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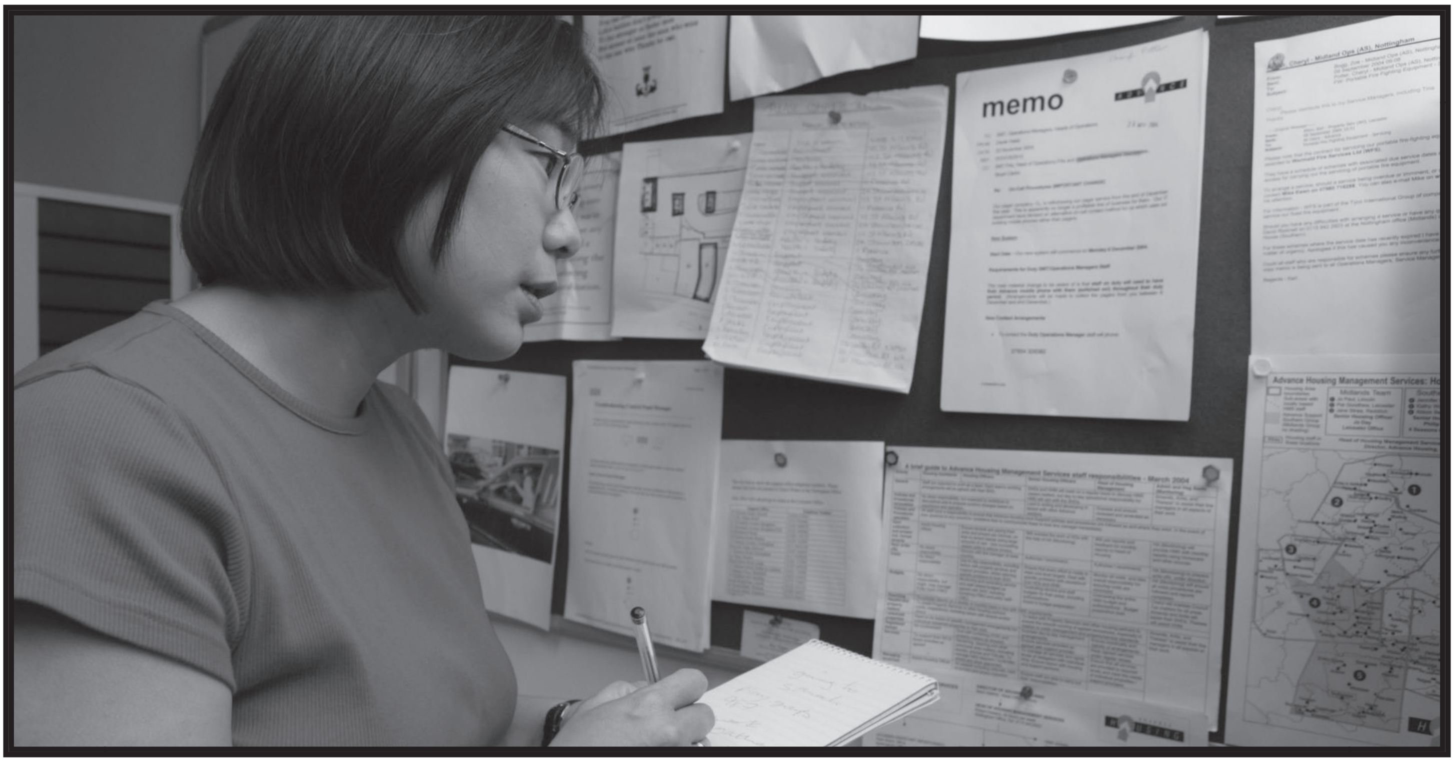
THE NEW TAX CREDITS SYSTEM: KNOWLEDGE AND AWARENESS AMONG RECIPIENTS

Julia Griggs, Fiona McAllister and Robert Walker



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The New Tax Credits System: Knowledge and Awareness Among Recipients

Published by One Parent Families in conjunction with the Roger Carlsson Family Foundation.

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Authors

Julia Griggs: Lead Researcher on the New Tax Credit Recipient Knowledge and Awareness project, while completing a Doctorate in Applied Social Science at the University of Nottingham.
Fiona McAllister: A freelance researcher specialising in sociology of the family and family policy. Worked as a Research and Policy Officer at One Parent Families during 2004–05.
Robert Walker: Professor of Social Policy at the University of Nottingham and a Research Fellow at the Institute of Fiscal Studies.

Funded by the Roger Carlsson Family Foundation
We acknowledge the kind support of the Carlsson Family Foundation for providing the funding for the research and the publication of the report.

Acknowledgements
This report benefited greatly from the input of the Policy team at One Parent Families – in particular Kate Bell and Janet Allbeson. They provided both technical expertise about the workings of the tax credit system, and help in focusing our policy analysis. Thanks are also due to all the lone parents who gave up their time to take part in the study.

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Foreword

Nicola Simpson, Chief Executive, One Parent Families

One Parent Families is very pleased to be publishing this report in conjunction with the University of Nottingham, on lone parents' experiences of the new tax credits system.

The Child Tax Credit and Working Tax Credit were introduced in April 2003 with the intention of helping to reach two crucial Government targets; halving child poverty and having 70 per cent of lone parents in work by 2010. We welcome these aims, and the fact that the new tax credits have delivered substantial extra resources to lone parents and their families. By April 2005, families with children will be on average £1,300 a year better off than in 1997, and families in the poorest 20 per cent, where lone parents often find themselves, have seen average gains of £3,000 a year to date.

But, as this report shows, the delivery of the new tax credits has been problematic. Not only the well-publicised early computer difficulties, but also ongoing difficulties with the administration of a complex system mean that many one-parent families have experienced problems with their tax credit award – 28 per cent of those in our study had experienced an overpayment.

These problems risk frustrating the original aims of the tax credits system, as mentioned above. Our research found that more than three-quarters of respondents repaying overpayments experienced financial difficulties as a result of reduced tax credit awards. Over-rapid recovery by the Inland Revenue of these overpayments also looks likely to diminish confidence in the system and risks undermining its effectiveness as a work incentive.

The research shows that improvements are needed in three key areas:

Communication: The findings show that the Inland Revenue needs to improve both the quality and quantity of its communication with clients to increase their understanding of the system. Over one-third of our sample found the award notice difficult to understand, and while we hope that planned improvements to the award notice will address this issue, more also needs to be done to help current claimants to understand the amount of tax credits they are due. Moreover, when claimants get in touch with the Revenue they need to know that the information they give will be recorded accurately. Many of the lone parents in our sample found that this wasn't the case.

Overpayments: Overpayments of tax credit can arise from Inland Revenue error and this was the case for 80 per cent of those who had been overpaid in our sample. At present, claimants must 'reasonably have believed their award to be correct' in order to have these overpayments written off. With the current difficulties in understanding award notices we believe this requirement should be suspended until newly designed award notices are available. However, overpayments can also arise as part of the normal operation of the system when someone's circumstances change. Given the high rate of hardship experienced by those who were having to repay an overpayment, we believe there is a case for reducing the rate at which overpayments are recovered, to 15 per cent of their maximum entitlement for all those claiming Working Tax Credit, and 10 per cent of their maximum entitlement for those on maximum Child Tax Credit.

The childcare element: The childcare element of the Working Tax Credit provides much needed help with the costs of childcare to around 220,000 lone parents. We were delighted with the increases announced in the Pre-Budget Report to the level of support that will be provided. But the research suggests that the way in which the childcare element works, with parents having to calculate their *average* weekly childcare costs can cause problems. Parents said that they would prefer to report their *actual* weekly childcare costs to the Revenue. However, we realise that this may create a significant additional workload, which the Revenue at present might not be able to cope with. We therefore feel there is a good case for looking more carefully at the supply side funding of childcare – that is, making payments directly to childcare providers.

The tax credits system has the potential to deliver real improvements to the lives of lone parents and their children, and we welcome the substantial extra resources that are being distributed in this way. For the system to fulfil its aims, these resources must be delivered effectively. If the Government is to meet its ambitious 2010 targets for child poverty and lone-parent employment, substantial improvements in this delivery will be needed. We hope that this report will contribute to such improvements.

About the authors

Julia Griggs worked as the Lead Researcher on the New Tax Credit Recipient Knowledge and Awareness project. Prior to that she worked as a Research Assistant at the Centre for Research in Social Policy, and on the Improving Policy Responses and Outcomes to Socio-Economic Challenges (IPROSEC) project, both based at Loughborough University. She is currently completing a Doctorate in Applied Social Science at the University of Nottingham.

Fiona McAllister is a freelance researcher specialising in sociology of the family and family policy. She worked as Research and Policy Officer at One Parent Families during 2004–05. Previous publications include McAllister, F and Clarke, L (2000) 'Voluntary Childlessness: Trends and Implications' in Mascie-Taylor, N and Bentley, G (eds) *Infertility in the Modern World*, Cambridge University Press: Cambridge and McAllister, F (1999) 'Effects of Changing Material Circumstances on the Incidence of Marital Breakdown in Simons, J (ed) *High Divorce Rates; The State of the Evidence on Reasons and Remedies*, no. 2/99, volume 1, Lord Chancellors Department: London.

Robert Walker is a Professor of Social Policy at the University of Nottingham and a Research Fellow at the Institute of Fiscal Studies.

Executive summary

Working Tax Credit and Child Tax Credit together have contributed a considerable increase to the income of some of the UK's poorest families. According to the Treasury's Child Poverty Review, families in the bottom 20 per cent of the income distribution are, on average, £3,000 better off than they were in 1997[1]. However, the problems relating to claimants' reporting of changes, the administrative and systemic problems highlighted in this report, and the consequent hardships created by overpayment recovery, mean that the benefits of the system are in danger of being undermined.

The study involved telephone interviews with 100 lone parents receiving tax credits who were either members of One Parent Families or who called its Lone Parent Helpline between 26 May and 23 July 2004. Although the respondents do not comprise a nationally representative sample of lone parents receiving tax credits, they share many of the same demographic and employment characteristics, as shown in Chapter 2 of the report.

Reporting changes in circumstances

Lone parents generally appreciate the need to report changes in circumstances to the Inland Revenue. However, it is concerning that 40 per cent of respondents did not realise that the Inland Revenue could impose penalties for not reporting certain changes. Few respondents appreciated that where a claim is made jointly by a couple who then separate, both parties are liable to repay overpaid amounts arising from any joint claim. Many lone parents were also unaware of the change in income disregard and therefore that they could increase their earnings without loss of tax credits.

If the tax credits system is to provide optimal support to working families on low incomes, it is vital that innovative publicity strategies are continuously being designed, implemented and reviewed, in order to reach the many different target groups in the claimant population. Therefore, we recommend the following:

- The Inland Revenue should prioritise communication through publicity campaigns relating to eligibility for, and reporting requirements related to, the different elements of Working Tax Credit and Child Tax Credit. The clarity and accessibility of such advisory material must be open to constant improvement. Changes in circumstance that are subject to penalties for non-reporting should be the focus of reminder campaigns.
- The Inland Revenue should seek ways of increasing awareness of the disregard allied to changes in income. This will reduce the burden of unnecessary calls to the helpline.
- When the Inland Revenue is informed by a claimant that they have separated from their partner, a full explanation of their joint liability for any overpayments should be provided. We recommend that the Revenue uses its discretion in order to avoid unnecessary hardship for ex-partners left in sole charge of children.

[1] HM Treasury (2004) *Child Poverty Review*, p34. HMSO: London © Crown copyright 2004

The award notice

The award notice sent out to tax credit recipients in 2003/04 appears to have been too complicated for a sizeable proportion of people (37 per cent of our sample found the renewal notice difficult to understand) to understand easily. Respondents were often unclear as to which elements were included in their tax credit award, and, as a result, felt unable to confirm whether or not their award was correct. We recommend the following:

- The award of tax credit notice should be redesigned, and we welcome the steps put in place by the Revenue recently to do so. It is particularly important that the constituent elements of tax credits are clearly distinguishable, so that claimants have a realistic chance of assessing the accuracy of their award.
- In streamlining the award notices sent out by mail, the Inland Revenue should also attend to the online award renewal facility. This is not currently experienced as user-friendly and if it were improved it could reduce the Revenue's administrative burden as well as improving customer service.

The childcare element of Working Tax Credit

Two-thirds of eligible respondents had experienced changes in childcare costs or circumstances in the last year. Because the cost of childcare varies over the year, respondents often found the calculation of average weekly childcare costs problematic. It is vital that childcare costs are supported adequately if the tax credits system is to meet its central objective – namely to enable low-income parents to stay in work.

The central problem relating to the childcare element is budgeting across the year, when there are, in fact, periods of peak demand, such as school holidays. The solution that would benefit the most claimants is to allow them to report actual childcare costs. As these costs are subject to change, this solution presents an additional burden to an already stressed system, and implementation of this strategy would need careful forward planning.

A more radical response to the issue of meeting the real cost of childcare, is to consider how such support might be provided more simply. Rather than supporting the cost of childcare via parents, money could be channelled directly to nurseries, childminders and other registered sources of care. Claimants would then be relieved of the responsibility of budgeting and the support would be fed directly into the supply end of the childcare equation. Such an approach already works for children aged three to five who are eligible for a subsidy collected by service providers directly from the Department for Education and Skills.

Claimants living in London face a further challenge in finding affordable, accessible childcare. This additional cost is not currently reflected in the childcare element and, as a result, lower-paid working lone parents living in London confront higher financial barriers to entering and retaining paid employment. Therefore we recommend the following:

- The Inland Revenue should increase the resources devoted to the operation of the childcare element. It is essential to have adequate resources of staff and technology to cope with the peaks in demand for childcare and changes of circumstance related to it – ie school holidays. Without such resources, there is a risk that more parents may find the costs of employment too high and the tax credits system would fail in its objective to support working families
- Given the cumbersome nature of a reporting system based on actual costs, there should be an opportunity to consider supply side solutions seriously.
- Metropolitan families face higher costs of childcare, and the possibility of additional subsidy for childcare in London should be examined.

Recovery of overpayments

In the year 2003/04 problems related to the introduction of the new system of tax credits resulted in an unacceptably high proportion of overpayments being made in error by the Inland Revenue. Four-fifths (82.1 per cent) of respondents in our survey who had received overpayments had been victims of administrative mistakes.

A large proportion of respondents had suffered hardship as a result of the recovery of overpayments, and most were unaware of the availability of top-up payments to assist in such circumstances. As a result of our research we make the following recommendations to improve overpayment recovery policies:

- The rules concerning overpayment recovery rates should be simplified, and formulated to take hardship into proper account. We propose that overpayments should be recovered at a rate of 10 per cent for those on maximum Child Tax Credit, and 15 per cent across the board for those on any Working Tax Credit entitlement above the family element. The current rules allow recovery at a rate of 25 per cent for those in entitlement brackets between the minimum (family element only) and maximum (full Child Tax Credit entitlement). In our view, this results in unreasonable hardship and could undermine the tax credits' central objectives of minimising poverty and maximising lone parents' participation in employment.
- We recommend that recovery rates are always capped at 10 per cent and 15 per cent as outlined above. If a new instance of overpayment occurs during the tax year, which would push the recovery rate above these thresholds, recovery must be deferred to the next year.
- The Inland Revenue should conduct a thorough review of reasons for administrative errors leading to overpayments and act on the resultant findings.
- In the light of the problems concerning notices of award and overpayments caused by official error, the condition that claimants should 'reasonably expect to think their award was correct' should be waived for anyone wishing to contest overpayments incurred in the year 2003/04.

- All claimants receiving overpayments should be made aware of the availability of top-up payments – details of how to apply for them should be included in the overpayment recovery notice, and Inland Revenue staff should mention them in any relevant telephone communication.
- Claimants should be notified by Inland Revenue well in advance of any recovery taking place (in order to avoid situations such as Case study 5 in Chapter 4). This notification should include full details of how and why the overpayment has taken place, whether the claimant can contest the overpayment and if so, how.
- An amnesty should be introduced on overpayments incurred during the 2003/04 tax year (as discussed in Chapter 4).
- Claimants should be given the right to appeal against a decision to recover overpayments, and the method and value of that recovery. At the moment, benefit claimants have more rights than tax credit recipients in terms of contesting the appropriate grounds on which recovery is sought, as well as the amount of overpayments through tribunals. The position should be equalized for all those who obtain income from the State.

Further action points for the Inland Revenue and other Government agencies

IT could play a vital role in reducing the complexity of award notices and facilitating recipients' ability to report correctly, IT can play a vital role. With a well functioning computer system in the background, Revenue staff could be relieved of much of the administrative burden of recording changes of circumstance and tax credit recipients could rest assured that the most important changes relevant to their award were automatically logged or flagged up in computer-generated reminders. We recommend the following:

- Where claimants' tax credit awards are affected by events reported to/established by other agencies (for example, registration of a baby's birth; cessation to entitlement to Disability Living Allowance) there should be systemic triggers operating between relevant bodies and the Inland Revenue.
- Good interdepartmental communication should rely on appropriate IT. There are clear intentions and requirements for data to be transferable between departments, but in practice, such plans are dogged by implementation problems (see, for example, the delays in the migration of claimants from Income Support – administered by the Department for Work and Pensions – to tax credits, administered by the Inland Revenue). The improvement of computer linkages between the Department for Work and Pensions and the Inland Revenue is a prerequisite for a 21st century tax and benefit system.

Looking forward

Our research demonstrates that the responsive nature of the tax credits system presents challenges for recipients. The administrative problems of the early days must be adequately resolved in order for the best aspects of the tax credits system to deliver. If this does not happen, the financial advantages and sensitivity of the system to change will be undermined by a loss of faith in the system and the imposition of unnecessary hardship. At every level improved communication is the key: claimants need to report changes accurately to the Inland Revenue, but the Inland Revenue needs to communicate properly with clients in all its dealings with them, in all media and on all topics. In this last respect we urge for adequate staffing of all communication channels; a drive towards clarity in all written documentation; and a commitment to rolling out improvements to the IT systems which underpin tax credits, in order to enhance the ability of lone parents to sustain employment and to avoid periods of undue hardship.

Chapter 1 Introduction to the research

The new tax credits, Child Tax Credit and Working Tax Credit, were introduced in April 2003 and claimants were due to complete their first renewal applications by 30 September 2004. Although research has been conducted to explore the progress of the new system in terms of child poverty,[1] little has been done to consider the success of the 'light touch' system introduced with the new tax credits, relating to the incidence and reporting of relevant changes to the Inland Revenue. This gap in existing research has been highlighted in a report compiled by Whiteford, Mandelson and Millar for the Joseph Rowntree Foundation.[2] The authors conclude that how well the new tax credits responsiveness system works in practice depends on how many recipients both experience and report changes in income and circumstances. So far, little is known about either of these behaviours.

As one of the claimant groups identified as being more likely to undergo change in income and circumstances during the course of a year, lone parents' experience of the new tax credits is particularly pertinent in a study of this kind.[3] Given that their financial circumstances are often constrained, not least because there is not the income of another partner to fall back on, they may be particularly reliant on measures such as tax credits. They may also find it especially hard to meet demands for large repayments of overpaid tax credits. Lone parents also form a significant proportion of tax credit claimants, and the majority of the recipients of the childcare element of Working Tax Credit.[4] This research could therefore be considered a positive step towards bridging the deficit in existing knowledge about the experience of actual changes in circumstance and the reporting of such changes.

