Policy Implications of Tax Credits

Fran Bennett
University of Oxford

GeNet Working Paper No. 8
October 2005

Direct Correspondence to:

Fran Bennett
Department of Social Policy and Social Work
University of Oxford
Barnett House
Wellington Square
Oxford
OX1 2ER

Please do not cite without author’s permission
Policy Implications of Tax Credits: Fran Bennett


1. Introduction

This paper has been developed from a presentation given at the residential conference on ‘Give and Take: Family, Policy and the Law’, which was organised by the Institute for Fiscal Studies and took place in Cambridge in April 2005. Because of this, the paper examines the current system of tax credits in the UK in terms of the treatment of the family in the tax system, rather than tackling more general policy issues about tax credits. Its focus is on heterosexual couples,¹ particularly those with children.²

The paper:

• describes the introduction of new tax credits;

• looks at the implications of family fluidity for the tax credits system;

¹ Note that with the coming into force of the Civil Partnership Act, some gay couples will also be affected in a similar way.

• goes inside the ‘black box’ of the family to unpick some of the assumptions behind the traditional unitary household model of the family;\(^3\)

• explores the operation of new tax credits in relation to the fabric of day-to-day family life; and

• draws some conclusions about policy and politics.

2. The Introduction of New Tax Credits

The incoming Labour government began work on introducing a system of tax credits almost as soon as it had taken office in 1997. It was impressed in particular by the performance of the earned income tax credit (EITC) in the US. This was despite a timely warning about ‘the increasing concern about fraud and the growing scepticism about whether the tax credit is actually an effective and well-targeted work incentive’ (Walker and Wiseman, 1997).

Indeed, the prominence given to the EITC in the government’s thinking about future provision for those in work\(^4\) is one clear example of the influence of the US on UK social policy at this time.\(^5\) There was a significant political investment in developing a form of tax credit for the UK, especially in the Treasury, and the EITC in the US seems initially to have been the main model which inspired the relevant policy-makers and thinkers.

---

\(^3\) This phraseology of course ignores the important distinction between the household and the benefit unit (the latter being the operative unit for the assessment and award of tax credits, with a narrower definition than the wider household).

\(^4\) ‘Work’ as used in this paper refers to paid employment.

\(^5\) See Leibman, 1997, for one example of a publication drawing on the US experience of EITC.
However, in the event there had to be a staged introduction of new tax credits, as the government was not able to introduce them in their final form immediately, and the government’s thinking itself developed over time. New tax credits were eventually implemented in April 2003, and their final form was influenced by models from other countries besides the US as well, in particular Canada and Australia (Mendelson, 1998; Millar and Hole, 1998; Hirsch, 2000; Whiteford et al., 2003). Part of this shift in focus comprised an increasing emphasis on seeing a function for tax credits in relation to transfers to children as well as in-work support, and the US experience had less to offer in this respect.

Given that the remainder of this paper raises some issues about tax credits in a critical way, it is important to note that the system of new tax credits in the UK has significant advantages (HM Treasury, 2005), including:

- giving more generous help for children than previous equivalent systems of financial support (Adam and Brewer, 2004);
- giving ‘seamless’ help to parents both in and out of work with the costs of children, by integrating the support given by various means-tested benefits and working families tax credit for children; and
- making an important contribution to the performance of the government’s welfare to work programme and its strategy to tackle child poverty.

3. Issues to consider in assessing new tax credits

---

6 Once the new system is fully in place, that is – the extension of child tax credit to those families on out-of-work benefits has not yet been completed, although all such families are receiving an equivalent amount of support for their children via their benefits. The latest information from the government suggests that the migration of these families to child tax credit will not take place until 2006.

7 Qualitative evidence from the Social Exclusion Unit shows that tax credits were seen as pivotal in enabling a return to work, especially part time, by disadvantaged families (HM Treasury, 2005, p. 42).
There are various issues to consider when attempting to make an assessment of new tax credits in relation to their impact on families. First, it may be thought too early to make a clear judgment. New tax credits were only introduced in April 2003, and CTC has not yet been fully implemented in relation to families out of work. It may be difficult to abstract structural issues from operational matters, in view of the current administrative problems (see, for example, Lane and Wheatley, 2005; Griggs et al., 2005). Given that there are some parents who still call child benefit ‘family allowance’, it is also apparent that it takes recipients themselves some time to adjust to a new system of financial support. This may be particularly so when changes have been rapid, as they have been in this area of policy since 1997, with new tax credits replacing children’s tax credit and working families tax credit (which itself replaced family credit).

