

Save child benefit

**CHILD
POVERTY
ACTION
GROUP**

Rys Farthing

CPAG policy briefing: March 2012



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CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes, training courses and publications.

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One

Overview: meeting the costs of a child

Child benefit, the only near-universal payment for children, is under threat. The only payment that recognises that people who have children need more money than people who do not – whatever their income – is in danger. The amount of child benefit paid to families has been frozen until 2014 and, from 2013, will also be ‘clawed back’ from many families in a complex and deeply unfair way.

What is child benefit worth?

Child benefit:

- ◆ values all children;
- ◆ meets some of the costs of raising a child;
- ◆ recognises that everyone benefits from a decent childhood;
- ◆ shares the costs of having children, both across an individual life cycle and between people.

CPAG has spoken to families across the country about the impact the changes to child benefit will have on their lives. We polled 642 parents about what they currently use child benefit for, asked another 347 about what the changes will mean for them and ran a focus group with 12 young people. The views of over a thousand people are included in this report.

A poll was conducted of 642 parents, who were asked about their spending priorities for child benefit. Over half of respondents said that they spend their child benefit on clothes or shoes (51 per cent), just over one-quarter spend it on food (26 per cent), and one-fifth spend it on their child’s education or related things (16 per cent). There is a difference in the way child benefit is normally spent between families across the social spectrum. For example, families in social classes D and E are more likely to spend it on bills, such as electricity and council tax, while those in social classes A and B are more likely to save their child benefit.

In addition, CPAG conducted an online survey of 347 parents:

- ◆ There was a sense of dread about the effects of the changes to child benefit on their family incomes.
- ◆ They spoke about cutting back on necessities, like food and fuel, as well as missing out on important treats, like buying birthday presents or going camping.
- ◆ Some had already planned strategies on how to stretch family budgets even further, such as going without childcare or seeing

relatives, but too many simply did not know how they were going to cut back.

- ◆ Many were furious about the unfairness of the resulting 'cliff edge' as child benefit is clawed back.
- ◆ Parents said that the proposed reforms showed a lack of respect for children and families, with the independent incomes of mothers being hit the hardest. They thought that payments made for children, and spent on children, were being cut to deal with the deficit. No parent thought their child should pay for the financial crisis.
- ◆ Overwhelmingly, parents spoke about the unfairness of the proposed reforms, and of simply being unable to afford the changes in such a harsh economic climate.

'The name of this gives it away, "child benefit". How could you take away something that benefits children?'

We also conducted a focus group with 12 young people, who also said that the changes to child benefit were unfair. They believed they all cost far more than £20.30 a week and that many families were already struggling to meet young people's needs. They also felt that their age group had been unfairly targeted by recent policies. Along with recent increases to university fees and the abolition of the education maintenance allowance, the young people we spoke to felt they had received tough treatment. They said that the child benefit changes went against the grain of the recent increase in the minimum school-leaving age. They felt that child benefit helped meet their needs while they were required to stay at school for longer and, if the amount decreased too much, they were worried that they would have to get jobs to help make up their family income.

This report forms part of CPAG's campaign to save child benefit by addressing the impacts of both the freeze and the claw-back. This campaign recommends the following:

- ◆ In the 2014 Budget, when the three-year freeze of child benefit is over, child benefit must be uprated in line with three years of inflation.
- ◆ The proposed claw-back of child benefit from higher rate taxpayers should not be implemented.

For more information about the campaign, see www.savechildbenefit.org.uk.

Two

What is happening to child benefit?

What is child benefit?

- ◆ Child benefit is a payment made for every child. It is paid to the main carer (usually the mother) to contribute to the costs of raising a child.
- ◆ All children under 16 (or up to 19 if in full-time education or training) qualify for support.
- ◆ Around 7.8 million families across the UK are supported by child benefit.
- ◆ Child benefit rates are currently £20.30 for the first child, and £13.40 for the second and subsequent children.
- ◆ Currently, the estimated cost of raising a child from birth to 21 in the UK is £210,000, or £192 a week.¹
- ◆ Child benefit began in 1977 as a payment of £1.50 for each child per week, paid to mothers. It replaced the previous family and child tax allowances because:
 - ◆ families on low incomes do not benefit as much from tax allowances as high earning families; *and*
 - ◆ tax allowances help the main earner in a family, usually men, while child benefit is paid to the main carer, usually women. Studies have shown that payments made to women are more likely to be spent on children.²

The 2010 Budget announced that the amounts of child benefit would be frozen for three years, from April 2011 to April 2014. With inflation and the cost of living rising so steeply, this means that the value of child benefit will have been cut by over 10 per cent by 2014.³ By 2014, a family with one child will be around £130 a year worse off than if child benefit had been increased each year in line with inflation. A family with three children will be £285 a year worse off. Around 7.8 million families across the UK will lose out from this freeze. At the same time, the costs of raising a child are increasing well above inflation rates.⁴ Costs are growing, while support is shrinking.

