

Exploring the Key Influences on the Tax Credits Claimant Population

Prepared for:
Her Majesty's Revenue and Customs

By Suzanne Hall and Nick Pettigrew, Ipsos MORI

HM Revenue and Customs Research Report 49

© Crown Copyright 2008 Published by Her Majesty's Revenue and Customs

Disclaimer: The views in this report are the authors' own and do not necessarily reflect those of HMRC.

List of contents

Acknowledgements	1
Glossary	2
Summary of findings	3
1. Introduction	8
1.1 Research background	8
1.2 Study objectives	9
1.3 Methodology	9
1.4 Definitions, presentation and interpretation of the data	11
1.5 Report outline	12
2. Experience and understanding of making tax credits claims	14
2.1 Understanding of tax credits	15
2.2 Making the decision to apply	16
2.3 Reporting changes of circumstance	20
2.4 Overall satisfaction	22
2.5 Attitudes towards tax credits	27
3. Information about and awareness of tax credits	28
3.1 The application process	28
3.2 Information about tax credits	30
4. Household income and the impact of tax credits	34
4.1 Attitudes to financial management and debt	35
4.2 Tax credits and household spending	44
4.3 Extent of reliance on tax credits	47
4.5 Impact of tax credits on work decisions	51
4.6 Impact of tax credits on childcare decisions	55
5. Key influences	58
5.2 Influence one – Those in a transitional or crisis phase	61
5.3 Influence two – Those working volatile hours	61
5.4 Influence three – Reliance on ‘benefits’ as a source of income	62
5.5 Influence four – Cultural influences among recent migrants	62

5.6	Influence five – Attitudes to money and financial planning	63
5.7	Influence six – Attitudes to seeking information (passive or proactive)	64
5.8	Influence seven – Concern about overpayments	64
5.9	Influence eight – Extent and type of contact with HMRC	66
5.10	Influences: Conclusions	67

Appendices

Acknowledgements

We would like to thank all the participants who took part in the research, both for the time they gave and for the openness with which they expressed their views. We would also like to thank the project team at HMRC, especially our research managers Victoria Hughes and Lindsey Jarvis, for their help, input and advice throughout the study. At Ipsos MORI, we would like to thank all members of the research team in the Social Research Institute who recruited the participants and assisted with administrative tasks.

Glossary

CTC	Child Tax Credits
DPTC	Disabled Person's Tax Credit
HMRC	Her Majesty's Revenue and Customs
IS	Income Support
JSA	Jobseeker's Allowance
WFTC	Working Families' Tax Credit
WTC	Working Tax Credit

Summary of findings

1. Background, objectives and methodology

In April 2003, the Government created a new tax credits scheme to replace the Working Families' Tax Credit (WFTC), the Disabled Persons Tax Credit (DPTC) and various other elements of child support within the tax and benefits system. The updated system has two components, Working Tax Credit (WTC) and Child Tax Credit (CTC). The system aims to support families and reduce child poverty through CTC and provide a work incentive and reduce poverty among low-earners through WTC. This updated scheme encompasses a wider range of recipients than previously, including parents not in work and households without children.

In 2006, Her Majesty's Revenue and Customs (HMRC), the Department responsible for administering tax credits, commissioned a piece of research to examine the views of the whole range of tax credits claimants. As tax credits cut across a wide population, HMRC wanted to investigate the possibility of approaching customers in a more sensitive and tailored way than simple demographics by exploring alternative segmentation approaches. HMRC therefore commissioned Ipsos MORI to carry out a qualitative research study to explore the key influences on tax credits claimants.

The research focused on three key objectives: claimants' overall experience of the tax credits system; the importance of tax credits to household income; and the role of tax credits in decision-making, in particular in relation to employment and childcare.

Four pilot face-to-face interviews were carried out to develop the discussion guide and to ensure that all relevant topics were covered. Following this, 70 face-to-face depth interviews were carried out - 49 interviews with single claimants and 21 interviews with couples. Interviews were carried out in a range of locations around the UK.

This summary is structured according to the three main areas of interest for HMRC: claimants' experiences of tax credits, levels of awareness, sources of information about the system, and the impact that income from tax credits has on the household situation (e.g. financial and employment). Finally, it ends with a description of the eight key influences on tax credits claimants.

2. Experience and understanding of making tax credits claims

Awareness and understanding of the tax credits system, covering issues such as eligibility to claim and the principles underpinning the tax credits system, varied a great deal. It was often those who were less financially confident, out of work or lone parents who were least knowledgeable.

There were three common drivers influencing the decision to apply for tax credits. These were ongoing financial need (typically cited by those on low

incomes or those with an illness), the challenges associated with facing a transitional/crisis point within the household (such as the breakdown of a relationship or the birth of a child), and raised awareness of tax credits (typically via word-of-mouth from friends and family).

Tax credits were perceived to be different from other forms of state financial support in that they did not have any stigma associated with them. Among those who were working, they were seen as an acknowledgement of the contribution that they had made. For those participants on low incomes or claiming CTC, they were more likely to be in receipt of other benefits in addition to tax credits and therefore saw them as another means to help them manage financially.

There was a strong sense of positive support for the tax credits system in principle. Many appreciated the fact that government was making efforts to support working families. However, satisfaction with the system more generally was influenced by three main factors: the extent to which claimants felt it had had an impact on their household finances; whether claimants had experienced any problems with the system; and the extent to which participants were aware of the issue of overpayments (either through direct experience or via media reporting).

Linked in with the issue of overpayments, participants were often aware of their obligation to contact HMRC should their circumstances change; they stated that this was clearly advertised by HMRC in all official correspondence.

Participants also tended to have a good understanding of the main changes that might have an impact on their claim and thus were mandatory to report. Beyond this though, there was some uncertainty regarding the renewals process and, furthermore, the actual process for reporting changes was seen to be too complicated.

3. Information about and awareness of tax credits

Among those in receipt of benefits already, awareness of tax credits typically stemmed from both the Jobcentre Plus and direct mail from HMRC. Those who were not claiming other forms of state financial support tended to find out about tax credits from direct communications from HMRC and also via word-of-mouth from those within their peer group.

There was a strong sense that the process of requesting an application form was fairly simple. Beyond this though, experiences of actually completing the form varied considerably with some stating that the language used was complex and intimidating. These issues tended to be cited by lone parents or those out of work. When this was the case, participants tended to request help and advice from HMRC itself, the Jobcentre Plus, or independent agencies such as the Citizens Advice Bureaux.

If participants had an issue with tax credits after successfully applying, they tended to contact HMRC directly for help. This contact was typically made

through three main channels: the HMRC helpline, the Enquiry Centres, or via written correspondence.

Experiences of the HMRC helpline varied; while a telephone approach was seen as fairly straightforward and convenient, there were some criticisms about the attitude of staff with participants believing that they could be more sympathetic. In contrast, those who sought face-to-face advice from the Enquiry Centres tended to be very satisfied with the personal approach provided by these. Finally, regarding written communications, opinions again were mixed. While the more financially astute believed this to be a satisfactory way to obtain information, those who were less confident stated that the language used was complex and did not aid their understanding.

4. Household income and the impact of tax credits

In considering how tax credits contribute to and are managed as part of household income, the research identified types of financial planning behaviour: non-planners, loose planners and planners. Non-planners lived off a lump sum of their weekly or monthly income and did not divide their money according to outgoings. Loose planners set aside parts of their income for priority payments like bills and, in some cases, for savings. In contrast, planners had a much more structured approach and had a clear sense of how their income would be spent in advance.

Whether an individual was a non-planner, loose planner or planner appeared to be shaped primarily by personal traits, upbringing and life experiences. While no direct relationship was apparent between income level and attitudes to money management, income level did nonetheless have some impact in shaping individuals' attitudes to money management within the three broad groupings. For example, the perception was expressed among some non-planners on low incomes that financial planning was pointless since all their purchases were essential items.

These groups were also linked to views on the contribution that tax credits made to household finances. Non-planners, who were often on lower incomes and in receipt of other forms of state financial support, tended to subsume tax credits within their overall household income and thus were less likely to notice the difference that tax credits made to their spending. Loose planners tended to rely on tax credits to provide a back-up when funds were low, whereas planners often put such income streams into large purchases such as mortgages.

The role of managing money was usually assumed by only one partner in the household. For those in receipt of CTC, this was typically the mother, although there was variation among WTC claimants.

On the whole, participants rarely set tax credits payments aside for specific purchases. However, CTC claimants and financial planners more generally were most likely to mention tangible things (such as children's clothes, toys and savings) that tax credits allowed them to afford.

For those who were lone parents, disabled or had a disabled partner, tax credits often made a fundamental difference to the way they lived their lives. For example, money was spent on childcare which enabled people to return to work.

For others, tax credits influenced what they were able to afford over and above day to day purchases. These participants were often on higher incomes and therefore in receipt of lower awards. This extra money allowed them to direct funds towards large and important purchases such as property.

Often for participants however, tax credits had a significant, though not life-changing, impact. They helped to cover day-to-day costs and without them these participants perceived they would need to cut back on other areas of expenditure.

There were some who were of the opinion that tax credits made little or no difference. These claimants were usually on relatively high salaries and thus saw tax credits as just something that was 'nice to have' rather than essential.

The receipt of tax credits also had an impact on participants' decision-making process with regard to employment and childcare. For some, tax credits provided the financial impetus they needed to return to work as, for example, the income helped them to cover childcare costs.

However, decisions around childcare were also tied in with personal beliefs about the best approach to bringing up children. For example, there were those who believed that even though tax credits enabled them to afford childcare, the child's interests were best served by being at home with their mother during the formative years. Despite this, these participants appreciated the fact that tax credits allowed them to manage better financially.

5. Key influences

An important element of the research was to explore the feasibility of developing typologies of attitudes towards tax credits among claimants. The research suggested that it was not possible to develop a straightforward typology of the tax credits claimant population due to its diversity and complex interactions between attitudes and behaviours, current personal circumstances and previous experiences that influence how people view tax credits. However, the exercise nonetheless enabled us to identify a number of key influences that have an impact on claimants' attitudes to and behaviours regarding tax credits.

People's views on tax credits appear to be shaped by a diverse range of influences: personal attitudes, behaviours, life experiences and personal circumstances, all of which act as important influences on attitudes to tax credits. An individual claiming tax credits may exhibit none of these influences, one influence or a combination of two or more influences. Furthermore, the influences on people's attitudes and behaviours regarding tax credits may alter over time as claimants' experiences and personal circumstances change. For example, a claimant who has previously worked

fixed hours may take up a new job which requires that their hours change from week to week; or a household break-up may lead to a period of transition for one or both partners in which normally stable elements of their lives, such as employment and childcare, need to change.

From close qualitative analysis, eight key influences on personal attitudes to and behaviours regarding tax credits emerged. These were:

- **Being in a transitional or crisis phase;**
- **Working volatile hours;**
- **Reliance on benefits** (for those who are out of work and claiming the highest level of CTC);
- **Cultural influences (for recent migrants to the UK);**
- **Attitudes to money and financial planning** (which in turn are shaped by other factors, such as gender, life experiences and upbringing);
- **Attitudes to seeking information** (passive or proactive);
- **Concern about overpayments** (for those on low incomes and claiming relatively high awards of CTC/WTC); and,
- **Extent and type of previous contact with HMRC.**

These overlapping influences cannot be used directly to help inform communications in the way that typologies could be. Where they can be very helpful, however, is in enabling HMRC to gain a clear understanding of the factors that shape different claimants' views and behaviour regarding tax credits, and in acting as a reminder of the varying ways in which different claimants perceive, behave and respond to communications from HMRC about tax credits. By gaining a deeper understanding of this audience – including their opinions and attitudes and the drivers of these – HMRC can continue to ensure that they meet customers' needs effectively through communication in the future.

Beyond this though, and looking forward, it may be worthwhile for HMRC to highlight the potential benefits of tax credits in order to have an impact on recipients' future decision-making. It is apparent that some claimants are discouraged from making choices in response to receiving this money, due to concerns that they will be overpaid and out of a lack of understanding as to how the levels of award are calculated. In light of this, attention could be paid to developing and communicating positive messages about the success of tax credits.

1. Introduction

This report contains the findings from qualitative research among the tax credits claimant population undertaken by the Ipsos MORI Social Research Institute on behalf of Her Majesty's Revenue and Customs (HMRC). This chapter sets out the background to the research, discusses the research objectives in detail and outlines how the remainder of the report is structured.

1.1 Research Background

In April 2003, the Government created a new tax credits scheme to replace the Working Families' Tax (WFTC) and the Disabled Persons Tax Credit (DPTC). The updated system has two components, Working Tax Credits (WTC) and Child Tax Credit (CTC), and is a core part of the Government's reform agenda for the tax and benefits system. The system aims to support families and reduce child poverty through CTC and to provide a work incentive and reduce poverty among low earners through WTC¹.

In addition to streamlining the existing support system, the updated scheme encompasses a wider range of recipients including parents not in work and households without children. In this sense, CTC and WTC offer a more comprehensive and cross-cutting support mechanism than previously.

In April 2006 there were around six million families receiving tax credits, of which 5.7 million families were receiving CTC. Out of this total, 1.4 million families had no adults in work, 300,000 households without children received WTC and 102,000 families benefited from the disability element of WTC². Furthermore, these recipients cover a broad range of income levels, from those reliant on benefits up to households with children with an income of around £62,000.

A central concern for HMRC at present is to accurately gauge the needs and experiences of its entire tax credits audience. Previous research has highlighted the opinions of particular demographic groups, but the Department required more information on the views and experiences of a wide range of claimants.

Furthermore, it is clear that tax credits cut across a complex set of issues, incentives, lifestyles and problems which interact to form different perceptions of the tax credits system. Given this, HMRC was keen to investigate the possibility of developing a more sensitive and tailored way to approach customers than simply differentiating according to demographics. Segmentation of customers according to attitudes is therefore a key element in gaining insight into recipients. Only by understanding the opinions and behaviour of their entire customer base can the Department effectively focus its tax credits procedures.

¹ HM Treasury, The Child and Working Tax Credits: The Modernisation of Britain's Tax and Benefit System, 2002, <http://www.hm-treasury.gov.uk>.

² CTC and WTC Statistics, April 2006, National Statistics

HMRC therefore commissioned Ipsos MORI to carry out this qualitative research study to explore the key influencers on attitudes towards tax credits.

1.2 Study objectives

The main objective of this programme of research was to provide HMRC with knowledge of the experiences, behaviour and motivations of the tax credits claimant population in order to understand the factors which drive attitudes and behaviour, and to use this to engage and interact more effectively with claimants.

The research focused on three key objectives:

- Claimants' overall experience of the tax credits system;
- The importance of tax credits to household income; and,
- The role of tax credits in decision-making, in particular in relation to employment and childcare strategies.

1.3 Methodology

The research adopted a qualitative methodology of single and paired depth face-to-face interviews. Single depth interviews involve a one-to-one approach; the moderator engages with one participant alone; in this instance, the claimant of tax credits. Paired depth interviews involve the moderator speaking with a couple of participants; for this study this related to either co-habiting or married claimants.

A qualitative approach was most suited to this study given that qualitative research is an interactive process; it not only identifies *what* people think, but why they do so. The depth single and paired interviews used in this project were ideal for exploring complex issues and eliciting a wide range of views and experiences to help explore influences on claimants. The real value of qualitative research in this study was that it allowed insight into the attitudes and beliefs of tax credits claimants, which could not be examined in as much depth using a structured quantitative questionnaire. Furthermore, it is well suited to discussing sensitive issues such as personal finance as the moderator is able to build up a rapport and trust with the participant due to the face-to-face nature of the approach.

All interviews were structured by the use of a discussion guide. A discussion guide is intended to stimulate, rather than lead, conversation and ensure areas of commonality in all interviews. We developed this discussion guide in close consultation with HMRC. Please see Appendix A for more details.

Four pilot interviews were carried out to develop the discussion guide and to ensure that all relevant areas were covered. Following this, 70 depth interviews were carried out - 49 single interviews with claimants and an additional 21 interviews with couples called 'paired interviews'. Single claimants were not necessarily in single-person households; some were

claiming as couples but carried out the interview without their partner. The paired depth interviews allowed exploration of **household** perceptions of tax credits rather than **individual** experiences. Both the single and paired interviews lasted between 1 and 1½ hours, allowing us to explore many issues around the experiences of claiming tax credits; from how informed claimants were about the process right through to the impact that this source of income had on their lives.

