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# Briefing on Orders and Regulations

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Tax Credits (Income Thresholds and Determination of Rates) (Amendment) Regulations 2015 - Lord O'Neill of Gatley

26 October 2015

## Introduction

The Government is seeking to implement announcements in the July Budget to withdraw tax credit support from families earlier (by reducing the allowance for how much people can earn before tax credits start to be withdrawn) and at a faster rate as the incomes of the low paid rise (by increasing the taper rate).

This is on top of other changes to tax credits in the Welfare Reform and Work Bill which seeks to freeze tax credit levels for four years and to limit the child element of Child Tax Credits and Universal Credit to two children from April 2017.

CPAG is opposed to these cuts to tax credits because they will damage work incentives and increase child poverty:

1. They will hit working families hard. 3.2 million low-paid workers will lose an average of £1,350 next year.
2. They will mean work pays less. Some low-income families will keep just 3p in every extra £1 they earn following the changes.
3. Child poverty will increase as £4.4 billion will be taken from low-paid families.
4. The cuts are not compensated by other changes such as the National Living Wage, rising income tax threshold or free childcare offer.
5. The impacts have not been thoroughly assessed.

How much will working families doing important jobs lose from the changes to tax credits?

To illustrate the impact of the tax credit cuts, CPAG has calculated the losses which can be expected next year by tax credit recipients in various different jobs as a direct result of proposals to reduce the tax credit threshold and increase the taper rate.

A full-time **security guard** with two children, if the sole earner in the family, will lose **£2,304**. A **school secretary** will lose **£2,125**. A **hospital porter** will lose **£2,049**. A **dental nurse** will lose **£2,207**. A **road sweeper** will lose **£2,017**. A **care worker** will lose **£1,906**. A **teaching assistant** will lose **£1,896**. A **cook** will lose **£1,860**. A **nursery nurse** will lose **£1,788**. A **hairdresser** will lose **£1,669**.

*How are these calculated?*

The House of Commons Briefing Paper on Tax Credit changes from April 2016 sets out that tax credit recipients eligible for Working Tax Credit will lose:

- A. 48% of the difference between the old and new thresholds (48% of £6,420 - £3,850 = £1,233.60) or between their salary and the new threshold if they earn less than £6,420.
- B. 7% of gross earnings above £6,420 (as the taper rate will increase by 7%, from 41% to 48%).

*Example:*

The median salary for a full-time security guard is £21,707.<sup>1</sup> A family with this sole earner will lose 7% of income over £6,420 due to the increased taper, i.e. 7% of £15,287 = £1,070.09. They will also lose £1,233.60 due to the reduced threshold. This makes a total loss of £2,303.69.

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<sup>1</sup> Median gross annual earnings for full-time workers, Office for National Statistics *Annual Survey of Hours and Earnings 2013*.

The figures are for *direct losses resulting from the changes included in the statutory instrument*, and do not include the effect of other changes to the tax and benefit system, or knock-on effects on entitlement to other benefits, such as Housing Benefit.

**Keyworkers with children** will also see substantial losses. For example, a nurse with two children, working at least 30 hours a week, will lose £2,498.

**Families with two working parents will also see significant losses:**

A **nursery nurse** working 31 hours per week and a **cleaner** working 17.5 hours a week, with combined gross salaries of £17,816, will lose **£2,031** per year from their family's income.

A **dental nurse** working 33.5 hours a week and a **playworker** working 15 hours a week, with combined gross salaries of £20,872, will lose **£2,245** per year.

Overall, 3.2 million low-paid workers will lose an average of £1,350 next year. This will drive more children into poverty.

The changes to income tax, the National Living Wage and the increased childcare offer will not make up the losses (see below).

When Gordon Brown scrapped the 10p tax rate in 2007, making low-earners £2-3 worse off per week, George Osborne called it “punish[ing] low income families”.<sup>2</sup> But the Chancellor's changes to tax credits will take over ten times as much – £26 per week – from low-income working families.

### **Tax credit losses in 2016/17 for sole earners with two children in a range of jobs**

| <b>Job (full time)</b>        | <b>Typical earnings<sup>3</sup></b> | <b>Tax credit losses in 2016/17</b> |
|-------------------------------|-------------------------------------|-------------------------------------|
| Animal care worker            | £18,046                             | £2,047.42                           |
| Baker                         | £17,144                             | £1,984.28                           |
| Bank clerk                    | £21,109                             | £2,261.83                           |
| Bar staff                     | £13,180                             | £1,706.80                           |
| Book-keeper                   | £22,380                             | £2,350.80                           |
| Call centre operator          | £17,089                             | £1,980.43                           |
| Caretaker                     | £19,295                             | £2,134.85                           |
| Catering assistant            | £13,098                             | £1,701.06                           |
| Chef                          | £18,283                             | £2,064.01                           |
| Childminder                   | £16,779                             | £1,958.73                           |
| Cleaner                       | £14,592                             | £1,805.64                           |
| Cook                          | £15,363                             | £1,859.61                           |
| Dental nurse                  | £17,758                             | £2,027.26                           |
| Educational support assistant | £15,875                             | £1,895.45                           |
| Farm worker                   | £20,906                             | £2,247.62                           |
| Fishmonger                    | £15,568                             | £1,873.96                           |
| Gardener                      | £18,655                             | £2,090.05                           |
| Glazier                       | £20,258                             | £2,202.26                           |
| Hairdresser                   | £12,641                             | £1,669.07                           |
| Home carer                    | £16,026                             | £1,906.02                           |
| Hospital porter               | £18,063                             | £2,048.61                           |
| Laboratory technician         | £21,488                             | £2,288.36                           |
| Legal secretary               | £19,363                             | £2,139.61                           |
| Library clerk                 | £18,524                             | £2,080.88                           |