It can also be argued that working tax credit (WTC) and child tax credit (CTC) should be assessed separately, even though they are part of the same system. They have different goals and may have different effects. And CTC itself is made up of two different elements: the per family element (which is paid to some nine out of ten families in the country) and the per child element (which is more like a traditional means-tested benefit, and is paid to low-income families only). However, it may be difficult in some cases to obtain disaggregated figures which distinguish either WTC and CTC or the different elements which make up CTC.

---

8 There is also a childcare element of working tax credit, which is paid to the main carer with child tax credit for those who qualify.
9 The assessment in this paper is primarily an analysis of policy intent and issues arising, rather than a statistical evaluation.
There is also a key issue about the appropriate comparator for new tax credits. A comparison with personal tax allowances would give a different picture from a comparison with traditional means-tested benefits. The document published alongside the 2005 Budget Report (HM Treasury, 2005) compares tax credits to personal tax allowances in analysing the impact of a ‘tax cut’ on different groups. The government’s argument is that an increase in the amount given through tax credits is targeted more on lower income groups than an increase in personal tax allowances. But this means that it may be more relevant instead to compare tax credits to means-tested benefits, in that the functions which (refundable)\textsuperscript{10} tax credits fulfil seem more similar to those which means-tested benefits have traditionally performed. For example, the government asserts that this is the first time help has been given via a net tax payment to childless able-bodied people in work on low incomes (HM Treasury, 2005, p. 26); but the pilots of ‘earnings top up’ under the former Conservative government did give help to childless people with low incomes from employment – but using means-tested benefits instead (Marsh, 2001).

4. Family fluidity and tax credits

Taking these factors into account, it is still possible to make some preliminary comments about the impact of the new tax credits scheme. Since the focus of this paper is on tax credits and the family, one relevant consideration is how new tax credits deal with family fluidity. Relatively little is known about the degree of change in circumstances, including changes in family circumstances, to be expected amongst those eligible for tax credits. Whiteford \textit{et al.} (2003) argued that the test of new tax

\hspace{1cm}\textsuperscript{10}Refundable tax credits means those which can be paid even if income is not sufficient to be liable to pay income tax.
credits would be how responsive they were, and that relevant factors included how many changes in circumstances people experienced and whether they reported them.

Experience with the Australian system suggested that those eligible for analogous payments to the UK’s new tax credits system experienced more changes in circumstances than initially anticipated (Millar, 2003, p. 139). However, here we are only considering changes in family circumstances – including separation or acquiring a new partner - rather than in (for example) income levels. A report from One Parent Families (Griggs et al., 2005) suggested recently that about 7 per cent of CTC claimants may change their family unit in a year (p. 16). But they note (p. 12) that because these tax credits are new to the UK there is little available evidence on which to base a judgment, and the Treasury failed to explore the number of families likely to experience changes in circumstances during the course of a year (p. 15).

Such estimates are important because with each change of family unit the current tax credit award is terminated and a new claim (if relevant) must be made. This means that CTC does not ‘follow the child’ automatically through changes of family as well as changes of employment in the way that child benefit does (Brown, 1988), because in the case of a couple the award depends on assessment of their joint income. A recent study of extreme and persistent poverty amongst children identified times of transition as points of vulnerability for children (Adelman et al., 2003). Such times of transition may include changes in family status as well as in employment status. The Women’s Budget Group (2005) has therefore called for ‘higher priority for child benefit within the overall package of financial support for children, as the best means
of protecting children, particularly during transitions in parents’ partnership status’ (p. v).

Joint assessment also combines with other rules to create interesting outcomes. For example, the reliance on previous income means that, should a lone parent form a cohabiting or marital relationship with a new partner, the fresh award of tax credit will be based on that new partner’s previous income. On the other hand, payments of child support from any previous partner will be ignored for new tax credits. (They will, however, be taken into account for any benefits which the lone parent is receiving because s/he is workless – except for a £10 weekly disregard which operates under the new child support system – thus seeming to imply that child support belongs to the parent rather than the child (Ridge, 2005).) The total disregard of child support for new tax credits may stem from an administrative imperative; but, when combined with joint assessment including a new partner’s income, creates a rather paradoxical situation. This is also one example of the increasing importance of financial relationships between households, which needs to be taken into account in assessing how systems of financial support manage to deal with family fluidity.