Qualitative researchers from the Ipsos MORI Social Research Institute moderated all the depth interviews. All discussions were tape-recorded and transcribed with permission from the participants.

An **opt-out letter** (see Appendix B) was sent to a sample of tax credits claimants and recipients were given a fortnight to inform Ipsos MORI if they did not wish to participate. All those who did not want to take part were removed from the sample before we contacted potential participants by telephone to ensure the quotas set were met and to secure appointments.

The interviews were structured as follows:

- 46 interviews with those in work of which:
 - 17 with WTC only (no children);
 - 10 with CTC - maximum award and WTC;
 - 8 with CTC only (less than maximum amount, but more than family element);
 - 11 with CTC only - family element or less.
- 7 who were working – self-employed and claiming CTC only; and,
- 17 who were not working with CTC only.

The interviews were split across six areas:

- London
- Belfast
- Milton Keynes
- Wakefield
- Cardiff
- Walsall.

Interviews were conducted between 25 July and 4 September 2006.

1.4 Definitions, presentation and interpretation of the data

While qualitative research was the most appropriate methodological approach for this study, it is important to bear in mind that it utilises smaller samples that are chosen purposively to ensure representation of a full range of views within the sample.

Furthermore, it must be remembered that qualitative research is designed to be illustrative and does not look to produce statistics, but to identify the range of views, opinions and experiences of tax credits claimants. In addition, it should be noted that we are dealing with perceptions rather than facts (though perceptions **are** facts to those who hold them). This needs to be taken into account when interpreting the research findings.

In order to analyse and interpret the information collected thoroughly, we used QSR XSight software. This is relatively new to the field of commercial qualitative research and provides a means of constructing a structured and searchable framework within which to categorise data. XSight is also designed to work as a knowledge management tool to formally capture and organise data from a variety of different moderators, meaning that it is ideally placed to assist researchers in their analysis of large-scale qualitative projects.

After the pilot interviews, the core team constructed a series of charts or frameworks based on key themes emerging from the research, against which each piece of data was plotted. These frameworks evolved over the course of fieldwork as further issues emerged. Moderators reviewed transcripts and recordings of the data and 'marked them up' systematically to make sure all relevant pieces of information were included on the framework charts. Information was recorded in both verbatim and summary form.

Once all the data had been entered into Xsight, the research team then began to identify underlying patterns and themes within the data. Using these themes, the team could explore the feasibility of developing typologies of claimants with similar attitudes, characteristics or behaviours regarding tax credits. Typologies are groupings of claimants which can be extremely useful in helping to understand any given population in more detail; their opinions, their attitudinal characteristics and the drivers for these. They are valuable because they not only illustrate the range of customer types that exist (each with distinct motivations and behaviours), but they also describe the interaction of these behaviours with the group profile (or demographics). These insights allow organisations to understand their customers and their decision processes better.

On close analysis, however, the research team found that it was not possible to identify distinct typologies of the tax credits claimant population. This was due in part to the diversity of the sizeable claimant population and in part to the finding that people's attitudes towards tax credits are shaped by a number of influences which interact in complex ways. The fact that tax credits claimants cover such a diverse range of the population means not only that it becomes hard to compartmentalise such people according to straightforward differentiating factors such as income, age or ethnicity, but also that it proves

very difficult to divide the claimant population into segments on the basis of attitudinal factors.

What the research does identify, however, is a number of key influences on the attitudes and behaviours of the claimant population regarding tax credits. Key influences can act as a valuable guide for HMRC in developing and shaping its communications and operational strategies as they point to the diverse needs of different claimants within the overall claimant population and the various ways in which claimants are likely to perceive communications regarding tax credits, based on their existing attitudes, behaviours, current personal circumstances and previous experiences.

The study looked at claimants' experiences and attitudes towards tax credits, as well as the impact they had on households (such as spending and employment or education incentives). Using the findings, the research team developed eight key influences based on shared attitudes, behaviours, personal circumstances or past experiences, or a combination of these.

In order to arrive at these eight key influences, the research team conducted a lengthy process of rigorous qualitative analysis looking for shared themes, attitudes and behaviours. This was done through extensive coding of the data according to a strict thematic framework and numerous creative sessions with the research team in order to test and refine ideas. The result was a set of influences based on evidence from a wide range of tax credits claimants.

Throughout the report verbatim comments have been used in an illustrative capacity to support findings. Where quotations have been used, the respondent's attributes are given in the following order:

- Employment status i.e. whether working (i.e. employed), self employed and not working (i.e. unemployed);
- Tax credit type i.e. WTC only, CTC and WTC, CTC only;
- Single or couple claim;
- Single or paired depth interview;
- Gender; and
- Location.

1.5 Report outline

This report is divided into five main sections following this introduction:

- Experiences of making tax credits claims;
- Information about and awareness of tax credits;

- Household income and tax credits;
- Impact of tax credits on decision-making; and,
- The key influences on attitudes and behaviours regarding tax credits.

2. Experience and understanding of making tax credits claims

This chapter explores participants' experience of making tax credits claims. It examines their level of understanding regarding who is eligible to claim, their motivations for applying and their perceptions of the system more generally.

Summary Box: Experience and understanding of making tax credits claims

Awareness and understanding of the tax credits system, such as who was eligible to claim and what the purpose of the system was, varied a great deal. It was often those who were less financially confident (as a result of literacy problems), out of work, or parents who had recently become single who had least awareness of the system.

Despite this, there were common drivers in making the decision to apply. Ongoing financial need (common among those on low incomes, or with long-term health problems), transitional/crisis points (such as the breakdown of a relationship or the birth of a child) and raised awareness of tax credits (typically via word-of-mouth from friends and family) were the three most frequently mentioned drivers.

Tax credits were not seen to have the stigma associated with other forms of state financial support. Among those in work, they were seen as helping those that have contributed (to both society and in terms of payment of tax) as 'getting something back'. Those out of work and claiming CTC were often used to receiving other forms of state financial support and thus did not view tax credits as anything different.

There was much positive feeling towards the principle underpinning tax credits; that it was intended to support working families. Beyond this though, satisfaction with the system was driven by:

- the extent to which claimants felt tax credits had had an impact on their household finances

- whether the claimants themselves had experienced any problems with the system; and

- the extent to which participants were aware of the issue of overpayments (whether through personal experience, the experiences of friends/family or coverage in the media).

Linked with the issue of overpayments, participants were generally aware of their obligation to contact HMRC should their circumstances change. They also tended to have a good understanding of the main changes that might have an impact on their claim. Beyond this though, there was some uncertainty regarding the renewals process and, furthermore, the actual process for reporting changes was seen to be too complicated

2.1 Understanding of tax credits

Among participants, there were many ideas about what tax credits actually were and their intended role. WTC was viewed variously as:

- A replacement for the married persons' allowance;
- An allowance for lower paid families;
- Money to subsidise income up to the amount one needs to live, if not working;
- Only for people with children; and
- A payment to encourage people back into work.

Child Tax Credit tended to be viewed as something that should ideally be spent just on the child, but in reality was often simply incorporated into the household finances.

Understanding of the system

Understanding of the tax credits system varied considerably, ranging from those who had a comprehensive and ordered view of what tax credits were and who would be eligible, to those with very low awareness. Those who had difficulty understanding the system tended to be less financially confident, out of work, parents who had recently become single or those who were new to managing their family finances. Participants' explanations for their difficulties included:

- They had not read, and did not want to read, about tax credits, which meant that they were equipped with only the bare minimum understanding required to make their claim;
- There was another person in charge of financial matters, either their partner or another member of the family. In a few cases, participants had a professional accountant who would fill in the forms and act as an authority on the matter:

It just came, my accountant filled it in and sent it off and that was it ... paperwork and me don't mix. So I just leave it to other people and let them sort it out.

Working, CTC, couple claim, single depth, male,
Wakefield

In some cases, recipients believed that eligibility for tax credits was more restrictive than is actually the case. These participants were not aware that people could still be eligible even if they received JSA, or that as a couple with children they would still be eligible with an income of up to £62,000; they were often surprised to learn that the tax credits system was as inclusive as this.

Where recipients understood eligibility fully (either from prior knowledge or interviewer prompting), a common perception was that many people who were eligible to claim were failing to because, while HMRC were doing well in targeting the core of claimants, less seemed to be being done to publicise the full range of circumstances in which someone could be eligible³.

Key misunderstandings

A complaint from many participants was that the tax credits system was too complicated in terms of:

- How changes of circumstances reported to HMRC affected payments;
- How the final figure for payment was arrived at – the process was considered to be very opaque. While this was not a major concern, it did become an issue when there were overpayments;
- The difference between WTC and CTC and the different eligibility criteria; and,
- How overpayments had occurred when the participant had kept, or believed they had kept, HMRC informed of changes as soon as they occurred.

Participants stated that they would feel more confident in the system if there was greater transparency in how tax credits were calculated. They would then feel able to gauge whether they were being paid the correct amount, whereas at the time of interview they felt that they just had to accept whatever amount they were given. Several participants said that they would like to be told on the phone how the payment is calculated, with one participant commenting that there used to be a ready-reckoner or calculator on the HMRC website which was very useful.

2.2 Making the decision to apply

Although participants based their initial decision to apply on a number and combination of very different reasons, there were three key motivators and triggers common to many claimants' experiences. These were:

³ This is an example of where claimants' perceptions may differ from reality in that take-up rates for CTC and WTC in 2004-05 were 82 per cent and 61 per cent respectively. Take-up rates represent the proportion of individuals or families who are entitled to a tax credits award and claim their entitlement.

- Ongoing financial need or hardship;
- Transitional or 'crisis' points in households; and,
- Raised awareness of tax credits.

Ongoing financial need or hardship

Some participants described their decision to apply for tax credits as a response to an ongoing financial need or hardship. Examples included:

- Disability: households where long-term disability limited opportunities to work, often where there had been a recent change from disability benefits to tax credits;
- Low paid work: working households with a low income; and,
- Part-time work: those with limited incomes due to part-time work, in particular lone parent households where childcare commitments limited income.

These participants generally felt that they were living on a marginal income. They hoped to be eligible for some financial assistance and so often tried to look out for additional support. Indeed this group were often already in contact with agencies such as Social Services or lone parent advisors who were able to alert them to benefits or assistance.

Transitional or 'crisis' points in households

Some participants were spurred to apply by specific transitions or 'crisis' points in their lives. Examples included:

- New children: families with very young children often described feeling the strain of additional financial pressures and reduced incomes, particularly immediately after the birth of their first child. Furthermore, they described how they were actively provided with information about CTC at this stage, which made them aware that they may be eligible to claim;
- Loss of employment or cuts in pay or hours: those with sudden changes in their employment status, either through redundancy or efforts to change career path or retrain, often felt they needed assistance to 'buffer' the change in household income; and,
- Separation of families: the financial impact of separation was often very severe, with a sudden reduction in household income and a need to reconsider household finances, work and childcare.

Well I think part of me wasn't too sure whether I was entitled to [tax credits] and part of me was just waiting to see whether I got a form through [to apply]. I had my first baby as well so I wasn't really paying much attention really, it wasn't really the priority at the time, I don't think it ever was until I became a single parent I think.

Working part-time, receives both WTC and CTC as an individual, single depth, female, Milton Keynes

Raised awareness of tax credits

There were also participants who did not mention any particular needs, but instead decided to apply when tax credits, or their potential eligibility, were brought to their attention. Typical examples included:

- Advice from friends, colleagues or relatives to apply for tax credits;
- HMRC advertising/leaflets: receiving leaflets from a number of sources such as lone parent advisors or 'bounty packs' for new mothers;
- Advice from official sources: recommendations by staff at agencies such as Jobcentre Plus; and,
- Letters or leaflets sent round as well as mail-outs and awareness campaigns in local areas.

These participants tended to believe that if there was additional support available, it would be worth checking whether they were eligible or not. They generally felt that they needed tax credits and therefore deserved to receive them.

If you're entitled to it you should have it
Working full-time, received WTC only, single claim, single depth, female, Milton Keynes

You see the TV adverts and you think, hang on a minute, I could maybe get a little assistance here especially when I was just working part-time and he [the husband] wasn't working.
Working full-time, received WTC and CTC, couple claim, paired depth, female, Ealing

Indeed, some participants in this group decided to apply after hearing other claimants discuss tax credits and perceiving that those already claiming earned more income than them. They felt confident that they would be eligible for tax credits and also that they were at least as entitled or justified in seeking them as those already claiming. Some of those less willing to claim 'benefits' justified their decision to 'make an exception' and apply for tax credits in similar terms: while their need was not acute or immediate, they still felt they should be entitled to assistance once they knew their 'peers' or better-off households were receiving tax credits. This point is worth noting given that their reaction was in line with HMRC's active encouragement of potential claimants to claim what they are entitled to.

It's principle isn't it? I've paid enough all my blooming life.

Couple, both working part-time, WTC only,
couple claim, paired depth, Cardiff

A friend of mine said, well you shouldn't need to pay the full amount [of tax] because I'm the only earner, so that was why we went in for, to try and claim tax credits.

Working full-time, WTC only, couple claim,
paired depth, Male, Milton Keynes

The stigma associated with receiving state financial support

Overall, tax credits did not appear to have the stigma associated with other government benefits and seemed to be fairly freely discussed in communities. They were often seen by those who worked as earning back something they had already paid and were entitled to.

Among those with experience of claiming benefits – such as those participants who worked very few hours or were out of work and claiming CTC – very few tended to distinguish between tax credits and other financial support received from the state. As they were used to receiving money in this way, they did not see any stigma attached to the process of claiming Tax Credits.

However, there were also those who, although grateful for the money, had more negative feelings about receiving tax credits. This was usually borne out of a reluctance to be dependent on benefits in general and a sense that they would prefer to support themselves.

Like any benefit it's got a stigma attached to it. Any benefit has. I've had years on benefits and I know what that's like. It's absolutely horrible. You might think it's helping you out but psychologically it's not.

Working, WTC, couple claim, paired depth, male, Milton Keynes

2.3 Reporting changes of circumstance

Across the board, participants appeared to be aware of their obligation to contact HMRC as soon as their circumstances change - the message was so clearly and repeatedly stated in all correspondence and advertising that participants said they could not forget it. Participants also tended to have a good knowledge of the main changes in circumstances to report: changes in working hours or income, the birth of new children and changes in the family structure (for example, family separations or a new partner moving in).

It's on the telly all the time, reminders on filling in your review pack, and I don't see how people cannot get that they've got to send this back with their up-to-date details.

Working, CTC more than family element, couple claim, single depth, female, Cardiff

So whenever your circumstances is going to be changed you have to tell them, that's the rules, they tell you, and you have to respond to them. That's the only rules.

Working, CTC and WTC, couple claim, single depth, male, Walsall

However, there were a few gaps in participants' knowledge – for example, a few participants were unsure about the appeals process, and unusually one participant was not aware of the requirement to report changes in income.

Furthermore, the actual process of updating changes in circumstances seemed to be over-complicated to some participants and was seen by some as the cause of many overpayments.

To start [claiming], I would say, is dead easy, no problems. It's the bits afterwards, and changes and changes over the periods of time that cause confusion and apathy and anger.

Working part-time, CTC family element only, couple claim, single depth, female, Milton Keynes

Dealing with overpayments

As mentioned previously, participants who had received overpayments had far less trust in and were much less satisfied with the tax credits system, to the extent that some had decided not to claim tax credits when the time came to renew their application, even though they thought they would still be eligible.

Understanding of repayment requirements varied; often participants who had been overpaid did not know that repayments were flexible and could be reduced. The correspondence informing people of overpayments was often perceived as unclear regarding what the next steps would be following the overpayment: whether it would be deducted from future tax credits, should be repaid directly and immediately, or whether repayments could wait until the participant's circumstances changed.

Well, when you receive your form and you obviously have been overpaid, and they expect to be paid back, they should supply some more information, I believe, on what occurs, what's going to be happening. If you are just going to be having to pay it off, and if you're not awarded any money next year, what happens with that really? They should have some more information on that. Not just relying on people phoning up. Cos a lot of people won't, will they, cos a lot of people see it and would panic... So I don't think they give enough information. It's happened to a lot of people, so they should have the sufficient information.
Working, CTC and WTC, couple claim, paired depth, male, Cardiff

The first telephone went, that I'd received too much and that I owed them it was about £1,000 - I said, 'well just stop the credits until the £1,000 has been paid', and they said, 'no, no, no, we don't do that, instead of you getting now £40 a month we're only going to give you £10 a month - you've got to pay this back over two years' and that didn't quite make sense to me. And then after I got my renewal pack I looked through my bank statements then and I hadn't even been receiving the £10 a month.
Working, CTC more than family element, couple claim, paired depth, female, Cardiff

Case Study – Communication problems leading to overpayment

Andrew, 50, is unemployed and seeking work or training in Wakefield. He and his partner receive £41 a week CTC as a joint claim. His partner, Susie, is unemployed and unable to work. Andrew has a 17-year old daughter. Between the three of them their total weekly income is £161.

