RESEARCH PAPER 01/110
5 DECEMBER 2001

The *Tax Credits Bill*

Bill 52 of 2001/02

The Bill, due to receive its Second Reading on Monday 10 December 2001, revises the framework of financial support provided through the tax and benefit systems to low-income families. It introduces two new tax credits – the Child Tax Credit and the Working Tax Credit – and abolishes the existing welfare tax credits together with the child-specific parts of a range of social security benefits.

The Child Tax Credit replaces the support currently provided by the Children's Tax Credit and the child elements of Income Support, Jobseeker's Allowance (income-based), Working Families' Tax Credit and Disabled Person's Tax Credit. The Working Tax Credit replaces the adult elements of Working Families' Tax Credit and Disabled Person's Tax Credit, increasing in-work support for childless families.

Kim Greener/Graham Vidler

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ISSN 1368-8456

Summary of main points

The *Tax Credits Bill* provides for the creation of a new framework of financial support for low-income families. It creates two new tax credits: the Child Tax Credit and the Working Tax Credit (the two credits were previously known under the working titles of integrated child credit and employment tax credit respectively). The detailed rules of the new tax credits will be contained in regulations; the rates of credit and rates of withdrawal will be announced in the 2002 Budget.

The Bill:

- abolishes Working Families' Tax Credit, Disabled Person's Tax Credit, the Children's Tax Credit, the child-related elements of Income Support and Jobseeker's Allowance (income-based), the employment credit element of New Deal 50plus, and the child dependency increases in non-means-tested benefits such as Incapacity Benefit and Widowed Parent's Allowance;

- transfers responsibility for Child Benefit and Guardian's Allowance from the Department for Work and Pensions to the Inland Revenue;

- introduces the Child Tax Credit and the Working Tax Credit The main features of the new credits are that:

  - by default, assessment and awards of the new tax credits will be made annually, with reassessment on significant changes in income or other family circumstances;
  - the Child Tax Credit will be paid to the main carer in a family;
  - awards will be calculated on the basis of gross taxable income, marking a significant change from the practice of using net income in calculating entitlement to social security benefits;
  - the Working Tax Credit will, for the first time, provide a general scheme of support for childless people in low-paid employment
  - the Working Tax Credit (but not the childcare element) will be paid via the employer.

The Bill applies to the United Kingdom. It amends the *Northern Ireland Act 1998* to make the new tax credits, Child Benefit and Guardian's Allowance excepted matters in Northern Ireland, removing the requirement on the Government to consult Northern Ireland Ministers on any future changes to the tax credits and benefits.

CONTENTS

I Background

Announcing the publication of the *Tax Credits Bill*, Treasury Minister Dawn Primarolo stressed the importance of the Bill to the Government's aims of eradicating child poverty and promoting work:

> The Government is delivering on its promise to introduce a new streamlined system of tax credits to move forward on our commitments to eradicating child poverty and making work pay. Our tax and benefits reforms have helped ensure that more low-income families keep more of what they earn, and our reforms to improve work incentives are tackling the vicious unemployment and poverty traps. The new tax credits are key elements in achieving these aims.[1]

These twin aims have been pursued through a number of policies during the Government's term in office. These include measures intended to:[2]

- improve work incentives. These include measures confined to families with children, such as the Working Families' Tax Credit, and more general measures such as the National Minimum Wage.
- improve financial support for children. These include measures which benefit children in all families (a real terms increase in Child Benefit for example); those which benefit children in out-of-work families (real terms increases in child personal allowances in Income Support, for example); and those which benefit children in families in employment (the introduction of the Working Families' Tax Credit).
- increase links with the labour market. These include a series of New Deals, and the spread of compulsory work-focused interviews.

The Bill's measures mark a significant development in both the integration of the tax and benefit systems and the separation of financial support for children from that for adults. The two new tax credits will be administered by the Inland Revenue and will mirror the income tax system far more closely than the package of social security benefits and tax credits which they replace. At the same time, the separation of child and adult elements of support will enable the Government to pursue its twin aims through discrete policy tools: the Working Tax Credit to promote work incentives and reinforce the message that work pays, and the Child Tax Credit to safeguard financial support for children.

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1 HM Treasury press release 132/01, *Details of new tax credits to make work pay, support children and tackle poverty*, 29 November 2001

2 For further details see, for example, (on work incentives and links with the labour market) HM Treasury and DWP, *The changing welfare state: employment opportunity for all*, November 2001, (on child poverty) DWP, *Opportunity for all: third annual report 2001*, Cm 5260, September 2001

A. Families with children

1. The current system

There are around 7.1 million families with children in Great Britain containing some 12.8 million children.[3] The Government currently provides financial support to them through the tax and benefits systems in four main ways. The following sections outline the main features of each, concluding by illustrating how they fit together.

a. Child Benefit

Child Benefit is a universal, tax-free social security benefit. Introduced in April 1977 by the *Child Benefit Act 1975*, it replaced Child Tax Allowances, which were phased out between 1977 and 1979, and the Family Allowance, a weekly taxable benefit introduced in 1945 for second and subsequent children. A fuller history of Child Benefit and its predecessors can be found in Library Research Paper 98/79, *Child Benefit*.

Child Benefit is paid to a person responsible for a child, generally the mother. A child is defined as a person aged under 16, or aged under 19 and in full-time non-advanced education. It is paid regardless of income and capital.

The current Government has made two significant changes to Child Benefit and related benefits: a real-terms increase in the rate of benefit for the first child and a reduction in the additional universal benefit paid to lone parents. Other reforms, notably, taxation of Child Benefit and the withdrawal of benefit from children aged over 16, have been mooted but not implemented.[4]

In Gordon Brown's Budget statement on 17 March 1998 a further £2.50 per week for the first child, in addition to the usual RPI increase for every child, was announced to take effect from April 1999. At 2001-02 prices, this measure is estimated to have cost around £2.8 billion over the lifetime of the last Parliament.[5]

As well as increasing benefit rates, this measure increased the premium paid for the first child through Child Benefit. The rate of Child Benefit for second and subsequent children is now equivalent to 66% of the rate for the first child, compared with 81% in April 1998. Within the EU, the UK is unique in paying such a premium for the first child, elsewhere

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3 DWP, *Child Benefit Quarterly Statistics*, August 2001

4 These latter issues are not discussed here, but see Library research paper 98/79, *Child Benefit*, for background.

5 DSS, *The changing welfare state – social security spending*, November 2000

in Europe rates tend to be higher for second and subsequent children, while the French system pays nothing to the first child.[6]

Child Benefit Increase, renamed One Parent Benefit in 1981, was introduced in 1977. Originally intended to compensate lone parents for extra costs, it was first introduced as an interim measure, Child Interim Benefit in 1976, payable for the first child.[7] When Child Benefit was introduced for all first and subsequent children in 1977, lone parents retained their Child Benefit increase.

One Parent Benefit was abolished in April 1997 and replaced by a lone parent rate of Child Benefit. This higher rate of Child Benefit was in turn abolished for new claimants from July 1998. In addition the lone parent rate has been frozen since April 1996 (save for a 45p increase in April 2000), eroding the differential between qualifying lone parents and other recipients of Child Benefit.

Table 1
Rates of Child Benefit
£ per week

	Apr-96	Apr-97	Apr-98	Apr-99	Apr-00	Apr-01
Couple/post-1998 lone parent						
First child	£10.80	£11.05	£11.45	£14.40	£15.00	£15.50
Second and subsequent children	£8.80	£9.00	£9.30	£9.60	£10.00	£10.35
Pre-1998 lone parent						
First child	£17.10	£17.10	£17.10	£17.10	£17.55	£17.55
Second and subsequent children	£8.80	£9.00	£9.30	£9.60	£10.00	£10.35

b. Income Support and income-based Jobseeker’s Allowance

Income Support and income-based Jobseeker’s Allowance (JSA) are means-tested social security benefits paid to people with low incomes. Both benefits are payable to people with and without children; this section discusses the benefits as applied to families with children only. Income Support was introduced in 1988, by the *Social Security Act 1986*, as part of a package of reforms to the social security system. It replaced Supplementary Benefit, which had replaced National Assistance in 1966. Income Support for the unemployed was replaced by income-based JSA from October 1996 by the *Jobseekers Act 1995*.

6 European Commission, *Social protection in the EU Member States and the European Economic Area, situation on 1 January 2000*
7 HC Deb 20 October 1975 c66

Around 1.2 million families with children receive Income Support.[8] A further 100,000 receive income-based JSA.[9]

An individual's entitlement to means-tested benefits is based on their particular circumstances and the following can only offer a brief description of the eligibility conditions. Broadly, a family with children may be eligible for Income Support if it is headed by:

- a lone parent;
- a person incapable of work through sickness or disability; or
- a person aged 60 or over.

Families which do not fit into one of these groups may be eligible for income-based JSA.

For both benefits, claimants must:

- not be working or studying full time (on average more than 16 hours per week); and
- have sufficiently low income and capital.

Benefit is calculated by comparing a family's applicable amount – an amount representing their weekly cash needs – with their resources.

The applicable amount is made up of a personal allowance for each member of the family together with premiums for specified additional needs. For some families with mortgage costs, the cost of interest payments and associated costs can also be added to the applicable amount.

Box 1: Personal allowances and premiums 2001

Personal allowances	
Couple (18 or over)	£83.25
Lone parent (18 or over)	£53.05
Child 0-16	£31.45
Child 17-18	£32.25
Premiums	
Family	£14.50
Family (lone parent rate)	£15.90
Disability (single)	£22.60
Disability (couple)	£32.25
Disability (child)	£11.05

A claimant's resources consist of most items of income received by members of the family. This includes net earnings (except for disregarded amounts of £20 for lone parents and people with disabilities and £10 for couples) and most benefits, including Child Benefit.