From 2013, child benefit will also be 'clawed back' from families in which at least one parent is a higher rate taxpayer. It is proposed that families will continue to receive child benefit, but the higher rate taxpayer will have the amount recovered through the tax system. By 2013, the threshold for the higher rate tax bracket will be around £42,475 a year. This claw-back will happen regardless of family size,

disability and the income of the other parent in the family. It means that the UK's tax and benefits system will no longer recognise the extra costs of having children that are faced by all families across all incomes. An estimated 1.5 million families will be affected.

The claw-back will introduce a dramatic 'cliff edge'. If one parent earns so much as £1 over the threshold, the whole household stands to lose thousands of pounds in child benefit.

Child benefit has been vital to family incomes for 35 years and it continues to provide recognition of children in the tax and benefits system. Families with children, at whatever income level, have higher costs than those without, and the tax and benefits system should recognise this. Most people have children at some point in their lives, and this is a time when costs are higher and income tends to be lower as parents juggle work and childcare responsibilities. A universal child benefit scheme helps redistribute resources and tax contributions over a person's lifecycle.

Child benefit replaced a tax allowance made to parents in recognition of the extra costs of raising a child, but was reformed into a payment because tax allowances generally benefit the main earner (usually men) and are worth more to higher income earners. Child benefit is paid directly to the main carer (usually mothers) and is worth the same amount to families on both high and low incomes. The proposed claw-back will mean that, for the first time in over a century, the tax and benefits system will not recognise the additional costs of having children.

Every other European country, except Italy, offers a universal child benefit or a child tax allowance to all children. The UK is about to become the second exception. Child benefit is our way of making sure that the whole community contributes something towards the costs of a child, because we all benefit from children. Everyone – childless people, as well as those with children – will eventually benefit from the productivity of today's children, so society should share the cost of bringing them up. Children are not a 'private luxury', they are our future and also people in their own right. Children are also members of our community now, and are entitled to live happy and healthy childhoods.

While the government is giving some families more support through above-inflation increases to child tax credit payments, this does not undo the damage that the reforms to child benefit will bring because:

- ◆ not all the increases to child tax credit will now go ahead;
- ◆ it is means tested, so not all families receive child tax credit;
- ◆ child tax credit does not have the same take-up rate as child benefit and therefore does not protect all children growing up in low-income households. In 2009/10, 96 per cent of eligible children received child benefit, compared with only 81 per cent of children entitled to child tax credit;⁵
- ◆ the impact of other changes to the tax and benefits system are disproportionately affecting families with children. Median incomes

for families with children are expected to drop by 4.2 per cent by 2015 – much higher than the overall drop of 0.9 per cent;⁶

- ◆ child benefit recognises the extra costs of raising children. Reducing child benefit to pay for child tax credit means that only higher income households with children are expected to help out. We think that *all* higher income households, including (and especially) those without children, should be asked to do their bit.

These changes are *unfair* as children, and families with children, are being targeted to deal with the economic deficit. The reforms are also *unworkable*, as elements of the claw-back are impossible to implement within the current tax and benefits system. And, with incomes already under pressure, they are *unaffordable* for too many families.

Notes

- 1 Liverpool Victoria, *Cost of a Child 2012*, 2010, www.lv.com/upload/lv-rebrand-2009/pdfs/other/11665_LV_coac.pdf
- 2 J Goode, C Callender and R Lister, *Purse or Wallet? Gender inequalities and the income distribution within families on benefit*, Policy Studies Institute, 1998
- 3 Calculated using OBR CPI predictions made in March 2011.
- 4 www.guardian.co.uk/money/2011/feb/24/cost-of-raising-child
- 5 www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-take-up-09-10.pdf
- 6 Family and Parenting Institute, *The Impact of Austerity Measures on Households with Children*, 2012, available at www.familyandparenting.org/resources/fpi/documents/fpi_ifs_austerity_jan_2012.pdf

Three

What is child benefit spent on?

CPAG commissioned a poll of parents to find out how child benefit is spent. Populus, the polling company, interviewed 642 parents of children under 18 in early February 2012. Results were weighted to be representative of all British adults.

Of those parents interviewed who were aware that they received child benefit, over half of respondents stated that they spend their child benefit on clothes or shoes (51 per cent), just over one-quarter spend it on food (26 per cent), while one-fifth spend it on their child's education or related things (16 per cent). Table 1 outlines the spending priorities.

Table 1:

What is child benefit spent on?

Clothes/shoes	51%
Food	26%
Education/books/uniform/fees/trips	16%
Nappies/wipes/baby products/formula milk	9%
Activities for children/extra-curricular activities	7%
On the children/anything they may need (not specific)	5%
Savings account/trust fund for children	4%
Bills/heating/electricity/water/phone/council tax/mortgage	4%
Birthdays/Christmas/gifts/treats	3%
School dinners	3%
Children's travel expenses/bus and train fares	3%
Day-to-day living/general expenses (not specific)	2%
Toys/general expenses (not specific)	2%
Childcare	1%
Holidays	1%
Pocket money for children	1%
Toiletries	1%
Other answers	2%
Don't know	19%

Parents mentioned a range of spending strategies for child benefit, from using it to purchase 'general food and household things, not specifically penny for penny on things for the kids', to providing 'whatever they [the children] need at the time: socks, uniform for school, nappies formula.'