Andrew has a fair understanding of tax credits, and knew to update HMRC with any changes in his circumstances. When he was working he moved to a better paid position as a lorry driver. He contacted HMRC to inform them of this change, but unfortunately the changes were initially not made, and after further contact it took months for his details to be updated. Later, Andrew received a letter from HMRC saying that he had been overpaid £1,200. Afraid of being in such a large amount of debt to HMRC, he borrowed the money from his daughter to repay it in one lump sum and is now paying her back on his current benefits.

He is grateful for tax credits and relies on them – they provide a quarter of the total household income – but is angry that he was overpaid when he felt he followed the correct procedures. He also believes that others with overpayments 'have been let off' paying them back – a perception drawn from stories he had read in newspapers and from talking to others in his peer group.

2.4 Overall satisfaction

Satisfaction with the tax credits system was determined by several key factors. Indeed, participants often expressed quite contradictory feelings regarding the tax credits system, for example admiring what they see as the principles underpinning it, but then feeling disappointed by the practical difficulties they had encountered, such as overpayments.

Factors influencing support for tax credits

Key determinants of satisfaction with tax credits included:

- Views on the 'aim' of tax credits and their intended impact. There was a common belief that tax credits had a positive aim of offering help for families who were working;
- Extent of the influence tax credits had on household income and decision making;
- Personal experience of problems with the tax credits system: this varied quite considerably for participants, with some having experienced a series of mistakes or problems while others had had none; and,
- 'Bad press' around tax credits and overpayments. Even those without personal experience of overpayments described some broad impressions and concerns around claiming tax credits that they felt had an influence on their overall satisfaction.

The principle of tax credits

As highlighted above, there were four main drivers of satisfaction with tax credits. Turning to each of these in turn, and in more detail, it appeared that in the first instance, while the level of understanding of how tax credits worked and how awards were assessed was quite low, participants had a broadly positive sense of the aims and ideas behind tax credits. This impression of tax credits was not detailed, but revolved around the idea of working families being supported.

Well I think it's supposed to be meant for the majority of working people to give them an extra hand.

Working full-time, self-employed, receiving CTC and WTC, couples claim, paired depth, male, Cardiff

If you're earning anything less than that you are welcome to claim Working Tax Credit, and by all means claim it, because it's there to help you and move up in your life.

Working full-time, self employed, receiving WTC, single claim, single depth, female, Walsall

However, not all participants agreed - tax credits were also seen by some as replacing other benefits and allowances which had been disbanded.

Because you don't get a married person's allowance now do you? And as far as I'm concerned they should have left that as it was and given the child allowance for each child. And they should have just left it alone.

Working part-time, receiving WTC only, couple claim, paired depth, Cardiff

The effect of tax credits on household finances

As highlighted earlier, satisfaction with tax credits was also often shaped by how much financial difference the tax credits made personally (and whether the recipient noticed the difference). For those households where tax credits were felt to have had a tangible effect because they formed a greater proportion of the household income, opinions of the tax credits system were generally more positive.

It's very important to me. If I didn't get the Working Tax Credit element, then I'd be very stuck, so I think it's a very good system. I only work 16 hours and the income I'd get for that is £500 and when they top it up with another two or three hundred pounds, it makes a difference, doesn't it?

Works part-time, receives both WTC and CTC as an individual, single depth, female, Milton Keynes

Indeed, in some cases participants who received substantial support via tax credits, or who really felt the impact of tax credits on their households, were determinedly positive about tax credits despite significant problems (such as overpayments).

The hassle of it [tax credits and overpayments]! The last year has been one problem after another...But don't get rid of it, for God's sake don't get rid of it.

Unemployed, receiving CTC (more than family element), couple claim, paired depth, female, Ealing

Personal experience of problems

Thirdly, and as could be expected, overall satisfaction with tax credits depended very much on whether participants had experienced a problem with their claim.

Some participants had had no problems throughout the application or renewals process, although it often seemed to be those claimants with more straightforward and stable claims who had had this 'plain sailing' experience. These participants were generally very satisfied as they had received their tax credits entitlement with ease.

I'm very satisfied. I wish other offices like Social Security and the Council was as quick at getting this sorted out. That's what the tax people are, they're so, and I mean the lady I spoke to on the telephone was really polite and just, she got it sorted out there and then it was done.

Unemployed, receiving CTC (more than family element) couple claim, paired depth, Walsall

However, those who had received overpayments tended to think more negatively about tax credits. Those who had been directly affected by overpayments often felt that this was caused by mistakes made by HMRC or that their experience proved that the tax credits system was flawed.

One of the biggest questions this [overpayment] raises isn't are we able to understand it but do the people who are doing it understand it? [Because of] the number of cock-ups you see. You've given them all the correct information so why haven't they done it? [Paid us the correct amount]

Couple, both working part-time, WTC only, couple claim, paired depth, Cardiff

Some of the most dissatisfied participants were those who had experienced a series of perceived errors or overpayments. In such cases, participants often perceived there to be inconsistencies in advice given by HMRC staff or communications, for example, several letters stating different entitlements or outcomes. Others commented that initial efforts to deal with overpayments, such as reporting changes in circumstances early, had been mishandled or information had been badly managed, which led to further problems. Participants who had experienced what they saw as a series of problems often described this as a frightening and frustrating process.

F To be quite honest, we're sorry we ever applied for it in the first place.

M It seems to be, the more we fill them in, the more we get in debt with them. So I turned round and said, well I've got overpaid, we'll pay it all back over a period of years. But we don't want more money off you. If you don't fill the forms in, you'll get penalised, and your tax credit will be stopped. Yeah. It's a xxxing no win situation. And as well mind, the money we've had off them, it seems like they want more back.

Working full-time, self-employed, receiving CTC and WTC, couple claim, paired depth, male, Cardiff

Indeed, a handful of participants felt so dissatisfied that they believed at the time of interview that they would have been better off if they had not claimed tax credits. This was in part because of the time spent attempting to resolve problems but also due to a perception that there was a risk of further problems if they continued to claim tax credits.

For some of these participants there was a sense that they were 'tied in' and had to keep returning forms or be penalised, which was thought to be unfair and very frustrating. Their understanding was that they could not leave the system easily.

No good having £400 a year and spending it and then them coming back next year and saying we want it back and carrying on and on and on. We'd just as well not have it in the first place.

Couple, both working part-time, WTC only, couple claim, paired depth, Cardiff

Of note was that even those without personal experience of overpayments often had anxieties and fears about them. The high profile of problems with overpayments was driven by word of mouth from peers, colleagues and relatives, as well as media coverage.

Case study: anxiety about overpayments

Rachel lived in Cardiff and was a lone parent with two children of school age. She received WTC and CTC and worked part-time in a shop. Rachel felt she had had a very positive experience, that tax credits had been 'vital' to her family since she and her husband separated and that she had received a consistently good service from HMRC. Nonetheless, she was extremely anxious about overpayments.

"My friend told me [about tax credits]. When my partner left, for a couple of months he still paid the bills and such and so when that stopped he obviously didn't have much money and my friend suggested that I do it, and I went down there, and as I said, they were great [with dealing with application]. Yeah they just told me what I could do. They actually even filled the forms out for me, they were brilliant. I've changed my job a couple of times and, over the phone they were fantastic."

Despite experiencing no problems with her tax credits claim, Rachel was very concerned about the risk of overpayments as she had heard a lot about them in the media and knew people who had had problems. Because of this she was careful not to change her working hours and ensured that she checked her details by ringing up HMRC every few months.

"I think it's slightly worrying because these people are being hit with big bills. It does worry me. It's all hanging over you, it could happen to you, which is why I ring them [HMRC]. I just phone to check that I've been paid the correct amount and they tell me my details and then they ask me if anything's changed. I can say 'no'. It's like a comfort blanket. It's just then I've got that security then because I worry about finances."

"I just think with forms there's always a problem, something you've done wrong or something you haven't, something you've missed. I just would rather phone. I'd rather talk to somebody on a personal basis. I think the problem with that is most people don't realise that they can just ring them at any time, I think maybe they should promote that a bit more."

2.5 Attitudes towards tax credits

The amount of money a claimant received often did not correspond with the level of importance they ascribed to tax credits. There were examples of claimants who received the maximum award but were relatively indifferent as to whether it had affected their lives in any tangible way. This was particularly true of those who were used to receiving financial support from the state; they saw tax credits as being a payment designed to ensure that they had enough to live on.

Conversely, some claimants who received a small award felt tax credits were very important. This was due to the fact that, other than receiving Child Benefit in some cases, these participants tended not to receive any other form of money from the state and thus saw tax credits as a source of income that they otherwise would not have had.

Attitudinal differences were also reflected in the kind of emotional impact tax credits had for different participants. The most common responses to tax credits were positive. They tended to reassure people and provided some relief from the usual stress of financial pressures. Claimants stated it was helpful to know that they had at least a little extra. This was often regardless of the actual amount they received and the material difference it made to their lives; even those on smaller awards were happy knowing that there was some extra money in their account each month.

*It just makes me feel a bit more secure if you
like thinking oh that's one worry out of my head,
one thing I haven't got to scrimp around for.*

Working part-time, WTC only, single claim,
single depth, female, Ealing

Recent arrivals to the UK tended to be among the most positive about tax credits and thought of them as particularly generous. This was due to the fact that, on the whole, the concept of the state awarding money to its citizens was something of a novel idea to them. They were also likely to think it important to work and earn a living and were positive that tax credits can help when working. Despite this, they also expressed a reservation that tax credits might discourage people from doing this as people could become reliant on the money when unemployed but claiming CTC.

3. Information about and awareness of tax credits

This chapter explores how participants initially became aware of tax credits and details their experiences of the application process. Beyond this, it looks at how they access information about tax credits more generally and their attitudes towards these channels of communication.

Summary Box: Information about and awareness of tax credits

Among those already claiming benefits, awareness of tax credits typically stemmed from both the Jobcentre Plus and direct mail from HMRC. Those who were not in receipt of other forms of state financial support tended to realise that they might be eligible to claim from a mix of HMRC communications and word-of-mouth information from friends and family.

Requesting an application form itself was felt to be fairly straightforward, however, experiences of completing the form varied. The language on the forms, in particular, was seen to be intimidating and complex. Those who found it most daunting typically comprised those out of work and lone parents. In these instances advice was often sought from either HMRC directly, Jobcentres or the Citizens Advice Bureaux.

Once tax credits claims had been successful, if there was an issue to discuss, participants tended to contact HMRC directly for help and advice. Experiences of the HMRC helpline were mixed; while a telephone approach was seen as fairly straightforward, there were some criticisms that staff were not as sympathetic as they could be to those phoning with a problem. Others sought face-to-face advice from the Enquiry Centres and tended to be pleased with the personal approach provided by these. Finally, written communications from HMRC were also utilised as a source of information. As with the helpline, opinions on the written materials varied; those who were more financially astute thought they were clear, while those with less experience of managing their own finances often stated that they were complicated and contained jargon.

3.1 The application process

Participants who were already claiming several different types of benefit typically *first* heard about tax credits through **direct mail from HMRC** or from **Jobcentre Plus**. Participants who were not already claiming benefits tended to first hear about tax credits from television and radio adverts or from friends and family.

How did people apply?

Participants generally reported that getting hold of the application form was fairly straightforward. They either applied directly to HMRC, ringing up to request an application form, or in some cases received application packs from other agencies such as Jobcentre Plus. This initial step was generally perceived as fairly easy - problems tended to relate to actually completing the forms and providing all the information required.

Experience of completing the form varied; while some found it easy to complete in one go, others described spending much longer working through it, trying to understand the guidance notes and gathering information. Those households or individuals who were more familiar with managing their finances and completing tax forms (in particular those used to completing self-assessment forms) tended to see tax credits applications as fairly straightforward.

I think the application form, it wasn't difficult as far as I'm concerned, and so we just happily filled it in.

Works part-time, receives Both WTC and CTC as an individual, single depth, female, Milton Keynes

Those who found this process most daunting tended to be the less financially confident, those not working and lone parents, in particular those separated from partners who had not previously had to manage their family finances. Those who were less financially confident tended to have limited knowledge and understanding of financial matters generally, which had an impact on their ability to apply for tax credits. These participants often sought advice and assistance, either from the HMRC helpline which was thought to be clearly advertised in letters and forms, or sometimes through other agencies such as Jobcentre Plus or Citizens Advice Bureaux.

I sent the forms in and I rang just to see how long it would be, and he talked me through it on the phone and did some bits I'd missed off my forms. I got the first payment within three weeks of actually claiming. It was really quick. I was surprised because I thought it would take longer to get sorted, and it didn't at all so they were really good

Working, CTC, single claim, paired depth, Wakefield

The language in tax credits application forms also seemed intimidating and complicated. Similarly, the accompanying information and advice was felt to be very long and detailed. Perceptions were often framed by widespread, negative assumptions about government communications more generally.

Participants' expectations were that all government or official forms would be difficult, complicated and detailed, even when in practice they reported that this was not the case. Despite participants mentioning these communications issues, there was little sense that they acted as a significant barrier to applying for tax credits.

It was just all the niggly [detail], you know like your national insurance, your this, your that, how much you earn, your PAYE, all of the different things that you need. Like any government form really, long winded.

Working full-time, received both WTC and CTC,
single claim, paired depth, female, Ealing

You know how people talk and maybe they exaggerate, I just thought it was going to be a nightmare to do it all, I just assumed it would from what I'd heard. But it couldn't have gone any easier.

Working, CTC, single claim, paired depth,
Wakefield

Another issue affecting some households on application was the set-up of bank accounts for the designated main carer to deposit the money in. In some households they reported having to set up new bank accounts, where one partner holds the family's main account. In some situations this was felt to have delayed them in starting to claim tax credits or to have made financial management more complicated, as their various sources of income were split across accounts.

It would have been ideal if we could have had everything paid into the same account. It would have been exactly the same amount and all in one place instead of it being dotted all over the place.

Works part-time, receives both WTC and CTC,
couple claim, paired depth, female, Walsall

Further difficulties experienced once initial applications were made related to renewals and updating details. Claimants stated that they found the forms hard to complete and were unsure what information they needed to provide to ensure the successful continuation of their claim. These processes were also very important to participants' perceptions of the overall 'ease' of claiming tax credits and their satisfaction with the process.

3.2 Information about tax credits

Once their application to claim tax credits had been successful, participants often preferred to **call HMRC directly** or to **go to an HMRC Enquiry Centre** if they had an issue to discuss. These routes were seen as providing the most comprehensible information and personal guidance or explanation, although

telephoning tended to be preferred for convenience. Other sources of information to help them address queries included written communications from HMRC.

We will now go on to discuss, in detail, attitudes towards the three main official channels of communication used by participants with regards to their queries on tax credits.

The HMRC helpline

Experiences of the helpline were mixed: some participants found telephone contact effective, informative and an efficient way to update details or submit renewals, whereas others perceived it as very slow, with poorly informed or unhelpful staff.

However, the helpline was seen as a straightforward way of clarifying any details on application, and there was widespread satisfaction with this aspect of the service. Staff were often well-regarded for their helpful, personable manner, and for dealing with straightforward queries effectively. They received particular appreciation from people who did not understand a great deal about tax credits and who had been daunted or confused, for guiding them through the process.

*They talked me all the way through the form and how to fill it in and get it sent off. Which I thought was brilliant, cos sometimes you can bash your head against the wall with filling forms in.
Not working, CTC more than family, couple claim, paired depth, female, Walsall*

*The man [at HMRC] that I spoke to was through very quick, really easy... very pleasant, really helpful, yes, really good.. he really couldn't have helped me any more and made it easy for me, so now I wouldn't have a problem ringing them.
Working, CTC, single claim, single depth, Wakefield*

More negative comments were that telephone staff were 'robotic' and unsympathetic towards participants, who were calling HMRC at a time of crisis. Some participants had had experiences where they perceived staff to have been unhelpful or rude; for example one claimant said that staff denied any record of a call that had occurred, and another quoted the staff saying "you don't have to apply" when the participant mentioned the difficulties she was having.