Resources are deducted from the applicable amount to produce the amount of benefit payable.

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8 DSS, *Income Support Statistics Quarterly Enquiry*, February 2001
9 DSS, *Jobseeker's Allowance Statistics Quarterly Enquiry*, February 2001

As with Child Benefit, the period since 1997 has seen a real terms increase in rates of Income Support and income-based JSA coupled with a restriction on the additional benefit paid to lone parents.

The family premium was increased by £2.50 above inflation in April 1999 to accommodate the Child Benefit increase outlined above. This did not, in itself provide additional income for claimants; it simply enabled them to keep the Child Benefit increase which would otherwise have been deducted pound-for-pound from their Income Support or income-based JSA. More significant has been the real terms increases in personal allowances for younger children. Between April 1998 and April 2000, personal allowances for children aged under 11 grew by 73% in real terms, while those for children aged 11-15 grew by 18% in real terms. At 2001-02 prices, this latter measure is estimated to have cost around £2.5 billion over the lifetime of the last Parliament.[10]

Prior to April 1997, lone parents received an additional lone parent premium in the calculation of their benefit. In April 1997, the lone parent premium was amalgamated with the family premium to create a lone parent rate of family premium. Entitlement to this lone parent rate was subsequently withdrawn for claims made after April 1998, and it has continued to be frozen in cash terms (save for a 15p increase in April 2000).

Table 2

Income Support Personal Allowances and Premiums

£ per week

	Apr-96	Apr-97	Apr-98	Apr-99	Apr-00	Apr-01
Personal allowances						
Couple (18 or over)	£75.20	£77.15	£79.00	£80.65	£81.95	£83.25
Lone parent (18 or over)	£47.90	£49.15	£50.35	£51.40	£52.20	£53.05
Child						
Under 11	£16.45	£16.90	£17.30	£20.20	£30.95	£31.45
11-15	£24.10	£24.75	£25.35	£25.90	£30.95	£31.45
16-17	£28.85	£29.60	£30.30	£30.95	£31.75	£32.25
18	£37.90	£29.60	£30.30	£30.95	£31.75	£32.25
Premiums						
Family	£10.55	£10.80	£11.05	£13.90	£14.25	£14.50
Family (lone parent rate)	£15.75	£15.75	£15.75	£15.75	£15.90	£15.90
Disability						
Single adult	£20.40	£20.95	£21.45	£21.90	£22.25	£22.60
Couple	£29.15	£29.90	£30.60	£31.25	£31.75	£32.25
Child	£20.40	£20.95	£21.45	£21.90	£22.25	£30.00

[10] DSS, *The changing welfare state – social security spending*, November 2000

c. Working Families' Tax Credit

Working Families' Tax Credit (WFTC) is a payable[11] tax credit administered by the Inland Revenue. The credit is means-tested against family income and capital. WFTC was introduced by the *Tax Credits Act 1999* to replace the social security benefit, Family Credit, from October 1999. The background to the introduction of the WFTC is discussed in more detail in Library Research Papers 98/48 and 99/3.

Since 6 April 2000, under section 6 of the Act, most new awards of WFTC are paid to claimants through their pay packets and employers recover this expenditure from the Inland Revenue. Couples who opt for a non-working partner to receive WFTC are paid directly by the Inland Revenue through an order book or via automated credit transfer (ACT) into a bank account.

An individual's entitlement to tax credits is based on their particular circumstances and the following can only offer a brief description of the eligibility conditions. Broadly, in order to qualify for WFTC claimants must:

- be employed or self-employed on a full-time basis (on average more than 16 hours per week);
- be responsible for at least one child under the age of 16, (or under 19 if still in full-time non-advanced education);
- have sufficiently low income and capital;
- be resident in the UK.

Those working for less than 16 hours per week are not entitled to WFTC but may be eligible for social security benefits such as Income Support. For claimant couples, at least one member of the couple needs to work more than 16 hours per week for the family to be eligible.

Responsibility for a child is linked to eligibility for Child Benefit. Generally, if a claimant receives Child Benefit for a child, that child is considered to be part of the family for the purposes of claiming WFTC. Age-related credits are payable for each eligible child.

Entitlement is calculated by assessing the family's net weekly income against an income threshold, currently £92.90. Those earning below this threshold receive the maximum amount of credit payable for their circumstances. Those earning above the threshold

[11] The distinction between payable and non-payable, or wasteable, tax credits is that the latter can only reduce a taxpayers' Income Tax liability, whereas the former can both reduce liability and be paid to the taxpayer if its value exceeds this liability.

receive the maximum amount payable reduced by 55 pence for every pound they earn above the threshold. This is referred to as the taper.

The maximum amount of WFTC payable is the sum of the basic tax credit (one per family) together with an age-related credit for each child in the family. Additional credits are paid in respect of people working more than 30 hours, disabled children and family members on the higher rate care component of Disability Living Allowance (see Box 2). The maximum amount can also be increased through a childcare tax credit, which provides a credit of up to 70% of eligible childcare costs of £135 for one child or £200 for two or more children.

Box 2: Rates of credit 2001

	April 2001	June 2001
Basic adult credit	£54.00	£59.00
30-hour credit	£11.45	£11.45
Child credits		
Under 16	£26.00	£26.00
16-18	£26.75	£26.75
Disabled child credit	£30.00	£30.00
Enhanced disability credit (single, child)	£11.05	£11.05
Enhanced disability credit (couple/lone parent)	£16.00	£16.00

The amount of an award may also be affected by other factors. For example, those with capital of more than £8,000 are not eligible for WFTC. Those with capital between £3,000 and £8,000 will be treated as if they have income based on this capital and this will reduce the amount of tax credit payable. The capital rules are complex but include for example, savings, investments, and the value of second houses.

Under Family Credit, claimants were automatically entitled, or passported, to other benefits such as certain NHS costs and help with travel costs to visit relatives in prison. Because the WFTC applies higher up the income scale, automatic passporting to these benefits no longer applies. Access to these benefits is restricted to claimant families with a net income below £11,250 (approximately £14,300 gross) regardless of family size.

In addition to the structural changes provided for by the *Tax Credits Act 1999*, such as the arrangements for payment by employers, the WFTC was introduced at rates which were more generous than those payable under Family Credit. The basic adult credit, the child credit payable in respect of children under the age of 11 and the applicable amount against which income is assessed were introduced at higher rates from the pre-existing Family Credit rates. These changes meant that the amount of WFTC payable to eligible families was higher than under the previous system of Family Credit. It also increased the number of eligible families. The Government estimates that up to 1.4 million families will benefit from the WFTC, around 500,000 more families than would have received Family Credit.[12]

The Government continued to make a series of real term increases to the child credit for children under the age of 11 and by June 2000 the rate was aligned with the rate for

[12] HC Deb 29 January 2001 c 41W

children aged 11 to 15. There are now therefore two rates of child credit in WFTC compared to four under Family Credit. The basic adult credit was increased by an additional £5 to the normal prices uprating in June 2001.

Table 3
Rates of Family Credit/WFTC 1997-2001

	Family Credit			**Working Families' Tax Credit**					
	Apr-97	Apr-98	Apr-99	Oct-99	Apr-00	Jun-00	Oct-00	Apr-01	Jun-01
Basic adult credit	£47.65	£48.80	£49.80	£52.30	£53.15	£53.15	£53.15	£54.00	£59.00
30-hour credit	£10.55	£10.80	£11.05	£11.05	£11.25	£11.25	£11.25	£11.45	£11.45
Child credits									
Under 11	£12.05	£12.35	£15.15	£19.85	£21.25	£25.60	£25.60	£26.00	£26.00
Aged 11-15	£19.95	£20.45	£20.90	£20.90	£25.60	£25.60	£25.60	£26.00	£26.00
Aged 16-17	£24.80	£25.40	£25.95	£25.95	£26.35	£26.35	£26.35	£26.75	£26.75
Aged 18	£34.70	£25.40	£25.95	£25.95	£26.35	£26.35	£26.35	£26.75	£26.75
Disabled child credit	-	-	-	-	-	-	£22.25	£30.00	£30.00
Enhanced disability credit (single, child)	-	-	-	-	-	-	£11.05	£11.05	£11.05
Enhanced disability credit (couple/lone parent)	-	-	-	-	-	-	£16.00	£16.00	£16.00
Applicable amount	£77.15	£79.00	£80.65	£90.00	£91.45	£91.45	£91.45	£92.90	£92.90

d. Children's Tax Credit

From April 2001 families who have one or more children under 16 may claim the Children's Tax Credit (CTC). The credit takes the form of an allowance – set at £5,200 for 2001-02 – for which relief is given at 10 per cent: in effect those families eligible to claim the CTC will be able to cut their annual income tax bill by up to £520. When first announced in the March 1999 Budget the credit was set to be £416, uprated to £442 in the Budget the following year. In contrast to WFTC, the CTC is a wasteable tax credit; it can only reduce liability to income tax, so someone with a liability of less then £520 will not receive the credit in full.

The credit can be claimed by married or unmarried couples or by single parents, provided, at the start of the tax year, they have at least one child under the age of 16 who lives with them for at least part of the tax year. Separated parents whose child lives with them for part of the year may share the credit, in proportion to the amount of time the child spends with each of them. The credit is administered through the PAYE system though taxpayers must submit a claim form to the Inland Revenue to receive it. Those whose tax affairs are not dealt with under PAYE, including self employed, will claim in the normal way when they complete their 2001-02 tax return.[13]

[13] Further details are given in an Inland Revenue leaflet - *Children's tax credit CTCR/1*, July 2000 - which is published on the Revenue's internet site at: www.inlandrevenue.gov.uk/ctc/index.htm

The CTC is tapered, so that it is gradually withdrawn where the person claiming it is liable to tax at the higher rate. These people will lose £1 of tax credit for every £15 of income above the point at which they start to pay higher rate tax until their entitlement to the credit is exhausted (typically at an income of £41,735).[14] To ensure that the taper operates in the way intended, should one partner in a couple be a higher rate taxpayer, they are *obliged* to claim the CTC for their household, and cannot transfer it to their lower earning partner.