In order to conduct this research a sample of 100 lone parents was recruited from the One Parent Families' Lone Parent Helpline and from their members. Respondents completed a questionnaire over the telephone (see Appendices C and D for details of methods and fieldwork tools). The questionnaire explored: the frequency of changes in circumstances and income experienced by lone parents;

- whether they reported relevant changes to the Inland Revenue;
- their awareness of the new system; and
- any problems encountered renewing a claim, dealing with overpayments or the childcare element.

As the new system has just completed its first year of operation and annual awards have been reconciled for the first time, this research is timely.

Background: the tax credit reforms

Tax credits are income-related benefits providing financial support for those in work on a low income and those with children. They were introduced to this country by the first Labour Government in 1999 and were revised in April 2003.[5] Tax credits were designed to address two of Labour's central

1 Howard, M (2004) T*ax Credits: One Year On*, London: CPAG

2 Whiteford, P, Mendelson, M and Millar, J (2003) *Timing it Right? Tax Credits and How to Respond to Income Changes*, Joseph Rowntree Foundation: York

3 Brewer, M, Clark, T and Myck, M (2001) *Credit Where it's Due? An Assessment of the New Tax Credits*, IFS: London, p27

4 Inland Revenue statistics indicate that 113,300 couples were claiming the childcare element in April 2004 compared with 204,400 lone parents. Inland Revenue (2004) Child and Working Tax Credits: Quarterly Statistics, April 2004, Office for National Statistics: London © Crown copyright 2004

5 Both the new tax credits, and their predecessor WFTC, were derived from Family Credit, a benefit introduced in 1988

political objectives: to abolish child poverty by 2020 and to 'make work pay'.[6] This Government has often stated its belief that work is the best route out of poverty, and tax credits are a vital component of its strategy to encourage more people to enter and stay in work, by supplementing the incomes of low-paid workers, who might otherwise have little incentive to move off state benefits.[7]

In October 1999, the Working Families' Tax Credit (WFTC) replaced Family Credit, offering means-tested support for families spending 16 hours a week or more in paid employment, and the Inland Revenue took over administrative responsibility from the old Department of Social Security. The introduction of WFTC is reported to have had a positive impact, both in reducing hardship among working families and in increasing gains of paid work.[8] The new tax credits that replaced WFTC in April 2003 comprise two elements, Child Tax Credit (see Box 1), which is available to families with children (working or workless), and Working Tax Credit (see Box 2) designed to offer financial support to low-paid working adults with or without children.[9]

This latest reform brought about numerous changes to the tax credit system, with perhaps the most significant being a move from a six monthly fixed award (where a new claim was submitted bi-annually) to an annual system that responds to changes in circumstances over the year (see Box 3 for details of reportable changes).[10] This system of responsive tax credits is new to the UK and therefore there is little evidence of how many relevant changes tax credit recipients are likely to experience in a given year, and only limited knowledge of particular groups who may be prone to experiencing multiple changes. The new system relies on recipients' understanding of which changes to report. This is particularly important where there are penalties attached to non-reporting.

Box 1: Child Tax Credit (CTC)

Child Tax Credit is paid in addition to Child Benefit and replaced the child payments in social security benefits, the tax allowance for children and the child component of the Working Families' and Disabled Person's Tax Credits. Most families are entitled to Child Tax Credit, however it is a progressive system so higher amounts are awarded to those in greater financial need. The amount is based on the individual's annual income (or the combined income in the case of a couple), and is paid to the main carer either on a weekly or four weekly basis. For families with an annual income of less than £13,000 the maximum CTC award is paid, and those with a baby (less than 1 year old) receive a higher rate of CTC. The family component of CTC is retained in full until income reaches the next threshold of £50,000. After this income level, the CTC is reduced at a rate of 6.67 per cent (£1 in every £15) and finally disappears at £58,000 or for those receiving the baby addition at £66,000.

Source: Whiteford et al (2003) *Timing it Right? Tax Credits and How to Respond to Income Changes*, Joseph Rowntree Foundation: York, p1 and p14, and Inland Revenue (n/d) *What are Tax Credits?* (www.taxcredits.inlandrevenue.gov.uk/Qualify/WhatAreTaxCredits.aspx)

6 One Parent Families (2003) *Employment and One Parent Families: The Facts*, One Parent Families: London, p12

7 HM Treasury (2002) *The Child and Working Tax Credits: The Modernisation of Britain's Tax and Benefit System*, Paper no. 10, The Treasury: London

8 One Parent Families (2003) *op cit*, p12.

9 One Parent Families, *Tax Credits and One Parent Families: The Facts* (2002) One Parent Families: London, for further details of the new tax credits

10 Howard (2004) *op cit*, p25

Box 2: Working Tax Credit (WTC)

Working Tax Credit replaced the adult component of the now defunct Working Families' and Disabled Person's Tax Credit. WTC can be awarded to childless couples and single people aged over 25 years, as well as families, but with a 30 hours weekly requirement (as opposed to 16 hours per week for those with children or a disability). WTC includes an element intended to meet part of the costs of registered childcare for parents in employment, which is also income assessed. It is payable to households earning up to £30,000 who have spent money on childcare, so will encompass a large proportion of working lone parents. Families with an annual income of less than £5,060 receive the maximum amount of WTC (£1,520). For those with an annual income above £5,060 the maximum amount is reduced by 37 pence per £1 of income. This applies first to WTC, then to the childcare element.

Source: Whiteford et al (2003) *Timing it Right? Tax Credits and How to Respond to Income Changes*, Joseph Rowntree Foundation: York, p13.

In designing the new tax credits the Government undertook policy analysis of systems implemented by both the Canadian and Australian administrations, drawing what they believed to be the most positive aspects of the two quite different tax credit schemes.[11] The Canadian system is characterised as unresponsive to change and the Australian highly responsive.[12] The British ultimately steered 'a course between the two'[13] resulting in a system that the Treasury declares, 'will provide continuity of support for those who are not experiencing significant changes in circumstances or income, with the ability to adjust quickly for those who are facing major changes'.[14]

11 Whiteford et al (2003) *op cit*, p19

12 One Parent Families (2002) *One Parent Families and Tax Credits: The Facts*, One Parent Families: London p10

13 HM Treasury (2002) *op cit*, p22

14 HM Treasury (2002) *op cit*, p19

Box 3: Changes in circumstance

Changes to be reported within three months include:

- a change in the number of adults heading a household (becoming a lone parent or starting a new cohabiting relationship);
- eligible childcare costs ending or reducing by more than £10 a week for 4 consecutive weeks; or
- leaving the United Kingdom permanently, or going abroad for more than 8 weeks (12 weeks if going or remaining abroad because ill, or because a member of the family is ill or has died).

Failure to report these changes may result in a penalty.

Changes that affect a tax credit award include:

- change in income (increased income has a £2,500 disregard);
- change in number of dependent children in the household (ie child leaving school or a new baby);
- change in disability status (adult or child);
- change in working hours; or
- change in childcare provision (costs increase by £10 or more for more than 4 consecutive weeks, changed childcare provider, started using registered childcare).

These changes do not have to be reported within a given time frame (as long as they are made clear at the year-end reconciliation) but may result in an over- or underpayment if not reported mid-year.

Source: One Parent Families (2003) *Benefits and Tax Credits: A Guide for Lone Parents*, One Parent Families: London

The UK Responsiveness System

Prior to the introduction of the new tax credits, income was assessed weekly (in the case of Income Support), or based on income at the time of claim (as in the case of Family Credit).[15] Within the new system income is assessed on an annual basis. The award is calculated on the basis of a claimant's gross annual income the previous year (or in the case of the 2003/04 award, a claimant's gross annual income in the tax year 2001/02).[16] At the end of the tax year, renewal forms, which will include information about income and circumstance changes, are sent out to all tax credit claimants. The information provided in these forms provides the basis for calculating any under- or overpayments in the previous year, as well as informing the calculation of the next year's payments.[17]

Therefore, tax credit awards are pre-emptive: and in some sense the amount stated on the award notice is merely provisional. If a claimant does not report certain changes in circumstance (not including those that must be reported within three months) a final decision on the actual value of their award cannot be made until the year-end reconciliation.[18] This makes people vulnerable to overpayments, or to spending periods of time receiving an inappropriately low payment. For the 3.3 million working families who received awards based on their annual income 2 years prior to their claim, this vulnerability was particularly acute.[19] The provisional nature of tax credit

15 The Tax Credits Act 2002 and The Tax Credits (Claims) (Transitional Provisions) (Amendment) order 2002 No. 2158, dicussed in Howard (2004) *op cit*, p25

16 Howard (2004) *op cit*, p25

17 Whiteford et al (2003) *op cit*, p14, and HM Treasury (2002) *op cit*, p19

18 Howard (2004) *op cit*, p26

19 Howard (2004) *op cit*, p25

awards means that claimants cannot always rely on the accuracy of their payment. For those on a low income this means greater financial insecurity and anxiety, which may result in material poverty.

Reporting changes of circumstance

There are a number of changes in circumstances that must be reported within three months (see Box 3). Failure to do so can result in the claimant incurring a penalty of up to £300. If the number of adults in a household alters (generally by forming or ending a cohabiting partnership) claimants need to notify the Inland Revenue who will then reassess the award. For a newly formed couple, this will be on the basis of the previous year's 'joint annual income', and for a former couple, calculation will now be based on the individual's annual income. Those receiving help with childcare costs will have to notify the Inland Revenue if they stop paying for registered childcare, or if they have a significant reduction (a drop of more than £10 per week for 4 consecutive weeks) in the costs of childcare.[20]

An increase in childcare costs, along with numerous other changes in circumstance (see Box 3) does not have to be reported before the year-end reconciliation. However, any increase in tax credit payment can only be backdated by three months. Therefore, any change that would increase a tax credit award must be reported rapidly for the claimant to receive their maximum entitlement.[21]

There are two types of changes in circumstance that do not need to be reported within a given time frame: those that affect entitlement and those that affect the amount paid. Changes such as becoming registered as disabled, or being removed from the register, affect entitlement to 'elements' of the tax credit award (see Appendix A) and can have a substantial effect on the amount received. Changes in working hours are also important in this respect, as a 16-hour threshold exists as regards entitlement to Working Tax Credit (and the childcare element). Other changes, such as income change, are less likely to affect eligibility to certain elements, but may affect the value of the award, on a sliding scale. Families receive guidance regarding income change on their award notice, so that they can make an informed decision about reporting to the Inland Revenue.

Any rise in household income of less than £2,500 per annum is disregarded under current tax credit arrangements. If an individual or family's income increases by more than this figure, the disregard still applies, and only additional income (above the £2,500 threshold) is taken into account during the reconciliation process. An overpayment made due to an income increase above this level may need to be repaid in the new tax year (unless reported and adjusted mid-year). Those with an income increase below the £2,500 threshold will not be subject to an overpayment recovery, but their new award (in the following tax year) will be based on their new income level.

For those who have experienced a decrease in income, tax credit payments can be adjusted either mid-year or during the reconciliation process, to ensure the claimant receives an appropriate award. An underpayment may be reimbursed to a claimant in a lump-sum payment, whereas an overpayment will typically be recovered by adjusting (ie lowering) subsequent tax credit

20 Whiteford et al (2003) *op cit*, p14

21 Whiteford et al (2003) *op cit*, p14

payments, or, if tax credits are no longer payable, the claimant's previous PAYE code will be adjusted. If no other alternative is found, a lump-sum repayment can be demanded directly from the claimant.[22] Claimants can apply to the Inland Revenue for top-up payments in cases where financial hardship occurs as a result of adjustments or recovery.

Anticipated incidence of change in income and circumstance

In their tax credit proposal document, *The Child and Working Tax Credits: The Modernisation of Britain's Tax and Welfare System*, the Treasury failed to explore the number of families likely to experience changes in circumstance during the course of a year.[23] This could be considered a potentially serious omission, for if an annualised 'light touch' system is to succeed, the proportion of families requiring a mid-year adjustment or facing a risk of overpayments must be known to be small, otherwise the simplicity of the system will be negated.

No adequate exploration of the reporting of changes has been performed to date. This is a cause for concern as existing figures relating to benefit overpayment[24] indicate non-reporting of changes in circumstances in other situations where this is necessary, for example, the formation of new cohabiting relationships.[25]

Estimates of the number of changes of circumstance that claimants are liable to experience during any given year are few. However Whiteford et al (2003) report findings from the *Families and Children Survey* and conclude that 'about 7 per cent of all Child Tax Credit recipients might experience changes in family status during a given year such that they would be required to make a new claim'.[26] The requirement to report a change in the number of adults heading the household may therefore affect a significant number of people.

Conclusion

It would appear that the success of the new tax credit system depends on recipients' understanding of how the system works. They need to know which changes of circumstance to report to the Inland Revenue and when to report them. Claimants without good knowledge of how the new system functions may find themselves vulnerable to 'inadvertent fraud', and have to make substantial repayments of overpaid money.[27] This presents an administrative challenge to the Inland Revenue, and one that they already appear to be struggling to manage.[28] However, the true extent to which the new responsive system has proved successful is explored in our study.

Structure of the report

Chapter 2 situates our sample in the context of characteristics in the national population of lone parents.

22 Whiteford et al (2003) *op cit*, p15

23 Whiteford et al (2003) *op cit*, p16

24 DWP (2000) fraudulent claims studies, discussed in Whiteford et al, *op cit*, p17

25 Whiteford et al (2003) *op cit*, p17

26 Whiteford et al (2003) *op cit*, p16

27 Whiteford et al (2003) *op cit*, p18

28 Howard (2004) *op cit*, p34

Chapter 3 explores the number of changes in circumstance the sample have experienced during the year prior to the interview, as well as which changes have been reported.

Chapter 4 discusses the renewal system, showing the incidence of overpayments, problems the respondents have experienced with the tax credit system, and issues in communication with the Inland Revenue.

Chapter 5 considers awareness of the new responsive system. It attempts to gauge whether the lone parents in the sample knew which changes to report, how much information they have received from the Inland Revenue about the new tax credit rules, and how helpful they have found it.

Chapter 6 offers a ‘picture of childcare’: how much variation lone parents experience during the year, and whether the annualised system has resulted in any difficulties.

Chapter 7 draws conclusions for future policy in light of the research findings.

Chapter 2 Sample demographics

To assess how relevant the findings of this study are for lone parents receiving tax credits, it is necessary to see how our sample compares demographically to the general population of lone parents in the UK. Here we show how they match up to a range of characteristics relevant to those receiving tax credits.

Lone parents in the UK: an overview

The number of one-parent families has substantially increased over the last 30 years, and lone parents now comprise approximately one-quarter of all British families (1.75 million);[1] caring for almost 3 million children. Among this group the fastest growing family type are those headed by never-married lone mothers, who are typically ex-cohabitees rather than single women. A one-parent family is rarely a permanent arrangement and can now be considered a stage in the life-cycle lasting an average of five-and-a-half-years.

Like other mothers, lone mothers find that caring for children affects their ability to take up paid work (just 51 per cent of lone mothers work, compared with 71 per cent of mothers in couples). Without a partner's income and additional support, many lone parents find it necessary to rely on benefits. Most financial help for one-parent families has been provided through means-tested benefit payments, and nearly 35 per cent of lone parents live on gross-weekly incomes of less than £150 (compared with just 5 per cent of married couples and 17 per cent of cohabiting couples). The current poverty marker (drawn at 60 per cent of the median income in the UK) is £175 per week after housing costs for a lone parent with two children, and £131 per week for a lone parent with one child.[2] It is therefore not surprising that almost one-half of all children living in poverty live in a one-parent family – forming a real policy challenge.[3]

Recently, the Government has placed greater emphasis on paid work as a route out of poverty for lone parents. The new tax credit system aims to make employment viable and worthwhile on a larger scale than the old Working Families' Tax Credit.

Lone Parents in the research sample

Gender

- Just 4 per cent of the sample were lone fathers, compared with a population average (all UK lone parents) of 10 per cent.[4] Although lone fathers have lower employment rates than partnered fathers (69.7 per cent compared to 90.9 per cent) they are still more likely to be employed than lone mothers, 51.4 per cent of whom work. The shortfall of men in our sample is probably best explained by the greater earning power of lone fathers, who are more likely to work full time than lone mothers (81.7

1 ONS (2004) *Social Trends*, no. 34, London: Office for National Statistics © Crown copyright 2004, p27

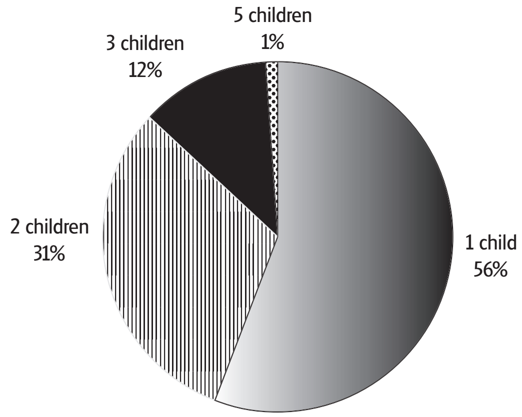
2 Hansard (2004) *House of Commons Debates*, col. 945W, 12 July

3 One Parent Families (2003) *One Parent Families Today: The Facts*, One Parent Families: London, p2

4 ONS (2004) *op cit*

per cent compared with 45.3 per cent), and are therefore less likely to be eligible for tax credits.[5] Another reason for recruiting relatively fewer men may be that they are less likely to use helpline services.[6]

Figure 1 : Number of dependent children in the research sample (%)



- The average (mean) number of children in the families taking part in the research was 1.6, close to the UK population average of 1.7 for lone parents.[7] More than half the families in the sample had just 1 dependent child (56 per cent), 31 per cent had 2 children, and the remaining 13 per cent, 3 or more children (see Figure 1).
- The median age of the eldest child among the research sample was nine years old, the second child seven years old, and the third child six years old. The average (median) age of the child varied according to family size (see Table 1).

Table 1 : Average age of child, or children, by family size, within the research sample

	Number of children in family		
Average age of	**1**	**2**	**3**
Eldest child	5	10	13
Second child	–	6	9.5
Third child	–	–	5.5

- Less than one-half of the sample had children aged under 5 (43 per cent) and just 1 lone parent had more than 1 pre-school child. Once again these figures are close to those in the general lone-parent population, where 40 per cent of lone mothers have at least 1 child aged under 5.[8]

Age

The age of children in one-parent families is related to the age of their parents. In England and Wales, the average age of a mother on the birth of her first child had risen from 23.7 in 1971 to 26.7 in 2002.[9] Therefore we would anticipate that the mother of a school-age child is likely to be aged over 30.