Some participants also complained of staff being slow to act and badly organised. Failing to correctly update participants' details was a common complaint, with important financial details perceived to be going unchanged for months despite calls from participants, leading to underpayments or overpayments.

I have made several contacts in the last two awards, purely just changes, and they never get them right. Well for me they're simple changes, but when I get the renewed award they've always messed up on them. They've put the wrong amount on there, which is higher than what I've actually said and they get a few things wrong.

Working, CTC and WTC, single claim, single depth, female, Milton Keynes

A key concern often raised, in particular by those who had experienced problems or overpayments, was the consistency and quality of advice provided by HMRC staff on the phone. There were participants who had found they had been given different advice or information by different staff, leading them to question the knowledge of HMRC staff and the general administration of tax credits.

*They don't know what they're doing do they?
There's no organisation, there's no fair system.
So I'm not surprised that they've messed up on everybody's payments.*

Working part-time, receives CTC family element only, single claim, single depth, female, Wakefield

To some extent these problems were linked to claimants' lack of detailed understanding of eligibility, which added to their frustration and difficulties.

We'd call them up if we understood how the system works, but you don't understand how they work it out in the first place.

Working part-time, receiving both CTC and WTC, couple claim, paired depth, Male, Ealing

The HMRC Enquiry Centres

Some of the participants sought face-to-face information about tax credits via the HMRC Enquiry Centres. Indeed, there was a preference from some participants for face-to-face communications especially where there were complex issues or problems to resolve such as overpayments or significant changes in circumstances.

I don't like using the telephone. I will do anything apart from phone people. I would much rather go somewhere and speak to somebody face-to-face.

Works part-time, CTC, couple claim, paired depth, Cardiff

These participants tended to be pleased with the service they had received, perceiving the staff as polite and very helpful when providing information.

I just went directly to the tax office. I just went down there and as I said, sorted it out. It was sorted out that day.... they were excellent actually... He took me through everything, and as I said they even filled the forms out

Working part-time, WTC and CTC, single claim, single depth, Cardiff

Written materials from HMRC

There were high levels of awareness of the written information provided by HMRC on tax credits in the form of booklets and letters.

Some participants complained that the information from HMRC could be excessive, with duplicate booklets and forms being sent out – for example, one participant said they had received nine copies of the same form.

Participants had mixed views on the guidance information they received from HMRC; some considered it too weighty and jargon-filled, but others believed it was clear and useful.

When you start reading all the jargon you tend to start thinking, 'what's going on? Why is this?' People tend to get very, very frightened of the form.

Not working, CTC - more than family element, couple claim, single depth, female, Walsall

They have the little booklets that they send out, they are quite informative, they are quite simple, quite straightforward.

Working, WTC, single claim, single depth, male, Wakefield

Some claimants, who had been overpaid or whose circumstances had changed, reported that they received confusing communications from HMRC, for example, a series of letters each giving a different assessment. This was felt not only to be confusing, but to have had a powerful impact on participants' faith in the tax credits system and its perceived efficiency.

4. Household income and the impact of tax credits

This chapter of the report explores differences in approaches to money management and budgeting, and describes the context within which tax credits operate. It identifies behaviour groups in relation to money management and sets out some of the characteristics of each group. The section also expands on how tax credits are spent – whether they are set aside for certain items, or spread out across expenses.

Summary Box: Household income and the impact of tax credits

In considering how tax credits contribute to and are managed as part of household income, the research identified three types of planning behaviour: non-planners, loose planners and planners. No direct relationship is apparent between income level and attitudes to money management; for example, planners are not necessarily those on high incomes, but may also be in lower income brackets. Instead, whether an individual is a non-planner, loose planner or planner appears to be shaped primarily by personal traits, upbringing and life experiences. Income level does nonetheless have some impact in shaping individuals' attitudes to money management within these three broad groupings. For example, the perception was expressed among some non-planners on low incomes that financial planning was pointless since all their purchases were essential items.

The non-planners lived off a lump sum of their income per week or month and did not divide their money according to outgoings. Loose planners set aside parts of their income for priority payments like bills and, in some cases, for savings. Planners had a more structured approach and had a clear sense of how their income would be spent in advance.

The category the participants fell into regarding money management also influenced their perceptions of tax credits. Non-planners tended to subsume tax credits within their overall household income as they did not tend to keep track of the money that was going in and out of their account and thus were less likely to notice the difference that tax credits had made to household income. Loose planners tended to rely on tax credits to provide a back-up when funds were low, while planners often put such income streams into larger purchases or savings.

Regarding couples, the role of the financial planner was usually assumed by one partner. For those in receipt of CTC this was typically the mother, but varied among WTC claimants.

On the whole, participants rarely set tax credits aside for specific purchases. However, CTC claimants and financial planners more generally were most likely to mention tangible things (such as children's clothes, toys and savings) that tax credits allowed them to afford.

Thinking about the effect that tax credits had on participants in more detail, for those who were lone parents, disabled or had a disabled partner, they made a fundamental difference to the way they lived their lives. For example, money was spent on childcare which enabled people to return to work.

For others, tax credits influenced what they were able to afford. These participants were often on higher incomes and thus in receipt of lower awards. However this extra money allowed them to direct funds towards large purchases or savings.

For the majority of participants, tax credits had a significant, though not life-changing, impact. They helped cover day-to-day costs and, without them, perceived they would need to cut back on other areas of expenditure.

A few were of the opinion that tax credits made little or no difference. These claimants were usually on relatively high salaries and thus saw tax credits as just something that was 'nice to have' rather than essential.

The receipt of tax credits also impacted on participants' decision-making processes, particularly with regard to employment and childcare. For some, tax credits provided the financial impetus they needed to return to work as, for example, the income helped them to cover childcare costs.

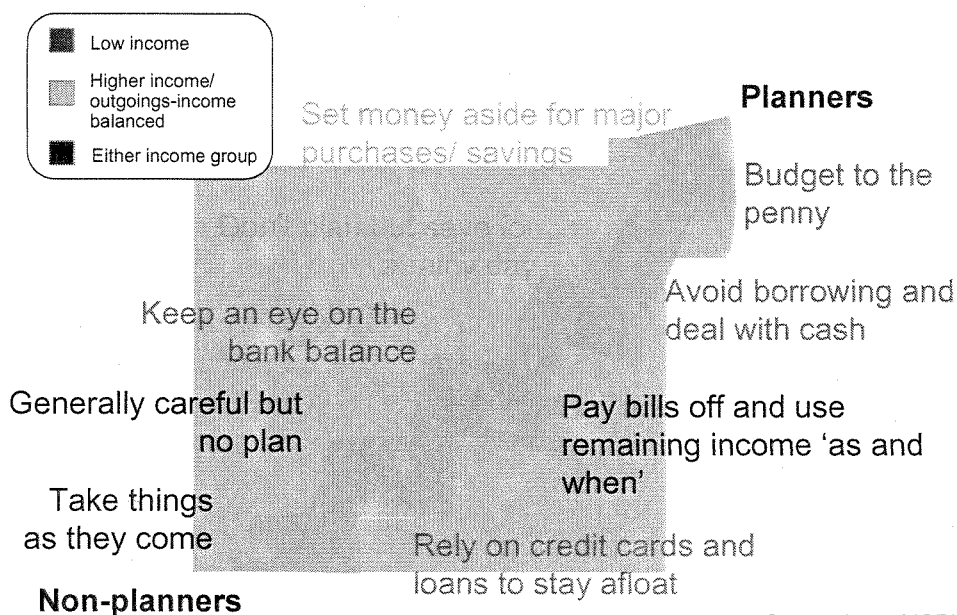
However, decisions around childcare were also tied in with personal values about what was the best approach to bringing up children and there were those who believed that even though tax credits enabled them to afford childcare, their child's interests were best served by being at home with their mother during the formative years. However, this group appreciated the fact that tax credits allowed them to manage, financially, as a result of this decision.

4.1 Attitudes to financial management and debt

The extent to which tax credits recipients planned and budgeted their money varied a great deal; some knew 'to the penny' how much was in their bank account, while others took a more relaxed approach.

The following diagram sets out some of the approaches that existed, as well as their corresponding income levels where appropriate. In the following analysis, 'planning' refers specifically to having a clear and precise notion of which items must come out of the monthly income, their amount and how they will be paid for. While non-planners might know how much income they receive, they rarely accounted for it in terms of expenditure.

Figure 1: Money management attitudes

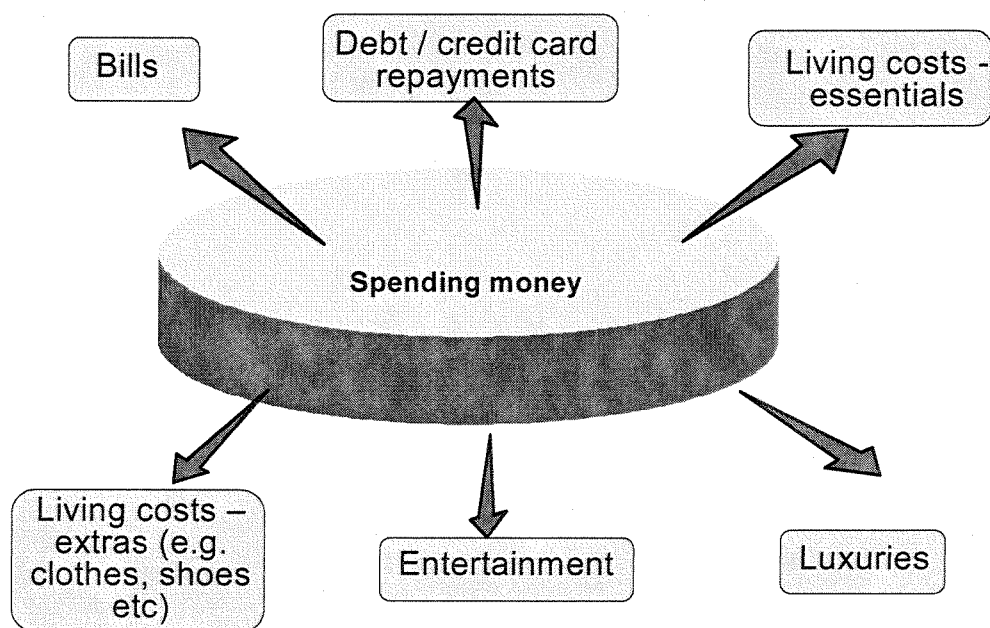


As the diagram illustrates, there is no direct relationship between planning behaviour and income level, since both low and higher-income recipients can be placed at either end of the planning spectrum. Rather, personal traits, upbringing and life experiences appear to be the primary influences on individual financial planning behaviour. However, individuals' attitudes to financial management within the three groups identified – non-planners, loose planners and planners – can nonetheless be shaped to an extent by income level. For example, some non-planners on low incomes felt that it was not worth them planning financially since all the purchases they made were essential items.

Non-planners

These recipients tended to see their total income as a lump sum, which they needed to live off. Rather than dividing their funds and allocating them to expenditure needs, all their spending (both essential and non-essential) was perceived as coming out of this total amount.

Figure 2: Money management patterns – Non-planners



Source: Ipsos MORI

For those who did not plan their spending in advance, attitudes ranged from relying on a day-to-day existence to being generally 'careful' with money. More unusually, some non-planners (mostly those on lower incomes) spent beyond their means, frequently relying on credit cards and overdrafts to stay afloat.

I'll pay my cheque in from work, and I'll pay off my credit card. Then we're living on the overdraft. That's how we live

Working part-time, WTC & CTC, single, female, Cardiff

For these participants, the extra leeway given by tax credits was important in avoiding financial disaster, as the case study below demonstrates.

Case study: The impact of tax credits on non-planners

Jane is single and lives with her 14 year-old daughter in Walsall. She has four other older children and is self-employed, working from home. Although she now manages her money carefully, in the past she was a non-planner and got into serious debt.

Three years ago she split up with her husband, which caused Jane financial hardship. She remained in the family home with three children and survived on her wages, but was left with a large bank loan to repay. After seeing an advert on Sky TV, Jane applied successfully for tax credits.

When her work hours were reduced, she found it hard to keep up with her financial commitments:

"Over about the last twelve months I got behind in my rent, I got behind in my council tax, I got behind with water rates, I got behind with catalogues, I had a massive, massive loan through my bank".

She did not draw up any budget and ignored letters demanding money. A few days before her interview, Jane was made bankrupt, and she now feels she can make a 'fresh start'. She believes that without tax credits, she would have been unable to manage.

"If it hadn't been for tax credits, I probably wouldn't have been able to cope. All I can say is on a score of one to ten about tax credits, eleven because seriously if it hadn't have been for them, I wouldn't have been able to keep my head above water"

Since filing for bankruptcy, Jane has drawn up a realistic budget with the help of debt advisers, and plans to avoid overspending in the future.

Covering bills and essential monthly payments was commonly a priority, and beyond this, non-planners often decided on other expenditure according to what income remained. For the slightly more cautious in this group, keeping an eye on their bank account balance was an important way of staying in control:

As long as I've got enough to cover the bills I don't really think much further than that. And if I do want something ... I look in the bank and I think oh actually yeah I can afford it or I can't afford it.

Working part-time, single claim, single depth,
female, Ealing

People in this group had diverse characteristics: some were confident that they knew their spending limits well enough without the need to plan, while others preferred to live 'with their heads in the sand'. Reasons for this included the stress associated with planning, lack of confidence in money matters and, in some cases, avoidance of knowing the extent of money problems.

As discussed above, low income was not a predictor of planning behaviour. Some individuals on very low incomes planned financially as they were concerned about getting into debt. However, there were also some non-planners on low incomes who argued that planning was not worthwhile as all their income was spent on essentials.

As they did not have a strong hold on their personal finances, these individuals often underestimated the importance of tax credits in balancing their finances:

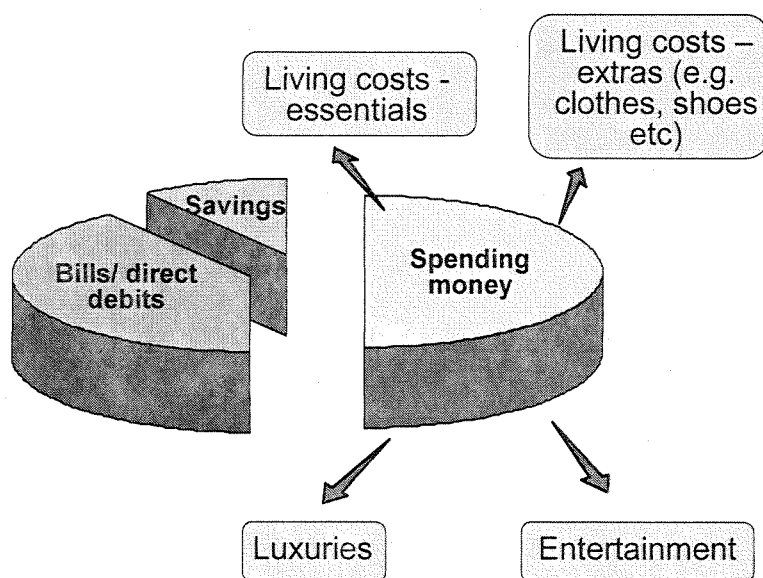
Because it's going in the pot with everything else I can't say I'm really noticing because we've paid £600 for this and £600 for that [for the wedding] and it goes quicker than you realise.

Working part-time, CTC, couple, female, Cardiff

Loose planners

In contrast to non-planners, loose planners did set aside some money each month. These recipients had a clear idea of how much they should ensure was available every month for things like bills, direct debits and savings (if saving was possible).

Figure 3: Money management patterns – Loose planners



Source: Ipsos MORI

Individuals who had a loose plan of what they spent typically fell into two income groups – those who had a degree of financial leeway, and those who managed but with only a little to spare. For the first group, their incomes meant they did not need to plan accurately but chose to put money away 'for a rainy day' or for unplanned expenses.

You get to the end of the month and you think, right so I've got that much left in there we'll save a bit for that. It just might be we've got to decorate yet again we'll use the money for that or whatever.

Working part-time, WTC, couple, male, Cardiff

Others ensured they had money for commitments such as utility bills, but the remaining money was seen as one lump sum which had to pay for everything else for the rest of the month. Withdrawing available money in cash was a way some participants kept track of their money; having the money in physical form acted as a readily-available check on what they could afford:

I just wait till I get paid. Once I get paid all my bills come out first ... then whatever's left will do me for the rest of the month until I get paid again ... I just take out and pay it by cash so I know where I am.

