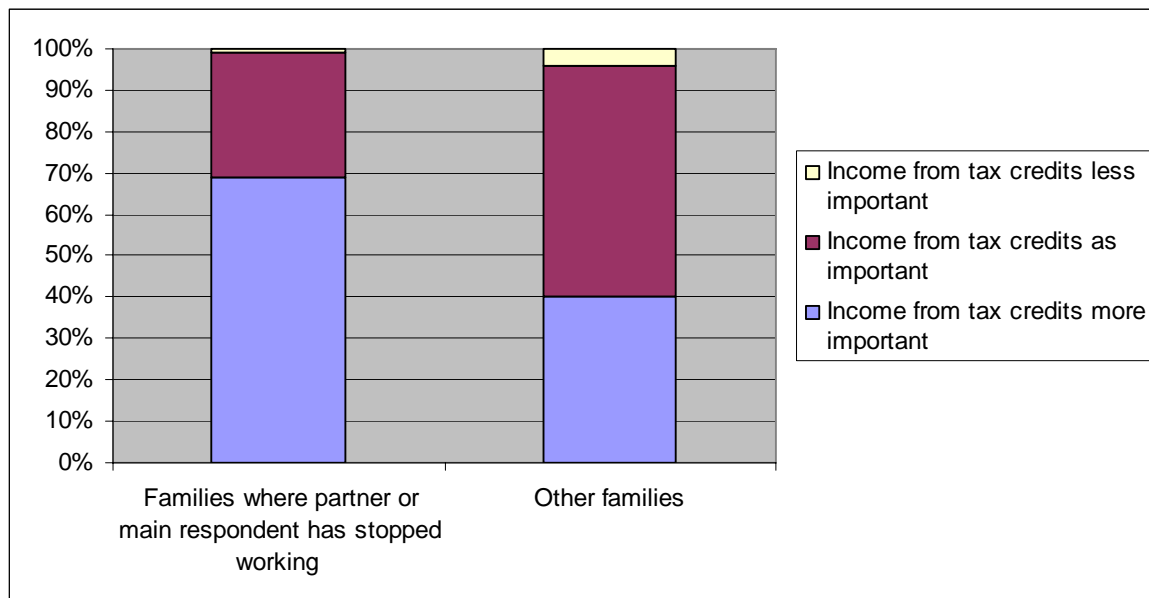
Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment. (n=1042) * Spring/summer 2009 (during the downturn) compared to the start of the downturn (October 2008).

Recipients' views of the changing importance of tax credits since the downturn were dependent on personal situation, with those in a more vulnerable financial position regarding tax credits income as more important. In particular, the following groups of recipients were more likely to feel that tax credits had become more important to them⁴.

⁴ Some factors that are associated with recipients' perceived importance of tax credits are related to each other. This means that a statistically significant relationship between some of the factors and recipients' view of tax credits could in fact be affected by a third factor. These kinds of problems can be avoided if all factors that are likely to have an effect are controlled for together. This can be done by using logistic regression analysis. All the factors described in this report are independently associated with the perceived importance of tax credits.

- *Recipients who have stopped working* - Seven out of ten (69 per cent) of recipients who had either stopped working themselves or whose partner had stopped working since the start of the downturn considered tax credits income to be more important (Chart 4). Among those who had not stopped working, the figure of four out of ten (40 per cent) who said tax credits was more important.