5 These figures are drawn from the Labour Force Survey, Spring 2003

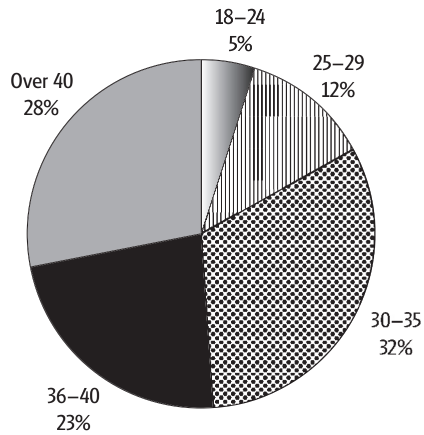
6 One Parent Families (2003) *op cit*, table 4. (Source: General Household Survey 2001)

7 ONS (2002) *Living in Britain: Results from the 2001 General Household Survey*, Office for National Statistics: London © Crown copyright 2002, Table 2.21

8 One Parent Families (2003) *op cit*

The fertility rate for women under 20 has virtually halved over the last 30 years,[10] so the likelihood of recruiting very young mothers to the sample was comparatively low.

Figure 2: Percentage of respondents in each age group

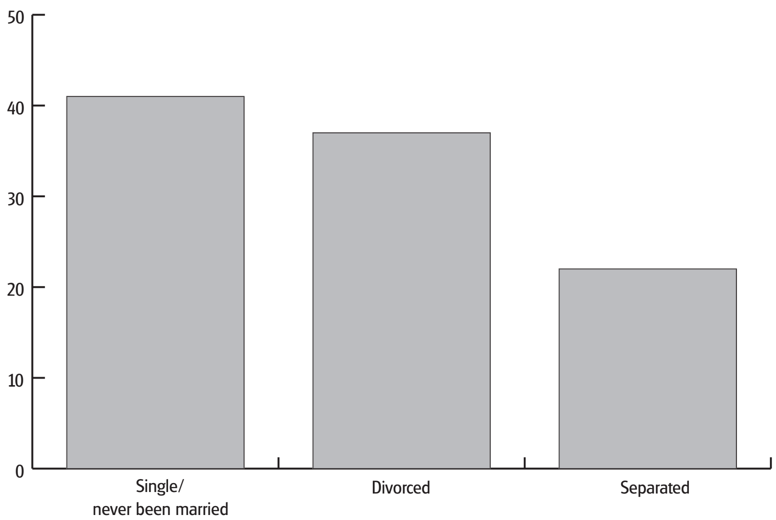


For the purposes of this research respondent's ages have been recorded in 5 categories ranging between 18 and over 40. No under-18s were recruited.

- The smallest group of respondents (5 per cent) were aged between 18 and 24. A clear majority of respondents (83 per cent) were aged over 30 and one-quarter over 40 (see Figure 2). The average (median) age of the lone parent's within the population is 35,[11] and among our sample, 36–40. The majority of lone parents in the sample, therefore, had had their children when in their late 20s.

Relationship status

Figure 3: Relationship status of lone parents in the sample (%)



- Of the sample, 41 per cent had never been married, 37 per cent were divorced and 22 per cent were separated (see Figure 3). This reflects the recent growth in the proportion of never-married lone parents, and the pattern of marital status in the lone-parent population (single 43 per cent;

9 ONS (2004) *op cit*, p27

10 ONS (2004) *op cit*, Table 2.16

11 One Parent Families (2003) *op cit* p5

divorced 32 per cent; and separated 21 per cent). However, 5 per cent of lone parents in the UK are widows, none of whom appeared in our sample. This may be because widowed lone parents tend to be older and wealthier than other groups.

Ethnic origin

Figure 4: Ethnicity within the research sample (%)

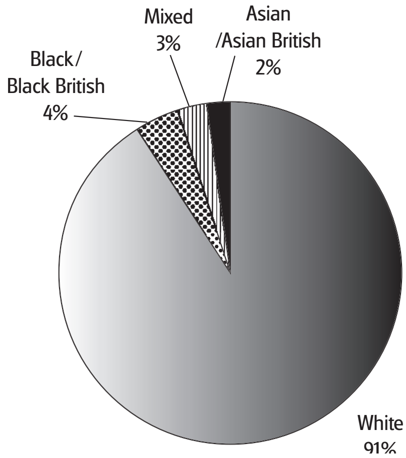
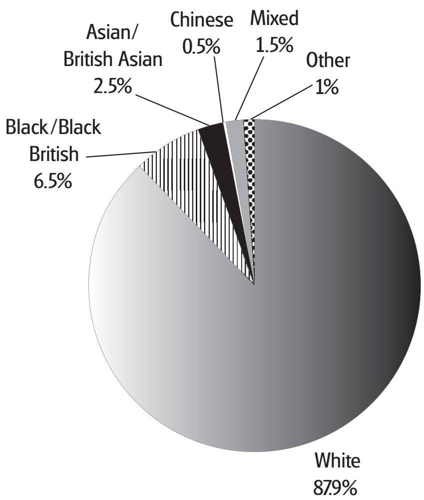


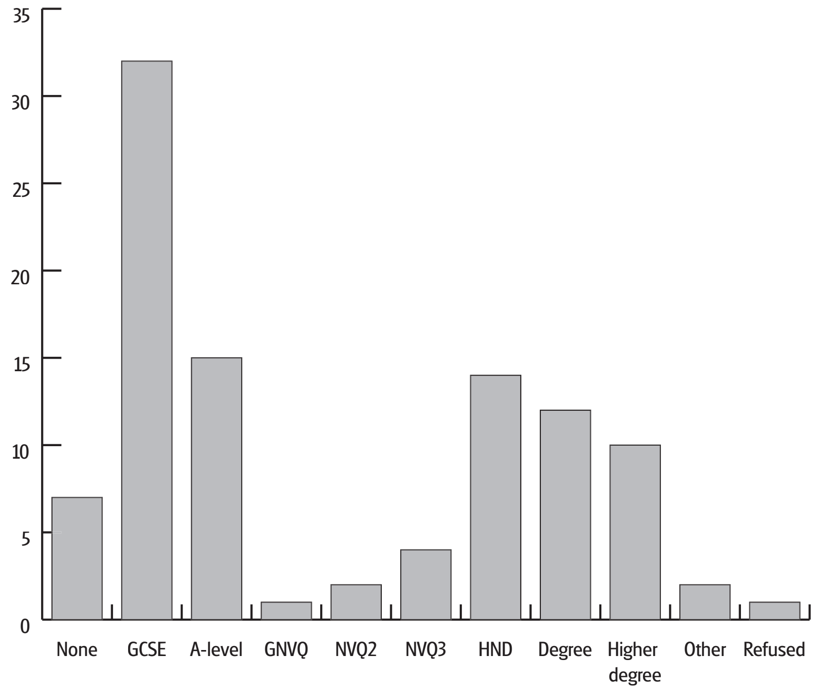
Figure 5: Ethnicity within the lone-parent population (%)



- Of the sample, 91 per cent classified their ethnic origin as white British, with just 9 per cent from ethnic minority groups. Nationally, 12 per cent of lone parents come from black or other minority ethnic groups.

Highest educational qualification

Figure 6: Highest educational qualification of respondents in the sample (%)



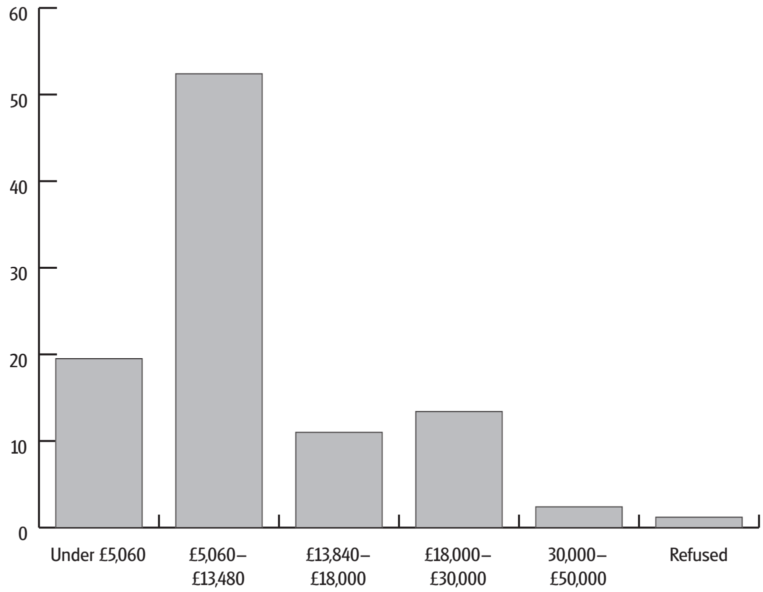
- Educational achievement is broadly spread across the categories (see Figure 6), but the largest proportion of the sample (32 per cent) cited GCSEs as their highest qualification (this includes the 5 respondents with CSEs), while 15 per cent of the sample cited A-levels as their highest educational qualification, 12 per cent had a degree, and 10 per cent a higher degree. 7 respondents had no formal educational qualifications.

Employment

- When compared with the national lone-parent population the proportion of lone parents taking part in the study who were in paid employment was very high (82 per cent compared to 54 per cent). This is almost certainly because many unemployed lone parents had not moved from unemployment benefits to Child Tax Credit at the time of the interview, and would therefore not have been recruited into the sample.
- Of those in paid employment (82 respondents) 91.5 per cent had just 1 job, 3.7 per cent had 2 jobs and 3.7 per cent had 3 jobs. One respondent within the sample had five paid jobs.
- The average (mean) weekly working hours for those in paid employment was 25 hours. The majority (54.9 per cent) of the sample worked between 16 and 30 hours per week, 40.2 per cent worked more than 30 hours and just 4 respondents worked less than 16 hours per week.

Income

Figure 7 : Earned income within the research sample (%)[12]



Of those in paid work[13] more than half earned between £5,060 and £13,480. Nearly 20 per cent earned under £5,060 and a little over one-quarter between £13,480 and £50,000 (see Figure 7). Higher earners were unlikely to be recruited to the study, as they would not qualify for tax credits.

Social economic classification (NS-SEC)

The social class indicator adopted for use in this research piece is the NS-SEC, also used by the Office for National Statistics (ONS).[14] Our sample includes only lone parents who receive tax credits, and would not be expected to match the social class profile of the general population. The contrast is illustrated in Table 2.[15]

12 Figures exclude those not in paid employment

13 The 18 respondents who were unemployed at the time of interview (claiming just Child Tax Credit or a combination of Child Tax Credit and IS) were not asked to specify their earned income

14 NS-SEC is a socio-economic classification based on occupation (coded using the Standard Occupation Classification 2000 [SOC 2000] and employment status). It primarily consists of 14 occupational categories and 3 residual categories that are in turn collapsed into 8 analytical categories Source: ONS, *Living in Britain 2001*, Office for National Statistics: London © Crown copyright 2001

15 Those not in paid employment have been classified 8 – never worked and long-term unemployed in the NS-SEC classification. This class has been excluded from the analysis, but if included there would be a total of 9 NS-SEC classes

Table 2: Social class distribution within the population (Office for National Statistics) and the lone parent research sample[16]

NS-SEC classes	Distribution among the classes – ONS (%)	Distribution among the classes – sample (%)
1.1	4.4	3.7
1.2	7.4	3.7
2	25	24.4
3	13.5	25.6
4	8.8	2.4
5	10.1	0.0
6	17.9	31.7
7	12.9	8.5
Total	100	100

Source for ONS data: ONS (n/d) *How to derive the NS-SEC*, available at http://www.statistics.gov.uk/methods_quality/ns_sec/derive_nssec.asp © Crown copyright

- The largest proportion of respondents (31.7 per cent) was classified as class 6, semi-routine occupations, which includes those working as sales assistants and cashiers within the retail industry, as well as teaching assistants.
- The second largest proportion (25.6 per cent) was classified as class 3, intermediate occupations, due to the comparatively large number of respondents performing administrative roles.
- A similar number of respondents (24.4 per cent) were classified as class 2, lower managerial and professional occupations, mainly healthcare and teaching professionals as well as junior managers.
- None of the respondents in the sample fell into category 5, lower supervisory and technical occupations. This category includes occupations such as construction workers, train drivers and technical crafts where women are traditionally under-represented.

The sample and tax credit claims

In the summer of 2004, 1 year after their introduction, six million families were in receipt of Child Tax Credit and/or Working Tax Credit.[17] Of these families, 2.1 million were single adults with children.[18]

- Although all respondents in the sample should have been receiving Child Tax Credit (as none had an annual income exceeding £50,000) only 96 per cent of respondents reported receiving this credit. The fact that not all respondents reported receiving Child Tax Credit suggests that there may be some confusion about the move from Working Families' Tax Credit, namely that they believe that Child Tax Credit is included within the name Working Tax Credit.
- Similarly, one respondent reported receiving Working Tax Credit when they were not in paid work (hence ineligible), and one respondent employed for more than 16 hours per week and earning less than £5,060 (hence eligible for Working Tax Credit) did not receive it, again suggesting some confusion with the new system.

16 Percentages exclude those not in paid employment at the time of the interview and the one respondent was unable to answer the question

17 Or the equivalent child support through benefits. Figure includes 1.1 million families with children receiving out-of-work benefits but not Child Tax Credit. Inland Revenue (2004) *Child and Working Tax Credits: Quarterly statistics*, April 2004, Office for National Statistics: London © Crown copyright 2004

18 Inland Revenue (2004) *Child and Working Tax Credits: Quarterly statistics*, April 2004, Office for National Statistics: London © Crown copyright 2004, p3

- Income Support was being received by 13 per cent of respondents.

Value of tax credit awards

- The tax credit claimants taking part in the research received an average (mean) of £80.35 in tax credits per week. The payments rose from a minimum of £9.38 per week to £190 per week, and were widely distributed around this average (standard deviation = 42.09).
- Child Tax Credit is more often received on a weekly rather than a monthly basis, whereas Working Tax Credit is more frequently received on a monthly basis. Working Tax Credit was reported as a daily amount by five of our respondents, from which a weekly award figure was calculated.
- The majority of the respondents could remember the amount they received.[19] However, in approximately one-quarter of cases, they had to be prompted by the interviewer. Four respondents were unable to remember the figure despite prompting, which could be taken as an indictor of low awareness.

Conclusion

To conclude, although the lone parents participating in the study do not constitute a random sample of those receiving tax credits, they share many of the same characteristics. We can have confidence, therefore, that the experiences of the lone parents reported below are broadly representative of the population of lone parents receiving tax credits.

19 A note informing respondents that they would be asked the value of their award as part of the questionnaire was included in the letter sent out to respondents recruited from the One Parent Families' Lone Parent Helpline

Chapter 3 Changes in circumstance: actual change experienced

The new tax credits system is quite different from the previous Working Families' Tax Credit system, when a claim was submitted every six months and would last, regardless of changes in circumstance, until the end of the award period. Recipients now find themselves subject to new rules regarding the monitoring and reporting of changes in circumstance. In order for the new responsive system to be truly 'light touch' the proportion of claimants experiencing multiple changes should be low, and the reporting process transparent and simple. We recognised that some respondents – notably those who had not reported changes – may be reluctant to admit to this for fear of information being passed to the Inland Revenue. Interviewers therefore stressed the confidentiality of the survey. As in any study of this kind, the results should be considered with this factor in mind.

Total number of changes in circumstance

The number of changes being experienced by claimants in any given year is liable to affect the success of the responsive system, or at the very least, offer an indication as to the administrative burden faced by the Inland Revenue. Our findings suggest that multiple changes in circumstances are by no means rare. Almost half the sample of lone parents (47 per cent) had experienced between 2 and 7 changes during the year. Only 17 per cent had experienced no relevant change, and the remaining 36 per cent had experienced 1 change.

Changes in circumstance – family

Box 4: Changes in family circumstances

Changes in family circumstances that might affect a tax credit award are:

- having a new baby (CTC claimants become entitled to the baby element of £545);
- a child leaving full-time education (CTC will only be paid for a child up to the 1 September following their 16th birthday if they leave school, but will continue to be paid for 17-18 year olds while they remain in full-time education);
- a partner joining the household so the couple are living together as man and wife, or marry and live together (this must be reported within three months and a new tax credit claim submitted); or
- a partner leaving the household, for example, when a married or cohabiting couple separate and no longer live at the same address (this must be reported within three months and a new tax credit claim submitted).

Changes in family circumstances happen during some of the most important, and often difficult, periods of people's lives. They are also associated with important changes in entitlement in the new tax credit system. Changes in relationship status are subject to strict reporting rules as part of the responsive system, and failure to inform the Inland Revenue of such changes within 3 months can result in a penalty of up to £300. The following statistics present a picture of how often these changes occurred in the sample and whether they had been reported:

- The majority of the sample (80 per cent) had not experienced any changes in their family circumstance during the year preceding the interview, while 17 per cent had only encountered 1 change and 3 per cent had experienced 2 changes.
- A total of 8 respondents (8 per cent) had a new baby during the previous year. All these respondents had informed the Inland Revenue of the birth. The length of time to report varied from straight away (five of the eight respondents) to at the year-end (one respondent); the other two participants reported the birth within three months.
- None of the respondents had a child that had left full-time education during the previous year. This reflects the age of the lone parents in the sample and the patterns of childbearing outlined in Chapter 2.
- None of the lone parents in the sample had formed a new cohabiting relationship within the last year. However, if they had done so and were still living with their partner, they would not have been eligible for inclusion in the study.
- The most commonly experienced change in family circumstance was the end of a cohabiting relationship (found in 15 per cent of the sample). This fairly high proportion may be a result of recruiting from a helpline: people are likely to seek support in a time of crisis when lone parenthood is relatively new.[1]
- Only two of the respondents experiencing relationship breakdown had not reported this to the Inland Revenue within the three-month period; one had reported the change at the year-end, and so may have incurred a penalty and/or underpayment; the other was unaware that she had to inform the Inland Revenue.

Although most respondents were very much aware of the need to report changes in family circumstance there were a few examples of claimants lacking a basic knowledge of the system. This is a cause for concern as claimants entering a new relationship may be vulnerable to 'inadvertent fraud' and liable to pay a fine to the Inland Revenue. Those failing to report a relationship breakdown are missing out on tax credit payments to which they are entitled. It is vital, therefore, that claimants receive clear information on reporting rules.

1 There were 211 requests for the One Parent Families' publication, Splitting Up, from One Parent Families' Lone Parent Helpline callers during June and July 2004. Details provided by OPF helpline coordinator

Changes in circumstance – employment

Box 5: Changes in employment circumstances

Changes in employment circumstances that might affect a tax credit award are:

- change in employment status (claimants must work 16 hours per week or more to be eligible for WTC);
- change in working hours (see above – in addition those whose hours increase to 30 or more may be eligible for the 30-hour element of £640); and
- change in income/wage (changes in earned income above the £2,500 disregard are likely to affect a tax credit award).