Working full-time, WTC, single, female, Milton Keynes

For this group, tax credits were a key income, as they allowed a degree of leeway in case of accidental overspending. Planning behaviour cuts across different income levels, meaning that planning behaviour cannot be directly predicted from income level. Instead, personal traits, upbringing and life experiences act as the primary shapers of planning behaviour. However, income level nonetheless shaped the explanations that some individuals gave for their attitudes to financial planning, with some non-planners on lower incomes expressing the view that planning was pointless since all their purchases were essential (such as food, baby products and transport).

Among the loose planners, direct debits were a popular method to organise funds and guarantee that their spending priorities were met, although some participants had experienced problems when their bank funds could not cover all their expenses:

We have direct debits, we make sure that we have the money in the bank, obviously, and sometimes we have had to cancel because we know that the money isn't going to be in there, which is embarrassing.

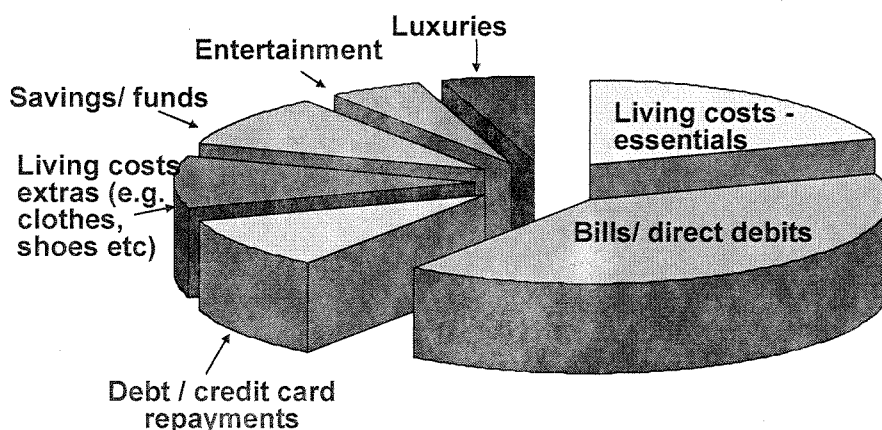
Working, CTC, couple, female, Milton Keynes

Planners

Planners had the most detailed notion of how their expenditure related to their income. They divided up their income into both essential and non-essential expenditure, reducing the likelihood of overspending far below the level for non-planners and loose planners.

Again, the reason for being a planner was not directly related to income level as planners spanned across income extremes. Planners on a low income made efforts to prioritise even their essential spending, managing their finances in detail to avoid debt and difficulties. Although those on low incomes had less *disposable* income to plan with, their financial restrictions were themselves the driving force for strict planning.

Figure 4: Money management patterns – Planners



Source: Ipsos MORI

Strict financial planning habits therefore seemed to be more strongly related to personal characteristics than to income level. Participants who planned their finances strictly tended to be natural organisers who liked to have structure and stability in all personal matters.

Tools commonly used to plan finances included simple pen and paper monthly budgets, direct debits, different bank accounts and computer software:

Well I use my computer for most stuff, I use the money programme and all my bills and everything are set up in there so I have direct debits.

Working full-time, CTC, single, male, Milton Keynes

As well as personality, upbringing and parental influence were important drivers for budgeting. Those who received pocket money or had their own bank account as a child seemed to be more at ease with planning:

My mam and my dad, they started giving me pocket money to teach me the responsibility of money ... if there was anything that I want[ed] or any toys or a game or my stationery for school or toiletries, anything like that I'd save up and I had to buy it myself.

Not working, CTC, paired claim, paired depth,
Wakefield

Personal experiences also changed financial behaviour and individuals' reliance on tax credits. Events such as separation, divorce and financial ruin had forced individuals to adopt a more structured approach to spending and increase the relative value of tax credits in the household income:

I never managed money, I never did anything because my husband did it all so I left all that to him, I didn't even look at a bank statement or anything ... [after separating from partner], I was dreading it, how am I going to cope with all this, but it's been fine, I just watch every penny and check regular, every day just about.

Working, CTC, single claim, paired depth,
Wakefield

Those who had greatest control over their money commonly avoided debt, even in households on the lowest incomes. They were wary of using credit and only took out loans on essential but expensive items such as furniture.

I won't get into debt and that, I won't buy anything if I ain't got the money, it's easier that way.

Working full-time, CTC, single, male, Milton
Keynes

I am very, very frightened of debt because I've seen it wreck lives.

Not working, CTC, couple, female, Walsall

First you have to find the money then you have to spend it. It's not like that you go to spend the money and then the next day you see that you can't afford it.

Working full-time, CTC and WTC, couple, male,
Walsall

Employment also had a significant effect on planning: those who were working (or had a partner who was) tended to show a greater desire to set out at least a general monthly budget. For some, earning money brought a sense of ownership over income and with that a desire to have greater control over it.

While planners who were not working tended to save for specific spending such as Christmas and irregular bills (like water rates), employed planners put money away for more luxury and non-essential future spending.

*Right holiday fund, now this will amuse you this will, it's £20, I always put stuff away so ...
Christmas fund ... hospital fund is what I put away every week in case any emergency for petrol etc. for the hospital... that's £5 and at the end of the year ... whatever's left on pantomime tickets.*

Not working, CTC, couple, female, Walsall

Differences within households

Where participants claimed tax credits as a couple, there were often differences in the amount of financial responsibility taken by each partner. Where one partner took charge of planning and budgeting, awareness of tax credits and their impact was more one-sided. In these cases, the 'active' partner of the pair typically dominated money discussions, and the 'passive' partner commonly found it difficult to comment on tax credits and their implications:

I keep out of it, I keep out of the tax, she deals with everything.

Working full-time, CTC, couple, paired depth, male, Cardiff

As the case study below shows, where CTC was involved, mothers were usually more aware of tax credits and their impact – typically because the benefits were received into their accounts.

Case study: The role of women in managing household finances

Fiona and Luke live with their two teenage daughters in Walsall. Fiona works part-time (9 hours per week) and Luke is on Incapacity Benefit. In addition to tax credits, they also receive Income Support, housing and council tax benefit. They started receiving tax credits around three years ago, when the child element was transferred from Income Support.

F: It's just balanced it out. What Tax Credit's paying us is what Income Support doesn't pay us any more and then they just pay that little bit extra so it's just that you're getting two separate figures but it actually adds up to the same amount of money.

Luke avoids dealing with any financial matters and Fiona takes control of all bank accounts and household income. Just like her parents, she is a detailed planner who has a clear sense of what funds are available:

F: "I actually know pretty much to the penny what's in the account, it's all Luke's accounts but he wouldn't even know what his pin number was cos he's like, you sort it out, you deal with it. Yeah, oh I could rob him for millions if we had some but I can't so..."

While tax credits have not made a difference to the amount coming into the household, the change from fortnightly payments (on Income Support) to weekly has meant fewer peaks and troughs in the bank balance:

F: "The Income Support was actually fortnightly so it's not really changed that much. It's probably helped because it's coming weekly because if we have got short we know we've got those back up."

One negative aspect of tax credits is that CTC must be paid to Fiona instead of Luke. Fiona doesn't have a bank account, and so CTC is paid into her Post Office account while other benefits are paid to Luke. Local Post Office closures have meant that getting access to funds needs planning in advance, complicating money management.

4.2 Tax credits and household spending

This section explores how the receipt of tax credits had an impact on household spending. In short, two broad categories emerged here; those households that used tax credits for general spending and those that used them for specific items. These two groups are examined in more detail below.

Tax credits: general spending

Recipients gave very mixed messages about what tax credits were spent on. There was a strong sense that tax credits were not set aside and spent on specific items – for all apart from those on the very lowest incomes they instead provided more 'breathing space'. Even among the least well-off, tax

credits were seen as an essential income, but not for spending on specific items.

This was often because for simplicity, flexibility and efficiency, tax credits and other income were deposited in the same bank account – the result being that if tax credits were not kept separately, they were not spent separately.

For some, tax credits acted as a buffer in that they lessened the blow of unexpected costs like household repairs or large bills. For others, tax credits contributed to more fundamental spending such as paying electricity bills, meeting food costs or enabling children to enter post-16 education. The importance of this leeway tended to depend on the household income. Better-off households tended to see tax credits as a 'bonus' rather than a valuable safety-net.

*It just makes me feel a bit more secure if you
like, thinking oh that's one worry out of my head*
Working part-time, WTC, single claim, single
depth, female, Ealing

In households dependent on state benefits, it was not uncommon to find that the income apart from tax credits was not sufficient to cover basic expenditure. This meant it was not possible to spend tax credits entirely on one specific thing, for example, the children.

*It's all one big pot, I know that that's coming in,
my child benefit and my tax credits, and I know
how much I'll get with all of that and that is how
I work everything out on that.*
Working, CTC, single claim, paired depth,
Wakefield

Tax credits: specific spending

Those who put aside tax credits for specific items tended to be CTC recipients, and people who planned their budgets carefully. Those on higher incomes were also more able to use tax credits to buy specific things, as they were depended on less for essential spending such as food and bills.

Those who received CTC were in many cases likely to spend the money on their child, typically using these benefits for things such as school uniforms, toys or school transport. For some, there was a feeling that as eligibility depends on having children, it would be wrong to use CTC for other things. For example, there was one participant who ensured that all the child tax credit money was spent on her son, which resulted in her buying an expensive toy for him every week.

*I think of the working tax credit as income, child
tax credit's just basically a benefit for the*

children obviously because it helps to have the money for them, these days they are expensive.

Working part-time, WTC & CTC, single claim,
single depth Milton Keynes

My understanding of tax credits is it's to help you with bringing up a child.

Working part-time, CTC, couple claim, single
depth, female, Cardiff

The exception to this was within households reliant on state benefits more generally; these participants were more likely to see tax credits as one component of their total monthly benefits. In these cases, tax credits were a major part of the monthly budget, and were not set aside for specific purchases as these recipients tended to 'lump' tax credits together with other benefits.

Where higher income households were concerned, the relative value of tax credits was often quite low. In these cases, the money was rarely used for specific purchases, but was rather added to savings or put towards a holiday. Because in relative terms their tax credits made a bigger difference to their finances, households on lower incomes were more likely to see tax credits as a lifeline that helped them to afford the essentials.

Once a month there we are, we've got £600 in the bank, we do a big shop, go and get our meat, buy half a pig or whatever, or half a cow and say right, that's the meat for the month.

Not working, CTC, paired claim, paired depth,
Wakefield

For those in debt, tax credits were often used to meet monthly repayments so that other income could be spent on living costs (particularly for WTC recipients).

Overall, the way in which participants used tax credits related to the level of household income and the degree of control the household had over its finances. Those on a higher income were more able to associate tax credits with a particular area of spending because tax credits represented more of a 'bonus' than an essential income. Lower income households, on the other hand, had less scope to use tax credits on specific spending as the income was used for meeting essential payments.

Within the income differences described above, planning also had an effect on how participants used tax credits. Planners tended to have a better perception of the relative value of their tax credits and therefore were able to link it with a spending area of the same value. Non-planners had less of a clear financial picture, and therefore attempted to manage with what money they had in the bank at any one time.

4.3 Extent of reliance on tax credits

Income was, as could be expected, a key issue in considering the extent of reliance on tax credits. For those participants who managed on a lower household income, for example those not working or only working a few hours a week, tax credits formed a greater part of their average weekly income and thus they relied on it more.

Conversely, for those on higher incomes (and therefore lower awards), while the additional money was appreciated, it was less likely to make a notable difference in how they managed financially.

Although income was a strong influence on the degree to which participants relied on tax credits, planning habits also had a role to play. Planners, who accounted for each individual piece of income and expenditure when they were planning their finances, were more likely to be alert to the amount of money they were getting from their tax credits and the impact it was having on their household.

In contrast, non-planners (on all levels of income), who treated their income as one sum and tended not to watch their ingoings and outgoings very closely, were less likely to acknowledge the impact that tax credits were having. It should be noted that this was not because they were less positive about tax credits, but rather because they had little understanding of what proportion of their household income came from tax credits.

Bearing this in mind, participants' level of reliance on tax credits fell into four broad categories:

- **Those for whom tax credits made a fundamental difference to the way they managed their lives;**
- **Those for whom tax credits made a considerable difference to how they managed financially;**
- **Those for whom tax credits made an important difference** and, without them, would need to make major cut backs in their spending; and,
- **Those for whom tax credits did not make much difference.** These participants did not require tax credits to maintain their current lifestyle and spending.

The characteristics and opinions of each of these four groups are described in more detail below.

Participants for whom tax credits made a fundamental difference to the way they managed their lives

People in this category tended to be lone parents, those with a disability or a disabled partner, individuals who were out of work or whose partner was out of work. As such, they tended to be the sole provider of income within the household.

They perceived that, in financial terms, they lived close to the margins and that every source of income received was spent on essentials such as accommodation, utility bills and food.

I find it hard because I'm not used to living like this. It's like living on the breadline, isn't it? There's no extra cash.... This is the problem, there's no savings, that's the frightening part. My washing machine breaks down, I break down.

Working part-time, WTC and CTC, single claim, single depth, female, Cardiff

Typically, participants in this group tended to use tax credits payments to help pay for childcare, which enabled them to go out to work. Being able to rely on a steady income was particularly important to this group as they were often the sole earner in the household or the only one physically able to work.

Without tax credits, these participants stated that they would have to make major changes in how they both managed and lived their lives.

If I weren't getting them, yeah I think I'd definitely would reconsider my whole life, to see whether it would be feasible for me to go back to work full-time and look at childcare costs. Especially cos I think, I'm on my own, I've got no family and friends to look after my children, so I'd be pretty stuffed.

Working part-time, WTC and CTC, single claim, single depth, female, Milton Keynes

Participants for whom tax credits made a considerable difference to how they managed financially

There were others for whom tax credits also made a considerable difference; less so in the way that they lived their lives but more in terms of what they were able to afford.

This group tended to be better-off financially, and, typically, were not receiving the largest awards. However, the additional money received from tax credits helped them to make large and important purchases such as property. They were of the opinion that without this source of income, they would not be able to meet their mortgage repayments.

Without this [tax credits] we would've lost the house, everything. Our lives would have

changed, well hugely. I don't know where we'd be now.

Working part-time, WTC and CTC, single claim, female, Cardiff

For me, I think it would make a huge difference, dent in my income I think I'd be either forced to sell up my house or forced to go to full-time work.

Working part-time, WTC and CTC, single claim, single depth, Female, Milton Keynes

Indeed, one couple who were receiving less than £100 of tax credits each month believed this quite strongly.

Probably find the house would have to be sold ... It probably would, yeah, cos ... we'd have to lead into other things to pay the mortgage cos [the tax credits are] obviously paying it.

One partner working, WTC, couple claim, paired depth, male, Milton Keynes

This group also spoke of how the additional income provided by tax credits gave them a sense of security in knowing that bills could be paid on time and in full. Without tax credits they stated that payment deadlines would often be missed as it took them time to save the necessary amount.

You could hold your head up high and pay people, so if you had a bill, you could work towards paying that off properly, and not have to worry about ringing them up and saying, well could I pay at the end of the month rather than your date of the 15th, that sort of thing.

Working part-time, CTC – family element only, couple claim, single depth, female, Milton Keynes

Participants in this group often argued that in the absence of tax credits they would have to look to bank loans or money borrowed from family or friends.

Participants for whom tax credits made an important difference

Participants on slightly higher household incomes and therefore lower awards, tended to recognise that tax credits made an important difference but did not wholly rely on them. Many participants we spoke to fell into this group. These participants often had the support of a partner or parents.

Tax credits helped these participants with day-to-day household costs, but were not relied upon to cover larger bills, rent or mortgage payments. Without tax credits participants in this group would need to consciously make cut backs in household spending, luxuries and trips out, but would not need to make any drastic changes in the way they organised their lives.

[If I didn't get the tax credits] I would be able to manage but it would be a bit tighter, I would have to cut down on the luxuries a bit and be a bit more shrewd with me money.

Working, WTC and CTC, single claim, single depth, female, Belfast

Very much so, yes, cos it, you had a bit of a, you had a standard that you could actually afford to live, and be able to buy things for the boys was very important. To be able to put stuff in the cupboards was very important. To be able to say, yes you can have a treat once a month, for them was important, and also it made the situation a little less difficult.

Working part-time, CTC – family element only, couple claim, single depth, female, Milton Keynes

For others in this group, tax credits allowed them to relax their spending slightly, act more impulsively when it came to purchasing decisions, or allow themselves an occasional treat.