Another rather paradoxical situation arises from the juxtaposition of family law and the legislation on tax credits (and social security benefits). Family law now recognises the principle and the practice of shared care for separated couples with children. Indeed, shared care is promoted when it is in the best interests of the child/ren. The amount of child support payable is also reduced if a non-resident parent cares for the child/ren for a minimum length of time per year. However, neither new tax credits nor social security benefits such as child benefit or income support can be shared between separated parents. CTC and child benefit are paid to the person whom the couple
identifies as the main carer – which in a separated couple is likely to be the resident parent (CPAG, 2005). Income support for the child/ren will in practice usually be paid to the person who gets child benefit for them.11 A case has been made by separated fathers’ groups for CTC, as well as social security benefits, to be split between separated parents when they share the care of their child/ren. But the government argues that, although it will continue to listen to representations on this topic, its target to eradicate child poverty means that

‘it is necessary to focus financial support in a way which enables the parent with main responsibility for the child to provide for the child's needs. Child poverty groups support this approach. Splitting tax credits and benefits could have far reaching risks and consequences.’ (House of Commons Hansard, Written Answers 2 December 2004, col. 199W)

New tax credits introduced the concept of joint liability on both partners for supplying information to the authorities and for repaying any overpayments.12 The government has always been keen for tax credits to be associated with income tax, which is an individualised system, and with employment and wages, which also relate to individuals rather than households (HM Treasury, 1998). But new tax credits are in fact jointly owned by both partners in a couple. This is uncharted territory – except perhaps for the experience of joint and several liability under the poll tax in the 1980s/90s, and the new joint claims for income based jobseeker’s allowance now in place for most childless couples.

---

11 Once the migration to new tax credits is complete, all social security support for children (except child benefit) will be in the form of child tax credit and will thus be paid to the main carer. Allowances in income support and income based jobseeker’s allowance for children will no longer exist.
12 For this purpose working tax credit and child tax credit are treated as one; so, for example, one partner’s overpayment on working tax credit may be deducted from the other partner’s child tax credit (Griggs et al., 2005, p. 39).
As with traditional means-tested benefits, there may be difficulties in basing new tax credits on the nuclear family unit so firmly in this way at a time of family fragility and fluidity, and of renegotiation of the ‘gender settlement’ between women and men, especially around gender roles in caring for children.

5. Inside the ‘black box’ of the family

This part of the paper seeks to understand the impact of tax credits on the family not by examining rules and regulations, as in the previous section, but by looking inside the ‘closed box’ of the family (Lister, 2000) to explore the implications for different individuals within it. This is not to deny that joint or household strategies exist. And people of course do tend to ‘clump together’, especially in terms of raising children (Millar, 2004) and occupying housing. But it must also be recognised that the household which is traditionally often seen as unitary contains individuals who may have different interests and concerns.13

This needs to be taken into account in examining the practical application of joint ownership, or the increased emphasis on joint assessment within the benefits/tax credits system. There is also a tension between this emphasis on joint assessment and the stress on the individual in the government’s labour market strategy (Bennett, 2002) as shown, for example, in its participation in the European Employment Strategy.

The assumption of the unitary household is evident in the latest government document on tax credits (HM Treasury, 2005). Here, the Treasury adds together the income tax

13 See [http://www.genet.ac.uk/projects/project5.htm](http://www.genet.ac.uk/projects/project5.htm) for one example of a study which seeks to explore this in more depth. This is Project 5, ‘Within Household Inequalities and Public Policy’, to be carried out by Fran Bennett, Sue Himmelweit and Holly Sutherland as part of the Gender Equality Network which is being funded by the Economic and Social Research Council.
and national insurance contributions which each member of a couple may be liable for, and takes away the benefits and tax credits they may be entitled to, to arrive at the ‘net tax’ paid by the household as a whole. For some couples with children, this can mean a ‘net tax rate’ of minus 200 per cent, because their tax credits and benefits outweigh the deductions they are liable for (HM Treasury, 2005, p. 35).\textsuperscript{14}

The government has previously declared that its goal was a ‘family-friendly tax system’ - and that in order to achieve this the ‘integration of tax and benefits’ was necessary (Brown, 2002). Here, it is putting together the payments made by individuals with the benefits/tax credits assessed on a household basis but received by individuals to create an artificial construct of a household tax rate. This does not suggest that independent taxation is at the forefront of the government’s mind. (Indeed, in later sections of the document the Treasury appears to see independent taxation as the major practical barrier to the introduction of a negative income tax.)