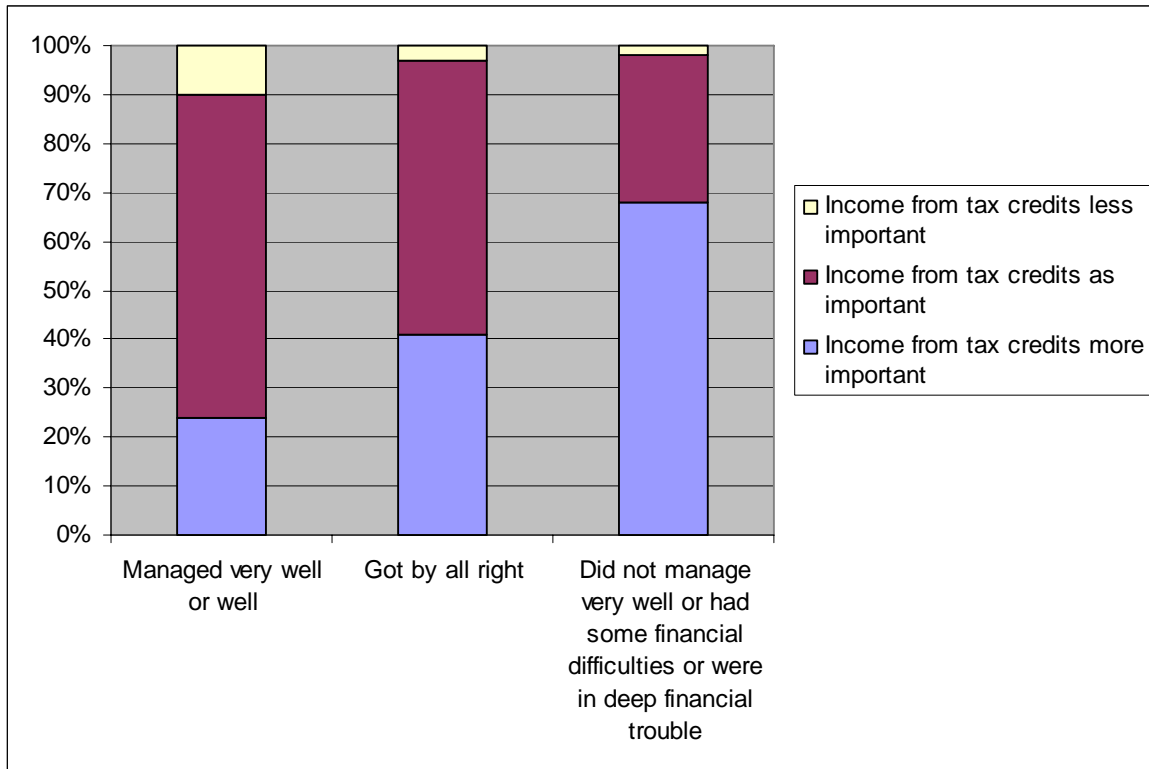
Chart 4: Importance of tax credits income during the downturn compared to just before the start of the downturn*, by whether main respondent or partner had stopped working



Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment. (n=1042) * Spring / Summer 2009 (during downturn) compared to just before the start of the downturn (October 2008).

- *Those who felt that they were not managing well financially* – Two-thirds (68 per cent) of tax credits recipients who said that they were not managing well during the downturn regarded tax credits as more important compared to the start of the downturn (Chart 5). The proportion was much lower among those who believed they were 'getting by all right' at forty-one per cent and lower still among those who said that they were managing 'well' or 'very well' (24 per cent).