In his Budget speech on 7 March 2001 the Chancellor Gordon Brown confirmed that the CTC would be set at £520 for 2001-02, and proposed that an *extra* credit would be added in April 2002, set at £1,040,[15] to cover just the first year of a child's life.[16] On the assumption that this one year credit is tapered in a similar fashion to the CTC, and that both the personal tax allowance and the higher rate threshold are increased in line with inflation for 2002-03, entitlement to the credit would be exhausted for claimants on an income above £50,220.[17]

e. How the system fits together

Figure 1 illustrates how the various elements of financial support interact in practice. Both Income Support/JSA and WFTC payments have been artificially split to show the different components payable in respect of adults and in respect of children.

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[14] For 2001-02 the basic rate limit and the personal allowance are £29,400 and £4,535 respectively. The credit will start to be withdrawn from those earning above £33,935. It would be exhausted once income rose above £33,935 + [15 x £520] = £41,735.

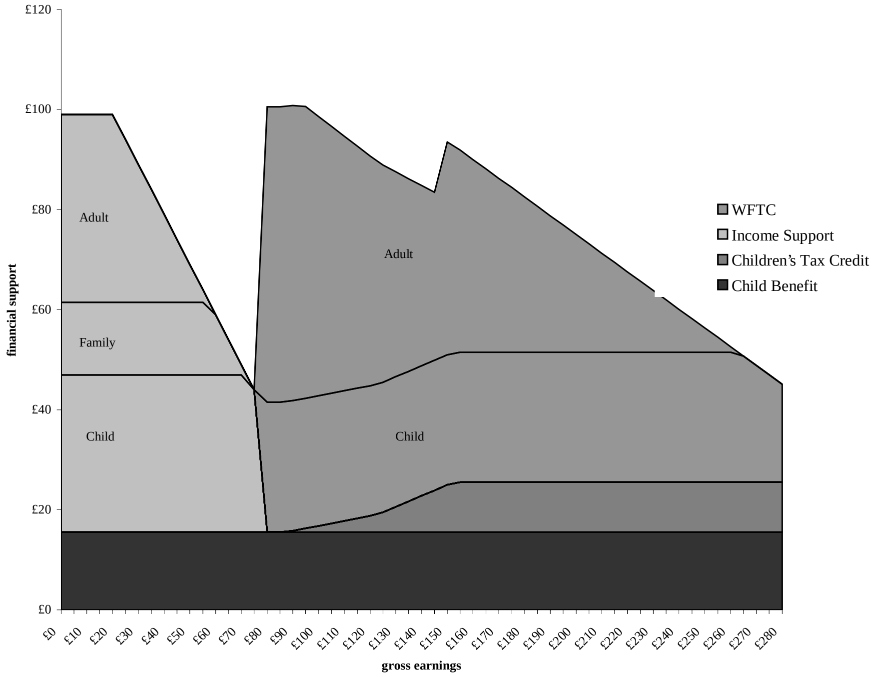
[15] i.e., £10,400 restricted to 10%

[16] The Chancellor confirmed that the new baby credit would be continued and paid to the mother "when the new integrated child credit comes in, in 2003" (HC Deb 7 March 2001 c 305).

[17] RPI to September 2001 is estimated to be 1.75% (HC 279 p 186). On these assumptions, individuals would become liable to pay tax at the higher rate on income above £34,620 (£4,620 + £30,000). The credit would be exhausted at (15 x 1,040) + 34,620.

Figure 1

Financial support for a lone parent with one child under the current system[(a)]



a) The child is under 11; the lone parent works for an hourly wage of £5 and has no childcare costs.

The key transition points in the chart are at gross earnings of:

- £20, when the earnings disregard for a lone parent in Income Support/JSA is exhausted. Beyond this point, any earnings result in a pound-for-pound reduction in Income Support/JSA.
- £80, representing 16 hours of work, the dividing line between out-of-work benefits and in-work tax credits.
- £87, when the Children's Tax Credit begins to reduce the income tax which would otherwise be paid.
- £150, representing 30 hours of work, the point at which the 30-hour credit increases the amount of WFTC payable.
- £155, when the Children's Tax Credit reaches its full value of £10.
- The graph does not continue to show the points at which entitlement to WFTC and Children's Tax Credit would be exhausted (earnings of around £335 and £800 respectively).

As figure 1 illustrates, the interaction between the four means of support is complex. All families with dependent children are in the benefits system, because of universal entitlement to Child Benefit. Out of work, they are also likely to be entitled to either Income Support or income-based JSA. In work, they may also be entitled to WFTC and/or the Children's Tax Credit. Each benefit/tax credit is applied for, assessed and paid separately.

The separate evolution of each means of support has given rise to a number of differences, and potential conflicts, in eligibility, assessment and delivery. Some of these are summarised in table 4.

Table 4
Summary of current financial support for families with children

	Children's Tax Credit	WFTC	Child Benefit	Income Support/JSA
Departmental responsibility	Treasury	Treasury	DWP[(a)]	DWP
Automatically paid to main carer	No	No	Yes	No
Universal[(b)]	No	No	Yes	No
Means-tested on family income	No	Yes	No	Yes
Assessed on individual taxpayer's income	Yes	No	No	No
Period of award	Annual	Six-monthly	Through childhood	Weekly
To form part of the Child Tax Credit	Yes	Yes	No	Yes

a) The Bill makes provision for transferring responsibility to the Inland Revenue.
b) Universal in this context means neither means-tested nor assessed against taxpayer's income.

2. Towards integration

The Government first signalled its intention of integrating parts of the current provision for children in the 1999 Budget, stating that it was examining:

> the case for integrating the new Children's Tax Credit with the child premia in Income Support and the Working Families' Tax Credit – an integrated child credit. This could allow families' entitlement to be assessed and paid on a common basis. A single seamless system, without disruptions in financial support, would provide a secure income for children in the family's transition from welfare to work. Such an integrated child credit, for those in and out of work, could be paid to the main carer, complemented by an employment tax credit paid through the wage packet to working households, with or without children.[18]

The 2000 Budget confirmed the Government's intentions, with an accompanying document setting out more details of the proposed integration.[19] Here, the Government suggested that the administrative structures of the tax and benefit systems were frustrating progress in reforming financial support for families with children. WFTC – based largely on Family Credit – had two, potentially conflicting, aims: improving work incentives and increasing financial support to families. Concurrently, there could be duplication of effort

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18 HM Treasury, *Budget 99 Building a stronger economic future for Britain*, HC 298 1998/99, p.68
19 HM Treasury, *The modernisation of Britain's tax and benefit system number 6: tackling poverty and making work pay – tax credits for the 21st century*, March 2000

in attempts to increase the level of financial support through several different instruments at once.[20] Integration would create a seamless mechanism offering a number of advantages:

- greater transparency: helping parents understand their entitlements more clearly and facilitating public debate about the appropriate level of support;
- a secure bridge from welfare to work, removing the financial disruption which research shows discourages some people from entering work;
- a common framework of assessment and payment for all families, removing the distinction between low-income families receiving support from the benefits system while better off families receive help through the tax system;
- all support could be paid to the main carer;
- efficiency gains for the Government, coupled with less “hassle” for parents.[21]

For families with children, the new system would consist of two new tax credits and the continuation of Child Benefit. An integrated child credit would bring together the support currently directed at children through Income Support child personal allowances, WFTC child credits and the Children’s Tax Credit, while an Employment Tax Credit would provide similar help to that currently available through the adult credit and childcare credit in WFTC.

The Social Security Committee broadly welcomed the proposals for an integrated child credit, in particular the opportunities it would provide to “tackle child poverty, increase work incentives, and produce a simpler and more coherent system of administration for the benefit of recipients”.[22] However, they noted that many details of the system had still to be worked out and questioned whether the necessary administrative frameworks and IT systems could be fully operational in time for introduction in 2003. They also argued that the Government should take the opportunity to set the credit rates at a level sufficient to take families with children above an objective poverty level, and that the interaction of the proposed credit with Housing Benefit required close examination to ensure that work incentives were not reduced through excessive tapering.[23]

They also noted that the concept of integration was a difficult one. While the Committee was keen to see Child Benefit remaining as a separately identifiable, universal element, they noted that in comparison with the Canadian system the level of integration proposed in the UK was “pretty superficial”.[24] The Child Poverty Action Group (CPAG) raised the point that, while integrating provision for children, the proposals would disintegrate provision for children and adults within the same family. Separating out the adult element

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[20] *ibid*. p.12
[21] *ibid*. pp12-13
[22] Social Security Committee, 2nd Report Session 2000-2001, *Integrated child credit*, HC72, para. 91
[23] *ibid*. paras. 24-25, 30, 45-46
[24] *ibid*. para. 14

of support could, argued CPAG, make it easier to impose a regime of sanctions.[25] The Committee questioned whether, in the light of this disintegration together with the continuing separate delivery of non-means-tested benefits, the system would become substantially simpler to understand for recipients.[26]

B. Families without children

At present, there is no general provision for childless working families in either the tax or benefits system, although low-income families may qualify for Housing Benefit and/or Council Tax Benefit. People with disabilities have access to the Disabled Person's Tax Credit (DPTC) and participants in the New Deal 50plus have access to an Employment Credit. Between 1996 and 1999 a pilot scheme called Earnings Top-up tested the impact of a general scheme topping up the income of childless workers in low-paid employment.