Changes in work circumstance radically affect people's lives, particularly if they are entering or leaving employment. Once again the incidence and reporting of these changes plays an important role in the tax credit system. Entering or leaving paid work and any change in working hours can affect entitlement to elements of the Working Tax Credit. Changes in income may reduce or increase the value of the tax credit award (although the £2,500 disregard should prevent the majority of claimants from receiving overpayments as a result of a pay rise). Although none of the changes relating to employment circumstances are subject to the same reporting rules as, for example, moving in with a partner, if an important change is not reported mid-year, tax credits may be substantially over- or underpaid. The following research findings show how many lone parents had experienced and reported changes relating to work:

- The respondents in the research sample were far more likely to have experienced changes in their work circumstance than in any other type of change (family, disability). A little over 40 per cent of the sample experienced 1 change in their work circumstances, 17 per cent experienced 2 changes and the remaining 12 per cent experienced 3 or more changes. Only 29 per cent of respondents did not experience any change, and the majority of these were unemployed at the time of the interview.
- During the previous 12 months 21 per cent of respondents had started paid work, and in each case this change had been reported to the Inland Revenue within 3 months. Some of those interviewed provided additional information about the reporting of this change: one waited until their job became permanent; a New Deal adviser reported the change on behalf of another respondent.
- During the last 12 months 16 per cent of the sample had stopped paid work and all but one had reported the change to the Inland Revenue within three months. The remaining respondent was about to report the change, which had occurred shortly before the interview.
- Changes in their working hours over the last 12 months were experienced by 35 per cent of respondents with 22 per cent doing more hours than they had previously, and 13 per cent fewer hours (see Appendix B).

- Of the 35 respondents whose hours had changed, 14 had moved between Working Tax Credit entitlement brackets (9 increasing their hours and 5 reducing them). Thirty-two respondents had reported the change in their working hours to the Inland Revenue, all but one within three months. Those not reporting the change cited reasons such as 'haven't had time' (one respondent) and 'doesn't push my increased earnings above the income disregard' (two respondents).
- In order to claim Working Tax Credit a person's usual weekly working hours must be 16 or more (which may explain why 3 respondents increased their hours from between 12 and 15 hours to over 16 hours), and in order for a claimant to be entitled to the 30-hour element, they must usually work 30 or more hours a week (6 respondents moved from between 20 and 29 hours to 30). Those lowering their hours in line with these cut off points (five respondents) may potentially have found themselves better, or equally, as well off as when working more hours, with the benefit of having additional time with their children (see Appendix B). This manipulation of hours upwards and downwards probably balances out overall, with lone parents choosing the combination of work and family life which best meets their individual needs.

Case study 1: Rules regarding working hours and proof of employment lack flexibility

A respondent felt that a lack of flexibility could be a problem for lone parents balancing employment and childcare obligations. In order to claim Working Tax Credit, she had to increase her working hours from 14 (2 full working days) to 16 hours per week. This meant that she had to fund additional childcare on the third working day, although fortunately her younger child was soon eligible for a free nursery place. This lone mother had also been undertaking some causal work, but found that the tax credit system could not readily accommodate sporadic and irregular employment. She was unable keep up with the demands for payslips, and eventually decided it to give up this additional work, despite being reluctant to do so (respondent 016).

- A change in their rate of pay had been experienced by 45 per cent of the sample, making this the most frequently experienced change. The amount a respondent's wage altered by which was recorded per hour. Values varied considerably from a reduction of £10 per hour (for a respondent who moved from supply teaching to a permanent contract) to an increase of £3.30 per hour. The majority (almost 70 per cent) experienced a change of less than £1 per hour.
- Change in the rate of pay was the least likely to be reported, reflecting the relatively small changes in earnings in most cases. Of the 9 respondents not reporting the change, two-thirds were earning less than an additional £2,500 per annum, and 3 respondents cited this as a reason for not reporting. The remaining 3 intended to report the change in the future. For those earning more than an additional £2,500 per annum, and who would be advised to report the change mid-year (3 respondents), 2 were planning to report in the near future and 1 believed the income disregard to be £4,000 per annum.

The high number of actual changes experienced reinforces the perception that lone parents are likely to be in relatively unstable employment.

Changes in circumstance – disability status

Box 6: Changes in disability circumstances

Changes in disability circumstances that might affect a tax credit award are:[2]

- claimant starting to receive, or no longer receiving, Disability Living Allowance (DLA) (this will affect entitlement to the disability element of Working Tax Credit – £2,100, and possibly the severe disability element – £890 for claimants receiving the highest component of DLA); and
- child starting to receive, or no longer receiving, DLA (this will affect entitlement to the disability element of Child Tax Credit – £2,215, and possibly the severe disability element – £890 for each child who receives the highest rate care component of DLA).[3]

The Government's regular survey of families and children shows that 29 per cent of lone parents care for a sick or disabled child, and that 5 per cent have 2 or more children with a health problem.[4] Having a child (or children) with a disability or severe health problem presents difficulties in terms of undertaking paid work. Caring responsibilities are greater and suitable formal childcare is both hard to find and expensive. Child Tax Credit includes a disability element and a severe disability element to help parents of disabled children.

- Just 7 respondents (7 per cent of the sample) reported having a disability (2 of whom were registered as disabled and receiving DLA at the time of the interview), and 9 respondents (9 per cent) had a child with a disability. Bearing in mind that most disabilities are long-term, the numbers registering for DLA in a given year are likely to be small. Of the seven respondents with a disability just one respondent had one change in disability circumstances and three respondents had two changes.
- One respondent had seen a change in their disability status over the last year as they had been both removed from the disability register and stopped receiving DLA. This change was reported within three months, and altered the claimant's eligibility for the disability element, although the respondent's disability status remained under investigation when the interview took place.
- Of the nine children with a disability, three had been registered disabled during the last year and two started receiving DLA (while the third child's application was under consideration at the time of the interview). Despite increased eligibility this change was only reported by one claimant. Of the two remaining respondents, one was waiting for the results of both a health investigation and their DLA application, and the other was unaware this change could alter their tax credit award.

Given the particular needs of those living with disabilities it may be helpful for claims to be handled jointly between the Disability Benefits Centre and Inland Revenue. This would prevent individuals living without crucial entitlement

2 Eligibility requirements for the disability and severe disability element are complicated. See Inland Revenue (2004) *Your Tax Credit Award*, www.inlandrevenue.gov.uk/leaflets/tc602_notes.pdf, p7, for further details

3 Details of elements drawn from One Parent Families (2003) *Benefits and Tax Credits: The Guide for Lone Parents*, One Parent Families: London, p53

4 Marsh, A and Rowlingson, K (2002) *Low/Moderate Income Families in Britain: Changes in 1999 and 2000*, DWP Research Report, CDS: Leeds, in OPF (2003) *op cit* p8

because of lack of knowledge of the system. We recommend that cross-agency notification of changes in circumstance is built into the system. Parents of disabled children incur extra expense for specialist childcare and necessary equipment, and it is therefore vital that such families do not miss out on any entitlement. The tax credit system and the systems in other relevant Government departments and agencies must communicate efficiently to facilitate their claims.

Changes in circumstance – childcare

Box 7: Changes in childcare circumstances

Changes in childcare that might affect a tax credit award are:

- the average weekly childcare cost falling to zero, for at least four consecutive weeks; or
- the average weekly childcare cost falling by £10 or more, for at least 4 consecutive weeks.

These changes must be reported within three months, failure to do so may result in a penalty.

The following changes should be reported as soon as possible:

- the average weekly cost rises by £10 or more for at least 4 consecutive weeks;[5]
- claimant changes their childcare provider – the new details should be sent to the IR; or
- WTC claimant starts using and paying for registered childcare (this means they become eligible for the childcare element).

The childcare element is one of the more complex areas of the new tax credit system. Aside from complicated calculations on application, parents must then monitor their spending as part of the responsiveness system. Failure to report a significant[6] decline in childcare costs can result in a financial penalty of up to £300 from the Inland Revenue. During the last year:

- six respondents had started to use registered childcare and hence qualified for the childcare element;
    - The most common reason for starting to use registered childcare was starting paid employment (three respondents). Others had changed working hours or lost a source of informal care.
    - All those starting to use registered childcare had reported the change to the Inland Revenue.
- four respondents had stopped using registered childcare (this includes two respondents who were not claiming the childcare element at the time of the interview) – this change was usually associated with the transition to school, or eligibility for free nursery places;
    - All respondents experiencing this change reported it straight away (the only change discussed in the questionnaire to be reported immediately by all relevant respondents).

5 Any additional money due to claimants due to increased childcare costs can only be backdated three months

6 A significant decline refers to a decrease in costs of more than £10 (this includes occasions when costs reduce to nothing) for a period of 4 or more consecutive weeks

The use and cost of childcare is prone to variation during any given year. This variation can be particularly acute for the parents of a school-age child (or children) during the school holidays, or for parents who have a job where hours are irregular or subject to change:

- Of the 35 respondents who had claimed the childcare element during the last year, 19 respondents (54 per cent) had found that the amount they paid for childcare had varied during the 12 months prior to the interview. For the majority of this group (13 respondents) the costs had increased.
  - Reasons for this change fell into three main categories: those who had increased their working hours (six respondents); those whose childcare provider had put their prices up (five respondents); and those who had changed provider (two respondents).
  - The size of this increase (reported by just 10 of the respondents) ranged from £1.50 per week to a substantial £50.00 (the mean being a weekly increase of £21.25). If sustained over a four-week period all but two of these respondents would be required to report this change to the Inland Revenue
- The remaining six respondents who experienced a change in their childcare costs saw them fall. The value of the decrease ranged from £17.00 to £30.00 per week and averaged £24.33 (although only 3 respondents could remember approximate figures).
  - Costs fell for a variety of reasons. The only one cited by more than one respondent was 'child started school'. Other reasons included changing the childcare provider, no longer using the morning club, generally using childcare less often and receiving a nursery grant when the child turned three.
- Changing childcare costs were reported to the Inland Revenue by 16 of the 19 respondents, with all but 1 reporting the change immediately. The six respondents experiencing a fall in costs informed the Inland Revenue as required within the regulations of the new system. For respondents not reporting an increase in costs, two said that they had not had time, and one that they were waiting until the year-end.

One-third of those who had changed their childcare provider had not reported this to the Inland Revenue. Although this applies to a small number in our study, such under-reporting could prove problematic as the Inland Revenue may check details with the provider named on the renewal form. Claimants who have changed provider may find that their childcare element is stopped because the previous provider has informed the Inland Revenue that they are no longer caring for their child:

- Of the 35 respondents who had claimed the childcare element during the year prior to the interview, 9 had changed their childcare provider.
- Of the three respondents who did not report the change, one had not had time, one was planning to do so in the near future and another had not realised that this change needed to be reported as costs had remained constant.

Total number of childcare changes

When considering all types of change in childcare arrangements, both varying costs and changing providers, we find that 12 respondents (34.3 per cent) had not experienced any changes in their childcare circumstances during the past 12 months; another 11 respondents (31.4 per cent) reported one change, and 12 respondents (34.3 per cent) experienced 2 or more changes in their childcare circumstances in the 12 months prior to the interview.

Again these figures suggest that lone-parent tax credit claimants are experiencing multiple changes of circumstance during the year. The fact that a few respondents are not aware of the need to report a change in provider is something that needs to be addressed directly.

Reporting changes in circumstance

The Treasury has asserted that claimants may be more inclined to report changes if they will benefit financially from them, 'where a change would result in an increased amount being paid out, it is very likely that this will provide sufficient incentive to tell the Revenue and get extra support'.[7] However, the findings of this study do not support this assertion. For example, one respondent omitted to report the end of a cohabiting relationship. Existing statistics indicate that on separation or divorce, mothers and children usually see an average fall in their income of about £20 per week,[8] hence separation will often result in the child/children's main caregiver becoming entitled to new or higher benefits.[9]

Conclusion

Our analysis indicates that many lone parents experience changes in circumstances over the course of the year, and that the new system is positive in so far as it allows changes to be accounted for as they occur. The degree to which the actual volume of reporting matches or exceeds the administrative capacity of the Inland Revenue remains to be seen. It would appear that changes are not being reported in only a minority of cases. It is important that the incidence of failure to report changes is kept low, so that cases of 'inadvertent fraud' are avoided and hardship resulting from adjusted awards is minimised. Effective communication between Government departments and agencies, so that decisions relevant to tax credit entitlement are properly flagged and tracked, is especially important where there is entitlement for family members with disabilities. The smooth running of the tax credits system overall depends on clear information and efficient administration. The next section looks at whether the Inland Revenue has delivered this.

7 HM Treasury (2002) *The Child and Working Tax Credits: The Modernisation of Britain's Tax and Benefit System*, Paper no. 10, The Treasury: London, p20

8 Jarvis, S and Jenkins, S P (1998) 'Marital Dissolution and Income Change: Evidence for Britain', in Ford, R and Millar, J (eds) *Private Lives and Public Responses: Lone Parenthood and Future Policy*, Policy Studies Institute: London

9 It should be remembered that the number of respondents experiencing each of the changes is small, so the resulting statistics only offer an indication of which changes are more likely to be reported – these results may not be reproduced within a wider population

Chapter 4 Renewals, overpayments and problems with the tax credit system

Many administrative problems were experienced during the implementation of the new tax credit system, and these have been extensively documented both in official publications and by the media.[1] It is not the aim of this research to explore these, but rather to discover how lone parents communicate with the Inland Revenue; how recipients are managing the renewal process; how many respondents have received overpayments during the first year, and what impact this has had on their financial circumstances.

Communication with the Inland Revenue

The Tax Credit Helpline

The Tax Credit Helpline provides information and advice to claimants of Child Tax Credit and Working Tax Credit, as well as offering them a 'quick and simple' way to report changes and renew their award. Respondents' experiences of the Helpline include the following.

- Of the lone parents in the study, 71 per cent had used the Tax Credit Helpline.
- The most commonly cited reason for calling was to enquire about or report a change in circumstance (29.6 per cent). Numerous other calls were made regarding mistakes in award notices (19.7 per cent) and for help completing forms (18.3 per cent). Other reasons (cited by 16.9 per cent of the sample) covered a variety of different issues including telephone renewal, and to inform staff that tax credit information was being sent to an ex-partner's address.
- Difficulty using the service was experienced by 58 per cent of those using the Helpline. Most frequently, calls were not answered, but other common complaints included staff being unclear regarding the query and questions not being answered adequately.

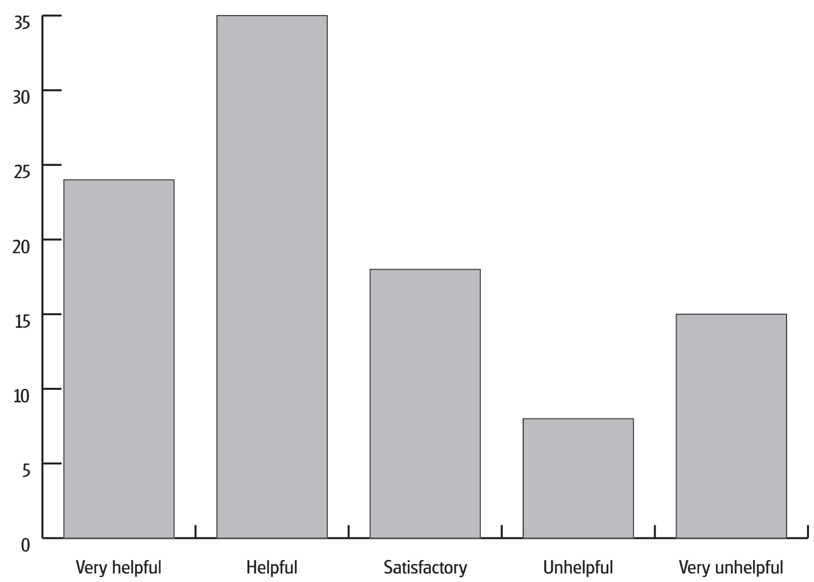
Case Study 2: Helpline unable to respond to concerns about future entitlement

This claimant was concerned that she would lose the childcare element of Working Tax Credit when her youngest child started school. She was unsure whether she would be able to continue in paid employment without this award. In an effort to find out what her childcare entitlement would be when her child started school, the respondent had made numerous calls to the Helpline, and found some staff helpful, but the query remains unresolved. The respondent was simply told to report the change as and when it occurs, at which point the elements she was entitled to would be confirmed (respondent 079).

1 Wikeley, N (2004) 'The New Tax Credits and Appeals', *Benefits*, no 39, vol 12, p22

- There were a small number of respondents who commented on how the Helpline had improved dramatically in the weeks prior to the interview. This was particularly true in terms of being able to get through to a member of staff.
- Despite the high proportion of respondents experiencing difficulties, when asked to rate the overall helpfulness of information and advice provided by Helpline staff, interviewees were positive. The rating given by the largest proportion of respondents was 'helpful' (see Figure 8).

Figure 8: Helpfulness of information and advice provided by Inland Revenue Helpline staff (%)[2]



Case Study 3: Initial payment of tax credit awards delayed by a substantial period of time/Inland Revenue response poor

The lone parent had contacted the Tax Credit Helpline on numerous occasions. She found the Helpline staff unhelpful, and also commented that staff seemingly gave prepared answers rather than responding to her particular query. In addition she had difficulty getting through to the Helpline and was put on hold for lengthy periods of time. She had written to her local tax credit office on several occasions but had never received a reply. Progress was made by visiting the tax office in person (on a total of five occasions) – a staff member eventually checked the respondent's bank details and discovered the wrong account number had been entered into the database (respondent M018).

Other methods of contacting the Inland Revenue

- Of those in the sample, 11 per cent had written to the Inland Revenue, 2 per cent had phoned their local tax office and 9 per cent had visited their local tax office or tax credit centre in person.

2 Percentages relate only to the 71 respondents who reported using the Helpline.

- Less than half the sample had used the tax credit website (39 per cent), but of these respondents almost half had experienced difficulties. The most commonly cited problem with the online service was technical difficulties (reported by one-quarter of users), but interviewees also commented that the site and online forms were difficult to use, and that they were unable to find the information they required.

Renewals

- The majority of the sample (91 per cent) reported having received their annual renewal pack from the Inland Revenue when contacted for their research interview (between 22 June and 26 July 2004). Of the nine remaining respondents, two were unsure whether their renewal pack had arrived or not.
- Of those who had received their renewal form, 58.2 per cent reported no difficulties with either the form or the notes, 37.4 per cent cited problems with their renewal pack and 4 respondents had yet to read the form. The most frequently reported difficulty was that the renewal form was too complicated. A number of respondents found the notes difficult to understand and the instructions for renewal unclear.
- A number of interviewees reported more specific difficulties. For example, 1 respondent received a total of 11 different renewal forms within a 2-week period (see Case study 4 below), another simply could not find the time to sit down with the form and concentrate on checking and completing it. A further five reported a mistake recorded on their forms. In total, 23 interviewees experienced multiple (2 or more) problems with their renewal packs.

Case Study 4: Renewal difficulties and maladministration

One respondent had to give the Inland Revenue the same information a total of eight times while attempting to obtain renewal of her award (which was done over the telephone when she rang to report a change in circumstance). The respondent received eight assessment forms during one week and three the following week. The value of her award fluctuated during this period from zero to far higher than required, and at one stage the Inland Revenue told the claimant that she had made a false claim because she did not have a child. These difficulties had finally been resolved a week before the interview. The respondent is now waiting for the Inland Revenue to confirm that she has not received an overpayment (respondent M028).

These findings indicate that simplification of the renewal pack should be a priority for the Inland Revenue.

