



LITRG response to SSAC consultation: Passported Benefits

1. Executive Summary

- The Low Incomes Tax Reform Group is a charity which works to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.
- LITRG has long highlighted the complexity for claimants involved in claiming passported benefits. We believe that any reform of the system must, firstly, be as transparent as possible for the claimant, secondly, be included in the calculation of marginal deduction rates, and thirdly, ensure that delivery of these benefits is non-stigmatising.
- Help with prescription costs and Free School Meals stand out as particularly important passported benefits. The impact of help with prescription costs can vary widely according to the medical condition experienced by the claimant.
- Whilst help with prescription costs and FSM are important, other passported benefits such as help with the cost of glasses and travel to hospital costs are of great importance to those who receive them during times of specific need. These other benefits are much more difficult to quantify but they need to be given equal consideration alongside FSM and help with prescription costs. In addition, there are many other wider passported benefits that must also be considered in designing the new system. LITRG welcome the opportunity to provide further evidence on these other benefits at a later date.
- Passported benefits can have a significant impact on relative incomes in and out of work, but due to their complexity, claimants may not realise their significance until they are no longer receiving them. This is less the case with Free School Meals which have a substantial impact on parental decisions around employment.
- Without additional expenditure, it is difficult to redesign passported benefits to increase work incentives. However, we believe that there are gains to be made in terms of transparency and simplicity for the claimant, including the inclusion of a clear statement of entitlement to passported benefits within an award of Universal Credit.
- Any reform needs to ensure that full consideration is given to the various passporting arrangements that exist in different parts of the UK. In addition, some parts of the UK give benefits to people free of charge, which need to be

paid for in other parts of the UK. Any proposals that involve Universal Credit, which is UK wide, must examine these differences closely and any proposals for reform should take full account of these differences.

- These issues are difficult to discuss in the abstract, and LITRG would welcome the chance to comment on more detailed proposals for reform.

2. Introduction

2.1. *About us*

2.1.1. The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.

2.1.2. The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

2.2. *General Comments*

2.2.1. We welcome this opportunity to give evidence to the Committee on the system of passported benefits. LITRG has long highlighted the complexity for claimants caused by the various qualifying criteria for passported benefits, and the impact of their withdrawal on work incentives.

2.2.2. Addressing these issues without additional expenditure is difficult. However, we believe that three principles should guide reform. Firstly, the system should be transparent to the claimant; some complexity is inevitable, but the burden of dealing with this should fall on those responsible for delivering the benefit, rather than those receiving it. Those responsible for delivery are located both within many different central Government departments, and within local government and this will necessitate a joined-up approach both to making policy and to communicating with claimants. Ideally claimants should only have to deal with one central administration. These issues are complicated by the different rules for entitlement to passported benefits within the devolved administrations.

2.2.3. Secondly, the impact of passported benefits must be included in any calculation or presentation of participation tax rates or marginal deduction rates under Universal Credit - in general terms and to claimants. The loss of passported benefits as income rises should not come as a shock.

- 2.2.4. Thirdly, passported benefits should be delivered in a way that is non-stigmatising for the claimant. This is particularly important in terms of Free School Meals, when the effective claimant is a child, but should apply equally to adults.
- 2.2.5. Whilst certain passported benefits are considered to be of greater importance than others (notably free school meals), we believe that there are many other passported benefits that are of great value to those who receive them. For example, help with eye costs, dental costs and the costs of travelling to hospital are all extremely important benefits which are much more difficult to quantify as they may require large expenditure occasionally rather than a regular outlay over any pre-determined period. We also believe there is scope for further support to be considered in relation to travel to work costs¹, which can act as another major barrier to work if the claimant has to pay for them out of his or her wages.
- 2.2.6. We hope that SSAC will consider the full range of passported benefits listed in the appendix to the consultation. We would be happy to provide further evidence on these at a later date.

3. Responses to specific questions

3.1. *Which passported benefits are important to claimants and why?*

In 2007 LITRG published *Interact; benefits, tax credits and moving into work*,² a report based on qualitative research undertaken with the charities Child Poverty Action Group and Community Links. The research found that the value of passported benefits varied widely depending on the individual's circumstances.

For example, the value of free prescriptions varies from case to case depending on the nature of an illness. The loss of free prescriptions would bear most heavily on those with chronic or complex conditions who have to take regular medication, or many different types of medication simultaneously. Individuals in this predicament can limit the total cost of their prescriptions by taking out a pre-payment certificate costing £104 for 12 months in advance, or £29.10 a quarter, if they have the ready

¹ See <http://www.litrg.org.uk/News/2010/travel-expenses-a-review-is-long-overdue>

² <http://www.litrg.org.uk/reports/2008/interact-benefits-tax-credits-and-moving-into-work>

cash. If not, or if the condition requiring treatment needs only one or two types of medication, the cost of paying prescription charges will again vary according to the duration and frequency with which the medication is prescribed. Other health costs, such as glasses, dental charges, travel to hospital, etc, which are often expensive, can also vary and are not subject to any upper limit.

In addition to health exemptions, Free School Meals (FSM) are often mentioned as of particular importance to families on low incomes – though the impact on claimants of the loss of FSM tends to be more uniform. FSMs can themselves act as a passport to other support provided by a school, for example in connection with providing free IT equipment.

3.2. *Do passported benefits have an influence on the decisions people make about moving into and staying in work?*

Passported benefits can have a substantial impact on work incentives when people realise that a move into work will result in a loss of entitlement. Even if they are slightly better off in pure cash income terms, in net terms they may be or perceive themselves to be worse off because they have to pay for something that they previously got for free. Again, FSM are particularly important in this respect. However, claimants do not always realise before a move into employment that they will lose access to these benefits. Because the financial effect of losing passported benefits can vary so much from claimant to claimant, the ability of better-off calculations to forecast the impact is very limited, and the additional outlay required can come as a shock to claimants.