1. Disabled Person's Tax Credit

DPTC was introduced by the *Tax Credits Act 1999*. It replaced the former social security benefit, Disability Working Allowance in much the same way as WFTC replaced Family Credit.

An individual's entitlement to tax credits is based on their particular circumstances and the following can only offer a brief description of the eligibility conditions. Broadly, in order to qualify for DPTC claimants must:

- be working full-time (on average more than 16 hours per week);
- have a physical or mental disability which puts them at a disadvantage in getting a job;
- be in receipt, or have recently been in receipt, of an incapacity or disability benefit; and
- have sufficiently low income and capital.

Entitlement is calculated by assessing the claimant family's net weekly income against an income threshold. The income threshold from April 2001 is £72.25 per week for single claimants and £92.90 for couples or lone parents. Those earning below the threshold receive the maximum amount of credit payable for their circumstances. Those earning above the threshold receive the maximum amount payable reduced by 55 pence for every pound they earn above the threshold. This is referred to as the taper.

The maximum amount of DPTC payable is the sum of the basic tax credit for a single person, lone parent or couple together with a credit for each child in the family. Additional credits are paid in respect of people working more than 30 hours, disabled

[25] *ibid*. Q.120, p.61
[26] *ibid*. para. 85

children and family members on the higher rate care component of Disability Living Allowance (see Box 3). The maximum amount can also be increased through a childcare tax credit, which provides a credit of up to 70% of eligible childcare costs of £135 for one child or £200 for two or more children.

Box 3: Rates of credit

	April 2000	April 2001
Single person basic credit	£55.15	£56.05
Lone parent/couple basic credit	£84.90	£86.25
30-hour credit	£11.25	£11.45
Child credits		
Under 16	£25.60	£26.00
16-18	£26.35	£26.75
Disabled child credit	£22.25	£30.00
Enhanced disability credit (single, child)	n/a	£11.05
Enhanced disability credit (couple/lone parent)	n/a	£16.00

The amount of an award may also be affected by other factors. For example, those with capital of more than £8,000 are not eligible for WFTC. Those with capital between £3,000 and £8,000 will be treated as if they have income based on this capital and this will reduce the amount of tax credit payable. The capital rules are complex but include for example, savings, investments, and the value of second houses.

Just under 30,000 people receive DPTC.[27]

2. New Deal 50plus Employment Credit

Participants on the voluntary New Deal 50plus have access to an Employment Credit to top-up their income from work. Participants are eligible if they:

- are in employment, or self-employment, of at least 16 hours per week (credit of £40 per week for 16-30 hours work, £60 per week for more than 30 hours per week); and
- have expected total income of less than £15,000 a year including income from other sources, such as private pensions and investments.

Although other income is taken into account for eligibility for the over-50s Employment Credit, there is no capital test. The credit is administered by the Employment Service. The *Pre-Budget Report 2001* states that by Autumn 2001 around 51,000 people had returned to work via the New Deal 50plus Employment Credit and that 42% claimants would not have taken the job they are in without the credit.[28]

3. Earnings top-up

Earnings top-up (ETU) was introduced on a pilot basis in eight areas from October 1996. It covered parts of the North East, Yorkshire, Wales, Essex, the South Coast and Scotland. The benefit was modelled closely on Family Credit, but made available to

[27] Inland Revenue, *DPTC statistics quarterly enquiry*, April 2001
[28] HM Treasury, Cm 5318, November 2001, para 4.23

single people and couples without children. The scheme was introduced on an extra-statutory basis, although the draft rules were laid before the House and debated on 24 November 1995.[29]

Introducing that debate, Alistair Burt, then Minister for Social Security and Disabled People, said:

> Both the idea of an earnings top-up for all lower-paid workers and its introduction on a pilot basis mark radical new departures for the United Kingdom. No other country offers a targeted income boost to all those in work at certain incomes. There is thus no experience by which to judge the impact of such a benefit. That is why we propose to test it through a pilot, the first of its type in the United Kingdom.[30]

Two levels of ETU were piloted, scheme A and scheme B. Each provided typically £20-30 to single people and £35-45 to couples but differed in their range of qualifying incomes. Scheme B was available at higher incomes, ending for older single people at about £140 and for couples at £180 a week. Scheme A ended at about £130 and £170, respectively, but at just over £100 a week for single people under 25. Schemes A and B were each piloted in a large urban area, a large town, a seaside town and a rural area. Four corresponding areas were selected as control areas.

Around 32,000 people received ETU in its final year of operation.[31] Expenditure on the scheme was £3m in 1996/97, £24m in 1997/98, £32m in 1998/99 and £28m in 1999/00.[32]

Seven research reports on the ETU were published on 29 January 2001, including a synthesis report.[33] The key conclusions were:

- ETU raised workers' incomes and was well-targeted on the very low paid. However, its levels were generally insufficient to enable young recipients to live independently.
- Take-up was very low, around 23% in 1999.
- ETU enabled some workers greater freedom in distributing their time between paid work and other responsibilities. Some recipients were able to stop working very long hours or working in a second job and this enabled some to devote more time to caring and voluntary work.
- There was a marginal improvement in employment opportunities. Small secondary effects reduced employment opportunities for other workers.

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29 HC Deb 24 November 1995 c 876- 899
30 HC Deb 24 November 1995 c 876
31 HC Deb 22 March 2000 c589w
32 DSS, *Social Security Departmental Report: The Government's Expenditure Plans 2000/01-2001/02*, Table 3
33 DSS, Research Report No.135, *Earnings Top-Up Evaluation: Synthesis Report*

4. Towards an employment tax credit

In the 1999 Budget the Government stated it that saw the case for extending the principle of in-work support from WFTC to cover all people in low-paid employment.[34] A subsequent document, accompanying the 2000 Budget noted that worklessness was higher in childless households (in excess of 15% of working age households without children had no-one in employment). An employment tax credit available to these groups would both increase work incentives and relieve in-work poverty.[35] Such a credit might be best confined to certain groups, in particular:

- older age groups, with low pay likely to be more transitory for younger age groups; and
- full-time workers (30 hours plus), with part-time working as well as low wages being a factor in some in-work poverty.[36]

II The consultation paper and reaction

The Government issued a consultation paper and partial regulatory impact assessment (RIA) on the new credits on 19 July 2001, with responses invited by 12 October 2001.[37] The partial RIA expressed the Government's intention to produce draft legislation in the autumn.[38] There has, in fact, been no draft legislation.

The paper confirmed the Government's intention to introduce two new tax credits. An integrated child credit would consist of four elements:

- a family credit, broadly replicating the Children's Tax Credit, payable to all families with a qualifying child;
- a child credit for each child in the family, broadly replicating the personal allowances in Income Support/JSA and the child credits in WFTC;
- a baby credit for families with one or more children aged under one; and
- additional disability and severe disability credits for children with disabilities, broadly replicating the disabled child premiums in Income Support/JSA and the disabled child credits in WFTC.

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[34] HM Treasury, *Budget 99 Building a stronger economic future for Britain*, HC 298 1998/99, p.62

[35] HM Treasury, *The modernisation of Britain's tax and benefit system number 6: tackling poverty and making work pay – tax credits for the 21st century*, March 2000

[36] *ibid*. paras. 3.20-3.23

[37] Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001

[38] *ibid*. p.64

In addition, the consultation paper made clear, the integrated child credit would also replace the child dependency additions payable in some non-means-tested benefits.[39] The Government would consider how to protect the entitlement of existing recipients.[40] The TUC is concerned that this measure replaces payment through contributory benefits with payment through means testing, believing:

> that an anti-poverty strategy that promotes employment would require the *enhancement* of National Insurance, not further cuts.[41]

An employment tax credit, replacing the adult credits in WFTC and DPTC, and extending the principle behind them to some low-income workers who are not currently eligible for help through either of these tax credits, would consist of:

- a basic credit payable at different rates for individuals and families;
- a 30-hour work credit, mirroring the 30-hour credit in WFTC and DPTC;
- a disability credit;
- an additional credit for people aged 50 and over returning to work, mirroring the New Deal 50plus Employment Credit; and
- help with childcare costs through a childcare tax credit as in WFTC and DPTC.

Figure 2 provides a simplified illustration of the different components of financial support now and following the introduction of the new tax credits. It illustrates three key points of the new system:

- for families with children, an integrated child credit would join Child Benefit as a means of support payable both out of work and in work (up to a certain level of income);
- at the same time as support for children is being integrated across different working states, support for families with children who are not in work is being separated; instead of simply receiving Income Support/JSA, these families now receive support from two sources;
- for working families without children, the Employment Tax Credit has a far wider reach than current provision.

39 Increases for a child dependant – at a maximum weekly rate of £11.35 – may be paid to recipients of Incapacity Benefit, Severe Disablement Allowance, Invalid Care Allowance, Retirement Pension and Widowed Mother’s/Parent’s Allowance.

40 *ibid*. p.14

41 TUC Welfare Reform Series No 43, *New Tax Credits*.

Figure 2

Simplified structure of current and new systems of financial support

	Families with children		**Families without children**	
	Out of work	Working	Out of work	Working
Now	Income Support/JSA (child)	Children's Tax Credit	Income Support/JSA (adult)	DPTC (if disabled) New Deal 50+ EC
	Income Support/JSA (adult)	WFTC/DPTC (child)		
		WFTC/DPTC (adult)		
	Child Benefit			
2003	Income Support/JSA (adult)	Employment Tax Credit	Income Support/JSA (adult)	Employment Tax Credit
	Integrated child credit			
	Child Benefit			

The consultation paper set out the Government's initial proposals and sought views in a number of areas. In large part, the Government's proposals carry forward the arrangements in the benefits and tax credits which the new tax credits would replace. Key differences, and some of the major issues highlighted in the paper, and in responses to it, are discussed below (unless specifically stated the discussion applies to both of the new tax credits).