Online renewal

Online renewal offers a new means of renewing a tax credit claim. However only a minority of respondents participating in this research appear to have been able to utilise the service:

- fifteen interviewees had registered for the tax credit online service:
  - of these respondents, only three had renewed (or were planning to renew) their claims online.
- reasons given by those registered for not using online renewal, included preferring the paper-based system, having problems with the online service and no longer having access to a PC.

Alongside Government measures to improve lone parents' access to ICT (and increase computer skills) the Inland Revenue should improve the tax credit website, to make it easier to navigate and use.

The relationship between problems with renewal and changes of circumstance

Those respondents who had not experienced changes in circumstances during the previous year are least likely to report problems with their renewal. Only one interviewee who had read their renewal details and had no changes in circumstances, reported any problems. This was a simple lack of clarity concerning the need to return the form.

For those experiencing more than two changes in circumstance, almost half the respondents (who had both received and read the renewal form) reported problems with their renewal. The two most frequently cited problems were that the form was overly complicated and that instructions for renewal were unclear.

The annual renewal system may therefore lead to greater difficulties for those who experience multiple changes. This underlines the need for awards to be clearly documented.

Overpayments

Previous research argues that 'overpayments are an important and inevitable feature of the move to an annual assessment of incomes'.[3] Claimants who have been overpaid have to repay the excess on their award. The Inland Revenue use the term 'recovery' for the repayment of overpaid amounts. Summer 2004 was pinpointed as a time when claimants would face a significant risk of a reduced award as a consequence of overpayment.[4] Among our sample, 28 per cent of the respondents informed the interviewer that they had received a tax credit overpayment, while a further 5 per cent were awaiting confirmation of overpayment when the interview took place.

Respondents most likely to have received an overpayment were those in paid employment, with an earned income of between £5,060 and £18,000 per year. This suggests those with a more complex tax credit award (combining Child Tax Credit and Working Tax Credit), are more likely to experience an overpayment.

For 23 respondents (82.1 per cent of those who had been overpaid) the overpayment had occurred due to an error in Inland Revenue calculations, and this mistake had been reported to the Inland Revenue. This high figure

[3] Howard, M (2004) *op cit* p33

[4] Howard, M (2004) *op cit* p33

is a serious symptom of the administrative problems which plagued the implementation of the new system.[5] Of the remaining five respondents, four reported that they had failed to report changes in circumstance, and the final interviewee was unsure why overpayment had occurred.

The following information and figures relate to the 28 respondents who had been told that they had received an overpayment.[6]

Overpayments were most frequently discovered by the claimants themselves (11 cases, 39.3 per cent). This was usually through checking bank statements and finding a larger than expected deposit from the Inland Revenue (one respondent commented that £1,000 had been credited to her account). One-quarter of respondents had received an award notice that showed recovery, and just over one-quarter had been contacted by the Inland Revenue to inform them of the overpayment in the first instance. One respondent received notification from the Inland Revenue that they had been overpaid only after making enquiries as to why her tax credit payment had stopped see Case study 5 in this chapter.

The Inland Revenue had either recovered the overpayment or had informed the claimant that recovery would take place in the future, in all but two of our cases. The method of recovery the Inland Revenue had selected for 25 out of 26 overpaid claimants was a reduced award. Only one respondent saw their award stop temporarily (see Case study 5 in this chapter).

More than three-quarters of respondents making repayments reported financial difficulties as a result. The most commonly reported problems were not being able to pay utility bills and general difficulties with day-to-day living expenses. Other respondents reported more specific difficulties that included having to give up work, having to borrow money, not being able to buy children clothes and shoes, and having to move house.

When asked whether they had applied for top-up payments, approximately two-thirds of the interviewees replied that they didn't know that they existed. Only one respondent had applied and their application had been rejected. The remaining respondents didn't want to build up further overpayments; had found a preferred alternative (ie borrowing from a relative), or, didn't qualify because they were already repaying an emergency payment.

Box 8: Recovering overpayments

In the social security system money will generally not be recovered unless the claimant has failed to disclose important information, or has misrepresented it. The tax credit system is quite different. The Inland Revenue has powers to recover overpaid amounts, regardless of why the overpayment occurred. However, in instances where the Inland Revenue has made a mistake, and the claimant might reasonably believe their award is accurate, recovery should not take place. A right of appeal does exist, but claimants cannot contest Inland Revenue decisions to reclaim overpaid money, the method, or value of that recovery. Overpayments can be recovered from one or both partners if the claim was made jointly, thus problems may emerge if a couple separate as they are both held responsible for an overpayment (see Case study 6).

Source: Howard, M (2004) *Tax Credits: One Year On*, CPAG, pp34–5

5 Howard, M (2004) *op cit* p34

6 A filter was placed on the dataset using the 'select cases if' function in SPSS in order to isolate respondents who had reported receiving an overpayment

Box 9: Rates of overpayment recovery

The maximum amount by which the Inland Revenue will reduce payments to recover overpaid tax credit from the previous year are:

- 10 per cent reduction of future awards for claimants receiving the maximum amount;
- 100 per cent for claimants receiving only the family element of the Child Tax Credit; and
- 25 per cent for all other claimants, except in certain circumstances.

Source: Inland Revenue (2004) *What Happens If We Have Paid You Too Much Tax Credit?* p6, available at http://www.inlandrevenue.gov.uk/leaflets/cop26.pdf

Case study 5: Administrative failure in a complex case

This respondent was well informed about the tax credit system and made every effort to inform the Inland Revenue about difficulties she was experiencing with a complex claim. Her award notice did not separate out the different elements of tax credits to which she was entitled, and as she had more than one child, was working, and had a severe disability, it was hard to check that her award was correct. She noticed that Child Tax Credit for her eldest child had been omitted and that she had received an overpayment on her overall award.

She had contacted the Helpline on numerous occasions, in an attempt to solve difficulties with her award or to report changes affecting it, and found the majority of the staff to be angry and short tempered. They were unable to answer her queries and consistently left inaccurate information about her claim in the tax credit database when she had contacted them to change it. She was very worried that this might lead to a further overpayment and contacted the tax credit head quarters in the Inland Revenue, who failed to reply to her letter. When the Inland Revenue started to recover overpaid tax credits they did not contact her in advance and a letter arrived only after her payments had stopped. This decrease in her income had led to a difficult financial situation – she was unable to pay bills, or buy her children new shoes and clothes. Although she was able to survive this period of hardship, she felt the situation had been handled badly by the Inland Revenue.

This respondent had experienced a number of changes in circumstance over the course of the year. Her working hours had changed twice and so had her childcare arrangements (the costs had first reduced and then increased). Although these changes had been reported in detail it is possible that they may have led to her overpayment, through inaccurate or confused record keeping at the Inland Revenue (respondent 071).

Case study 6: Joint responsibility for tax credit awards can cause hardship when couples separate

The respondent had recently separated from her husband and was unaware that he had been claiming Working Tax Credit since leaving the family home. He incurred an overpayment on his award, and this resulted in her Child Tax Credit being reduced. The Working Tax Credit recovery taken from her Child Tax Credit award resulted in serious financial difficulties for the respondent and her children. She had particular difficulties paying utility bills and meeting day-to-day living expenses. She was also concerned that Inland Revenue staff had suggested that she get her husband to reimburse her directly. She was made aware of top-up payments, but her claim was denied, resulting in continuing hardship (respondent M018).

Case study 7: Overpayments cause problems even when the Inland Revenue is at fault

This respondent had received an overpayment of £700, due to an Inland Revenue error. The claimant uncovered the mistake, and she attempted to resolve it through a lengthy and complicated process involving large amounts of paperwork. As a result of these difficulties she had experienced financial insecurity and periods of hardship during which she had found it necessary to borrow money in an attempt to keep up with bills and day-to-day living expenses. She was unaware that top-up payments existed, and so had been unable to claim for them (respondent M003).

Box 10: Additional payments for hardship (top-up payments)

'If the Inland Revenue agrees that an overpayment was made because of an official error, or that reducing/stopping the award will lead to hardship, it has the discretion to make additional (or 'top-up') payments. The Inland Revenue has listed factors that it would expect to take into account in determining how, and what time to give someone, to repay. These include living expenses, bills, savings, previous payment history, and whether there is a child under five or a sick or disabled person in the household whose health could be affected. But, in practice, hardship is not always accepted.'

Additional payments can be made at 90 per cent or 70 per cent of the full entitlement. If someone is only receiving the family element, no such payments are made. Top-up payments are likely to be regarded as overpayments at the end of the year. The onus is on individuals to say they are in hardship; so much depends on the quality of information available to the individual claimant.'[7]

Source: Howard, M (2004) *Tax Credits: One Year On*, CPAG, p36

[7] This is assuming that claimants are aware of the availability of top-up payments, as the IR have only awarded them extremely limited publicity – One Plus (2004) *Benefits Newsletter: February 2004*, available at www.oneplus.org/downloads/BenefitsNewsletterFeb.doc

The relationship between overpayments and changes of circumstance

Table 3 clearly indicates a relationship between the number of changes in circumstance experienced over the year and overpayments. The data illustrate that those respondents experiencing changes in their circumstances are almost three times as likely to have received an overpayment. Again, claimants who have less stable circumstances are most vulnerable to overpayments, and the resulting financial difficulty and insecurity.

Table 3: Number of changes in circumstance and overpayments – crosstabulation

Total number of changes in circumstance	Ever received an overpayment (%)			
	No	Yes	Possibly/ not sure	Total
None	15	2	0	17
	88.2	11.8	0	100
1	26	10	0	36
	72.2	27.8	0	100
2–7	26	16	5	47
	53.3	34	10.6	100

Case study 8: Other problems with overpayments

A respondent highlighted difficulties that emerged because the Legal Aid Board counts tax credit awards as income. She needed legal advice because of a child custody dispute with her ex-partner, but did not qualify for Legal Aid because the award took her above the threshold of eligibility. This led to extreme anxiety and financial strain when her ex-husband attempted to gain legal custody of the children (respondent M026).

Policy recommendations

Given these findings it would appear that the annualised tax credit award system can cause problems for those experiencing multiple changes in circumstance during the award period. As well as overpayments, claimants whose circumstances change frequently may be vulnerable to periods of underpayment, and the overall problem that their award may lag behind the actual changes experienced.

Our research raises the question as to whether the annual assessment method is always appropriate, as budgeting continues to be done on a weekly basis by most claimants. An underlying objective of the system is to encourage more long-term budgeting behaviour, but realistically this will take time. For those who experience multiple changes in circumstance while managing on a low income of which tax credits form a vital part, it is asking a lot to budget across the year and to save in times of high entitlement to compensate for periods of lower entitlement (if, for example, childcare costs change, or income fluctuates seasonally). Moreover, many changes of circumstance are not readily predictable and it is difficult to adjust budgets that are already tight, in order to accommodate the recovery of overpayments.

From our own research we can see that claimants have been put under serious financial pressure by the Revenue's overpayment recovery policy. We recommend that further attention is given to the rate at which recovery payments are collected, so that fewer lone parents are pushed into hardship. This is especially necessary in cases where overpayments have occurred due to the Revenue's own errors. Certainly no such recovery should penalise claimants by causing financial hardship.

Evidence gathered by the Child Poverty Action Group concerning overpayment recovery to date has led them to call for an amnesty on overpayments accrued by tax credit claimants in the 2003/04 tax year (with the exception of those caused by recipient fraud).[8] This was tabled in December 2003,[9] and remains under consideration.[10]

Many lone parents experience severe financial hardship during the overpayment recovery period, and most are unaware of the availability of top-up payments. Claimants should be made fully aware of how to apply for top-up payments. In addition, those who have received an overpayment due to an Inland Revenue error should be properly informed of their right to contest repayment. Likewise, the rules concerning the right to appeal should be extended, so that claimants are able to contest Inland Revenue decisions to recover overpaid amounts, and the method and value of that recovery.

[8] Howard, M (2004) *op cit* pviii

[9] One Plus (2004) *Benefits Newsletter: February 2004*, available at www.oneplus.org/downloads/BenefitsNewsletterFeb.doc

[10] DTI and DWP (2004) *Tackling Over-indebtedness Action Plan 2004*, available at www.dti.gov.uk/ccp/topics1/overindebtedness.htm

Chapter 5 Awareness of the responsive system

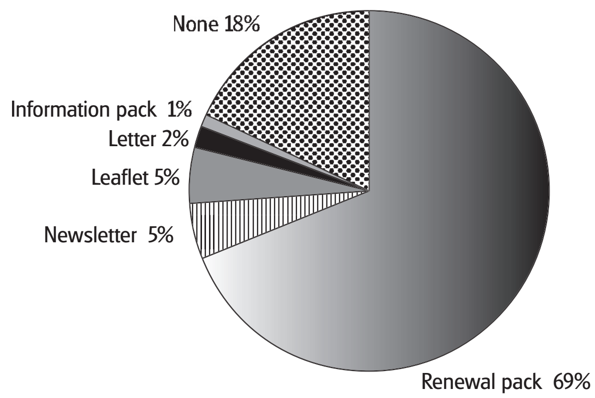
To date, little research has been conducted to explore claimants' awareness of the new tax credits' responsive system. However, research has examined claimants' awareness of the old Working Families' Tax Credit and this forms a useful backdrop to our study.

Stephen McKay's research for the Department of Work and Pensions explored Working Families' Tax Credit claimants' awareness of the fixed nature of the award[1] (namely that Working Families' Tax Credit could not be altered mid-year if a claimant's circumstances changed). Findings indicate that awareness was high among Working Families' Tax Credit recipients, with 79 per cent knowing that their current award would not be affected by an increase in income. However, a high level of awareness of the fixed nature of the previous award may indicate problems adjusting to a responsive system. Claimants moving to the new tax credits must completely alter the way they respond to changes in circumstance. The following findings offer an indication of how much respondents in our study knew about the reporting of changes and other aspects of the new system.

Information received about responsiveness

The questionnaire explored what information respondents had received about the responsive system. This would no doubt be integral to the development of knowledge regarding which charges need to be reported and when to do so.

Figure 9: Information received about the reporting of changes in circumstance (%)



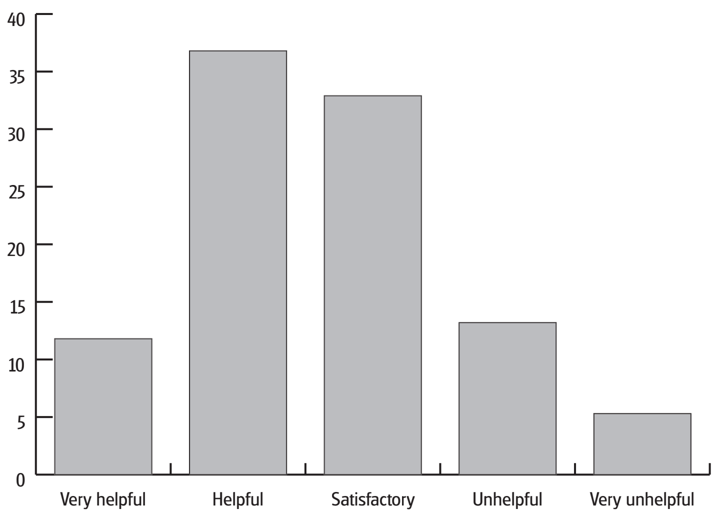
- The majority of respondents reported receiving only the information contained within their renewal pack (69 per cent). A further 13 per cent had received other forms of communication (see Figure 9).
- Almost one in 5 respondents (18) reported receiving no information at all. Thirteen respondents in this group *had* received their annual renewal packs, which contain a booklet about changes in circumstance

[1] With few exceptions Working Families' Tax Credit awards lasted for six months, irrespective of any changes in circumstances. Any increases and decreases in net earnings did not affect the level of the award. McKay, S (2002) *Low/Moderate-income Families in Britain: Work, Working Families' Tax Credit and Childcare in 2000.* DWP Research Report No.161. Leeds: CDS

and when to report them. This indicates that although claimants receive information, they do not necessarily know what information they have available to answer any future queries.

- In contrast, 23 per cent of the sample reported receiving 2 or more different types of information about the reporting of changes. All bar one of these respondents had experienced a change in circumstance during the previous year. The information may therefore be sent as a result of a mid-year assessment, or these respondents may simply be more likely to remember the information, as they needed to refer to it when changes in circumstances occurred.
- The rating most commonly given to information about the reporting of changes in circumstance was 'helpful', although a comparatively high proportion of respondents gave neutral or negative ratings (see Figure 10).

Figure 10: Respondent rating of Inland Revenue information about reporting changes in circumstance (%)[2]



NB: Figure excludes respondents who had either not received, or not read, information provided by the Inland Revenue.

This mixed response in ratings is reflected in the difficulty claimants had with the information provided, with 35 per cent of those who had both received and read the information about the reporting of changes encountering problems with it. The majority of these respondents (53.6 per cent) found the information unclear, nearly 20 per cent found the system too complicated, and 15 per cent thought it was too long. Others reported difficulties in finding the time required to read all the information, with one complaining that it was too vague and another that it appeared contradictory.

Awareness

Respondents were asked five questions designed to provide an indication of their awareness of the new tax credit system. The first question was divided into two parts; each part designed to gauge awareness of a different aspect of reporting changes in circumstance (see Box 11).

[2] Figure excludes respondents who either hadn't received or read information provided by the Inland Revenue

Box 11: Methodological note: measuring awareness

The following two-part question was included in the awareness section:

'(Part 1) What type of changes in circumstances do you think you need to report? Just tell me all the ones you can remember (circle all mentioned).'

'(Part 2) Now I'm going to list some changes – just tell me whether you feel they should be reported or not (Read out options not mentioned in Part 1 requesting a yes/no answer – circle for yes). '

In the first part of the question changes mentioned by respondents were marked off against a list of changes cited by the Inland Revenue as needing to be reported. Part 2 entailed reading out a list of changes that may or may not need to be reported. This list contained a number of 'false changes'; changes not mentioned by the Inland Revenue as needing to be reported (these are listed below):

- buying a pet;
- elderly parent coming to live with you;
- child changing schools;
- lending money to a friend or relative; or
- becoming pregnant.

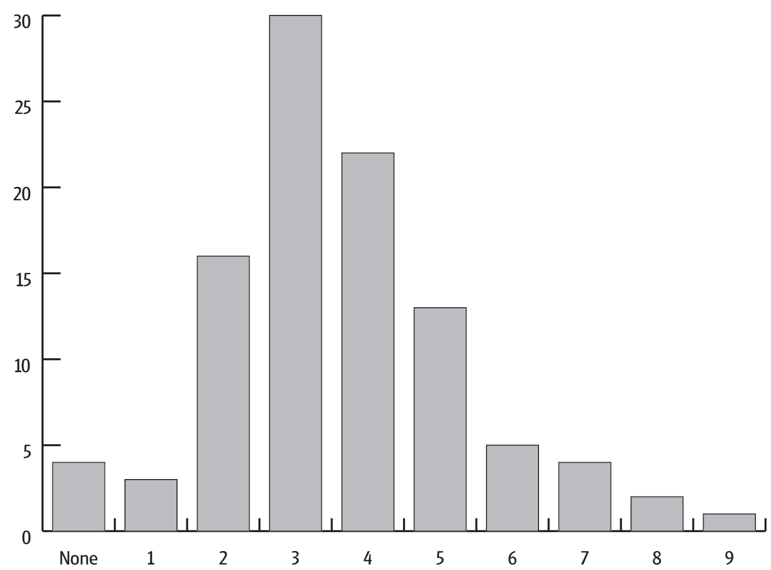
It was hoped the inclusion of these questions would improve the measure of awareness and prevent automatic positive responses.