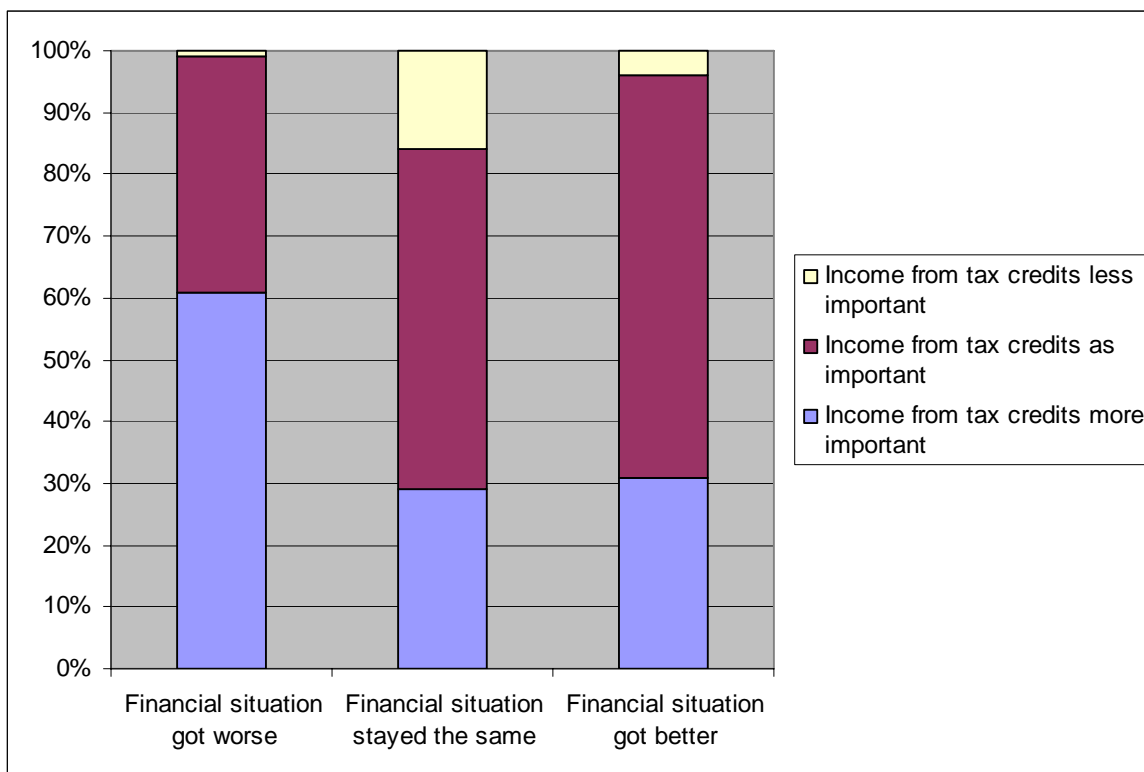
Chart 5: Importance of tax credits income during the downturn compared to just before the start of the downturn*, by self-reported financial situation during the downturn



Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment. (n=1042) * Spring / Summer 2009 (during downturn) compared to just before the start of the downturn (October 2008).

- Those who believed that their financial situation had got worse since the start of the downturn* - Tax credits recipients who said that they were managing less well during the downturn were more likely to regard tax credits income as being more important (Chart 6). Six out of ten (61 per cent) people in this group said tax credits income was more important. This was higher than for those who said that they had experienced no change in their financial situation (29 per cent saw tax credits income as more important) or that their situation had got better (31 per cent saw tax credits income as more important).