A. Treatment of income and capital

The paper is clear that it is the family's income which should be taken into account. Credits should reflect both the specific needs of a family and the resources available to it.[42] It also proposed that entitlement should be based on income in the whole of the tax year preceding assessment.[43]

Assessment of income at family level has potential implications for some current recipients of Children's Tax Credit. Because the current credit is based on an assessment of an individual taxpayer's income it is possible for a couple with children to receive it where neither adult is a higher rate taxpayer but their combined income is above the higher rate tax threshold. Around 1.4 million couples are eligible to benefit in this way.[44] The shift to family assessment, however, would mean that – with equivalent credit rates and tapers in an integrated child credit – such couples would lose all or part of their entitlement.

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[42] Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001, p.11

[43] *ibid*. p.37

[44] HC Deb 2 November 2001 c880w

The consultation paper also sought views on the treatment of a variety of sources of income and capital.[45] In general, the Government expressed its intention that as far as possible income should be treated and defined as in the income tax system. This would minimise additional requirements on employers and the self-employed, who already produce much of the information which would be needed through PAYE and self-assessment returns.

- **Earned income**. The main question here related to the treatment of employees' benefits in kind. Given the complex rules governing the treatment of benefits in kind in the tax system, the Government recognised a trade-off between maximising equity and targeting on the one hand and the complexity of the tax credit system on the other. It sought views on whether to maximise targeting through including all benefits in kind; maximise simplicity by ignoring all benefits in kind; and a middle approach including only the most common benefits (such as company cars).

- **Social security benefits.** The principle of mirroring the tax treatment of benefits suggests that taxable benefits should be fully taken into account as income. This would, however, be a quite different approach to the current system where, for example, WFTC and DPTC both disregard £15 of Widowed Parent's Allowance (a taxable benefit). The Government expressed its intention to consider each benefit case-by-case. Similar issues arise with statutory maternity pay: currently disregarded in WFTC and DPTC, but taxable. The corollary of taking taxable benefits into account is the exclusion of non-taxable benefits; significantly, this means that Child Benefit would not be deducted as it currently is from Income Support/JSA.

- **Other income** (income other than earnings, benefits and pensions). Again there is a trade-off between simplicity and the desire to maximise targeting. The Government proposed a general disregard except where the aggregate of other forms of income exceeded a certain level.

- **Child maintenance** payments are currently fully disregarded for WFTC and DPTC. The Government sought views on whether this arrangement should be continued.

- **Income from capital**. WFTC and DPTC both include assessment of notional income from capital and upper capital limits above which tax credit entitlement ends (see p.13 above). Income tax is charged on actual income received. The Government proposed removing the notional income and capital limit rules, and taking actual taxable income into account. Mirroring the income tax system would also entail ignoring income from tax-free savings such as ISAs.

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[45] Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001, pp 29-34

Finally, the consultation paper considers a move from net to gross income as the basis of assessing entitlement. Entitlement to social security benefits and to WFTC and DPTC is based on net income – income after the deduction of income tax and National Insurance contributions. This means that recipients of means-tested benefits and tax credits do not always benefit in full from reductions in income tax and National Insurance contribution rates: such reductions increase net income and, therefore, reduce benefit entitlement. Also, the use of net income emphasises the separation between the benefit/tax credit and income tax systems. The Government, therefore, recognised a case for basing entitlement on gross income.

A shift to assessment on gross earnings has implications for the rate at which tax credits are withdrawn and for the level of earnings at which such withdrawal begins. At present, WFTC and DPTC are reduced at a rate of 55p for each additional £1 of net income above £92.90. For a basic rate taxpayer, the withdrawal rate of 55% on net income is equivalent to a rate of 37.4% on gross income (see box 4).

Box 4

Deduction rates for a basic rate taxpayer

Withdrawal on net income	
Additional earnings	£1.00
deduct income tax @ 22%	*-£0.22*
deduct NI contributions @ 10%	*-£0.10*
leaves additional net earnings	£0.68
reduce WFTC by 55% taper	*-£0.37*
leaves additional net income	£0.31

Withdrawal on gross income	
Additional earnings	£1.00
reduce tax credit by 37% taper	*-£0.37*
deduct income tax @ 22%	*-£0.22*
deduct NI contributions @ 10%	*-£0.10*
leaves additional net income	£0.31

The Institute for Fiscal Studies explain how shifting from a taper on net income to an equivalent taper on gross income could improve work incentives for the second earner in a couple:

> Using a gross income taper – at least at the rate that we assume – would attenuate the 'second earner' problem. It would reduce the effective marginal deduction rate faced at incomes below the personal allowance, which would also mean that second earners in families currently on WFTC would keep more of their earnings even once they were liable for some tax. A gross taper of 37.4p in the pound would combine with income tax and National Insurance to achieve the same effective marginal rate of 69.4 per cent for a basic-rate taxpayer. But if a second-earner parent entered work on wages low enough to pay no income tax or National Insurance, their effective marginal deduction rate would be only 37.4 per cent under a gross income taper in the integrated child credit rather than 55 per cent under WFTC. Of course, 37.4 per cent is higher than the withdrawal rate faced in the absence of any tax credits, but, for the second earner in couples already on WFTC, the improvement is unambiguous.[46]

The Low Income Tax Reform Group, in its response to the consultation document suggested that the removal of capital limits would "conflict with the Government's policy

[46] IFS, *Credit where it's due? An assessment of the new tax credits,* p.11

of targeting help where it is most needed".[47] Disability Alliance emphasised the need for families with income below Income Support or income-based JSA levels, but with capital disqualifying them from those benefits, to access the integrated child credit speedily.[48]

The Government's response to the consultation confirmed that:

- entitlement to tax credits will be based on gross income;
- maintenance payments will not count as income;
- there will be no capital limits.[49]

B. Working hours

Currently WFTC and DPTC require claimants to be working for at least 16 hours per week. An additional 30-hour credit is available to those working 30 hours or more. The consultation paper proposed maintaining these thresholds for families with children and disabled workers. It also noted that the Government was considering enabling the 30-hour credit to be made newly available to couples whose joint working hours were greater than 30 but who individually worked for less than 30 hours per week. Families without children and without a disability would only be entitled to the employment tax credit where they worked 30 hours or more.

The consultation paper also raised the issue of calculating working hours. In WFTC and DPTC working hours are assessed in a 'snapshot' period either side of the claim. The Government invited suggestions as to a possible new approach, which would be easy to understand and apply; would fit better with an annual cycle of assessment; and would reflect flexible working patterns.[50]

Both the Low Pay Unit and Disability Alliance warmly welcomed the proposal to enable couples to combine their working hours to gain the 30-hour credit. Both, however, were critical of the continuation of the 16-hour threshold which they regard as an arbitrary barrier to entering work.[51] Disability Alliance, the National Association of Citizens Advice Bureaux (NACAB) and the Low Income Tax Reform Group all proposed a threshold lower than 16 hours for people with disabilities.[52] NACAB also pointed out that lone parents do not have the flexibility to combine working hours with a partner to gain

47 Low Income Tax Reform Group, *New tax credits: LITRG's response*, 12 October 2001
48 Disability Alliance response to the consultation paper, 11 October 2001
49 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001
50 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001, pp18-19
51 Low Pay Unit, *New tax credits: supporting families, making work pay and tackling poverty: Low Pay Unit Response*, October 2001. Disability Alliance response to the consultation paper, 11 October 2001.
52 Disability Alliance response to the consultation paper, 11 October 2001. Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001 Low Income Tax Reform Group, *New tax credits: LITRG's response*, 12 October 2001

the 30-hour credit, and suggested a lower threshold for the hours credit for this group, for example at 24 hours.[53] The Low Pay Unit said that the principle of combining hours for couples should also apply to the 16-hour threshold.[54]

The Government's response to consultation confirmed that couples will be able to combine their working hours to qualify for a 30-hour credit.[55]

C. Childcare Costs

The childcare tax credit – while often discussed as if it were separate – is an integral part of both WFTC and DPTC, and can only be paid to people receiving those benefits. The consultation paper made clear that the current arrangements would broadly be carried forward into a childcare tax credit within an employment tax credit. One area where the Government sought views on change is in the method of payment. Paying the childcare tax credit element with wages – as generally happens in both WFTC and DPTC – would emphasise the link with work, while payment to the main carer would reflect the fact that it is generally the main carer who arranges and pays for childcare.[56]

For WFTC and DPTC purposes eligible childcare for the childcare tax credit has not included childcare in the child's own home, for example by nannies or babysitters. This can mean that those working night shifts, for whom childcare outside the home may be inappropriate, do not benefit. The consultation document states that the Government is considering how to help families who need to use formal childcare in their own homes.[57]

Many organisations responding to the consultation document recommended that the proportion of eligible childcare costs met through tax credits should be increased from the current 70% because of the difficulty that parents face in meeting the remaining 30%.[58]

The Government has decided, after consultation, to make payments in respect of childcare to the main carer alongside payments of Child Tax Credit.[59] The issue of what constitutes

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53 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

54 Low Pay Unit, *New tax credits: supporting families, making work pay and tackling poverty: Low Pay Unit Response*, October 2001.

55 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

56 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001, pp 26-28

57 *ibid*. para 78

58 See, for example, NACAB, *New tax credits - supporting families, making work pay and tackling poverty: A CAB Service response to the Inland Revenue consultative document*, October 2001. Children's Society, *New tax credits: Supporting families, making work pay and tackling poverty: A response by the Children's Society*, October 2001

59 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

eligible childcare is not addressed in the Government's response to consultation, nor is the proportion of childcare expenses to be met.