Although originally Part 1 was included on its own, during the design and piloting stages researchers became aware that respondents were finding this question difficult, and listing changes from memory was liable to produce biased results (heavily influenced by the strength of a respondent's memory rather than actual awareness). It was therefore decided that Part 2 would be added to gain a more balanced measure.

Changes cited from memory

None of the respondents remembered all 11 changes on the list, and the number of changes cited ranged from zero to nine (see Figure 11).

Figure 11: Number of reportable changes cited from memory (%)

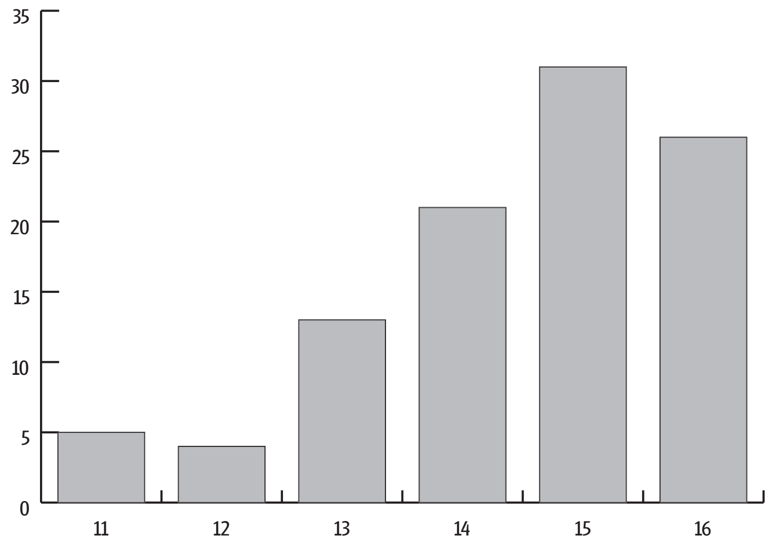


The average (median) number of changes remembered was three. Changes most likely to be remembered were 'change in income' (76 per cent), 'change in working hours' (72 per cent), 'starting or leaving paid work' (54 per cent) and 'starting or terminating a cohabiting relationship' (51 per cent). Changes least likely to be remembered were 'start or stop receiving DLA' (3 per cent), and 'child starts or stops receiving DLA' (4 per cent).

Number of listed changes answered correctly

The median number of listed changes answered correctly was 15, of a possible total of 16. The scores ranged from a minimum of 11 to a maximum of 16 correct answers, however, 26 per cent responded correctly to all listed changes.

Figure 12: Number of listed changes answered correctly (%)



The changes most frequently answered incorrectly came from the group of 'false changes'. 'Becoming pregnant' was answered incorrectly by half the sample, and 'an elderly parent coming to live with you' was answered incorrectly by 42 per cent of interviewees. Respondents who stated that they would report more changes than actually required are less likely to be at risk from overpayments than those who under-report. However, over-reporting may indicate anxiety concerning the responsive system and can lead to administrative confusion (see Case study 5 in Chapter 4). There was some indication that the 'false changes' were not entirely successful in preventing respondents from simply answering 'yes' to all the changes listed, as 3 per cent of the sample cited that they would inform the Inland Revenue if they bought a pet.

Of the changes that do need to be reported, those most frequently answered incorrectly were 'moving house'[3] (8 per cent) and 'dependent child becoming registered disabled or removed from the register' (7 per cent). Reasons for this might be that the relationship between moving house and a tax credit award

[3] Moving house is not a change that the Inland Revenue highlight in information about the reporting of changes in circumstance, although clearly it is a change that needs to be reported if tax credit information is to reach the claimant. However, this change is more a matter of common sense than awareness of the tax credit system, and it is the only change not discussed elsewhere in the questionnaire

is not immediately obvious and that many parents interviewed would not have considered the disability element of the tax credit award, because it simply does not (and may never) apply to their own circumstances.

'Starting or leaving paid work' was answered correctly by all respondents, and 'no longer using childcare', 'change in childcare costs', 'new baby', 'child leaving home' and 'change in income', were answered correctly by all but one respondent. Two respondents said they would not report 'starting or terminating a cohabiting relationship' despite the fact that failure to report this change incurs a penalty of up to £300.

Awareness did not appear to be strongly related to respondent demographics. However, employed respondents, with incomes of between £5,060 and £13,480, displayed a moderately higher awareness of the responsive system than other members of the sample. This is probably because respondents with more complex tax credit claims (also those more reliant on tax credits to supplement a low income) are more likely to have had to absorb the requirements of the system in order to understand and monitor their own award.

There were three further questions in the survey designed to measure awareness, the first of which comprised two components. The first part of this question asked respondents simply whether they were aware of the income disregard,[4] and the second asked them to state the amount by which they believed a claimant's income could increase without affecting their tax credit award during that tax year (hence avoiding overpayments or a mid-year adjustment). Less than half the sample (43 per cent) was aware of the income disregard. This suggests that this element of the tax credit system has either not been sufficiently publicised, or understood by claimants.

Only 12 respondents (12 per cent) were aware (or could remember when prompted) the amount by which a person's income could increase without affecting their award of these only a little over one-quarter cited the correct figure. Eighteen per cent could not provide a value, and just over half cited incorrect amounts ranging from £520 to £4,000.

Some respondents were unaware of the correct amount for the income disregard did know at what level of income their own award would change. This figure is given in a claimants' renewal pack. People are often more knowledgeable about their own circumstances than regarding general rules. Similarly, the correct amount of income disregard was cited by a greater proportion of those whose income had risen in the previous year, compared with those whose income had remained stable or fallen (a ratio of approximately 1:5 compared with less than 1:10).

We also asked respondents whether they were aware that failing to report changes of circumstance might result in a financial penalty or a reduced award in the following tax year. While the majority of respondents reported that they were aware both that penalties could be charged and that a tax credit payment could be reduced in the future, it is striking that 39 per cent did not know about penalties and over one-quarter of respondents (28 per

[4] Any increase in income of less than £2,500 per annum will not affect a claimants tax credit award (and will not result in an overpayment), although the new, higher income will be used as a basis for calculating the following year's award. See, the Introduction for further details

cent) did not understand that their award could be cut. These figures did not appear to vary according to whether or not the respondent had received an overpayment.

Conclusion

Overall awareness of the new system would appear to be comparatively high. The majority of respondents knew, once prompted, which changes should be reported, although only a minority remembered them accurately. Awareness is currently at a somewhat lower level than with the Working Families' Tax Credit system, where 79 per cent correctly understood the fixed nature of awards. Since the reporting of changes inevitably introduces a layer of complexity, this is not altogether surprising. What is more of a cause for concern is the relatively high proportion of respondents (almost 40 per cent) who are unaware that penalties can be incurred if changes in circumstances are not reported. The Inland Revenue therefore needs to ensure that the information it sends out is very clear in this respect, and that it is a priority to improve this aspect of claimant awareness. There is also work to be done in extending awareness of the possibility of awards being reduced following failure to report changes appropriately. Finally, while it is apparently rare for income change in a given year to go above the £2,500 disregard, it is important that claimants demonstrate awareness of this feature of the system, so that they do not incur overpayments or expect their tax credits to change when they have small pay rises. These gaps in respondent's knowledge indicate that the Inland Revenue must continually review its provision of information to the tax credit client group, and look at ways of improving awareness through innovative publicity campaigns.

Chapter 6 A picture of childcare

One Parent Families is concerned that changes to the tax credit system made during the 2003 reform may result in particular difficulties for lone parents in terms of covering the costs of childcare. Therefore, this research aimed to consider various aspects of the childcare element of Working Tax Credit, and difficulties claimants may have with it.

A total of 318,000 families claim the childcare element of Working Tax Credit. Although almost 60 per cent more families receive help with childcare costs[1] than under the Working Families' Tax Credit system, only 15 per cent of couples and 25 per cent of lone parents receiving Working Tax Credit also receive the childcare element.[2]

Thirty-five respondents (35 per cent of the sample) taking part in this research had both qualified for, and claimed, the childcare element during the year preceding the interview. The following picture relates only to these 35 respondents.[3]

Calculating average weekly childcare costs

Box 12: Calculating average weekly childcare costs

There are six alternative methods for calculating a weekly average in the current tax credit system. Four are based on past childcare costs:

- same amount weekly – add last four weeks and divide by four;
- different amounts weekly – add last 52 weeks and divide by 52;
- same amount monthly - take last month, multiply by 12, divide by 52; and
- different amounts monthly – take last 12 months and divide by 52.

The remaining two are based on future costs:

- an estimate of costs over the next 52 weeks if childcare has not yet or has recently started; and
- total costs divided by the total number of weeks used if childcare is expected to last less than a year (for example, a few months before a child goes to school).

Source: One Parent Families (2004) *Proposal for Calculating Childcare Costs for the Working Tax Credit Childcare Element*

There has been concern among voluntary sector groups – including One Parent Families – that lone parents are experiencing some difficulty calculating their average weekly childcare costs. This calculation is not an easy one, particularly for those who pay variable amounts for their childcare. The current method of calculation is detailed in Box 12.

- Just over one-quarter of those in the sample who claimed the childcare element struggled with this calculation (nine respondents).

1 HM Treasury (2003) *Pre-Budget Report*, Cm 6042, note 18

2 In her 2004 text Howard refers to research commissioned by the Inland Revenue (Nicholls and Simm, 2003) which found that availability of eligible childcare was a bigger barrier to take-up than affordability. Those not claiming were either not using childcare or relying on an informal source which was not eligible for support through the tax credit system. See Howard, M (2004) *op cit* pp58–9.

3 A filter was placed on the dataset using the 'select cases if' function in SPSS in order to isolate respondents qualifying for and claiming the childcare element

- Difficulties were most frequently generated by variable childcare costs: changing either on a weekly basis or due to school holidays. Respondents also reported problems recalling how much was paid; understanding the instructions provided by the Inland Revenue; and in actually performing the calculation.
- All nine respondents believed that the Inland Revenue could provide assistance to make this process easier. The most commonly suggested improvement to the system was reporting actual costs (four respondents), followed by an easier method of calculation or someone to help with the calculations (two respondents each), and finally, clearer information (one respondent).

The change that would apparently benefit most lone parents would be to introduce the reporting of actual costs. This could be implemented alongside the reporting of a weekly average for those who prefer that method, and would entail the claimant providing the actual weekly or monthly cost at the time of the claim. Their childcare award would then be based on this calculation and would continue at this level until that cost changed or childcare ceased. While this solution would reduce the problems of calculating average costs, it would impose an administrative burden on an already stressed system. There would also be peaks of reporting throughout the year, as school holidays, for example, bring many changes in the hours of childcare used by most parents. We return to the issue of reporting the actual costs of childcare at the end of this chapter.

Award period for childcare element

Claimants eligible for the childcare element can choose whether to receive their award on a weekly or four-weekly basis. The sample split evenly in their choice of payment period, with ease of budgeting given as the rationale for their preference. However, a small number had not been offered any choice when making their claim.

Problems resulting from the payment period were limited. Among the eight respondents who reported problems, half had experienced budgeting problems. Half of the respondents who had not been offered an alternative, had experienced difficulties with their payment, suggesting that advisers should always offer claimants a choice of payment period.

Variation in the use and cost of childcare

The use, and therefore the cost, of childcare varies throughout the year for most families, as different cover is required in school holidays as opposed to term time. Parents' working hours may also vary seasonally, and childcare requirements will often change if parents change jobs. These sometimes unpredictable patterns of childcare use made it essential to investigate lone parents' spending on childcare across the previous year, and to explore any problems resulting from changes:

- Variation in childcare costs proved to be a problem for more than 60 per cent of lone parents receiving the childcare element (22 respondents).

- Most frequently, a rise in costs was associated with school holidays. For 3 respondents this involved the summer holidays only, but for 16, all school holidays were difficult. The school holidays are usually between 12 and 16 weeks a year, so the total increase in costs will be considerable for many lone parents.
- However, for one lone parent, term times presented the greater cost, as her children were cared for by their father in the holidays. For another, nights proved difficult because the respondent was required to stay overnight on occasional business trips. For one teacher, in-service days and differences between school holidays presented problems. These examples show just how hard it can be to juggle job responsibilities and continuity of care for children.

Case study 9: Problems with the operation of the childcare element of Working Tax Credit

One respondent felt that the new childcare element of Working Tax Credit made it harder for recipients to claim it. Although she did not struggle to calculate her weekly childcare costs, the respondent noted that the calculation method is not easy, particularly where childcare costs vary during the year. The respondent also highlighted the difficulties of budgeting the annual award over the year, when costs change on a regular basis. Like other respondents, she found that Helpline staff were keeping inaccurate computer records of changes in circumstances, and she had to repeat information on numerous occasions (respondent M003).

Improving the system – the childcare element

Almost 60 per cent of lone parents receiving the childcare element thought the system could be improved. Two-thirds of these respondents believed that the Inland Revenue should increase the childcare payment at times when costs were higher. Another suggestion involved the Inland Revenue paying for the actual cost of childcare, and finally respondents said that they would prefer if the childcare element was paid directly to the childcare provider, rather than burdening parents with its administration. The childcare element is critical to the Government's ambition to get 70 per cent of lone parents into work, so it is key that concerns are noted and the system made as simple and sensitive to change as possible.

From our survey it was plain to see that the responsive system adds a layer of complexity to lone parents' budgeting. For those already on comparatively low incomes, it is a significant demand to expect them to predict childcare costs accurately in advance, and to set money aside in periods of low service use to cover the costly periods of the year, such as school holidays. We strongly recommend that all lone parents are made fully aware of the choice between weekly or four-weekly payment periods, so that their own budgeting preferences are supported as far as possible. Our research found that not all Inland Revenue advisers had made lone parents aware of this choice.

One measure above all would appear to improve the situation for claimants of the childcare element: that is the ability to report actual childcare costs. However, as these costs vary there would have to be a commitment on the Revenue's part to increase staff availability at peak times, such as the school summer holiday period, so that the administrative system was not overwhelmed. Given the increased volume of communication required by this change to the system, it is worth thinking more radically and considering seriously the move to a supply-side solution. In this scenario, childcare providers would receive grants on the basis of the number of children in their care whose parents claimed tax credits. This step would remove the burden of calculating costs from parents and could potentially work in a similar way to the DfES grants available for children aged between three and five to attend nursery before they start school.

The childcare element of tax credit is particularly important in enabling parents on a low income to sustain employment. This is a central objective of the new tax credits system, and the following chapter brings together our findings, and makes recommendations for the smooth running of the tax credits system in the future.

Chapter 7 Conclusions and policy recommendations

Working Tax Credit and Child Tax Credit together have contributed a considerable increase to the income of some of the UK's poorest families. According to the Treasury's Child Poverty Review, families in the bottom 20 per cent of the income distribution are, on average, £3,000 better off than they were in 1997.[1] However, the problems relating to claimants' reporting of changes, the administrative and systemic problems highlighted in this report, and the consequent liabilities imposed in the form of overpayment recovery, mean that the benefits of the system are in danger of being undermined. In our conclusions we seek to move beyond the teething problems of the first year of the new system, and to identify the issues which require attention in order to ensure the success of this vital support for low-income families.

Our study of lone parents suggests that the 'light touch', responsive system may be compromised in two respects: firstly, because the volume of changes experienced by lone parents in a given year is considerable and represents an administrative burden which must be processed efficiently; and secondly, because the recovery of overpayments (an inevitable product of a responsive system) can cause unreasonable hardship to those affected – a situation worsened by the high rate of Inland Revenue error in determining awards and recovering overpayments so far.

The study involved telephone interviews with 100 lone parents receiving tax credits who were either members of One Parent Families, or called its Helpline between 26 May and 23 July 2004. Although the respondents do not comprise a nationally representative sample of lone parents receiving tax credits, they share many of the same demographic and employment characteristics, as shown in Chapter 2.

The current system places heavy demands on tax credit claimants to recognise and report changes in circumstances. It is therefore vital that claimants know which changes they need to report, when they need to report them and what will happen if they fail to do so. In particular, claimants must be aware that they may be liable to pay penalties even if they have not deliberately withheld information. This, in turn, places an obligation on the Inland Revenue to ensure that claimants understand the system by providing clear and accessible information available when claimants need it.

Administration of the tax credits is further complicated by the way in which childcare costs require claimants to make complex calculations that may need to be revised if circumstances change. Respondents said that they would prefer to report actual childcare costs.

We make specific recommendations arising from our research that we hope will improve the implementation of tax credits and assist recipients. The recommendations are associated with the stages in the process of determining and delivering tax credit awards: reporting changes in circumstances;

1 HM Treasury (2004) *Child Poverty Review*, p34. HMSO: London © Crown copyright 2004

the award notice; the childcare element of Working Tax Credit; recovery of overpayments; and action points for Inland Revenue and Government agencies.

Reporting changes in circumstances

Lone parents generally appreciate the need to report changes in circumstances to the Inland Revenue. However, it is concerning that 40 per cent of respondents did not realise that the Inland Revenue could impose penalties for not reporting certain changes. This uncertainty includes significant numbers of lone parents believing that they needed to report changes that are not subject to particular reporting rules. A few respondents forget the requirement to report important changes such as house moves and alterations in the disability status of their children. Others had delayed reporting changes for a range of reasons, risking both under- and overpayment. Few respondents appreciated that where a claim is made jointly by a couple who subsequently separate, *both* parties are liable to repay overpaid amounts left from a joint claim (as in Case study 6 in Chapter 4). Many lone parents were unaware of the income disregard, and hence the fact that they could increase their earnings without loss of tax credit in the current year.

Evidence from the study indicates that changes in circumstances that have been reported by tax credit recipients are not always recorded correctly by the Inland Revenue. This results not only in an overpayment and consequent hardship, but also creates a mistrust of the system that can cause further inefficiency as extra contacts are made to confirm that appropriate action has been taken. Moreover, claimants currently have to report the same change to different government agencies and can incur overpayments if they do not. These issues underline the importance of a regular flow of information from the Revenue to tax credit recipients. This cannot be seen as a one-off task related to the set-up of the new system, but rather an ongoing process of providing relevant reminders to both existing and potential claimants. If the tax credits system is to provide optimal support to working families on low incomes, it is vital that innovative publicity strategies are being designed, implemented and reviewed, in order to reach the many different target groups in the claimant population. Therefore the Inland Revenue should:

- prioritise communication through publicity campaigns relating to eligibility for, and reporting requirements related to, the different elements of Working Tax Credit and Child Tax Credit. The clarity and accessibility of this information should be constantly revised. Changes in circumstance that are subject to penalties for non-reporting should be the focus of reminder campaigns;
- seek ways of increasing awareness of the disregard allied to changes in income. This will reduce the burden of unnecessary calls to the helpline; and
- provide a full explanation of their joint liability for any overpayments when it is informed by a claimant that they have separated from their partner. We recommend that the Revenue uses its discretion in order to avoid unnecessary hardship for ex-partners left in sole charge of

children, and that any recovery scheme is carried out according to the maximum percentage deductions recommended by us in the Recovery of overpayments section below.