[When receiving tax credits] you didn't have to always have the own-brand goods at the supermarket and things like that, gosh we can afford fish this week, that sort of thing, so a little bit more relaxed, a little bit more you don't have to worry.

Working part-time, WTC, couple claim, paired depth, female, Cardiff

Finally, the extra money received in this way was very much appreciated. While this group recognised that, with additional planning, they could financially manage without tax credits, it was perceived that the extra source of income gave them a sense of security that was otherwise lacking.

Tax credits has really helped me out by giving me that little bit of leeway, that little bit of sponge. It's almost like having a overdraft but given by the government.

Working, WTC, single claim, single depth,
female, Walsall

Furthermore, tax credits meant some participants occasionally had money spare and often this was the first time they had experienced this. This meant they could save for emergencies, and had access to funds that could be used as a buffer when unexpected things came up over the course of a month.

Well it does, it makes me feel a bit more at ease because I know that I have that wee bit of security behind me so to speak that I can fall back on if I need to.

Working, WTC and CTC, single claim, single
depth, female, Belfast

Participants for whom tax credits made no difference

Tax credits had no impact for some participants, typically those in work, on higher incomes and only receiving a small award.

While the money they received from tax credits was appreciated, it was rarely perceived as being anything other than 'a bit extra'. Indeed, some went so far as to say that since they had begun claiming, they had not thought about this additional source of income, demonstrating that it did not affect the way in which their household spent its money.

Aligned to this, a few were of the opinion that they would not miss the income they received from tax credits if it were to stop.

4.5 Impact of tax credits on work decisions

While tax credits have an impact on how participants spend the money they receive, they also affect their decisions to work or otherwise. In short, three main groupings emerged here:

- Pro-work, perceived to be irrespective of tax credits;
- Pro-work, perceived to be because of tax credits;
- Unwilling to change employment situation, perceived to be because of tax credits.

These are all described in more detail below.

Pro-work, perceived to be irrespective of tax credits

Most commonly this group comprised those who were already in work when they began claiming, were working full-time and thus their level of award was quite low.

As a result, they did not perceive the need to change the amount of hours they worked or what they did for a living; the additional revenue gained from tax credits was simply seen as money that they otherwise would not have had.

Others felt that, while they began claiming tax credits when out of work or working only limited hours, their decision to return to work or increase their hours was not linked to their eligibility to claim here. Instead they cited other factors, such as illness or the birth of a child, that had prevented them from working as much as they had wished when their claim began.

This group very much saw employment as being linked to personal well-being; it not only brought them a degree of financial independence but also brought them into contact with other people outside of their normal social circles (a factor particularly important for new mothers) and exposed them to new ideas.

Yeah, [going back to work] was a sanity thing for me I'm glad I'm went out to work because I think it benefited me as a person.

Working part-time, CTC – more than family element, couple claim, paired depth, female, Cardiff

It doesn't matter whether I'm better off, I would be better off personally working than claiming the tax credits, but for me personally I would feel better if I was earning the money. It's just me, it's the way I am, it's just my own personal choice I suppose. If my income stays the same, that's OK, doesn't matter where the money's coming from as long as it doesn't go down.

Working part-time, WTC and CTC, single claim, single depth, female, Cardiff

Pro work, perceived to be because of tax credits

For other participants, specifically those with children, the receipt of tax credits provided them with the financial impetus they needed to re-enter the workplace.

I decided before I had [my daughter] that I was going to go into work full-time. I needed help and it was basically, it has allowed me to do full-time employment. It was a choice I had, work full-time and claim tax credits and get help that way or become unemployed and sit and do nothing for five or six years and I decided to work. It's given me that wee bit of extra that I was able to do that, because if hadn't had it I wouldn't have been able to afford to go into full-time employment.

Working, WTC and CTC, single claim, single depth, female, Belfast

Among this group, the impact of tax credits on participants' ability to work was clearly evident. These participants felt that, without this source of income, they would be unsure of whether they could financially afford to work full-time and pay for childcare costs.

If I weren't getting them, yeah I think I definitely would reconsider my whole life, to see whether it would be feasible for me to go back to work full-time and look at childcare costs.

Working part-time, WTC and CTC, single claim, single depth, female, Milton Keynes

A few mentioned how tax credits had enabled them to remain in work, in spite of illness. For example, some described how working full-time had taken its toll on their health (stress, back problems and so on were mentioned here). However, due to the element of financial independence that having a regular income bought them, they were reluctant to give this up entirely. Tax credits enabled them to make the shift from full- to part-time work.

Yeah, when I went back to work full-time I found it was too much because of my health and [tax credits] enabled me to be able to make that decision to go part-time.

Working, WTC and CTC, single claim, single depth, female, Milton Keynes

When seeking to understand the financial impact that tax credits might have on their personal situation, some participants in this group had consulted

HMRC or other agencies to discuss the extent to which working different hours (and the subsequent effect that this would have on wages) would make to their award. HMRC employees were perceived to be very helpful in seeking to understand and explain the different permutations here.

I actually rung them up and said if I do less hours what impact would it have and they helped me out with that and likewise they helped me out when I actually said I'm not working at the moment, I want to go back to work, what impact is it going to have, so they helped me with that as well.

Working, WTC and CTC, single claim, single depth, female, Milton Keynes

Unwilling to change employment situation, perceived to be because of tax credits

There were some for whom the receipt of tax credits had encouraged them to keep the status quo with regard to their employment status and the hours of work. This group tended to comprise those who were working fewer hours and received larger awards and thus, in turn, were more reliant on this. This unwillingness to alter their employment status was largely driven by the anxieties they felt towards the tax credits system. They were concerned that working additional hours would cause complications with their claim which they perceived would, ultimately, cause more stress than bring benefit to them.

I always keep the same hours - if you chop and change that's where the problems kick in. It's happening to my friend, she's been hit with a big bill [for overpayments]. People whose hours vary are the ones that seem to be having the problems. If they offer me an extra day, I wouldn't do it. I can't risk it, I can't risk being hit with a big bill, and as I said, losing our home.

Working part-time, WTC and CTC, single claim, single depth, female, Cardiff

In some instances, these participants had received overpayments in the past and thus were anxious about altering their claim based on negative experiences from their own past. Others' concerns were exacerbated by media reporting of overpayments and from hearing about such issues via friends, family and colleagues.

These participants often worked few hours – and thus received high levels of award – they stated that they would find it extremely difficult to cope with a sudden change in income levels, such as those precipitated by having to repay money to HMRC.

One such claimant actually saved up all of his tax credits until the end of the year, when he perceived that he could then comfortably spend them in the knowledge that he had not been overpaid.

4.6 Impact of tax credits on childcare decisions

Tax credits did not only affect participants' decision-making regarding employment but also, and to a lesser extent, childcare. For many though, the decision of whether to work or not (either full- or part-time) was made **first** and *then* issues around childcare were taken into consideration.

Among those who were parents and claiming tax credits, two main groups emerged:

- Those for whom tax credits enabled mothers to stay at home and bring up their children themselves; and,
- Those for whom tax credits enabled mothers to afford childcare costs and return to work.

The role of tax credits in supporting mothers who stay at home

For many mothers, the decision to work was driven by who was best placed to care for their children rather than the cost of childcare. Some, for example, wanted to spend the formative years with their child and thus did not wish to use childcare. This was particularly the case for participants with younger children. Participants in this group tended to want their children to be older before using childcare, by which time they would be going to school anyway which would mean that childcare costs were reduced.

If I had to put her in childcare I wouldn't have gone out to work, if it wasn't for a member of the family offering to help me, whether it'll be my mother or somebody else I wouldn't have gone out to work, because I wouldn't at the age of one wanted to put her in childcare.

Working part-time, CTC – more than the family element, couple claim, female, Cardiff

When childcare was required, this group tended to turn to friends or family for help rather than more formal sources. This again resulted in the fact that they had no, or minimal, childcare costs to cover.

I'm lucky I've got very supportive parents who help me out with the children, so that I'm not in a mess kind of thing.

Working, CTC, single claim, paired depth, Wakefield

Although this group did not use tax credits to cover childcare costs, this did not mean that tax credits did not have an impact on their lives. The receipt of this money allowed them to top-up their monthly incomes while staying at home and looking after their family.

They're a lifesaver for me. Because my children are still quite young, I need to be here.

Working part-time, WTC and CTC, single claim, female Cardiff

It was more significant [when we first received tax credits] because I wasn't working and [his] money wasn't enough to pay for all our outgoings, especially with babies and you're going through two packets of nappies a week and what have you. So at the very beginning it was important to us and we would have noticed if we were £100 short a month, it would have been a significant impact then.

Working part-time, CTC – more than the family element, couple claim, female, Cardiff

Tax credits supporting parents into work

It was clear that some parents, despite the extra responsibility and cost of having children, still wanted to go back to work, at least part-time. For them, decisions about childcare and its cost were less important than making sure they were able to spend time with their children and, at the same time, were able to go out to work.

However, in these cases, tax credits were still very important, since they meant that even if only working part-time, participants' incomes were topped up to a level that allowed them to support themselves and to cover childcare costs while they were at work.

Without it [tax credits] we would've lost everything. It's more important to me that children aren't home alone. That's my main priority, the children. I found a balance, I can work and look after the children.

Working part-time, WTC and CTC, single claim, single depth, female, Cardiff

Tax credits too low to support childcare

While many participants chose to stay at home due to the fact that they believed this to be best for their child, there was a sense among some that the income received from tax credits was not substantial enough to enable them to afford full-time childcare while they worked.

For some this simply meant that they could not afford to go out to work all day, since even with the extra income they would not be able to cover the costs of their childcare. Others argued that if they went to work full-time, their tax credits would be reduced and they would ultimately be no better off. In these circumstances participants argued that it made more sense to work part-time and spend more time with their children.

Although most found them valuable, tax credits tended not to be a decisive factor in participants' decision-making. However, there were examples (as shown in the case study below) of participants for whom tax credits were of primary importance when making decisions about the way they worked, how they managed their childcare and otherwise organised their household

Case study: impact of tax credits on household decision-making

Annabelle is a lone parent from Milton Keynes who has two children and works part-time. She receives both Working and Child Tax Credits. When she broke up from her husband a few years ago she found herself alone in a strange town far away from her nearest family and friends. She had been out of work and supported by her husband when the children were first born, but had struggled once he left. Eventually Annabelle decided that she would need to go back to work and had to decide how best to manage her situation.

"For me I needed to go back to work. My children were getting to an age where they were getting older, and it was to do with, obviously my circumstances changed and I had to go back to work."

She contacted HMRC directly and asked them about how much money she would be entitled to if she went back to work. These conversations were crucial to her in deciding whether or not she could afford to go back to work part or full-time and how she would cover her childcare costs. Using the information HMRC provided her with, she was able to look at her finances and decide which course of action would be the most cost effective for her.

"I actually did go to the Inland Revenue, I went to the office and found out exactly, if I could, if it was worth my while to go back to work, so I just knew I had to go back to work. I wanted to find out if I could afford the house, what they would pay me, plus my income."

She decided to go back to work part-time which allows her to cover her childcare costs as well as making sure she spends some time with her children and is able to take them to school or to a childminder. She is also very aware of the likely impact any changes in her circumstances might have on her tax credits award, and takes this into account when planning her future.

"Whether they'll reduce it obviously when my children get older the payments could go down and if I work longer hours those payments will go down, I do consider all that, when I make any financial decisions"

5. Key influences

Summary Box: Key influences

An important element of this programme of research was to explore the feasibility of developing typologies of attitudes towards tax credits among claimants. Due to the diversity of the claimant population and the complex interactions between attitudes and behaviours, current personal circumstances and previous experiences that influence how people view tax credits, the research team found that it was not possible to segment customers based on attitudes. However, the exercise enabled us to identify a number of key influences that have an impact on claimants' attitudes to and behaviours regarding tax credits.

People's views on tax credits are shaped by a diverse range of influences; personal attitudes, behaviours, life experiences and personal circumstances. Any individual claiming tax credits may exhibit none of these influences, one influence or a combination of two or more influences. Furthermore, the influences on people's attitudes and behaviours regarding tax credits may alter over time as claimants' experiences and personal circumstances change. For example, a claimant who has previously worked fixed hours may take up a new job which requires that their hours change from week to week, or a couple's relationship may break-up and one or both partners may experience a period of transition in which normally stable elements of their lives such as employment and childcare need to change.

From close qualitative analysis, eight key influences on personal attitudes to and behaviours regarding tax credits emerged. These were:

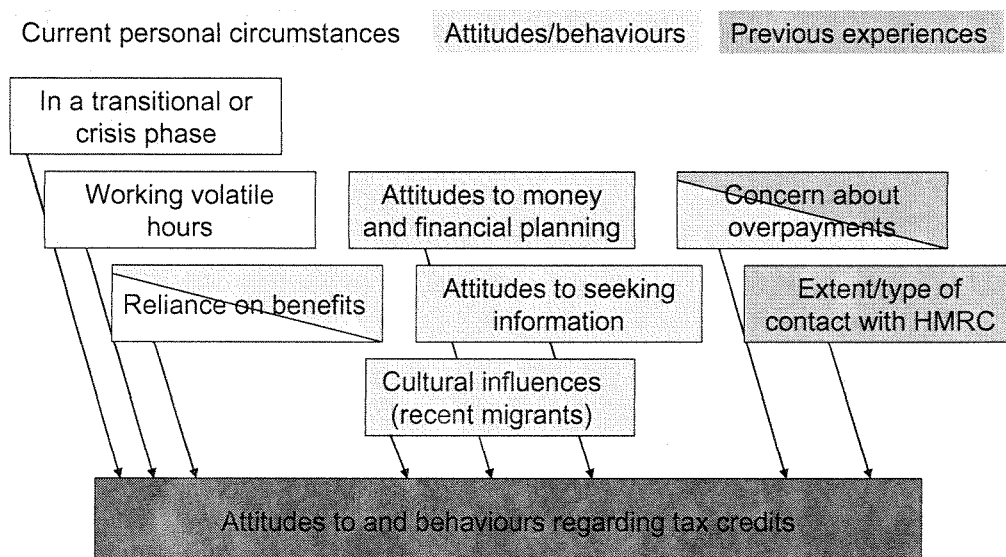
- **Being in a transitional or crisis phase;**
- **Working volatile hours;**
- **Reliance on benefits** (for those who are out-of-work and claiming the highest level of CTC);
- **Cultural influences** (for recent migrants to the UK);
- **Attitudes to money and financial planning** (which in turn are shaped by other factors, such as gender, life experiences and upbringing);
- **Attitudes to seeking information** (passive or proactive);
- **Concern about overpayments** (for those on low incomes and claiming relatively high awards of CTC/WTC); and,
- **Extent and type of previous contact with HMRC.**

While the list of influences cannot be used directly to help shape communications in the way that typologies could be, it can help HMRC to gain a clear understanding of the factors that shape different claimants' views and behaviour regarding tax credits; acting as a reminder of the varying ways in which different claimants perceive, behave and respond to communications

from HMRC about tax credits. By gaining a deeper understanding of this audience – including their opinions, attitudes and the drivers of these – HMRC can continue to ensure that it meets customers' needs effectively through communication in the future.

The eight key influences that shape personal attitudes and behaviours regarding tax credits relate to individuals' current personal circumstances, existing sets of attitudes and previous life experiences, or to a combination of these factors. The complexity of the interactions between these three broad areas – personal circumstances, attitudes and behaviours, and previous experiences – is illustrated by some influences cutting across two sets of factors. The diagram below illustrates which factors each of the key influences relates to.

Figure 5: Key influences on claimants' attitudes and behaviours



Current personal circumstances: Factors relating to recipients' current situation have a strong influence on how people view the tax credits system. Circumstances such as the extent of reliance on benefits, level of household income, work situation and personal upheaval (e.g. separation or divorce) have an effect on whether recipients notice the difference tax credits make to household finances. This in turn determines how the tax credits system is viewed by recipients.

Income level is not included as one of the key influences on attitudes and behaviours regarding tax credits because, while income level did play a part in determining the impact that tax credits had on individuals and families, much of this was driven by attitudes towards money management (see below) and individual perceptions of the impact that tax credits had on household finances.

Attitudes and behaviours: Individuals' general attitudes and behaviours towards managing their money and seeking out information shaped how they viewed the tax credits system. Among recent migrants to the UK, who may

have received benefits and financial assistance from the state which they would not have received in their own country, the tax credits system was often viewed very positively. This is an example of how existing sets of attitudes, such as those deriving from claimants' cultural backgrounds, can influence attitudes towards the tax credits system.