D. Annual awards and changes in circumstances

The Government recognises that there is a balance to struck between the responsiveness of awards assessed and paid on a weekly basis – such as most social security benefits – and the simplicity and certainty of income provided by awards paid over a longer period – such as the six-monthly awards of WFTC and DPTC. To combine the advantages of both system, without incorporating the disadvantages of either, the consultation paper proposed a "radical" approach making awards for a period of up to a year and proposing that:

> entitlement to the new tax credits should be set on the basis of annual income for the previous tax year, but that they should be adjusted to reflect significant changes in income levels in the current year.[60]

The Government finds the annual approach attractive in reducing the burden associated with weekly means testing, making use of annual tax information which is already collected, providing tax credit recipients with income certainty, and emphasising the links between tax credits and the income tax system. It does, however, raise the issue of how the new tax credits would change in response to changes in income and/or in family circumstances. As the Institute for Fiscal Studies comment, "the crucial question is whether this simplification can be achieved without compromising unacceptably on targeting".[61] The consultation paper makes a number of proposals in this area:

- For families with children who move on to out-of-work means-tested benefits – Income Support or income-based JSA – there should be an automatic passport to the full rate of integrated child credit.
- For those experiencing more modest falls and, by corollary, rises, in income the proposals are less clear. The consultation paper suggests that people experiencing a fall in income could be allowed to apply for reassessment on the basis of a forecast of their income in the current year and, conversely, that people experiencing a rise in income should be required to report them. It goes on to seek views on the levels of income which might set as a threshold for triggering such responses.
- Families experiencing significant changes in circumstances – such as the birth of a child or the onset of disability – should be able to apply for reassessment on the basis of their new circumstances.

[60] Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001, p.37

[61] IFS Commentary 86, *Credit where it's due? An assessment of the new tax credits*, October 2001 p.27

- In the childcare tax credit element, families should be able/be required to have their award reassessed on significant changes in childcare provision.[62]

In its response to the consultation, the Government noted that respondents had both supported the general concept of a flexible system and expressed concerns that greater flexibility might entail greater complexity. The Government intends to consider further details of the changes which will trigger reassessment as regulations to implement the credits are drafted.[63]

E. Passported benefits

Receipt of means-tested benefits and tax credits currently brings with it entitlement to a range of other welfare benefits. In general, the consultation paper makes clear the Government's intention to protect passports through the new tax credits. One potential problem area is where a family who would currently receive Income Support/JSA loses its entitlement once the child premia are removed and incorporated into a new integrated child credit. Losing entitlement to Income Support/JSA would not make such a family worse off in cash income, but it could potentially lead to a loss of passported benefits.[64] The Government were considering how best to provide for such families and, more generally, whether to base future passports on specified household income levels or, broadly as now, on receipt of specified benefits and tax credits.

Passported benefit	Passports
Sure Start maternity grant	IS, JSA(IB), WFTC, DPTC
Social Fund funeral expenses payments	IS, JSA(IB), WFTC, DPTC
Other Social Fund grants and loans	IS, JSA(IB)
Free school meals	IS, JSA(IB)
Free NHS prescriptions[(a)]	IS, JSA(IB)
Housing renovation grants	IS, JSA(IB)

a) Also available to WFTC and DPTC recipients if they pass an additional test of low income

The Government's response to the consultation states that most respondents supported passporting based on entitlement to the new tax credits. It added that inter-departmental discussions on an appropriate means of passporting are continuing.[65]

62 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001, pp 27, 37-40

63 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

64 Families in this group have sufficient other income to reduce their current IS/JSA entitlement below the maximum. Once the child premia are removed, they would no longer receive IS/JSA, although their cash income would be the same; the amount the previously received through IS/JSA would now be paid as part of their integrated child credit award.

65 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

F. Interaction with housing benefits

Perhaps the most difficult issue of interaction to consider, however, is in the relationship between the new system and Housing Benefit and Council Tax Benefit. At present, recipients of Income Support and income-based JSA are passported onto full housing benefits. People with incomes above these levels, have their entitlement to housing benefits calculated on the basis of family income. The consultation paper proposes that the Income Support/JSA passports continue and that calculations of housing benefits reflect the new tax credits. Those receiving the new tax credits would thus face two sets of income and capital tests: the annual tax credit tests described above with annual assessment of gross income and no notional capital rules, and the housing benefits tests based on weekly assessment of net income with capital rules and limits. The paper concluded:

> More radical integration of Housing Benefit and Council Tax Benefit with tax credits is an issue for the longer term. But there may also be opportunities in the short term to simplify the means tests in these benefits in cases where tax credits are in payment, or, as a minimum, to ease the fit between the two systems. We would welcome views on how this could be achieved.[66]

III The Bill

The *Tax Credits Bill* had its First Reading in the Commons on 28 November 2001.

The Bill is divided into three parts:

- **Part 1** (clauses 1-44) sets up the new tax credits

- **Part 2** (clauses 45-53) transfers responsibility for Child Benefit and Guardian's Allowance from the Department for Work and Pensions (DWP) to the Inland Revenue

- **Part 3** (clauses 54-65) contains miscellaneous and supplementary provisions

In the Bill, the integrated child credit referred to during the consultation process becomes the Child Tax Credit and the employment tax credit referred to during the consultation process becomes the Working Tax Credit.

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[66] Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty*, July 2001, p.43

A. Part 1 (clauses 1-44) - Tax Credits

1. General provisions

Clause 1 creates two new tax credits, the Child Tax Credit and the Working Tax Credit. It also abolishes:

- Children's Tax Credit
- Working Families' Tax Credit
- Disabled Person's Tax Credit
- Personal allowances for children in Income Support and income-based Jobseeker's Allowance, as well as the family premium, the disabled child premium and the enhanced disability premium for a child in these benefits
- Increases for dependent children paid with non-means-tested benefits
- New Deal 50plus Employment Credit

Clause 2 provides for the Child Tax Credit and the Working Tax Credit to be under the care and management of the Commissioners of Inland Revenue ("the Board").[67] This clause replicates current arrangements for existing tax credits.[68] As now, tax credits are paid from tax receipts (**Clause 2(2)**).

Clause 3 sets out the requirement to claim tax credits to gain entitlement. Claims may be made:

- jointly by members of a married or unmarried couple where both are at least 16 and in the UK, or
- by a single person who is not entitled to make a claim as part of a couple.

This means that where there is a married or unmarried couple, they must claim tax credits jointly. This differs from the existing arrangements. For Income Support and JSA (except joint-claim JSA) benefits are claimed by individuals on behalf of their partner and children. For in-work tax credits such as WFTC and DPTC, claims are also made by an individual on behalf of the family. Children's Tax Credit is claimed by an individual taxpayer, although it may be shared where neither member of a couple is a higher rate taxpayer. Where either or both is a higher rate taxpayer, the higher earner must claim.

The consultation document argues that because the key objective of the new system is to target support to families on the basis of need, entitlement to tax credits must take account of family, rather than individual circumstances. For this reason, new tax credits will be

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[67] Defined in clause 62

[68] Section 5 *Tax Credits Act 1999*

made to the household rather than to an individual, although different types of payment may be made to different individuals within it.[69]

Regulations will prescribe who is to be treated as being in the UK (**clause 3(5)**).

Clause 4 enables regulations to be made prescribing requirements in relation to claims. This includes, for example, the manner and time in which a claim is to be made, treatment of claims as made earlier or later than the date of claim, treatment of advance claims and the circumstances in which a claim can be made by one person acting for another. **Clause 4(2)** allows the Board to disclose to the claimant, including joint claimants, information and communications relating to the claim.

Clause 5 introduces awards of up to one year for tax credits (existing tax credits last for six months at a time). Claims made before the start of a tax year will run for the whole tax year. Claims made during a tax year will run from the date of claim to the end of that tax year.

Unlike the current arrangements for WFTC and DPTC which continue for six months even where a person ceases to qualify, the new tax credits will end in the following circumstances:

- in a joint claim, where the couple are no longer eligible to make a joint claim (**clause 5(3)(a)**), defined in the *Explanatory Notes* as when they separate[70]
- in a single claim, where a person is no longer eligible to make such a claim (**clause 5(3)(b)**), defined in the *Explanatory Notes* as when he or she becomes part of a couple[71]
- where entitlement to the tax credit ceases (**clause 5(5)**)

Changes in the rate of the tax credit arising from changes in circumstances will not bring the tax credit to an end, unless the entitlement conditions for the tax credit are no longer met (**clause 5(4) and (5)**).

Clause 6 provides for regulations to be made relating to changes in circumstances. Changes in circumstances may increase or decrease the tax credit payable. At present, WFTC and DPTC respond only to limited changes in circumstances, for example where there is a new child. Other cases remain unchanged during the 6 months period of the award.

[69] Inland Revenue, *New Tax Credits: Supporting families, making work pay and tackling poverty*, July 2001, paras 12 and 13
[70] para 40
[71] *ibid.*

The consultation document states that the introduction of the new tax credits provides an opportunity to remove rigidity and to design a system with the flexibility to respond to changes of circumstances as they happen. Examples given include the birth of a child, the onset of disability, a change in childcare arrangements or a young person leaving full-time education.[72] It also proposes that whilst awards will be based on annual income for the previous tax year, they should be adjusted to reflect significant changes in income levels in the current year.[73] As a result of such changes employers may be asked to alter the daily rate of the tax credit paid to an employee within a pay period.[74]

Clause 6(3) enable regulations to be made requiring notification by the claimant of prescribed changes of circumstances that lead to the decrease or ending of a tax credit award, or to the ending of entitlement to an award.