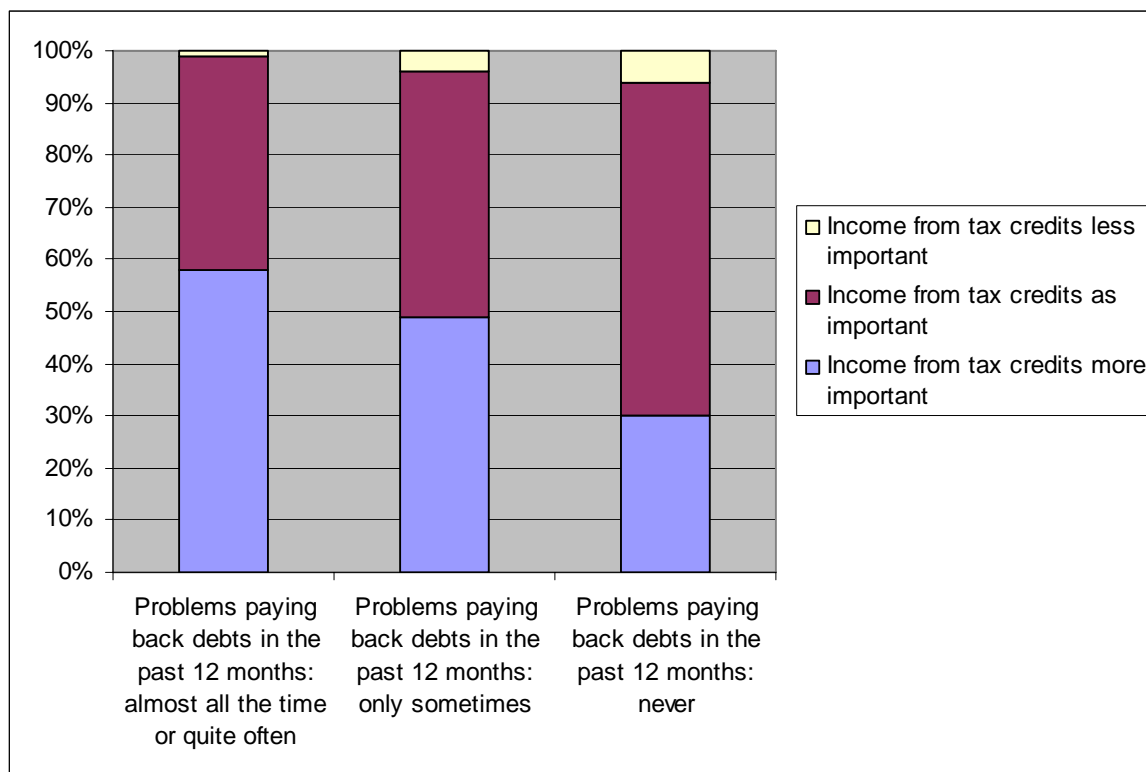
Chart 6: Importance of tax credits income during the downturn compared to just before the start of the downturn, by change in financial situation since the start of the downturn.*



Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment. (n=1042) * Spring / Summer 2009 (during downturn) compared to just before the start of the downturn (October 2008).

- Those who at the start of the downturn had reported that they had problems paying back debts in the past 12 months* – Tax credits recipients who said that they had had problems with debts often in the past year were more likely to consider tax credits more important during the downturn (58 per cent said this) (Chart 7). This compares with forty-nine per cent among those who sometimes had problems with debts and with thirty per cent who had not had problems paying back debts.

Chart 7: Importance of tax credits income during the downturn compared to just before the start of the downturn*, by problems with debts at the start of the downturn (autumn/winter 2008)



Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment. (n=1042) * Spring / Summer 2009 (during downturn) compared to just before the start of the downturn (October 2008).

These findings indicate that recipients who were in a more precarious financial position were more likely to perceive that tax credits had become more important to them in the economic downturn.

One possible reaction to the downturn could have been that customers who were very concerned about overpayments may have reacted by putting aside money in case they were overpaid. However, only a very small proportion (three per cent) of tax credits recipients said they had been putting money aside to avoid an overpayment. (It is not possible to compare this finding with the start of the downturn, because this information was not collected as part of the first interview.)

3 Conclusions

The aim of this report was to investigate the changes in financial situation of tax credits recipients at the start of the economic downturn. In particular, this report looked at how well tax credits recipients were managing financially and the importance that they placed on tax credits income during the economic downturn.

The findings show that the proportion who said they were 'not managing well' financially remained the same during the downturn (21 per cent). However, there was a decrease in those who said they were 'managing well' during the downturn (from 32 per cent to 26 per cent) and an increase to fifty-three per cent in those who reported that they were 'getting by all right'.

When they compared their financial situation during the downturn (in spring / summer 2009) with the time right before the economic downturn (October 2008), around half (53 per cent) said that it had stayed the same. A substantial minority, more than one third of tax credits recipients (38 per cent) said that their financial situation got worse during the downturn. Only a small proportion (nine per cent) reported that their financial situation got better.