Reliance on benefits can be seen both as a factor stemming from current personal circumstances which may lead people to claim benefits, and as an attitudinal factor or behaviour for some. It is therefore an influence that derives from a combination of personal circumstances and individuals' attitudes to financial welfare provision by the state.

Previous experiences: The types of experiences that people had had with the tax credits system in the past had an impact on their views. In particular, concern about overpayments and the extent and type of contact the individual had had with HMRC played an important role here.

Concern about overpayments derived not only from direct experience, but also from personal attitudes towards them. Some claimants who had not been overpaid were nonetheless concerned about any possible future overpayments as a result of seeing media coverage or family or friends having been overpaid. This suggests that overpayments are an attitudinal issue as well as a factor relating to previous experience. This influence therefore sits across attitudes/behaviours and previous experiences.

5.1 Identifying the key influences

There were a number of ways in which the data was analysed so as to determine the feasibility of developing typologies. At the most basic level, we explored demographic information such as income level, age, and household status to see the extent to which these factors had an impact on attitudes and behaviours. These did, of course, have some bearing (and these have been explored in previous sections as well as in more detail later in this section).

Some influences that were identified apply only to certain demographics; for example, working volatile hours was a key influence for claimants on low incomes and claiming relatively high awards of both CTC and WTC. However, there were too many variables here to allow for the generation of meaningful typologies on the basis of demographic information. For example, while income level did play a part in determining the impact that tax credits had on individuals and families, much of this was driven by attitudes towards money management and perceptions of the impact of tax credits.

The eight key influences on personal attitudes to and behaviours regarding tax credits are discussed below. It is important to bear in mind that these influences cannot be used to segment the tax credits claimant population. Many claimants exhibited a number of these influences, driven by their current personal circumstances, existing attitudes towards financial management and seeking information, and previous life experiences.

5.2 Influence one – Those in a transitional or crisis phase

Tax credits assumed a much greater level of importance for those in a transitional phase – this covered a variety of personal experiences from a change in employment to health problems or the break-up of a relationship. As income was often limited, claimants in this situation relied on tax credits as a financial safety net.

For the most part, the receipt of this income proved to be extremely beneficial. These claimants often had little experience of managing financially in the past - perhaps a partner who had now left always managed the finances. Tax credits allowed them to manage financially at a very stressful time.

However, the impact that tax credits had on them varied enormously. In some cases they provided the impetus to take a new direction in life, for example by retraining or going back to work. For others, although tax credits helped them to manage financially, partly due to providing a regular income, they were slow to realise that, aside from this money, they were facing serious financial issues. For example, for the small proportion who were struggling with debts and nearing bankruptcy, tax credits helped them to get by (which is clearly a positive effect) but for some it masked how serious their financial situation was.

5.3 Influence two – Those working volatile hours

Claimants for whom working volatile hours was a key influence were those on low incomes and claiming relatively high awards of both CTC and WTC and specifically those that worked flexible hours. These claimants slotted in their work according to their circumstances, for example when they could arrange suitable childcare with friends and family. In practice this meant that they found it hard to budget; their income fluctuated week by week according to the number of hours they worked.

While this income did not vary enough to have much of an impact on their tax credits claim, due to the limited means these claimants tended to live on, the variations in income affected their ability to get by on a day-to-day basis and largely prevented them from making any real changes to their situation. They were, in effect, locked in a cycle of low-paid irregular work that they found difficult to break out of.

The receipt of tax credits made a great difference to claimants affected by working volatile hours. Tax credits provided a regular supply of fixed income which enabled the recipients to budget effectively and plan ahead with confidence. This aspect of tax credits was appreciated and influenced attitudes towards tax credits regardless of the actual level of the award itself.

Due to the fact that the receipt of tax credits enabled these claimants to plan ahead, it also had an impact on their behaviour. For instance, those with children were able to use the money to pay for regular childcare provision rather than relying on the support of friends and family. The knowledge that

their children would definitely be cared for during certain hours provided them with the impetus and security to look for more stable work with fixed hours. Once this had been secured, it was possible for them to budget and plan ahead with greater ease.

5.4 Influence three – Reliance on benefits as a source of income

Those who relied on benefits as a source of income were typically those who were out of work and claiming the highest award of CTC only.

Many participants who were out of work and claiming CTC were claiming other forms of state financial support as well, such as Income Support, Housing Benefit and Council Tax Benefit. As a result, these claimants did not differentiate between these benefits they already (or had previously) received and tax credits; the latter was seen as 'just another benefit'.

Indeed, this perception was strengthened by the fact that the tax credits system was very much viewed as a replacement of an old benefit; many of those we engaged with throughout this research were aware of the payment of a 'family element' as part of Income Support.

This attitude in part underpinned their lack of understanding of the whole system. The fact that they saw tax credits simply as another benefit meant they paid little attention to how the level of the award is calculated and were not particularly proactive in seeking information; the fact that they received the money was enough for them.

For those influenced by reliance on benefits, the receipt of tax credits was perceived to have less of an impact on their lives simply due to the fact that this money was added to the overall household income 'pot' and was used to help with day-to-day spending rather than providing an additional financial cushion to allow participants to retrain or seek new employment opportunities.

5.5 Influence four – Cultural influences among recent migrants

This influence applies to claimants who have recently been granted residency in the country. For many of these people interviewed as part of this sample, their prime reason for coming to the UK was to improve their economic fortunes. Many of these claimants were not used to the state providing benefits and financial assistance to those in need of help.

In light of this, the tax credits system was viewed very positively. Claimants from this background did not see it as 'just another benefit' but as something that could make a real difference to their lives. This attitude was consistent irrespective of the level of award that they received; being provided with money in this way was such a novel concept to them that any amount was well thought of.

5.6 Influence five – Attitudes to money and financial planning

As described in chapter four, attitudes towards financial planning appeared to exert a strong influence on the way participants used and perceived tax credits. In turn, these financial attitudes were shaped by other factors, such as gender, life experiences and upbringing.

Planners tended to view tax credits positively. For planners, the money received from tax credits was often used to help with large, important purchases (such as helping with mortgage repayments) or to provide a financial cushion in case of unexpected bills. Their upbringing and previous life experiences were driving factors in determining opinions towards tax credits but were not the only influences. Alongside this, more deep-rooted attitudes towards money and work which had been instilled in claimants throughout their lives were also factors that led these participants to have positive views towards tax credits.

For example, those who were given a regular allowance by their parents in childhood and/or had access to a bank account from a young age tended to be more adept at financial management and planning and thus better able to manage the money available to them. Participants with these attitudes tended to view tax credits positively and saw them as a deserved extra.

The fact that tax credits were viewed as an additional source of money rather than as subsumed into the general household income meant they were treated differently. These claimants were more determined to use the money to great effect and for this reason felt that tax credits had had an important impact on their lives.

For claimants who are financial planners there seems little need to demonstrate the impact that tax credits can have. However, case studies from this population could be used in leaflets and other material to indicate what impact tax credits can have on people and the benefits of the additional income they provide people with.

Gender also had an impact on people's attitudes to money and financial planning. More often than not, where people were claiming as part of a couple, it was the woman that took the responsibility for tax credits and how to spend them. In part, this was because tax credits were often paid into the woman's bank account⁴. Women were often responsible for managing the household budget and determining what could be spent on food, additional luxuries for the family and so on. This was in turn played out regarding tax credits.

For example, among those in receipt of Child Tax Credit, it was often the woman of the household who made the decisions as to how this additional income should be spent. This was largely due to the fact that it was often women who had made the greatest life changes in order to adapt to having a

⁴ Tax credits are paid into the bank account, building society, or savings account nominated by the claimant.

child; for instance by working reduced hours or leaving employment completely. Women automatically assumed responsibility for having the final say on how to spend the money received from tax credits.

5.7 Influence six – Attitudes to seeking information (passive or proactive)

One of the most clear-cut findings generated as a result of this research was that the impact that tax credits were perceived to have on an individual/family depended very much on how people sought information about what they were entitled to. Those who perceived that they needed the money in order to 'get by' tended to put the most effort into finding out about how they could claim and whether or not they were eligible. This effort was clearly driven by need. These claimants tended to be those on lower incomes and thus in receipt of higher awards.

On the other hand, there were those who were more comfortably off financially (and therefore in receipt of lower awards). The extra income provided by tax credits was appreciated – and often used to boost saving schemes for special occasions such as Christmas and Birthdays – but it did not represent the tipping point between failure to cope financially or otherwise. Consequently, these claimants tended to be more 'laid-back' in terms of their approach to gathering information about the tax credits system; they did not proactively seek out information but, in a sense, waited for it to come to them via advertising on television or through exchanges with their peer group about the claiming process.

Thus, there can be some reassurance here that those who really are in need of the financial assistance provided by tax credits are likely to seek information about them of their own volition. Those for whom tax credits are more of an extra bonus let tax credits come to them. The system therefore seems to be successfully reaching those in most need.

5.8 Influence seven – Concern about overpayments

Concern about overpayments was a key influence on the attitudes towards tax credits of those in work, but on low incomes and claiming relatively high awards of both CTC and WTC. These claimants perceived that they were far more reliant on tax credits and that they helped them to manage financially in a way that would not be possible without this source of income.

Although the most concerned participants were only a small proportion of all those interviewed, it is important not to underestimate the impact that overpayments had on some claimants. Many of those we engaged with as part of this research were aware of others receiving overpayments even if this had not happened to them personally. Media attention on this issue had also raised awareness of problems with the tax credits system and had tended to focus on the worst case scenarios. This increased concern among claimants that they might be similarly affected.

Thus, it can be said that many of those who were concerned about overpayments also lacked more general trust in the system. Despite this, they

commonly attached great importance to this source of income; for some it represented their only regular income while for others it meant the difference between scraping by and coping financially.

This lack of trust had an impact on how participants reacted and behaved towards the tax credits system. Some, for example, saved this money over the course of the year so as to provide themselves with the reassurance that should they be asked to repay some of their award they would be able to do so immediately. For others, it prompted them to think again as to whether they should renew their tax credits claim; their experiences of the system were perceived to be so traumatic as to make them feel that they would be better off (emotionally, if not financially) by not claiming.

In addition, although tax credits had provided some with the financial backing they needed to be able to work more hours by enabling them to afford regular childcare, they were afraid of changing their working patterns because they were concerned that a change in circumstances could lead to them being overpaid – even if they went through the correct procedural channels and reported this difference in their work status.

The perceived complexity of the system also came into play here. These claimants had very little sense of how the level of award was decided on; many saw it as an arbitrary process in which even the smallest difference in their circumstances - for example working some overtime one week - would impact on their claim. This again contributed to an unwillingness to change their working patterns.

Consequently, tax credits were not having the level of impact that they might have had in these cases; recipients were not able to make the big decisions that would bring real changes to their circumstances if they were circumspect about the money awarded to them. Indeed, for some participants who had serious concerns about overpayments, tax credits seemed to promote feelings of inertia, therefore having the opposite effect than that intended.

It would also be useful to invest time in working out how best to communicate the tax credits system to claimants for whom concern about overpayments is a key influence. Complexities inherent to the tax credits system meant that it would be counter-productive to provide claimants (and prospective claimants) with full details as to how it operates. However, participants favoured some kind of publicised 'ready reckoner' to help claimants with their calculations. While this would not be expected to provide definite conclusions as to what the level of award might be, it seems that claimants would value a means of estimating how their level of tax credits award might change following a change in circumstance. Participants stated that this may help address the reluctance of some to change their working patterns.

We understand that the HMRC website provides a 'ready reckoner' already. However, some claimants perceived that such help was not available to them. It may therefore be worth publicising this tool more widely.

Although these actions would specifically allay the concerns and fears of these particular claimants, the benefits may extend wider through promoting greater trust and transparency.

5.9 Influence eight – Extent and type of contact with HMRC

The final key influence on claimants' views on tax credits was the level and type of contact they had had with HMRC. To a great extent, this contact influenced how people felt about the system and, ultimately, the importance that they attached to tax credits.

It should be noted from the outset that typically claimants in this sample had only contacted HMRC regarding tax credits; they did not tend to self-assess for example and, as such, interaction between the Department and the individual was limited to this one issue.

Those who sought help and advice from HMRC regarding their claim, via the helpline for example, were often 'pleasantly surprised' with the level and quality of support they received. While this is a major positive for the Department, it is also worth remembering the low level of expectations that people have with regard to such services. People do not, on the whole, think in terms of individual government departments; they see 'government' as one large amorphous mass. Therefore, issues they have had with other state bodies (right down to local councils) can affect how they feel about government communications as a whole.

There were some negative issues with the helpline particularly in terms of receiving contradictory information from different members of staff or where the query was especially problematic. That said though, there is much to be praised about the HMRC tax credits helpline. Those who had used it spoke of how friendly and polite the staff on the helpline had been and how they provided useful reassurance over perceived complex issues, such as how to fill in the forms correctly. Those who had had this positive first point of contact tended to be more positive about the system overall.

A key issue was the fact that, in many cases, claimants' first point of contact with the Department (aside from the correspondence relating to their award) was a letter telling them that they had been overpaid. Administrative issues also prevailed here; people spoke of receiving duplicate copies of the same letter, their partners receiving the same letter and so on, which created an impression of a Department that was not entirely in control of the situation. While experiencing an overpayment was still traumatic to those who had previously had contact with HMRC, they did, at least, have the reassurance of knowing that there would be somebody on the end of the phone who could attempt to help them resolve the issue.

To address this issue, participants suggested that there may be scope for advertising the HMRC helpline more widely. They also recommended that there be increased staff training to ensure those working on the helpline have sufficient information and experience to deal with the more complex tax credits issues that can arise.

5.10 Influences: Conclusions

One of the key aims of this research was an exploration of the feasibility of developing typologies of how the tax credits population perceives and reacts to tax credits. This was not possible, since tax credits claimants cannot be grouped according to fixed factors such as lifestage, income level or geographical location. Instead, eight key influences that affect perceptions of the tax credits system have been identified. These influences relate to (and in some cases cut across) claimants' current personal circumstances, attitudes towards financial management and seeking information and previous experiences.

The eight influences are not fixed, in that the influences shaping particular claimants' attitudes and behaviours towards the system are likely to vary over time as their personal circumstances, experiences with HMRC and attitudes to finance and seeking information change. For example, if the number of overpayments is reduced over time then it is likely that some of the problems associated with mistrust will be mitigated. While this may not mean that the influence of concern about overpayments will disappear completely, it serves to illustrate that these key influences can and will develop and change over time.

In light of the shifting nature of the influences on claimants' perceptions of the tax credits system, it is important not to attach long-term relevance to the distinct influences as they currently stand. Regular reviews will be necessary to give up-to-date feedback on current issues. The value to HMRC of this snapshot of its recipient population is in understanding the breadth of experience, backgrounds and motivations of the diverse range of tax credits claimants. The influences provide the Department with a new way of looking at this important customer group and, furthermore, offer insight into factors that should be taken into consideration with regard to communications in the future.

For the most part, these insights relate to getting the information to those that need it via a channel they can trust and access easily. Although the case can be made that those who really need the money will do whatever is required of them to obtain it, there is also an argument to say that given this is the very group that the policy is designed to help (since tax credits are spearheading the Government's initiatives to alleviate poverty) special efforts should be made to engage these people.

Beyond this though, and looking forward, there is a need for HMRC to demonstrate the potential of tax credits to have an impact on individuals' future decision-making (such as financial planning, saving, going into work or training). It is apparent that, because of concerns about overpayments or a lack of understanding of the calculation of their awards, claimants are being hindered from making use of tax credits to make choices that could improve their position. In light of this, attention needs to be paid to developing positive messages about the successes of tax credits so as to ensure that the potential they offer is realised.

Appendices

Discussion guide

Opt-out letter

Recruitment questionnaire

Discussion guide

Depth Interviews Final Discussion Guide

Core objectives

To explore the experiences, behaviour and motivations of the tax credits claimant population, in particular:

- Their overall experience of the tax credits system.
- The importance of tax credits for household income.
- The role of tax credits in decision-making, in particular about employment and childcare strategies.

Outline of the research programme

- 49 single and 21 paired depth interviews to be conducted face-to-face by Ipsos MORI executives and directors.
- Interviews in 6 geographical areas (Ealing, Cardiff, Walsall, Milton Keynes, Wakefield, Belfast).