The award notice

The award notice sent out to tax credit recipients in 2003/04 appears to have been too complicated for a large number of people (40 per cent of our sample) to understand easily. Respondents were often unclear about which elements were included in their tax credit award, and as a result felt unable to confirm whether or not their award was correct. Without these details respondents are less able to control and monitor their awards, and may be more inclined to contact the Inland Revenue in order to confirm the accuracy of their awards. We recommend that:

- The tax credit award notice is redesigned, and welcome the steps put in place by the Revenue recently to do so. The forms sent out in 2003/04 were not easily understood by over one-third (37.4 per cent) of lone parents in our survey who had read them. It is particularly important that the constituent elements of tax credits are clearly distinguishable, so that claimants have a realistic chance of assessing the accuracy of their award.
- In streamlining the award notices sent out by mail, the Inland Revenue should also attend to the online award renewal facility. This is not currently found to be easy to use and if it were improved it could reduce the Revenue's administrative burden as well as improving customer service.

The childcare element of Working Tax Credit

Two-thirds of eligible respondents had experienced changes in childcare costs or circumstances in the last year. Because the cost of childcare varies over the year respondents often found the calculation of average weekly childcare costs difficult. Also, the choice of various calculation methods available can itself be confusing since the most appropriate method is not always clear-cut. It is vital that childcare costs are supported adequately if the tax credits system is to meet its central objective – namely to enable low-income parents to sustain employment.

The central problem relating to the childcare element is budgeting across the year, when there are in fact periods of peak demand, such as school holidays. Most claimants will receive a fixed weekly or four-weekly payment based on their average costs. However, because many lone parents find their childcare costs rise at certain points during the year, budgeting can be extremely complicated since the increase may not be sufficient to affect the weekly *average* and to trigger an increased payment. The solution that would benefit the most claimants is to allow them to report actual childcare costs. As these costs are subject to change, this solution presents an additional burden to an already stressed system and implementation of this strategy will need careful forward planning in order to ensure sufficient staff and IT support are in place to make the system work.

A more radical response to the issue of meeting the real cost of childcare is to consider how such support might be provided more simply. Rather than supporting the cost of childcare via parents, money could be channelled directly to nurseries, childminders and other registered sources of care. In this scenario, the administrative burden would be shifted to organisations whose claim would be based on the number of eligible children in their care. Claimants would then be relieved of the responsibility of budgeting and the support fed directly into the supply end of the childcare equation. Such an approach already works for children aged three to five who are eligible for a subsidy collected by service providers direct from the Department for Education and Skills.

Claimants living in London face a further challenge in finding affordable, accessible childcare. Providers charge higher fees than elsewhere in the country and much of the available service is in the highly-priced private sector. This additional cost is not currently reflected in the childcare element and, as a result, lower paid working lone parents living in London confront higher financial barriers to entering and retaining paid employment. It would appear that the best way to eliminate this problem is to consider the addition of a 'London weighting' allowance for parents claiming the childcare element in the capital.

We therefore recommend the following:

- The Inland Revenue should consider providing parents with the option of reporting actual childcare costs.
- In order to facilitate this, the Inland Revenue should increase the resources devoted to theoperation of the childcare element. It is essential to have adequate staff and technology resources to cope with the peaks in demand for childcare and changes of circumstance related to it, ie school holidays. If the system were to switch to the reporting of actual costs, the increase in resources recommended above would be crucial. Without adequate resources, there is a risk that more parents may find the costs of employment too high and the tax credits system would fail in its objective to support working families.
- Given the cumbersome nature of a reporting system based on actual costs, there should be an opportunity to consider supply side solutions seriously (that is, subsidising childcare providers, rather than users).
- Metropolitan families face higher costs of childcare, and the possibility of additional subsidy for childcare in London should be examined.

Recovery of overpayments

In the tax year 2003/04, problems related to the introduction of the new system of tax credits resulted in an unacceptably high proportion of overpayments being imposed in error by the Inland Revenue – around 455,000 households received excessive payments due to internal error according to the Annual Report of the Inland Revenue 2003/04.[2] Four-fifths (82.1 per cent) of respondents in our survey who had incurred overpayments had been victims of administrative mistakes.

These administrative errors may reflect the difficult early implementation of the tax credits reform but could equally forewarn of underlying difficulties with the tax credit system, not least its sensitivity to changes in circumstances. Even where there has been an official error, those contesting recovery of the overpayment must prove that they had reason to believe their award was correct. This precondition is complicated by the lack of detail in the award notice, and claimants should not be expected to have to disentangle their awards to check for miscalculation by the Inland Revenue.

As a result of the recovery of overpayments, a large proportion of respondents had suffered hardship, and most were unaware of the availability of top-up payments to assist in such circumstances. Tax credits designed to improve a claimant's finances in one period must not be allowed to make their financial position more difficult in the next. Moreover, decisions on overpayments should be made as transparent as possible, ie recovery notices should contain a clear explanation of how the overpayment was incurred; how the sum to be recovered was calculated, and how the payment schedule was decided. As a result of our research we make the following recommendations to improve overpayment recovery policies:

- The rules for overpayment recovery should be simplified and formulated to take hardship into proper account. We propose that overpayments should be recovered at a rate of 10 per cent for those on maximum Child Tax Credit, and 15 per cent across the board for those on any Working Tax Credit entitlement above the family element. The current rules allow recovery at a rate of 25 per cent for those in entitlement brackets between the minimum (family element only) and maximum (full Child Tax Credit entitlement). In our view this results in unreasonable hardship and could undermine the tax credits' central objectives of minimising poverty and maximising participation in employment.
- Current rules on overpayment recovery allow 'compound' recovery to occur – ie a claimant could be paying back an overpayment from the previous tax year and incur a new overpayment in the current award cycle. We recommend that recovery rates are always capped at 10 per cent and 15 per cent as outlined above. If a new instance of overpayment occurs which would push the recovery rate above these thresholds, recovery must be deferred to the subsequent year.
- The Inland Revenue should conduct a thorough review of reasons for administrative errors leading to overpayments, and act on the findings.
- In the light of the problems with notices of award and overpayments caused by official error, the condition that claimants should 'reasonably expect to think their award was correct' should be waived for anyone wishing to contest overpayments incurred in the year 2003/04.

2 Inland Revenue (2004) *Inland Revenue Annual Report and Accounts 2003/04*, p106. The Stationery Office: London

- All claimants receiving overpayments should be made aware of the availability of top-up payments – details of how to apply for them should be included in the overpayment recovery notice, and Inland Revenue staff should mention them in any relevant telephone communication.
- Claimants should be notified by the Inland Revenue well in advance of any recovery taking place (in order to avoid situations such as Case study 5 in Chapter 4). This notification should include full details of how and why the overpayment has taken place, whether the claimant can contest the overpayment and if so, how.
- An amnesty should be introduced on overpayments incurred during the 2003/04 tax year (see Chapter 4).
- Claimants should be given the right to appeal against a decision to recover overpayments, and the method and value of that recovery. At the moment, benefit claimants have more rights than tax credit recipients in terms of contesting the grounds for recovery and the amount of overpayments through tribunals. The position should be equalized for all those who obtain income from the State.

Further action points for the Inland Revenue and other Government agencies

The need for good communication between Government departments and agencies is central to the responsive nature of the tax credits system. In order to reduce the complexity of awards notices and to facilitate recipients' ability to report correctly, IT can play a vital role. An effective computer system could relieve Revenue staff of much of the administrative burden of recording changes of circumstances and tax credit recipients could rest assured that the most important changes relevant to their award were automatically logged, or flagged up in computer-generated reminders:

- Where claimants' tax credit awards are affected by events reported to/established by other agencies (for example, registration of a baby's birth; cessation to entitlement to DLA) there should be automatic triggers operating between relevant bodies and the Inland Revenue.
- Good interdepartmental communication should rely on appropriate IT. There are clear intentions and requirements for data to be transferable between departments, but, in practice, such plans are dogged by implementation problems (see, for example, the delays in the migration of claimants from Income Support – administered by the Department of Work and Pensions – to tax credits, administered by the Inland Revenue). The improvement of computer linkages between the Department of Work and Pensions and the Inland Revenue is a prerequisite for a 21st century tax and benefit system.

Looking forward

The introduction of the Working Tax Credit and Child Tax Credit has provided additional income for some of the poorest groups in Britain, including lone parents. Our research demonstrates, however, that the responsive nature of the system presents challenges for recipients. The administrative problems of the early days must be resolved in order for the best aspects of the Tax Credits system to deliver. If this does not happen, the financial advantages and sensitivity of the system to change will be undermined by a loss of faith in the system and the imposition of unnecessary hardship. At every level improved communication is the key: claimants need to report changes accurately to the Inland Revenue, but the Inland Revenue needs to communicate properly with clients in all its dealings with them, in all media and on all topics. In this last respect we urge for adequate staffing of all communication channels; clarity in all written documentation; and a commitment to rolling out improvements to the IT systems which underpin tax credits, in order to enhance the ability of lone parents to sustain employment and to avoid periods of undue hardship.

Case study 10: Moving from Income Support to tax credits is complex and may reduce income

This lone parent reported that those who move from Income Support to Child Tax Credit could find their income substantially reduced. Having discovered her award was less than expected, she approached the Inland Revenue via the Helpline, but staff were unable to resolve her difficulties. There was a three week delay between the last Income Support payment and the first Child Tax Credit award, causing extreme financial hardship. The claimant initially thought reduced payment might be the result of her not reporting changes in circumstance, but she was told this was not the case. She was still trying to resolve the situation when we interviewed her (respondent M010).

Appendix A

Table 4: Child Tax Credit and Working Tax Credit annual amounts, 2003/04 and 2004/05

	2003/04	2004/05
Child Tax Credit elements		
Family	545	545
Baby addition to family	545	545
Child	1,445	1,625
Disability	2,155	2,215
Severe disability	865	890
Working Tax Credit elements		
Basic	1,525	1,570
Couple and lone parent	1,500	1,545
30-hour	620	640
Disability	2,040	2,100
Severe disability	865	890
Childcare element		
Maximum eligible cost, 1 child	135 pw	135 pw
Maximum eligible cost, 2+ children	200 pw	200 pw
% eligible costs covered	70	70
Income thresholds and tapers		
First income threshold	5,060	5,060
First taper (%)	37	37
Second income threshold	50,000	50,000
Second taper (%)	6.67	6.67
First threshold for those entitled to Child Tax Credit only	13,230	13,480

Source: Howard, M (2004) Tax Credits: One Year On, CPAG: London, p15

Appendix B

Table 5: Changes in working hours

Previous hours	Current hours	Reported – time to report
40	47	Yes – straight away
28	22.5	Yes – straight away
20	25	Yes – straight away
7.5	17.5	Yes – straight away
14	16	Yes – straight away
15	13	Yes – straight away
40	16	Yes – straight away
20	28	Yes – straight away
28	20	Yes – straight away
35	39	Yes – straight away
26	26	Yes – straight away
20	30	Yes – straight away
45	30	Yes – 3 to 6 months
37	25	Yes – straight away
16	29	No – haven't had time
30	18	Yes – straight away
15	16	Yes – straight away
40	30	Yes – straight away
30	37.5	Yes – straight away
22.5	30	Yes – straight away
12	16	Yes – straight away
16	30	Yes – straight away
32	30	Yes – straight away
37	20	Yes – straight away
23	30	Yes – straight away
16	20	Yes – straight away (prior to change)
37	35	Yes – straight away
25	30	No – doesn't push income above disregard
20	35	Yes – straight away
20	23	Yes – within 3 months
29	30	No – doesn't push income above disregard
16	5	Yes – within 3 months
16	23	Yes – straight away
20	46	Yes – straight away
30	16	Yes – within 3 months

Figures in bold show changes in average weekly working hours that correspond with Working Tax Credit entitlement cut-off points.

Appendix C: Methods

The sample

A sample of 100 lone-parent tax credit claimants was recruited using a combination of probability and non-probability sampling techniques. The first group of interviewees was recruited from the One Parent Families' Lone Parent Helpline by direct services staff. The One Parent Families' Helpline coordinator monitored all recruitment activity. After calling the Helpline, and having had their query dealt with as usual, callers were asked whether they would like to participate in the research. Those that were willing then completed the remainder of a recruitment questionnaire over the telephone (see Appendix D). This presented the opportunity to perform some basic screening to ensure that they were receiving tax credits and were the main or sole carer for a dependent child or children. Those who agreed to take part in the survey and met the recruitment criteria were sent a letter to act as a reminder, and additional information about the research and its aims.

During the planned recruitment period of approximately 8 weeks (26 May to 23 July) there were 3,424 calls to the Helpline. It was considered appropriate to ask 118 of those to take part in the research, and a total of 99 callers agreed (a response rate of 84 per cent). There were many reasons why callers were not asked to participate – some were calling on behalf of lone parents, others were the non-resident parent, and some were emotionally distressed.

The number of potential participants recruited each week from the Helpline was not as high as anticipated and it was decided to sample One Parent Families' members. Letters were sent to approximately 500 members, chosen at random. Of these, 48 phoned to say they were interested in participating in the research (a response rate of approximately 10 per cent). The One Parent Families' membership database was used to generate 34 per cent of our sample.

Instrument design and administration

Researchers from the University of Nottingham and One Parent Families designed the questionnaire for the telephone interviews. Helpline staff were asked to review the questionnaire in light of their experience in dealing with lone parent queries about tax credit arrangements and common problems associated with them, and the questionnaire amended accordingly before piloting. The survey was administered by a full-time interviewer, recruited by One Parent Families, and the researcher from the University of Nottingham, after special training. Most questions were closed, but case study narratives included in the report were compiled using notes taken during the interviews. The average length of interview was 28 minutes.

Of the 147 people available for interview, 115 were successfully contacted. Of these, six respondents were discovered not to be in receipt of tax credits at the time of the call, a further seven people were no longer able to take part (primarily due to time constraints), and two interviews could not be completed. A total of 100 interviews were completed – 16.3 per cent of the people approached.

Appendix D: Survey instruments

Recruitment questionnaire

Initial introduction: One Parent Families is currently conducting research into lone parents' experience of the new tax credits. We believe that it is important to conduct independent research and to make the results available to Government and to others who can use it help improve policy. One of our researchers may telephone you in the next few weeks to seek your views on tax credits. Everything that you tell the researcher will be treated in strictest confidence.

1) Would you be interested in taking part in some research for One Parent Families?

Yes No

2) Do you receive Tax Credits?

Yes No

3) Are you a lone parent, ie are you the sole or main carer of a child?

Yes No

4) Are you?

Male Female

5) How many hours a week do you work?

Less than 16 hours 16–29 30+

6) How many children do you have? (Circle as applicable)

1 2 3 4 5 6 7 or more

7) How old are your children?

Child	1	2	3	4	5	6	7
Age							

8) Name :

9) Contact number:

10) Preferred time/date of telephone interview:

11) Date recruited:

12) Call taker's initials:

One Parent Families/University of Nottingham tax credit questionnaire

This questionnaire is part of our research into lone parents' experience of the new tax credits. We think it's important to conduct our own research and to make the results available to government and others who can use it to help improve policy. Everything you tell me will be treated in confidence, your answers and details will only seen by the project staff, and no personal information will be passed to other agencies or organisations. We'll keep the completed questionnaire for the duration of the project, but then it will be destroyed. Is this OK?

☐ Consent given

The interview shouldn't take more than 40 minutes or so, if you have any further questions at the end of the interview we have a Helpline number you can call. First, we just need to confirm the information received from the Helpline, so we may repeat a few questions you've answered before.

I'd like to start by asking about your family. (*Only record dependent children*)

1) How many children do you have? (*Circle as applicable*)

1 2 3 4 5 6 7 or more

2) How old are your children? Please start with your eldest child if you have more than one

Child	1	2	3	4	5	6	7
Age							

3) We are interested to know which credits and benefits you receive. Can you tell me if you receive any of the following? (Provide options and circle all that apply)

1. Child Tax Credit
2. Working Tax Credit
3. Income Support

4) Do you receive your tax credits each week, or each month?

1. Weekly (*please specify amount – see question below*)
Roughly how much in tax credits do you receive each week?

	Child Tax Credit	Working Tax Credit
Total		

2. Monthly (*please specify amount – see question below*)
Roughly how much in tax credits do you receive each month?

	Child Tax Credit	Working Tax Credit
Total		

3.Daily (*in case of Working Tax Credit*) ___________ (*record amount*)

5) How long have you been receiving any kind of tax credit? (If possible probe about how long on benefits of any kind and note in box)

Tax credit	Years	Months	(Other benefit)	Years

6) Does your tax credit award include help with your childcare costs?

1.Yes
0. No (*if no, continue to question 11*)

7) Have you experienced any difficulties calculating your average weekly childcare costs?

1. Yes
0. No (if no, continue to question 11)

8) What sort of difficulties have you encountered? (*Can prompt with options if necessary – circle all that apply*)

1. Difficulty remembering amounts paid
2. Costs vary from week to week
3. Costs vary because of school holidays
4. Calculations too complicated
5. Haven't time to do calculations
6. Instructions unclear
7. Other (please specify)

9) What sort of assistance could be provided to help make these calculations? (*Can prompt with options if necessary – circle all that apply – continue to question 11 if option 4 not selected*)

1. Clearer information
2. Easier method of calculation
3. Report actual costs
4. Someone to help with the calculations (*go to question 10*)
5. Other – what would that be?
6. None
7. Don't know

10) If someone was to help with the calculations, which of the following people would you prefer? (*Offer options – circle just one*)

1. Inland revenue advisor
2. Family or friend
3. Child Benefit Agency
4. One Parent Families
5. Other – could you tell me who that person would be?

11) Have you sought help or information from the Inland Revenue about any aspect of tax credits in the last year?

1. Yes
0. No (if no, continue to question 17)

12) Did this involve calling the Tax Credits Helpline?

1. Yes
0. No (if no, continue to question 16)

13) Why did you contact the Tax Credits Helpline? (Can prompt with options if necessary – circle all that apply)

1. Help completing forms
2. Do not understand how amount of tax credits calculated
3. There was a mistake in calculating the amount of tax credits
4. I received the wrong amount of money
5. Further information about tax credits
6. To report/ ask about change – what was that?
7. Other – what was that?
8. Don't know/can't remember

14) Overall how helpful was the information or advice you received from the Helpline? (*Read out scale*)

1. Very helpful
2. Helpful
3. Satisfactory
4. Unhelpful
5. Very unhelpful
6. Don't know

15) Did you experience any difficulties using the Helpline? (*Give options if necessary, circle as many as apply*)

0. No
1. Yes –What sort of difficulties?
1. Unable to get reply
2. Questions not answered adequately
3. Staff were unclear/unsure regarding query
4. Was put on hold for lengthy period of time
5. The call was too expensive
6. Other – what was that?