During the economic downturn tax credits income became more important for two out of five (42 per cent) tax credits recipients. This proportion increased for recipients who were in a more precarious financial position. Recipients who had been directly affected by the economic downturn either by ceasing to work or managing less well for some other reason, were much more likely to say that tax credits income was more important compared to just before the start of the downturn.

During the economic downturn, most tax credits recipients reported that they were 'getting by all right' but there were a substantial minority who felt their financial situation had worsened or who felt more reliant on tax credits.

Appendix A: Table Conventions

Guide to methods used in tables and figures cited in the text

Tables are percentaged as indicated by the percentage signs. The percentages in the tables generally sum to 100, however there may be some instances where percentages will not sum to exactly 100% because of rounding.

Base The weighted count is the base presented in all tables.

0 Percentage value is greater than 0, but less than 0.5, which is rounded down.

***** Figures are based on less than 25 cases and are not robust, therefore results not presented in this report.

“ “ A blank space in a table where a percent figure is expected indicates that there were no responses in the category.

Statistical significance was tested using logistic regression for complex samples. Unless stated otherwise, all the differences cited in the text or presented in the charts are statistically significant at the 0.05 level.

The information presented in this report uses data from the Panel Study that has been statistically weighted to take account of the technical issues such as sample design.

Appendix B: Tables

Table 1. Self-reported financial situation of tax credits recipients

	Autumn 2008 / winter 2009	Spring / summer 2009
	%	%
Managed very well or well	32	26
Got by all right	47	53
Did not manage very well or had some financial difficulties or were in deep financial trouble	21	21
Total	100	100
Weighted base	1090	1091

Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009.

Table 2. Change in financial situation between October 2008 and spring / summer 2009

	Column per cent
	%
Got worse	38
Got better	9
Stayed more or less the same	53
Total	100
Weighted base	1089

Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009.

Table 3. Importance of tax credits income in spring / summer 2009 compared with October 2008 by whether main respondent or partner stopped working

	Families where partner or main respondent has stopped working	Other families	All
	%	%	%
Income from tax credits more important	69	40	42
Income from tax credits as important	30	56	54
Income from tax credits less important	1	4	4
Total	100	100	100
Weighted base	81	960	1042

Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment.

Table 4. Importance of tax credits income in spring / summer 2009 compared to October 2008 by self-reported financial situation in spring / summer 2009

	Managed very well or well	Got by all right	Did not manage very well or had some financial difficulties or were in deep financial trouble	All
	%	%	%	%
Income from tax credits more important	24	41	68	42
Income from tax credits as important	66	57	30	54
Income from tax credits less important	10	3	2	4
Total	100	101	100	100
Weighted base	263	560	218	1042

Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment.

Table 5. Importance of tax credits income in spring / summer 2009 compared to October 2008 by change in financial situation between spring / summer 2009 and October 2008

	Financial situation got worse	Financial situation stayed the same	Financial situation got better	All
	%	%	%	%
Income from tax credits more important	61	29	31	42
Income from tax credits as important	38	55	65	54
Income from tax credits less important	1	16	4	4
Total	100	100	100	100
Weighted base	392	92	556	1042

Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment.

Table 6. Importance of tax credits income in spring / summer 2009 compared to October 2008 by problems with debts in autumn 2008 / winter 2009

	Problems paying back debts in the past 12 months: almost all the time or quite often	Problems paying back debts in the past 12 months: only sometimes	Problems paying back debts in the past 12 months: never	All
	%	%	%	%
Income from tax credits more important	58	49	30	42
Income from tax credits as important	41	47	64	54
Income from tax credits less important	1	4	6	4
Total	100	100	100	100
Weighted base	230	327	485	1042

Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009, not on zero award nor paying back an overpayment.

Table 7. Put money aside in case of overpayment

	%	Weighted base
Yes	3	35
No	97	1056
Total	100	1091

Base: Tax credits recipients in receipt of tax credits between 2007/2008 and 2008/2009.