This was the case for several of those in the *Interact* research. We found that people on benefits had tended not to consider passported benefits in the calculation of their income, because they were not paying for them, and did not realise their financial significance until a move into work meant the loss of entitlement. The interviewees explained the impact of passported benefits:

“Income support paid my rent, school meals and health benefits. When I started working I didn’t lose the exemption card for health because I don’t earn enough. When my son was in the hospital I didn’t get income for meals and transportation. If you work you don’t get that. If you are on Income Support you get travel expenses.”

“Two years ago I had a stroke and every month or every other month I have to pay £30 for tablets... that’s £30 and I know I can’t bargain for that because it is my health. My wages have increased and the ability to access things I could have accessed and I can’t. So therefore, I actually feel a lot worse off, very worse off, very much so. So it has been, quite difficult.... Obviously when I was at the lower end of

the Working Tax Credit, then obviously you get the exemptions. So I used to get the exemptions for pills and things and even things like dentist bills, you know. I need to go to the dentist every six months, but I won't go every six months because I really cannot afford to go every six months.

3.3. *What are the key issues that need to be considered in the design of passported benefits under universal credit?*

As stated above we believe that the delivery of passported benefits under Universal Credit must:

- Reduce complexity for the claimant;
- Make the impact on work incentives transparent; and
- Avoid delivering passported benefits in a way that stigmatises the claimant.

Barriers to meeting these principles under the current system include;

- The wide variety of qualifying criteria for different passported benefits which have developed over time, due to the delivery of these benefits by different government departments.
- Cliff edges whereby passported benefits are withdrawn entirely (for example the current full loss of Free School Meals when a parent moves from income replacement benefits to Working Tax Credit).
- The lack of a clear statement of entitlement to passported benefits.

In considering simplification, Government will need to take into account the differing rules for passported benefits across the devolved administrations.

3.4. *What are the advantages and disadvantages of changing the qualifying criteria for passported benefits under Universal Credit?*

Without additional expenditure, changes to the qualifying criteria for passported benefits are likely to lead to advantages for some claimants and disadvantages for others; increased generosity in one part of the system will have to be balanced by a reduction in support elsewhere.

However, we believe there may be advantages in creating a more gradual withdrawal of entitlement to passported benefits when people move into work, with the current cliff edges being replaced by a tapered system of entitlement. Modelling is required to illustrate the potential trade offs within this system, and this should be included within any overall assessment of the impact of Universal Credit. If the rate

of tapered withdrawal is generous enough, the incentives for entering work should become more marked. For many claimants the marginal deduction rate under Universal Credit will be higher than it is today, and any further increase caused by the withdrawal of passported benefits needs to be kept to a minimum.

3.5. *How might passported benefits be designed to increase work incentives at no extra cost?*

3.5.1. As stated above, increasing work incentives cannot be achieved at no extra cost without creating losers elsewhere in the system. However it is at least possible that the economic benefits of more people being in work will outweigh the extra cost of a tapered withdrawal as compared with a cliff edge, thereby obviating the need to create losers. We believe that the passported benefit with the greatest impact on work incentives is currently Free School Meals, and our preference is for the eligibility criteria for this to be extended further up the income scale, initially to encompass all those currently eligible for Working Tax Credit, and when budget allows, to create a universal entitlement.

3.5.2. We would be interested in considering options that suggested a system of tapering for entitlement to passported benefits, in terms of the proportion of costs with which a person could receive help. If eligibility criteria were aligned across the different passported benefits the award notice for Universal Credit could then indicate the proportion of costs that would be covered, e.g. 100 per cent, 50 per cent, etc.

3.5.3. A clear statement of eligibility of this kind would also help to clarify work incentives, whether passported benefits were aligned or not. It should be possible, even within a system in which eligibility for the different benefits is different, to provide a statement of eligibility for each within the award notice.

3.5.4. One problem with making work incentives transparent is the fact that the value of passported benefits differs according to individual circumstances as we have discussed in paragraph 3.1. There is no easy way to address this, but the availability of advice will remain important to advise claimants on how to calculate the exact monetary gains to taking work or increasing their hours.

3.6. *How could passported benefits be simplified under Universal Credit at no extra cost?*

3.6.1. One way of simplifying issues for the claimant will be to include a clear statement of entitlement to the various passported benefits on the award notice for Universal Credit.

- 3.6.2 Government can also enable claimants to better understand their entitlement by providing clear 'calculator' type functions on departmental websites. However, this should not be seen as a substitute for good quality advice from those within the Jobcentre and the Work Programme who are interacting with claimants regularly. Government must ensure that not only advisers who are employed directly through Jobcentre Plus but those within the Work Programme are fully trained to understand the issues around passported benefits, and to advise claimants on these.
- 3.6.2. Secondly, government should consider the areas in which passporting can be carried out automatically, 'behind the scenes' without the claimant having to make an additional claim. This might include, for example, issuing healthy start vouchers automatically. Again, this might be easier to accomplish with Real Time Information systems in place.
- 3.7. *What would be the implications if in-kind passported benefits became cash benefits under Universal Credit?*

On balance we do not favour the conversion of the current in-kind passported benefits into pure cash benefits. The varying costs of (as discussed) FSM and health costs means that calculating the value of such benefits would be difficult, and other passported benefits such as help with glasses and wigs are even more difficult to quantify. Giving claimants a benefit in-kind makes it easier to understand the additional help they are receiving, which might not be as clear if they are given a cash payment. We also believe that passporting ensures that people access essentials, rather than diverting this money to pay debts or meet other expenses.

LITRG

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