<sup>2</sup> <http://www.telegraph.co.uk/news/politics/labour/1584176/Gordon-Brown-faces-revolt-over-tax-band-plan.html>

<sup>3</sup> Median gross annual earnings, Office for National Statistics *Annual Survey of Hours and Earnings 2013*.

|                                |         |           |
|--------------------------------|---------|-----------|
| Local government administrator | £23,126 | £2,403.02 |
| Medical secretary              | £21,221 | £2,269.67 |
| Nursery nurse                  | £14,335 | £1,787.65 |
| Painter                        | £22,635 | £2,368.65 |
| Pest control officer           | £19,697 | £2,162.99 |
| Receptionist                   | £16,207 | £1,918.69 |
| Records clerk                  | £20,434 | £2,214.58 |
| Restaurant manager             | £21,086 | £2,260.22 |
| Retail cashier                 | £14,820 | £1,821.60 |
| Road sweeper                   | £17,618 | £2,017.46 |
| Roofer                         | £21,358 | £2,279.26 |
| Sales assistant                | £14,687 | £1,812.29 |
| Security guard                 | £21,707 | £2,303.69 |
| School secretary               | £19,153 | £2,124.91 |
| Taxi driver                    | £19,205 | £2,128.55 |
| Teaching assistant             | £15,889 | £1,896.43 |
| Travel agent                   | £19,639 | £2,158.93 |
| Typist                         | £18,723 | £2,094.81 |
| Undertaker                     | £22,348 | £2,348.56 |
| Van driver                     | £19,968 | £2,181.96 |
| Veterinary nurse               | £19,125 | £2,122.95 |

### **Four more reasons CPAG opposes the cuts to tax credits**

#### **1. They will mean work pays less**

- Some low-income families will now keep just 3p in every extra £1 they earn following the changes (losing 32p in income tax and national insurance, 17p from entitlements to other benefits, and 48p in tax credit entitlements) – an effective tax rate of 97%.
- Over 50,000 families earning between £20,000 and £30,000 will lose up to £2,884 next year.
- Over 750,000 families earning between £10,000 and £20,000 a year will lose up to £2,184.
- Over 580,000 of Britain's poorest working families – earning between £3,850 and £6,420, face being 'taxed' for the first time.

#### **2. They will increase child poverty**

- Two-thirds of poor children live in a family where somebody works, but £4.4 billion will be taken from low-paid families next year.
- New analysis by the Resolution Foundation projects that 600,000 more children will fall into poverty (200,000 in 2016/17) as a direct result of measures in the Summer Budget. By 2020 it is projected that the UK will have between 3.7 and 3.9 million children in poverty, a substantial (61-70%) increase on the 2.3 million children in poverty in 2013/14.

#### **3. The cuts are not compensated by other changes**

- Working families eligible for benefits or tax credits will gain an average of £200 from the new National Living Wage, but will lose £750 per year on average from changes to benefits and tax credits, according to the Institute for Fiscal Studies.
- The increase in the Personal Tax Allowance will be worth up to £80 per year in 2016/17 for those earning over £10,600, up to £380 per year by 2020, but it benefits all earners, not just the low-paid, and will not help those earning below £10,600.
- The additional free childcare per week will benefit working families with 3 or 4 year olds, but not families with older or younger children. However it is not going to be provided until September

2017. And families on tax credits are already eligible for a childcare subsidy of up to 70% (to rise to 85% under Universal Credit), meaning the cash value of the free childcare to tax credit recipients is limited.

- The Institute for Fiscal Studies has concluded that it is “arithmetically impossible” for the increased minimum wage to compensate for the majority of the losses which tax credit recipients will experience, and that “unequivocally, tax credit recipients in work will be made worse off by the measures in the budget on average”.

#### **4. The impacts have not been thoroughly assessed**

- The impact on groups protected under the 2010 Equality Act has not been thoroughly assessed.
- The government’s Impact Assessment states that *‘Households that include someone with a protected characteristic (as defined by the Equality Act 2010) will be affected by this policy if they receive tax credits. Overall those groups who are more likely to be in receipt of tax credits are more likely to be affected by this policy change.’*
- We believe this analysis is inadequate as it makes no attempt to identify the impacts on protected groups or consider how these might be mitigated. Neither has the government assessed the impact of the cuts on child poverty.

#### **What the Government should do to tackle child poverty**

CPAG’s programme for the 2015 government sets out six important steps to tackle child poverty.

##### ***Now***

1. Make ending child poverty a national economic and social policy priority, and mandate spending to prevent child poverty as a spending review priority.

##### ***First year***

2. Develop, fund and implement a long term plan to end child poverty.
3. Back working parents by helping them bring home a decent income and by strengthening universal credit. This means:
  - Supporting the living wage and family-friendly jobs. We welcome the increased minimum wage but more could be done.
  - Boosting the work incentives in universal credit for parents
  - Providing back-to-work support that works with parents
  - Ending fees for child maintenance applications and collection.
4. Reduce the demand for foodbanks by ending costly delays and poor decision-making in the benefits system by:
  - Instituting a broad, independent review into the use of sanctions, as recommended by the cross-party Work and Pensions Committee in March 2015
  - Ensuring the benefits system operates smoothly and emergency provision is advertised clearly
  - Ending fixed-term sanctions.

***Over the Parliament***

5. Protect families from rising living costs by:
  - Restoring the value of children’s benefits
  - Protecting children’s benefits with a ‘triple lock’
  - Poverty-proofing the school day – protecting free school meals and ensuring uniforms, trips and equipment are affordable.
  
6. Develop and fund an ambitious childcare strategy. We warmly welcome the increased free childcare offer but gaps remain for parents who are job-seeking or who have school-age children and require childcare before/after school and in the holidays.

**Contact**

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