Interview sections	Notes	Approx timing
1. Introduction and background	Sets the scene and gets background information on participants including household composition	10 mins
2. Experiences of making tax credits claims	Grounds the discussion and explores some general issues, such as ease of claims procedure and interactions with HMRC	10 mins
3. Sources of information for tax credits	Examines where participants get their information about tax credits and who they turn to for help when needed	10 mins
4. Sources of income	Explores participants' incomings and outgoings	20 mins
5. Impact of tax credits on decision-making	Investigates impact of tax credits on household, including on income, financial planning and spending	10 mins
5. Work activity and incentives	Looks at role of tax credits in "better off" calculations and impact of tax credits on work incentives	10 mins
6. Childcare and tax credits	Builds up picture of impact of tax credits on childcare	10 mins
7. Conclusion and key message	Key messages, draws interview to a close	5 mins
Total		85 mins

Key Questions	Notes	
1. Introduction and background		
<p>1.1 Scene-setting:</p> <ul style="list-style-type: none"> • Thank interviewee for taking part • Introduce self, Ipsos MORI, HMRC and explain the aim of the interview • Role of Ipsos MORI – research organisation, gather all opinions: all opinions valid, disagreements OK • Confidentiality: reassure all responses anonymous and that information about individual cases will not be passed on to any third party (e.g. HMRC) • Get permission to tape record – transcribe for quotes, no detailed attribution. <p>1.2 Introduction and background info: Reassure interviewees that everything they say to us is confidential, will not be passed to HMRC and will not affect their tax credits claim in any way. Important that the moderator stresses this to put the participant at ease. IF A PAIRED INTERVIEW, THIS INFORMATION NEEDS TO BE COLLECTED FOR BOTH PARTICIPANTS.</p> <ul style="list-style-type: none"> • First name • Where do you live? Who with? (household details) • How long have you lived there? • What do you do? (employment status) <p>IF EMPLOYED:</p> <p>How many hours do you work each week, on average? How long have you been working these hours? Do your working hours change from week to week, or from month to month?</p> <p>Do you have more than one job? How many? If so, for how long have you been working in more than one job? Do your working hours stay the same for each job every week, or do they change? How?</p> <p>Check if necessary: are you self-employed?</p> <p>IF NOT EMPLOYED:</p> <p>How long have you been unemployed? Do you or your partner have any disabilities which you feel have prevented you from seeking employment? PROBE IF SO FOR WHICH ONES, WHY THEY HAVE PREVENTED THEM – BARRIERS FACED AND SO ON.</p> <ul style="list-style-type: none"> • Do you have any children living in your household? How many? How old is each child? <p>IF THEY HAVE CHILDREN: How do you manage your childcare arrangements at the moment?</p>	<p>Welcome: orientates interviewee, gets them prepared to take part in the interview</p> <p>Outlines the 'rules' of the interview (including those we are required to tell them about under MRS and Data Protection Act guidelines)</p> <p>No detail about specifics (e.g. tax credits) at this stage. This ensures that spontaneity is retained for initial discussions and that the interviewee is not over-whelmed with information</p> <p>Introduction: provides contextual background information about the interviewee (which can then be used in the analysis), such as household status, employment status and childcare arrangements.</p> <p>Interviewer note: participants might be wary in giving this information, especially if they have not already communicated it to HMRC. It is therefore important to emphasise to them that everything they say will be kept confidential and will not affect their claim.</p> <p>This level of detail will be important in forming typologies at the analysis stage.</p> <p>This captures information on the security of interviewees' employment.</p>	10 mins

<p><i>Probe on extent to which partner, family or friends, nursery, crèche facilities take a role in childcare.</i></p> <ul style="list-style-type: none"> Which government benefits, if any, do you or your partner receive? How long have you been receiving them? <p>IF A SINGLE INTERVIEW:</p> <p>Do you claim tax credits as a single person or as part of a couple? Have you always claimed tax credits on this basis?</p> <ul style="list-style-type: none"> Do you currently have a partner? Does s/he live in your household? How long have you been together? What does your partner do? <p>IF PARTNER IS EMPLOYED:</p> <p>How many hours does your partner work each week, on average? How long has s/he been working these hours? Do his/her working hours change from week to week, or from month to month?</p> <p>Check if necessary: is s/he self-employed?</p> <p>IF PARTNER IS NOT EMPLOYED:</p> <p>How long has your partner been unemployed?</p> <p>Have you always claimed the same tax credits that you are currently receiving? For example, some people claim Child Tax Credit but then move into work which makes them eligible to claim Working Tax Credit as well.</p> <p>WITH ALL PARTICIPANTS: Complete a 'time journey' sheet, showing key milestones in their life histories since they have been claiming tax credits. Check:</p> <ul style="list-style-type: none"> How long they have been claiming tax credits Whether they have always claimed the same tax credits as they are currently receiving. For example, some people claim Child Tax Credits but then move into work which makes them eligible to claim Working Tax Credits as well. Which government benefits they were claiming before claiming tax credits, and whether claiming tax credits ended this entitlement If their history includes a household break-up, probe for whether they made a new tax credit claim as a result. 		
<p>2. Experiences of making tax credits claims</p> <p><i>Moderator: I'd like to ask you about your experience of applying for tax credits. I'm interested in how useful you have found tax credits overall, how you found the application process, and what kind of impact tax credits have had on you and your household.</i></p> <p>What type of tax credits are you currently receiving? (e.g.</p>	<p>The interview will build up detailed case-studies. These will be used to exemplify the findings of this project.</p> <p>Interviewer note: The discussion is to be focussed on tax credits only – try to steer clear of other benefits</p>	<p>10 mins</p> <p>10 mins</p>

<p>Child Tax Credit, Working Tax Credit, disability related supplements, childcare element) How long have you been receiving tax credits for? What made you apply for tax credits? <i>Explore:</i></p> <ul style="list-style-type: none"> • <i>Personal circumstances that led to their application.</i> • <i>Need that they were trying to address, if any.</i> • <i>Whether need was unplanned or part of general household budget planning.</i> • <i>If they heard about tax credits and wanted to claim what they were entitled to, i.e. no strong need.</i> <p>Before you made your tax credits claim, did you approach any agency to ask for help or information, or to check whether you were eligible for tax credits? NOTE TO MODERATOR AND PROMPT AS NECESSARY: For example, some people may have contacted the Citizens Advice Bureau.</p> <p>What was the application process like? <i>Explore:</i></p> <ul style="list-style-type: none"> • <i>Whether it was easy or difficult.</i> • <i>Method used (e.g. paper, in person, etc).</i> • <i>Whether anyone helped them in completing the application (e.g. external agency, family, friend, employer).</i> • <i>Helpfulness of the staff at HMRC</i> • <i>Understanding of why decisions were made (e.g. level of entitlement, refusal, repayment requirement).</i> • <i>Experience of reviews process, if relevant.</i> <p>If you have contacted HMRC about tax credits since your application, what was that like? <i>Explore:</i></p> <ul style="list-style-type: none"> • <i>Whether it was easy or difficult.</i> • <i>Method used (e.g. paper, in person, etc).</i> • <i>Helpfulness of the staff.</i> <p>Have you contacted any other agencies about tax credits since making the application, for example the Citizens Advice Bureau? How did you find this? Why do you say that?</p> <p>Overall, how satisfied have you been with your experience of claiming tax credits? PROBE FOR POSITIVE/NEGATIVE EXPERIENCES. Why do you say that?</p> <p>IF HAVE BEEN RECEIVING TAX CREDITS FOR MORE THAN 12 MONTHS: Has your experience of claiming tax credits changed over time? How?</p>	<p>such as child benefit.</p> <p>This section will allow us to see what issues are 'top of the mind' in participants' perceptions of tax credits. It will also help the moderator direct his/her questioning during the rest of the interview, by finding out at this early stage any particular issues that the participant/s tend to focus on when they think and reason about tax credits.</p> <p>Interviewer note: The reviews process is when a claimant queries or appeals against a decision regarding their tax credits.</p> <p>Interviewer note: Try to steer the discussion away from anything more than a general discussion of impacts here, as these will be discussed in detail later in the interview.</p> <p>Interviewer note: Try to steer clear of concentrating on only negative examples, try to get a broad picture of experience over the whole time of claiming tax credits.</p>
--	--

<p>3. Sources of information for tax credits</p> <p><i>Moderator: "I now want to look in detail at your understanding of tax credits and where you get information on them."</i></p> <p>3.1 Awareness and sources of information How did you first hear about tax credits? <i>Explore where they heard about tax credits – probe for HMRC, employers, friends, relatives, television, newspapers, internet.</i> For each source of information, explore:</p> <ul style="list-style-type: none"> • <i>How easy the information was to understand.</i> • <i>How trustworthy/credible they found the information.</i> • <i>Recall of any information or publicity (for TV/ newspapers/ internet/ other source only).</i> <p>When you have made decisions about tax credits since you applied, what sources of information have you turned to for help? <i>Probe for HMRC, employers, friends, relatives, television, newspapers, internet.</i> Which of those has been the most important source of information for you in making your decisions about tax credits? Why do you say that? If you wanted to know more about tax credits, or get help with any aspect of them, who or where would you turn to? Why do you say that?</p> <p>3.2 Understanding of the tax credits system ASK THESE QUESTIONS FOR THE TAX CREDITS THEY ARE CURRENTLY CLAIMING (SECTION 2, ABOVE). Can you talk me through how the tax credits that you claim work, in general? <i>Prompt where necessary:</i></p> <ul style="list-style-type: none"> • <i>Different types of payments.</i> • <i>Eligibility criteria.</i> • <i>Value of the credits – and what influences this.</i> • <i>Which changes of circumstances should be reported, and when they should be reported.</i> • <i>Review procedures.</i> 	<p>Interviewer note: assure participant that this is not a test of knowledge. This section will establish who tax credits claimants' opinion formers are, and the extent to which they perceive information from HMRC or information from family, friends and the media to have had an influence on their decision-making about tax credits.</p> <p>Interviewer note: try and keep this section general and 'top-level': the next section looks in detail at individual experiences of tax credits</p>	<p>10 mins</p>
<p>4. Sources of income</p> <p>4.1 Income and outgoings <i>(Use income/outgoings sheet if appropriate)</i></p> <p>We'd like to look at a typical month in your life, and see how much money you have coming into your home and how much you spend.</p> <p><i>Probe on earnings, benefits, rent/mortgage, bills, childcare, food, leisure activities, paying back loans/credit, savings).</i></p> <p><i>Reassure interviewee that it doesn't need to be completely accurate. Ask for specific examples where possible. Make sure you ascertain which benefits/ tax credits they are receiving.</i></p> <p>4.2 Managing money How do you normally manage your money?</p>	<p>This part of the interview starts with a general discussion about financial management and budgeting.</p> <p>This allows interviewees to ground the discussion in their day-to-day lives and is important to build the trust between interviewee and interviewer.</p> <p>It also allows the interviewer to access some of the general financial issues and areas of concern for the interviewee, which is helpful when evaluating the relative importance of tax credits to the interviewee.</p> <p>Some respondents might find it difficult to talk about budgeting in an abstract fashion. Because of this,</p>	<p>20 mins</p>

<p>Explore:</p> <ul style="list-style-type: none"> • <i>How far is it planned or reactive?</i> • <i>What kinds of things do you have to pay for? Can you put any of them off until the next month? Which ones/ why do you say that?</i> • <i>How easy or difficult do you find it?</i> • <i>How has it changed over time? How has the increase/decrease of award affected this?</i> <p>When you manage your money, do you think of tax credits as part of your income each month, or as something separate? Why do you say that?</p> <p>To what extent has receiving tax credits made a difference to how much you spend each month?</p> <p>Explore:</p> <ul style="list-style-type: none"> • <i>Do you spend more, less or about the same as before?</i> • <i>Do you spend the tax credits on different things? E.g. bills, food, drinks, clothing, leisure activities, paying back loans/credit.</i> • <i>What can you spend as a result of receiving tax credits that you couldn't before?</i> • <i>Are you able to save more money each month as a result of receiving tax credits? If so, do you add this money to an existing savings account? PROBE FOR CHILD TRUST FUND AND OTHERS</i> 	<p>this section is structured around the use of an interactive 'income/outgoings' sheet.</p> <p>Managing money: this explores financial planning and management in more depth.</p> <p>Interviewer note: asking about how tax credits affect savings is important, especially because there is anecdotal evidence that people may be adding the tax credits to their Child Trust Fund.</p>	
<p>5. Impact of tax credits on decision-making</p> <p>What impact has receiving tax credits had on you and your household?</p> <p>Explore impact on:</p> <ul style="list-style-type: none"> • <i>Their household income – minor or serious.</i> • <i>Their ability to manage their money and everyday costs.</i> • <i>Household debt.</i> • <i>Their or their partner's employment situation (if spontaneously mentioned).</i> • <i>Extension of maternity leave, or changes in their household's division of care and work.</i> • <i>Childcare arrangements (if spontaneously mentioned).</i> <p>USE TIME JOURNEY SHEET TO ASK:</p> <p>Was the impact of receiving tax credits any different at other times since you have been claiming tax credits?</p> <p>Explore impacts as above to see how changed over time.</p> <p>IF A PAIRED INTERVIEW: <i>check the extent to which participants' views are similar or different regarding the impact of tax credits. If they are different, probe further to establish reasons.</i></p> <p>Imagine that you had not received any tax credits over the last 12 months. What effect would this have had on you and your household?</p>	<p>This section will show the importance of tax credits, the extent to which participants rely on tax credits and the impact that tax credits have had on claimants' lives.</p> <p>It will be important for this and the following sections of the interview to be exploratory and open-ended, in order to capture the whole range of claimants' perceptions and motivations, including any that are unexpected.</p> <p>Interviewer note: Responses will need to be probed extensively and carefully in order to ascertain any unexpected impacts that claiming tax credits may have had.</p> <p>This question allows us to gauge the extent of participants' reliance on tax credits.</p>	<p>10 mins</p>

<p>Explore extent of impact on:</p> <ul style="list-style-type: none"> • Their household income – minor or serious. • Their ability to manage their money. • Household debt. • Their or their partner's employment situation (if spontaneously mentioned). • Childcare (if spontaneously mentioned). <p>Has receiving tax credits meant that you or your household have been able to do things that you would not otherwise have been able to?</p> <p>Explore: What additional opportunities have they been able to take part in, if any? E.g. opportunities to move house, to take part in training, to help in paying off debts, etc.</p> <p>To what extent do you feel that you rely on tax credits every month as a part of your household income?</p> <p>Do you personally feel any different as a result of receiving tax credits? Explore: increased confidence when looking for work, heightened sense of security.</p>	<p>This allows us to capture any potential impacts of tax credits on how participants feel personally about their lives and sense of security.</p>	
<p>6. Work activity and incentives</p>		<p>10 mins</p>
<p>IF A PAIRED INTERVIEW, ASK EACH PARTICIPANT IN TURN.</p> <p>Are you currently looking for work?</p> <ul style="list-style-type: none"> • Short/medium/long term? What type of work? <p>If they are not currently looking for work: What would it take for you to look for work?</p> <p>What factors are important when deciding whether to work and/or the type of work you are looking for?</p> <ul style="list-style-type: none"> • Perceived employability and skills levels. • Availability of suitable work. • Flexibility of suitable work. • Long-term stability of suitable work. • Family responsibilities. • Financial considerations. • Availability of suitable/good but affordable childcare. <p>And which of these factors is the most important one?</p> <p>How, if at all, do you calculate whether you will be 'better off' in work?</p> <p>Explore:</p> <ul style="list-style-type: none"> • Extent to which financial or quality of life factors (e.g. spending more time with children) are more important. Is there a trade-off between financial considerations and time spent with family? To what extent are financial considerations important 	<p>This section looks at the role of tax credits (if any) in job search activity.</p> <p>This question allows exploration of how interviewees make decisions about whether to work or not, and the main factors that impact on those decisions.</p>	

at all?

- *Is there a minimum salary/wage they think you need to earn in order to be 'better off'?*
- *To what extent tax credits are taken into account.*
- *How would their life change if they went to work?*

If UNEMPLOYED when they began claiming tax credits and now working (part or full-time):

Refer back to beginning of interview to check whether they are working 16 hours or less per week.

What factors influenced your decision to work and/or the type of work you do?

- *Perceived employability and skills levels.*
- *Availability of suitable work.*
- *Flexibility of suitable work.*
- *Long-term stability of suitable work.*
- *Family responsibilities.*
- *Financial considerations*
- *Availability of suitable/good but affordable childcare.*

And which of these was the most important factor?

How long have you been doing your current job?

How, if at all, did you calculate whether you would be financially 'better off' in work?

•