Clause 7 deals with the income test for tax credits. As with current arrangements, an income threshold will be set in regulations. Income below the threshold will result in the maximum rate of the tax credit for which a household qualifies being paid (**clause 13(1)**). Income above the threshold will result in all or part of the tax credit entitlement being withdrawn (for example by the application of a taper) under regulations to be made under **clause 13(2)**.

Entitlement to certain social security benefits will automatically lead to entitlement to a tax credit (**clause 7(2)**). The consultation document suggests that to prevent low-income families undergoing multiple income tests, a household with an income low enough to qualify for Income Support or income-based JSA will automatically receive in full the maximum Child Tax Credit to which they could be entitled.[75] What is not clear is how benefits will interact with tax credits if there are capital limits for the former but not for the latter.[76]

Income for tax credits purposes will, as far as possible, be aligned with treatment of income for income tax purposes (see discussion in Part IIA above) and so will be based on tax years. Whilst the default position is that current year's income will be used, **clause 7(3)** allows regulation-making powers to give flexibility for current or previous year's income to be used. Regulations will prescribe margins of fluctuation within which it is acceptable to use one or the other.

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72 Inland Revenue, *New Tax Credits: Supporting families, making work pay and tackling poverty*, July 2001, paras 144-5, para 79
73 *ibid.* para 126
74 *ibid.* para 68
75 *ibid.* para 131
76 See Disability Alliance response to the consultation paper, para 7.2, 11 October 2001

2. Child Tax Credit

Clause 8 provides that entitlement to a Child Tax Credit will be dependent on the claimant(s) being responsible for one or more children under 16 or qualifying young persons over 16, to be defined in regulations. The clause also introduces a new regulatory power to allow the Child Tax Credit to continue for a prescribed period after a child has died. The consultation paper suggested 6 weeks, but following consultation this was extended to 8 weeks.[77]

The maximum rate of Child Tax Credit will be prescribed in regulations. It will be made up of a "family element" and an "individual element" for each child (**clause 9**). Regulations may also prescribe variations in the former element according to the age of the child or other factors, and in the latter element according to the age of the child. Regulations must prescribe higher rates for any disabilities or severe disabilities the child may have. Definitions of "disabled" and "severely disabled" will be set out in regulations.

3. Working Tax Credit

Entitlement to Working Tax Credit will be dependent on the claimant(s) being in qualifying remunerative work (**clause 10**). Regulations may make provision for what is qualifying remunerative work and may prescribe variations to this depending on age, disability, responsibility for a child, or other factors.

Part IIB above discusses qualifying working hours. On the question of age, the consultation document suggests that the Working Tax Credit will be available to those with children or a disability who are over 16, as currently is the case with WFTC and DPTC. Those without children or a disability will have to be over 25 to qualify.[78]

The maximum rate for the Working Tax Credit will be prescribed in regulations. It must consist of a "basic element" and where appropriate a "disability element" (**clause 11**). The disability element arises where the claimant (or both members of a couple) has a physical or mental disability that results in a disadvantage in getting a job (**clause 11(3)**). This is similar to the existing requirements for DPTC.[79] Other conditions may also be prescribed.

Regulations may also prescribe that the Working Tax Credit includes elements additional to those above (**clause 11(6)**), such as those related to:

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[77] Inland Revenue, *New Tax Credits: Supporting families, making work pay and tackling poverty*, July 2001, para 30 and Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

[78] Inland Revenue, *New Tax Credits: Supporting families, making work pay and tackling poverty*, July 2001, para 43

[79] section 129(1)(b) *Social Security Contributions and Benefits Act 1992*

- working hours (see discussion at Part IIB above)
- couple status
- lone parent status
- severe disability
- age

For example, the consultation paper proposes an additional element for those over 50 similar to the existing 50plus Employment Credit.[80]

A childcare element, to be prescribed in regulations, may also be included within the Working Tax Credit (**clause 12**). What constitutes eligible childcare will be prescribed (**clause 12(3)**). Part IIC above discusses current definitions of eligible childcare for WFTC and DPTC purposes and problems with this.

4. Decisions

Clauses 14-22 deal with decisions on tax credits claims. The provisions under these clauses include the following:

- regulation-making powers to require information or evidence to be provided which the Board consider they may need from a claimant or any prescribed person (**clause 14**)
- the Board must decide whether and how to amend tax credits awards on receiving notification of changes in circumstances which may increase the maximum rate of tax credit (**clause 15**)
- the Board may amend or revoke awards in certain circumstances (**clauses 16, 19, 20**). Incorrect awards attributable to fraud or neglect on the part of the claimant(s) can only be amended or revoked within five years (**clause 19**)
- the Board must give a notice to claimant(s) to whom a tax credit has been awarded in a tax year, the requirements of which are detailed in **clause 17**
- the Board may enquire into the accuracy of a tax credit award if they give notice to the claimant within a specified period. They may require information and evidence from the claimants or from any other person prescribed in regulations (**clause 18)**

5. Payments

Clause 23 enables regulations to be made specifying to whom, when and how a tax credit payment is made. The *Explanatory Notes* state that:

> In general, however, payments of the Child Tax Credit will be made directly to the main carer of the child or children, in arrears at weekly or four-weekly

[80] *ibid.* para 52

> intervals as claimants choose. The Working Tax Credit will be paid to employees by their employers with their wages, but it will be paid directly to the self-employed or to those employees whose employer does not operate a full Pay-As-You-Earn (PAYE) scheme.

In its response to consultation the Government confirmed that the childcare element in Working Tax Credit will be paid to the main carer, alongside payments of Child Tax Credit.[81]

Several organisations commenting on the consultation document prior to publication of the Bill endorsed the view that choice should be given to claimants over whether to receive payment directly from the Inland Revenue or from the employer, because of the problems for employer/employee relations.[82]

Payments of tax credits must be made by the Board, except where they are made by an employer (**clause 23(6)**). Regulations may also specify that payment of a tax credit must be into a bank or other account, and that entitlement is dependent upon the claimant notifying details of a suitable account (**clause 23(8)**). The RIA states:

> The Child Tax Credit will be paid directly into bank accounts, providing a secure, reliable and flexible method of delivering payments. Those unable to obtain a suitable bank account will be assured of a regular and secure alternative form of payment through the universal bank.[83]

The regulation-making provisions for payment of the Working Tax Credit by employers in the Bill (**clause 24**) are similar to those that exist in relation to tax credits in the *Tax Credits Act 1999*.[84] They may include the following provisions:

- requiring employers to make payments of Working Tax Credit, and prescribing circumstances in which they are not required to do so
- for the Board to pay Working Tax Credit in cases where the employer does not make payments
- for the provision of information or evidence that the employer is complying with requirements
- requiring employers to provide information to employees (for example in wage slips)

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81 Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

82 See, for example, NACAB, *New tax credits – supporting families, making work pay and tackling poverty: A CAB Service response to the Inland Revenue consultative document*, October 2000. Low Pay Unit, *New tax credits: supporting families, making work pay and tackling poverty: Low Pay Unit Response*, October 2001. Disability Alliance response to the consultation paper, 11 October 2001.

83 Inland Revenue, *Regulatory Impact Assessment*, para 2.3

84 Sections 6 and 8

Existing powers to call for documents under the *Taxes Management Act 1970* will apply for the new tax credits as they do for existing tax credits.

Funding arrangements for employers paying Working Tax Credits will be as now, with funding for tax credits being paid direct to the employer or through set-off against PAYE tax, National Insurance contributions and student loan deductions (**clause 24(2)(f)**).[85] Regulations may make provision for the recovery of overpayments by the Board (**clause 24(2)(g)**).

Where an employer has failed to repay such overpayments, and this appears to the Board to be attributable to fraud or neglect on the part of "culpable officers", these culpable officers are required to repay the recoverable funding (**clause 25**). The *Explanatory Notes* to the Bill give the following explanation:

> The purpose of this clause is to prevent officers of bodies corporate (in practice, usually directors) from using for some other purpose funding provided by the Board to enable them to pay tax credits to their employees. In particular, it deals with the situation where officers deliberately set out to exploit limited liability through "phoenixism" (the practice of carrying on what is effectively the same business successively through a series of companies, each of which in turn becomes insolvent with substantial debts to the Government).[86]

Clause 26 and Schedule 1 which protect employees from unfair dismissal or other detriment in connection with their entitlement to a Working Tax Credit are broadly similar to existing provisions in the *Tax Credits Act 1999*.[87]

Clauses 27 and 28 deal with overpayments of tax credits and their recovery. In particular couples may be jointly and severally liable to repay the overpayment on a joint claim award, unless the Board decides each is to pay a specified amount (**clause 27(4)**).

6. Penalties

Clause 29 provides that where a person fraudulently or negligently makes an incorrect statement or declaration or (this applies to employers as well as claimants) provides incorrect information or evidence in connection with a claim for a tax credit, a penalty not exceeding £3,000 may be imposed. Where the penalty arises in connection with a joint claim, a penalty may be imposed on either partner, unless the other partner could not reasonably be expected to have been aware of the fraud or neglect (**clause 29 (2)-(3)**). The total penalties imposed on both partners together cannot amount to more than £3,000 (**clause 29(4)**).

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[85] Inland Revenue, *New Tax Credits: Supporting families, making work pay and tackling poverty*, July 2001, para 67

[86] para 102

Where a claimant or an employer or other prescribed person who is required to provide information under various provisions of the Bill fails to do so without a reasonable excuse, a penalty not exceeding £300 may be imposed, followed by a maximum penalty of £60 per day (**clause 30**). Again the aggregate of the penalties imposed on members of a joint-claim couple cannot exceed these amounts (**clause 30(6)**).