There have been previous examples of the government’s tendency to adopt the ‘unitary household’ model. The Chancellor has been wont in Budget speeches to add together the effect of the minimum wage and tax credits, and therefore to cite an ‘effective minimum wage rate’ of a much higher amount per hour. The government has also appeared to be more concerned about ‘workless households’ than about the employment prospects of individuals over the lifecycle. Traditionally, incentives for second earners in couples have been analysed as though the amount of joint household income was the only matter of interest. But the entry of a second earner into employment changes the make-up of household income and its receipt as well. Qualitative research (see, for example, Goode \textit{et al.}, 1998) has shown that the source,

\textsuperscript{14} The calculations in the Treasury document do not appear to count family credit, the predecessor of tax credits, as the equivalent of a negative tax payment.
recipient, purpose and labelling of different forms of income can mean that they are differently perceived and may have different effects. The government has grasped and acted on the evidence about money paid to women being more likely to benefit children. But there are more complex issues here to explore.

6. Favouring a ‘male breadwinner’ model?

In the past, the Institute for Fiscal Studies has suggested that the tax credits framework supports a ‘male breadwinner’ model family; and all the examples in the recent government document on tax credits (HM Treasury, 2005) seem to be one earner couples (or single earners). The prime minister has claimed\(^\text{15}\) that WTC helps half a million mothers to choose to stay at home.

The key issue here is the potential disincentive effects for second earners created by jointly assessed in-work support, whether this is delivered through the benefits or tax system. The government argues that second earners’ position has been improved in new tax credits compared with previous similar systems (HM Treasury, 2005), because of a reduced withdrawal rate and a disregard of the first £2500 of additional income during the year it is earned. Couples can also share their working hours between them in order to qualify for the 30 hour bonus in WTC (though in practice over 90 per cent of main earners in couples on WTC are working 35 hours or more per week) (House of Commons *Hansard*, Written Answers 28 October 2004, col. 1382W). But the improvement of incentives is inherently limited in any means-tested system.

\(^\text{15}\) In a speech on 11 November 2004.
The impact of the payment of CTC direct to the main carer is not yet clear – in part because the migration of couples on income support and income based jobseeker’s allowance to CTC has been postponed, as noted above. It could be argued that the receipt of CTC, which is also more generous than previous payments, by the main carer (usually the woman) could have disincentive effects. The counter-argument is that the incentive for the other partner (usually the man) will be sharpened, because he will receive less money in the remaining income support or income based jobseeker’s allowance. But studies suggest that women’s labour market participation tends to be more sensitive to financial (dis)incentives than men’s.

It is possible that tax credits may be reformed to conform more closely to the ‘male breadwinner’ model. Some critics of the scheme draw attention to what they see as an imbalance of support for lone parents versus two parent families, in that the allowance for lone parents is the same amount as for couples. This is very different from the equivalence scales for different kinds of families in the Households Below Average Income series, which is commonly used to measure the government’s progress on ‘poverty’. Thus, the statistics show more lone parents than two parent families being taken out of poverty by the new tax credits scheme. David Willetts MP (then spokesperson on social security issues for the Conservative Party) argued:

‘the failure of tax credits to provide any extra help for the second adult in a one-earner family might be defended by the Treasury as an extra incentive to work but it also means that their instruments are not properly aligned with their poverty objectives’ (Search, Winter 2004/05, Joseph Rowntree Foundation, p. 35)

---

16 For lone parents, the incentive to take employment may be improved because there is no qualifying hours rule for child tax credit and the first £2500 of additional income is ignored in the year it is earned.
However, this can be seen as a mistaken analysis of the situation. Single childless people have a lower allowance than childless couples. It is only because lone parents have a child or children that their allowance is increased to the same amount as that for a two-parent household. If the criticisms outlined above prevail, and an additional allowance is introduced for the partner in a couple, it could raise the barriers to second earners taking a job even higher, and confirm the ‘male breadwinner’ model as the kind of family supported by the new tax credits system.\(^1\)

Tax credits give help to whole families at one point in time. The government, in trying to achieve its goal of a ‘family-friendly’ tax system, to be achieved via the integration of tax and benefits, appears to view the relationship between the resources of single earner and two earner families at one point in time as the key issue (HM Treasury, 2005, p. 33), rather than the relationship between the resources of men and women over the lifetime. This is reminiscent of debates around the 1986 Green Paper on Personal Taxation (see, for example, Lister and Bennett, 1986), which also for some people focused on how to help one earner couples, rather than on how to achieve independent taxation.