16) Apart from using the Helpline, how did you contact the Inland Revenue for information/advice? (*Read out options if answer not offered, circle as many as apply*)

1. Wrote – who did you write to?
    1. Local tax office
    2. Tax credit HQ
    3. Other (please specify)

2. Phoned – who did you ring?
    1. Local tax office
    2. Tax credit HQ
    3. Other (please specify)

3. Visited –who did you visit?

1. Local tax office
2. Tax credit HQ
3. Other (*please specify*)

17) Have you used the Inland Revenue website?

1. Yes
0. No (if no, continue to question 19)

18) Did you experience any difficulties using the website? (If yes) what were they? (*Read out options if answer not offered, circle as many as apply*).

1. No
2. Yes, I found the site difficult to use
3. Yes, it didn't provide the information I needed
4. Yes, some form of technical difficulty, too slow etc.
5. Yes, other – what was that?

Family change

I'm going to ask you some questions now about changes in your family circumstances that you may have experienced in the last year. Please say whether they apply to you. I will then ask if you have reported any changes.

19) Have you had a baby in the last year?

1. Yes
0. No (if no, continue to question 23)

20) Did you report the birth to the Inland Revenue?

1. Yes
0. No (if no, continue to question 22)

21) How long was it before you reported the change? (*Read out options if answer not offered*)

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

22) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (please specify)
6. Don't know

23) Has a child (or children) become financially independent in the last year? For example, left school or college so you were no longer entitled to child benefit.

1. Yes
0. No (*if no, continue to question 27*)

24) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 26*)

25) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

26) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other *(please specify)*
6. Don't know

27) Has a partner moved in to live with you in the last year?

1. Yes
0. No (*if no, continue to question 31*)

28) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 30*)

29) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (please specify)

30) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

31) Have you separated from a partner you were living with during the previous year?

1. Yes
0. No (*if no, continue to question 35*)

32) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 34*)

33) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

34) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

Employment

I'm now turning to job changes you may have experienced in the last year. Again, I'll ask if they apply to you and whether you have reported any changes.

35) Have you started a paid job in the last year?

1. Yes
0. No (*if no, continue to question 39*)

36) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 38*)

37) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

38) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

39) Have you stopped (paid) work in the last year?

1. Yes
0. No (*if no, continue to question 43*)

40) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 42*)

41) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (please specify)

42) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

43) Have your usual weekly working hours changed in the last year?

1. Yes – more hours now
2. Yes – fewer hours now
0. No (*if no, continue to question 48*)

44) How many hours did you work a year ago? (*If don't know/can't remember please write below*)

45) Have you reported this to the Inland Revenue?

1. Yes
0. No (if no, continue to question 47)

46) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

47) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

48) Has your hourly rate of pay changed in the last year? (*if unsure about hourly rate then ask about weekly/monthly/annual pay, but confirm this isn't as a result of doing more hours*)

1. Yes - it has increased
2. Yes - it has decreased
0. No (*if no, continue to question 53*)

49) How much, more or less per hour, do you get paid now? (*if unsure about hourly then ask about weekly/monthly/annual*)

50) Have you reported this to the Inland Revenue?

1. Yes
0. No (***if no, continue to question 52***)

51) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

52) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

Disability

I'd like to ask about possible changes in health that you may have had during the year.

53) Do you consider yourself to have a disability?

1. Yes
0. No (*if no, continue to question 59*)

54) Have you either become registered as disabled or blind, or been removed from the register in the last year?

0. No
1. Yes, became registered
2. Yes, have been removed from register

55) Have you started, or stopped, receiving Disability Living Allowance (DLA) in the last year?

0. No (if no, continue to question 59)
1. Yes, started receiving DLA
2. Yes, stopped receiving DLA

56) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 58*)

57) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

58) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

59) Do you consider any of your children to have a disability? If yes, one child or more?

0. No (*if no, continue to question 65*)
1. Yes, one child has
2. Yes, more than one child has

60) Have any of your children become registered as disabled or blind, or been removed from the register in the last year? If yes, were they registered or removed from the register?

0. No
1. Yes, became registered
2. Yes, has been removed from register

61) Have you started, or stopped, receiving Disability Living Allowance (DLA) for any of your children in the last year? If yes, did you start receiving DLA or stop receiving it?

0. No (*if no, continue to question 65*)
1. Yes, started receiving DLA
2. Yes, stopped receiving DLA

62) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 64*)

63) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

64) If not reported, why was this?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

Childcare

I'm now going to talk about childcare and help you may receive in covering the cost of it.

65) Have you qualified for the tax credit childcare element at any point over the last year?

1. Yes, and claim/use it
2. Yes, but don't claim/use it (*continue to question 90, renewal section*)
0. No (*if no, continue to question 91, renewal section*)

66) Have you started using registered childcare during the last year?

0. No (if no, continue to question 70)
1. Yes – why did you start using childcare?
(*May need to prompt with options – circle all that apply*)
    1. Started work
    2. Working more hours
    3. Had new baby
    4. Informal childcare stopped
    5. Other (please specify)

67) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 69*)

68) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

69) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

70) Have you stopped using registered childcare in the last year?

0. No (*if no, continue to question 74*)

1. Yes – why did you stop using childcare?
(*May need to prompt with options – circle all that apply*)
   1. Child entered school
   2. Child old enough to leave childcare
   3. Moved to informal care arrangement
   4. Working less hours
   5. Other (please specify)

71) Have you reported this to the Inland Revenue?

1. Yes
0. No (*if no, continue to question 73*)

72) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (please specify)

73) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

74) Has the amount you pay for childcare gone up or down during the last year? If yes, has the amount gone up or down?

0. No (*if no, continue to question 82*)
1. Up
2. Down (*if down, continue to question 77*)

75) If up, how much more per week or per month (*delete as appropriate*) do you pay now? (*If unsure please write don't know in the box*)

76) Why have these costs gone up? (*Circle as many as apply – may need to prompt*)

1. Started work
2. Working more hours
3. Had new baby
4. Informal childcare stopped
5. Changed provider
6. Provider put prices up
7. Other (*please specify*)
8. Don't know

77) If down, how much less per week or per month (delete as appropriate) do you pay now? (*If unsure please write don't know below*)

78) Why have these costs gone down? (*Circle as many as apply – may need to prompt*)

1. Child entered school
2. Child old enough to leave childcare
3. Moved to informal care arrangement
4. Working less hours
5. Changed provider
6. Other (*please specify*)
7. Don't know

79) Have you reported this to the Inland Revenue?

1. Yes
0. No (if no, continue to question 81)

80) How long was it before you reported the change?

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (please specify)

81) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Was planning to do so in near future
4. Waiting until the year end
5. Other (*please specify*)
6. Don't know

82) Have you changed your childcare provider in the last 3 months?

1. Yes
0. No (*if no, continue to question 86*)

83) Have you reported this and provided the new details to the Inland Revenue? (*If reported confirm whether details have been sent*)

0. No (*if no, continue to question 85*)
1. Yes, reported and provided details
2. Yes, reported but not provided details

84) How long was it before you reported the change? (*Read options*)

1. Straight away
2. Within 3 months
3. At the end of the year
4. Other (*please specify*)

85) If not reported, why was that?

1. Haven't had time
2. Didn't realise had to
3. Costs the same so didn't think I had to

4. Was planning to do so in near future
5. Waiting until the year end
6. Other (*please specify*)
7. Don't know

86) Are there specific times of the year when you need to pay more for childcare?

0. No
1. Yes – when is that? (*Circle all that apply*)
    1. Summer holidays
    2. Other school holidays (*Easter, Christmas, half term*)
    3. Other (*please specify*)
    4. Don't know

87) Have you opted to receive the childcare element of Working Tax Credit on a 4-weekly or weekly basis?

1. 4-weekly
2. Weekly
3. Don't know

88) Why have you chosen this alternative? (*Read options if necessary – circle as many as apply*)

1. Easier to budget
2. Pay for childcare in this way
3. Same time period as wages
4. No reason
5. Other (*please specify*)
6. Don't know

89) Have you encountered any problems with this method of payment, and if you have could you tell me what they were? (*Circle all that apply*)

0. No
1. Yes, problems budgeting
2. Yes, pay for childcare over different time period
3. Yes, childcare costs vary
4. Yes, other (*please specify*)
5. Yes, but can't specify

90) Can you suggest any ways in which the payment of the childcare element could be improved? (*Read options if necessary – circle all that apply*)

0. No
1. Don't know
2. Yes, should receive more money during time periods when costs higher
3. Yes, pay for actual costs
4. Yes, other (please specify)

Award renewal

Now, I've just got a couple of questions to ask about the tax credit renewal form and any problems you might have had renewing your claim.

91) Have you received your annual renewal pack from the Inland Revenue?

1. Yes
0. No (*if no, continue to question 93*)
2. Don't know (*if don't know, continue to question 93*)

92) Have you had any problems with the form or the notes? (Read options)

0. No
1. Yes – what difficulties have you have? (*Read options – all that apply*)
    1. Instructions on how to renew unclear
    2. Form too complicated
    3. Finding time to read and complete
    4. Notes too long
    5. Notes too complicated
    6. Other – what was that?
2. Haven't read it yet

93) Have you registered on the tax credit website?

1. Yes
0. No (*if no, continue to question 95*)

94) Have you, or are you going to, renew your claim online? (*Read options*)

1. Yes
2. Don't know/haven't decided
0. No – why is that? (*Read options – circle all that apply*)
    1. Didn't realise I could
    2. No longer have access to pc/internet
    3. Would rather use paper form/postal system
    4. Had trouble using online form/instructions for completion
    5. Don't know

Overpayment

I'm just going to ask you a few questions about overpayments, and the way the Inland Revenue recovers overpaid money.

95) As far as you know, have you ever received an overpayment of tax credits? That is, being paid more tax credit than you were entitled to.

0. No (*if no, continue to question 101*)
1. Possibly/ Not sure yet

2. Yes, due to me not reporting changes, but now resolved
3. Yes, due to me not reporting changes, unresolved
4. Yes, due to their mistake, overpayment has been reported
5. Yes, due to their mistake, overpayment has not been reported

96) How did you find out about the overpayment? (*Circle one***)**

1. Inland Revenue contacted me especially to inform me
2. My award for second year showed recovery/was reduced
3. I discovered it for myself (when checking bank statement or similar)
4. Other (please specify)

97) Has the Inland Revenue tried to recover any overpayments (*even if you do not believe you have been overpaid***)?**

1. Yes
0. No (*if no, continue to question 101*)

98) How did the Inland Revenue try to recover the overpayments?

1. Reduced award for the second year
2. Demand for repayment
3. Other (*please specify*)

99) Did you find it fairly easy to pay back the overpayments or did you experience problems? (*Please specify difficulties*)

0. Yes, it was fairly easy (if yes, continue to question 101)
1. No, had problems – what sort of difficulties did this bring about? (*Circle as many as apply*)
    1. Not able to pay bills (including rent, Council Tax, amenities etc)
    2. Had to give up work
    3. Had to borrow money
    4. Couldn't pay for childcare
    5. General difficulties with day-to-day living expenses, transport etc
    6. Other (*please specify*)
    7. Don't know/can't specify

100) Did you apply for top-up payments? (If yes) did you receive them? If no, why did you decide not to apply?

1. Yes, and I received them
2. Yes, and I didn't receive them
3. No, I didn't know about them
4. No, I didn't want to build up further overpayments
5. No, I didn't need them
6. Other (*please specify*)

Awareness of the new responsive system

We just need to ask a few questions about the recent changes in tax credits.

101) What information about the tax credit system and the reporting of changes of circumstance have you received?

0. None (if none, continue to 104)
1. Just the claim form and the notes that came with it
2. A newsletter from the Inland Revenue
3. A leaflet from the Inland Revenue
4. TV adverts
5. Other (*please specify*)

102) How helpful did you find this information? (*Read scale*)

1. Very helpful
2. Helpful
3. Satisfactory
4. Unhelpful
5. Very unhelpful
6. Don't know

103) Did you encounter any problems with this information?

0. No
1. Yes – what sort of problems? (*Circle as many as apply*)
    1. Information unclear
    2. Too long
    3. Don't have time to read
    4. System too complicated
    5. Other (please specify)

104) (Part 1) What type of changes in circumstances do you think you need to report? Just tell me all the ones you can remember (*circle all mentioned*).

(Part 2) Now I'm going to list some changes – just tell me whether you feel they should be reported or not (*Read out options not mentioned in Part 1 requesting a yes/no answer – circle for yes*)

Part 1	Part 2
1. Starting or terminating a partnership	1
2. Buying a pet	2
3. No longer using childcare	3
4. Change in childcare costs	4
5. Elderly parent coming to live with you	5
6. New baby	6
7. Child leaving home	7
8. Child changing schools	8
9. Start or stop receiving DLA	9
10. Child starts or stops receiving DLA	10
11. Lending money to a friend/relative	11
12. Change in income	12

13. Becoming pregnant 13
14. Change in working hours 14
15. Starting or leaving paid work 15
16. Moving House 16

105) Are you aware how much your income needs to increase by in order for tax credit payments to be affected? If yes, could you tell me the amount?

0. No
1. Yes
   Amount specified ___________

106) Are you aware that the Inland Revenue can charge penalties if you fail to report changes in your circumstances?

1. Yes, I am aware
0. No, I was not aware

107) Did you know that your tax credit payment might be reduced in the future if you haven't reported changes in family or work circumstances?

1. Yes, I knew
0. No, I did not know

General questions

Finally, we're going to ask some questions about your work, income and background. These will help us get a full picture of lone parents receiving tax credits.

108) Can you tell me, are you currently employed?

1. Employed
0. Not in paid work (*if not in paid work, continue to question 118*)

109) Do you have more than one job (apart from looking after your children?) If yes, how many?

1. No, just 1
2. 2
3. 3 or more

Thinking only of your main job – the one you would class as your main job:

110) What do the firm or organisation you work for mainly make or do? (*Describe briefly, for example, manufacturing/processing/distributing/ public/private/main goods produced*)

111) What is your job title?

112) What do you mainly do in your job? (*Check special qualifications/ training needed to do the job*)

113) How many hours do you usually work each week in total, include all jobs?

114) Are you working as an employee or are you self-employed?

1. Employee
2. Self-employed (*continue to question 117*)

115) (Employees only) In your job do you have any formal responsibility for supervising the work of other employees?

1. Yes
2. No

116) Roughly how many people work for your employer at the place where you work? (*After answering question continue to 118*)

1. 1–24
2. 25–499
3. 500 or more
4. Don't know

117) (Self-employed) Do you work on your own or do you have employees?

1. On own/with partner(s) but no employees
2. With employees – how many people do you employ?
    1. 1–24
    2. 25–499
    3. 500 or more
    4. Don't know

118) Roughly how much do you earn each year? (*Read out options*)

1. Under £5,060
2. £5,060–£13,480
3. £13,480–£18,000
4. £18,000–£30,000
5. £30,000–£50,000
6. More than £50,000
7. Do not want to disclose

119) How would you describe your ethnic group? (*Read groups if necessary*)

0. Do not want to disclose
1. White
    1.British
    2. Irish
    3. Any other white background – please describe

2. Mixed
    1. White and Black Caribbean
    2. White and Black African
    3. White and Asian
    4. Any other Mixed background – please describe

3. Asian or Asian British
    1. Indian
    2. Pakistani
    3. Bangladeshi
    4. Any other Asian background – please describe

4. Black or Black British
    1. Caribbean
    2. African
    3. Any other Black background – please describe

5. Chinese or other ethnic group
    1. Chinese
    2. Any other – please describe

120) Which UK county do you live in?

121) How would you describe your relationship status? (*Read options if necessary*)

1. Single/never been married
2. Cohabiting/living with partner
3. Married
4. Divorced
5. Separated
6. Widowed

122) What is your highest educational qualification? (*Read options if necessary*)

1. None
2. GCSE
3. A-level
4. GNVQ
5. NVQ2
6. NVQ3
7. HND
8. Degree
9. Postgraduate degree

123) How old are you? (*Prompt with groupings*)

1. Under 18
2. 18–24
3. 25–29
4. 30–35
5. 36–40
6. Over 40

Policy and research publications from One Parent Families

The Advice Needs of Lone Parents

A survey of 200 lone parents sheds light on the type, severity, persistence and clustering of civil justice problems they encounter, what advice sources they do and don't access, and their assessment of the quality of advice they have received.

Authors: Richard Moorhead, Mark Sefton and Gillian Douglas, Cardiff Law School

Foreword: Kate Green, One Parent Families

Published by: One Parent Families

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One Parent Families, Poverty and Labour Policy

Using policy simulation methods, Holly Sutherland estimates the impact of tax and benefit changes introduced between 1996/97 and 2003/04 on child poverty, as well as the impact of other policies, including a target to increase lone-parent employment to 70 per cent by 2010. Possible components of a strategy to halve child poverty are considered and potential reform packages costed and evaluated.

Author: Holly Sutherland, Director of the Microsimulation Unit in the Department of Applied Economics, University of Cambridge

Foreword: Alison Garnham, One Parent Families

Published by: One Parent Families

Price: £12.95

ISBN: 1 85199 212 X

Working to Target: Can Policies Deliver Paid Work for Seven in Ten Lone Parents?

This report looks at the Government's target of getting 70 per cent of lone parents into paid work by 2010. It outlines the current situation regarding lone parents and employment, analyses the impact of policy to date and makes recommendations for the future.

Contributors: Jane Millar and Martin Evans of the Centre for the Analysis of Social Policy at the University of Bath; Richard Berthoud of the Institute of Social and Economic Research at the University of Essex; Robert Walker and Anthony Rafferty of the University of Nottingham and Djuna Thurley, One Parent Families

Foreword: Kate Green, One Parent Families

Published by: One Parent Families

Price: £12.95

ISBN: 1 85199 213 8

Lump Sums: Roles for the Social Fund in Ending Child Poverty

This report proposes radical reform of the Social Fund in line with the Government's wider objectives, including the ambition to end child poverty. It proposes a series of inclusion funds to replace existing Social Fund arrangements, concentrating on the needs of families with children. This report uses child-level analysis of the Families and Children Study (FACS) to estimate the level of need for certain lump sum items and the potential cost of reform.

Author: Marilyn Howard, Social Policy Analyst

Foreword: J K Rowling

Published by: One Parent Families/Child Poverty Action Group/Family Welfare Association

Price: £10.00

ISBN: 1 85199 2146

Researching Contact

A thematic summary of contact research, fully referenced and highlighting areas where further research is needed. This report summarises existing evidence on child contact after divorce and separation and identifies future research needs. It draws attention to gaps and limitations in the evidence and includes reference to some international literature.

Author: Joan Hunt, University of Oxford

Foreword: Kate Green, One Parent Families

Published by: One Parent Families

Price: £10.00

ISBN: 1 85199 2154

Accessing Training and Education in East London: the Case of Lone Parents

Commissioned by the Learning and Skills Council London East, this study explores the attitudes and motivations of, and barriers to, lone parents in East London accessing education and training, with the aim of producing a best practice guide for education and training providers, and signposting agencies.

Authors: Tina Haux and Maria Kimina

Foreword: Nicola Simpson

Published by: One Parent Families

ISBN: 1 85199 227 8

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