An employer who refuses or repeatedly fails to make Working Tax Credits payments to an employee, or who has not paid the correct amount of the tax credit for a tax year, may be liable to a maximum penalty of £3,000 (**clause 31**).

Schedule 2 contains supplementary provisions relating to penalties. The determination of a penalty may be appealed against to the Tax Commissioners (**clause 36(1)(c)**).

7. Fraud

Clause 33 provides that a person commits an offence if he is knowingly concerned in any fraudulent activity to obtain tax credits payments. A person who commits an offence is liable on summary conviction to a maximum of six months imprisonment and/or a fine up to £5,000. On conviction on indictment a person may be liable for up to 7 years imprisonment, or a fine, or both.

Clause 34 extends existing powers under the *Taxes Management Act 1970* in relation to serious tax fraud to serious tax credit fraud. These include powers enabling the Board to apply for a court order to require production of documents and for a warrant to enter, search and remove information from premises.

Interest may be charged on overpayment of tax credits attributable to fraud or neglect on the part of the person awarded a tax credit (**clause 35**). Penalties under clauses 29-31 may also carry interest.

8. Appeals

Appeals may be made against decisions on whether to award tax credits, the rate of the award and on decisions to amend, revoke or revise awards. Appeals can also be made on the imposition of a penalty under Schedule 2 as described above, and on the charging of interest on an overpayment (**clause 36**).

Notice of an appeal must be given to the Board within 30 days of the decision and must specify the grounds for the appeal. Appeals will be to the General Commissioners or in particular cases to the Special Commissioners, as with income tax appeals. The Commissioners may allow the appellant to put forward grounds not specified in the notice, if they are satisfied the omission was not wilful or unreasonable (**clause 37**).

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[87] Section 7 and Schedule 3

9. Supplementary

Regulations may prescribe that persons subject to immigration control are excluded from entitlement to tax credits (**clause 38**) and may make provision for polygamous marriages (**clause 39**).

Part 1 of the Bill applies to persons employed by or under the Crown (**clause 40**).

B. Part 2 (clauses 45-53) – Child Benefit and Guardian's Allowance

On 25 June 2001 the Government announced its intention to transfer responsibility for Child Benefit from the DWP to the Inland Revenue from 2003. This is to ensure that when the Child Tax Credit is introduced from 2003, Government support for children will be administered by one Department.[88]

Clauses 45-50 make the necessary changes in Great Britain and Northern Ireland, transferring policy functions and responsibility for setting rates and rules of entitlement to the Treasury and other functions to the Inland Revenue. Property, rights and liabilities are also transferred.

Clause 51 introduces a new provision for Child Benefit and Guardian's Allowance to continue for a prescribed period after the death of a child. This includes a child who dies before the first Monday after they are born, who would under existing legislation not qualify for Child Benefit. The Government's response to consultation indicates that the prescribed period will be 8 weeks.[89]

Current arrangements for Child Benefit require the claimant and the child to be present in Great Britain or Northern Ireland and to have been present for the previous 182 days. This latter requirement is removed under **clause 52** although regulations may prescribe circumstances in which a child or person is to be treated as being present in Great Britain or Northern Ireland. The *Explanatory Notes* state that this change is intended to bring the rules closer to those proposed for the Child Tax Credit.[90]

There is a similar policy intention behind provisions to remove the exclusion from entitlement to Child Benefit for a person who has income exempt from UK income tax (**clause 53**). The *Explanatory Notes* state that some such people do pay UK tax and as they are not restricted from claiming Child Tax Credit, Child Benefit should be brought into line.[91]

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[88] HC Deb 25 June 2001 c18w

[89] Inland Revenue, *New tax credits: supporting families, making work pay and tackling poverty – the response to consultation*, 29 November 2001

[90] para 184

[91] para 185

C. Part 3 (clauses 54-65) – Supplementary

These clauses relate, amongst other supplementary provisions, to the administrative arrangements for claims (**clause 54)** and to the use and disclosure of information (**clause 55 and schedule 5**). Information held by the Board in connection with any of its functions may be used for any other of its functions, and information may be exchanged between various government departments. Provisions relating to the unauthorised disclosure of information will be as for existing tax credits.

The Bill extends to England, Wales, Scotland and Northern Ireland (**clause 64**).

IV Potential effects

A full analysis of the financial and other effects of the Bill must wait until credit rates have been set and the detailed rules have been made in regulations. For the moment, it is possible only to provide broad estimates, based on what is known about the new system.

A. On recipients

The Regulatory Impact Assessment (RIA) suggests that the Child Tax Credit would support at least 5.2 million families with children if current systems of support were replicated, just under ¾ of all families with children.[92] This contrasts with the 2.5 million families with children currently receiving support through benefits, WFTC and DPTC, and the 5 million who are expected to receive the Children's Tax Credit.[93] One newly-entitled group will consist of around 100,000 people – mainly students and student nurses - who do not meet the remunerative work test for WFTC/DPTC and who are not entitled to Income Support/JSA.[94] These people gain because the separation of support for children means that labour market conditions will not be attached to the Child Tax Credit.

The RIA estimates that the Working Tax Credit will go to around 400,000 families without children, clearly a much higher number than is currently reached by DPTC and the Employment Credit in New Deal 50plus.[95]

B. On employers

The RIA suggests that the total number of individuals receiving tax credits through the wage packet will be unchanged. However, the actual recipients will change as some households previously receiving tax credits via the employer will receive the new Child

92 Inland Revenue, *The new tax credits: a regulatory impact assessment*, para 2.1
93 DWP, *Client group analysis: quarterly bulletin on the families with children on key benefits*, February 2001; HC Deb 2 November 2001 c885-6w. The first figure is for Great Britain only. Many families will at present receive both WFTC/DPTC and Children's Tax Credit.
94 Inland Revenue, *The new tax credits: a regulatory impact assessment*, para. 2.2
95 *ibid*. para 2.5

Tax Credit paid directly to them, whilst the Working Tax Credit, paid via the employer, will be paid for the first time to those without children. The RIA therefore estimates that the total number of employers paying tax credits will remain unchanged at around 300,000 during any one year.[96]

The RIA identifies aspects of the new tax credits that will represent cost savings to employers:

- The move to an annual cycle of awards is expected to reduce employer costs by around £9.5 million a year
- The ending of the requirement for employers to complete a Certificate of Payments when a tax credit recipient leaves employment is estimated to save employers £400,000 a year
- Employers will not routinely be required to complete an earnings enquiry form as the required information will be available on P45s, P60s and Self Assessment Returns, saving an estimated £0.9 -£1.1 million a year.[97]

However, the more responsive nature of the Working Tax Credit to fluctuations in income and changes in circumstances, will mean that employers may be asked to adjust the daily rate they pay to individuals during the period of an award. The RIA states that the impact of this can only be estimated once the system is up and running.[98]

The *Summary of Regulatory Impact Assessment* published with the *Explanatory Notes* summarised the effects on smaller employers as follows:

> For smaller employers, the implementation costs of the new tax credits should be less than under WFTC and DPTC. Existing payroll systems should not need to be significantly altered to cope with the transition to the new credits.[99]

The Federation of Small Businesses however has recommended in a review of payroll burdens that staff be given the option of having payments such as WFTC paid to them direct by the Inland Revenue rather than through the pay-packet, a view endorsed by many organisation representing claimants.[100]

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96 Inland Revenue, *The new tax credits: a regulatory impact assessment*, para 2.12
97 *ibid.* paras 2.15-2.16
98 *ibid.* para 2.17
99 para 220
100 cited at http://www.fsb.org.uk/policy/news.asp See also NACAB, *New tax credits – supporting families, making work pay and tackling poverty: A CAB Service response to the Inland Revenue consultative document*, October 200. Low Pay Unit, *New tax credits: supporting families, making work pay and tackling poverty: Low Pay Unit Response*, October 2001. Disability Alliance response to the consultation paper, 11 October 2001.

C. On public expenditure

Administration costs cannot be estimated until the rates of tax credits are set, neither, of course, can the total costs.[101]

The IFS have produced estimates of the total costs of the new credits based on a number of assumptions. Critically, they assume that the Child Tax Credit will be genuinely seamless across the in-work/out-of-work divide and that there will be no cash losers in the lower part of the income distribution. This, they argue, implies that there will need to be some levelling-up of out-of-work financial support to meet in-work levels. They estimate that the additional costs could be around £1.8 billion for the Child Tax Credit and around £350 million for the Working Tax Credit.[102] The assumptions on which these estimates are made may, of course, differ from the system that eventually emerges in regulations made under the Bill.

V Reactions to the Bill

Much of the reaction to the Bill has focussed in general terms on the complexity of the Bill's proposals and the extension of means-testing they will bring. David Willetts, Shadow Secretary of State for Work and Pensions, has said it is "absurd" to expect families to work their way through the complex and varied tax credits to which they are entitled.[103] Steve Webb, Liberal Democrat spokesman on work and pensions, has focussed on the requirement for couples to have their income assessed jointly for entitlement to the Child Tax Credit, which could result in losses for some families currently claiming the Children's Tax Credit, worth up to £520 a year.[104] He has said that the Government should end the uncertainty of the position of these families.[105]

[101] Inland Revenue, *The new tax credits: a regulatory impact assessment* , para 2.23
[102] IFS, *Credit where it's due? An assessment of the new tax credits*
[103] "Huge extension of tax credits to make work pay", *Independent*, 28 November 2001
[104] "Credits likely to bring confusion as well as cheer", *Times*, 28 November 2001, "Brown plans new squeeze on middle-income families", *Independent*, 1 December 2001,
[105] "Child credit will cut £600m off incomes", *Times*, 28 November 2001