It is not that women have been ignored, especially those with no source of independent income themselves. The government has indeed increased the resources channelled to women through the introduction of tax credits and other recent measures – by some £2 billion, according to its own calculations, once CTC is fully in place for those out of work as well (HM Treasury, 2003). But these additional resources are largely not for women’s own needs but for others’, with women acting as a conduit for the safer transfer of resources to other people (Bennett, 2002).

\(^1\) In theory, of course, a single earner couple is a sex-neutral concept. In practice, because of gender inequalities in the labour market and the domestic division of labour, most single earner couples consist of a male earner and a female dependant.
7. New Tax Credits and the Fabric of Family Life

This section of the paper examines the effect of new tax credits on the fabric of family existence. This could be argued to be outside the scope of an analysis of the family and the tax system. But a careful assessment of the impact of taxation or other measures on the practical, everyday life of those affected is frequently lacking – and the results of this failure are often evident when administrative problems blight the reception of even the most technically ingenious schemes.

The Chancellor argued in his 2005 Budget speech that the government was ‘locking in stability’ for the country. This section of the paper asks whether new tax credits are succeeding in ‘locking in stability’ for families.

Family income supplement, family credit\(^{18}\) and working families tax credit were all awarded for a fixed term regardless of changes in circumstances, whereas new tax credits consist of annualised adjusted awards. As Whiteford, Mendelson and Millar (2003) argued, the degree of responsiveness is a key issue when considering means-tested support. The three previous systems looked at a snapshot of income, but then operated in effect like a non-means-tested benefit for a period, staying at an unchanged amount which could be built on (family credit and working families tax credit for six months, and family income supplement for a year).

This method of operation also had its drawbacks, of course, in that any additional needs were not recognised until a new award was made.\(^ {19}\) And some commentators

---

\(^{18}\) The social security benefits that as in-work supplements preceded tax credits (1971-88 and 1988-99).

\(^{19}\) Except that working families tax credit was in its last years increased if a new baby arrived.
argued that this feature meant that such support was not always targeted on those who needed it most. But the provisional nature of awards under new tax credits does seem to result in less security and predictability for families, despite the ‘minimum income guarantee’ much vaunted by the government.

This paper does not focus on the current administrative difficulties with the new tax credits scheme (see, for example, Parliamentary and Health Service Ombudsman, 2005). But, as with the child support scheme, they do seem to reveal the differences between low income families’ perspective and policy-makers’ perspective, in relation to both the design and the administration of new tax credits. To take one example: families on new tax credits are not likely to see their operation as a ‘negative tax’ as their most important feature, as the recent government document (HM Treasury, 2005) seems to suggest; for them, the effect is very similar to that of means-tested benefits in work. What they are likely to notice most is the basing of the tax credits award on annualised income – yet they are used to budgeting on a weekly rather than an annual basis (Griggs et al., 2005, p. 40).

Secondly, whilst incentives under new tax credits are improved for many (HM Treasury, 2005, p. 29), low income families may not see things in this way. Whilst numbers with marginal deduction rates of over 70 per cent or more have been reduced, those with over 60 per cent or more have increased (House of Commons Hansard, Written Answers 9 February 2005, cols. 1597W-1598W). Anecdotal evidence suggests that some advisors may be being advised not to do ‘better off’ calculations for families with someone contemplating paid employment, because the variation in new tax credits awards means that they are not reliable. Moreover, the inclusion of casual or agency work in a tax credit award is tricky, as the system is not
set up to cope with frequent changes in work circumstances (see Griggs et al., 2005, p. 28 for an example of this). Griggs et al. also report that some lone parents are finding it difficult to calculate the average of their childcare costs for the childcare element of WTC, since for school-children, for example, childcare costs vary between school terms and holidays.

The tax credits means test was intended to be ‘light touch’ (HM Treasury, 2002, p. 4) - but, as Millar (2005) suggests, there are inherent limits to how ‘light touch’ any means test can be. Indeed, there is a case for assessing the ‘costs of compliance’ for claimants of a change in any benefit or tax credit, in the same way that we now assess the costs of compliance for businesses.

8. Conclusions

Some broader policy issues relevant to the treatment of families by the tax system can also be highlighted. Government ministers have recently started to use the term ‘hardworking families’ frequently and with approval. Underlying this phrase is the implication that being in work (and by association being a taxpayer) is about self-reliance, whereas being on benefits represents dependency.

Does giving means-tested help via the tax system tackle stigma and improve take-up? As already noted, there are several component parts to the new tax credits scheme. WTC can only be claimed by those in work. CTC can be claimed by about nine in ten families with children. Both are associated with the income tax system, in terms of using similar definitions of income and an annualised income assessment. Either assessment or delivery of tax credits - or both, or indeed neither – can be done via the income tax system. Neither WTC nor CTC is assessed via the income tax system in
fact, as they require a separate claim form. And soon WTC will no longer be paid by
the employer via the paypacket, as a form of negative income tax for employees, but
instead will be paid into bank accounts.

The government has claimed that paying support via tax credits rather than benefits
has resulted in stigma being lessened (HM Treasury, 2005, p. 28) and take-up being
improved. Other commentators are less certain about this. But it is debateable whether
there is now no ‘them and us’ in terms of who pays for and who benefits from
financial support, as was argued at the launch of new tax credits. And it can be argued
that allying those in work who need support with taxpayers in general may result in
increased separation from those out of work who need to claim benefits. Whilst
Labour has commendably increased income support in particular for younger
children, there is growing concern that basic benefit rates for adults are falling further
behind as living standards for the rest of the population improve. Mendelson (1998)
argued that the Canadian experience of the Working Income Supplement opened

    ‘a dangerous political expedient of increasing in-work benefits at the expense
    of basic benefits, allowing the neediest income support recipients to be
    ignored when additional funds are available for social purposes’. (p. 13)

The government denies that tax credits threaten independent taxation. It argues that
new tax credits do not interfere with privacy, and that each partner continues to be
assessed separately for income tax in terms of allowances, tax rate etc. However, an
alternative definition of independent taxation would also include autonomy. In other
words, it would imply that a partner’s decisions and actions should not affect the
amount of income tax payable or tax credit/allowance claimed/payable. On this
definition, tax credits clearly do threaten independent taxation. To deny the threat
would dissociate new tax credits from the income tax system, in a way which contradicts the government’s linkage of the two.

In its treatment of couples, WTC can be seen as either a flexible friend or a blunt instrument (Bennett, 2002, p. 569), depending on the point of view. It can be argued that for couples it would be better to ask why the dependent partner has not got a source of income in their own right, rather than providing a payment to the main wage earner on their behalf with no questions asked, as is done via WTC for those without as well as those with children (see Bennett and Hirsch, 2001, for more detailed exploration of this issue).

This raises a wider issue, which is the opposition sometimes perceived between tackling gender inequality and tackling child poverty. (For example, independent taxation can sometimes be seen as the major obstacle to a targeted, integrated tax and benefits system.) However, the opposing case can be argued – that there is an intimate relationship between women’s and children’s poverty (Women’s Budget Group, 2005) and that tackling the inequalities between men and women is fundamental to tackling child poverty.

Finally, what are the implications of new tax credits for the government’s goals on child poverty and on welfare to work? On the child poverty figures, the disappointing performance in the 2003/04 edition of *Households Below Average Income* has been attributed in part to the administrative difficulties dogging the introduction of new tax credits in April 2003. But this could be used to argue either that more resources need to be put into tax credits, or that services would provide a better return (or indeed that it is too early to tell either way).
On the welfare to work programmes, it is noticeable that more reliance is now being placed on temporary tax credit payments tailored to specific groups as an incentive to enter work in the first place (HM Treasury, 2005, p. 27), rather than ongoing in-work subsidies such as WTC. These new payments are much cruder in terms of the means test applied; are often paid on top of other benefits; are more individual (eg being based on gross earnings under a certain annual total); and are not taxable. They suggest that, at least in terms of the goal of ‘making work pay’ to attract more people into the labour market, the government is turning increasingly to other policy instruments rather than the new tax credits which have been examined in this paper.

Bibliography


Adelman, L., Middleton, S. and Ashworth, K., Britain’s Poorest Children: Severe and persistent poverty and social exclusion, Save the Children, 2003


Brown, Rt. Hon. G., Budget speech, 17 April 2002


HM Treasury, *The Child and Working Tax Credits: The modernisation of Britain’s tax and benefit system no. 10*, 2002


HM Treasury, *Tax Credits: Reforming Financial Support for Families – The modernisation of Britain’s tax and benefit system no. 11*, 2005

Lane, K. and Wheatley, J. with Bremner, A., *Money with your Name on it? CAB clients’ experience of tax credits*, Citizens Advice, 2005


Women’s Budget Group, *Women’s and Children’s Poverty: Making the links*, WBG, 2005