There is a difference in the way child benefit is normally spent between families across the social spectrum. For example, families in social classes D and E are more likely to spend it on bills, such as electricity and council tax, while those in social classes A and B are more likely to save their child benefit (see Table 2).

Table 2:

Child benefit spending by social class

	AB	C1	C2	DE
Clothing or shoes	46%	57%	48%	53%
Food	19%	27%	27%	30%
Education	16%	16%	17%	16%
Activities for children	8%	9%	8%	3%
Savings	9%	6%	1%	1%
Bills	2%	3%	4%	6%

Changes to child benefit could therefore have a big impact on family spending habits. Where families are using child benefit to pay for items for children, this may mean that children go without. Where families are using child benefit as a valuable part of the family kitty, to pay for bills and utilities, this may mean that families themselves start cutting back on vital necessities.

Four

What do parents think about child benefit?

CPAG conducted an online survey of 347 families, asking for their thoughts about child benefit and the proposed changes. Some specific questions were asked about how child benefit was spent, what the freeze might mean for them, and whether or not they thought they would be affected by the 'claw-back'. Parents were also invited to offer their own thoughts about the child benefit scheme, and what it meant to them.

The analysis below brings together parents' thoughts on a range of themes that emerged, most notably, that the child benefit reforms show little respect for both their children and their families, and that they have financial fears for the future as a result of both the freeze and the claw-back. There was a general sense of anger about the unfairness of the proposed changes. The analysis below includes direct quotes from parents as much as possible (although corrections for basic mistakes and grammatical errors have been made).

Child benefit is for children

Parents emphasised that child benefit payments are spent mostly on their children, and that any reductions will therefore affect their children first. One parent noted that child benefit was crucial to enable her children to 'live reasonable and happy lives with pride and self-respect'.

'It goes straight to my kids and it's them that it will hit.'

'Child benefit allows me to buy things for the kids that I would otherwise not be able to afford to. When they were young, I couldn't wait for them to get older so that I did not have to pay for childcare as this is expensive. Although they no longer need childcare, they are both teenagers and the demands they make mean that it is more expensive looking after them now than when they were young, even although I used to pay a lot in childcare then. They are not overly demanding children – they just want to do 'normal' teenage things – go to the cinema with their friends...etc.'

'It's a real helping hand every month and helps us provide a healthier life for our child. It is really helpful in allowing my children to take part in active classes that we would otherwise not be able to afford.'

Child benefit is earmarked for expenses related to children. Many parents spoke about putting child benefit into a separate bank account, to make sure that it could be spent on enriching childhoods. For children growing up in low-income families, these earmarked payments not only meet essential costs, but enable them to have the occasional treat or extras such as 'going for pizza, [but] we really don't do this regularly'.

'It makes a significant difference to the quality of life and clothing our children have. We have a joint income of £28,000 [per year] and depend on it.'

'As a working lone parent I found that child benefit was a valuable source of income at critical times of need. It certainly assisted with the very basics required and prevented my children being even more deprived than they currently were. As my children grew older, it allowed them to participate in activities that their peers undertook – such as going to the cinema, swimming, and even purchasing books to help them with their studies.'

However, all parents stressed that, increasingly, as times got tougher, their child benefit was being used to meet basic necessities, rather than treats or extras.

'I use the whole child benefit in July and August specifically for school uniform.'

'I have noticed how the value of child benefit has eroded. It used to be used towards more of my child's expenses and contributed towards treats. Now it contributes towards essentials.'

'We are constantly encouraged to follow a healthy lifestyle [by the government] in order to lessen the problems of obesity etc. I agree this is vital, but you cannot expect families to be able to afford fresh fruit and vegetables in this economic climate without some assistance.'

'Child benefit helps me provide shoes for my children... correct fitting ones can cost £30 plus per child. It means my children have a winter coat, which is important where we live as six to eight weeks a year we have a significant snowfall.'

Parents expressed anger about the unfairness of making children pay for the deficit. They saw the changes as an attack on their children and expressed disbelief about the political priorities that had made children an easy target.

'Children didn't get us into this mess. Greedy corporate players got us into this mess and they are still enjoying lifestyles that exceed anything that we could possibly dream of. I'm sick to think that I won't be able to take my children camping in Cornwall next summer but there are players in the banks who are no doubt still enjoying several holidays a year and are disappointed that they might have to cut back on the skiing for a while.'

'Child benefit should be seen as an investment for the future. My children are going to be the ones relied on to put money back into the system in years to come, so why are they being penalised now?'

'Taking money from kids is immoral.'

'It's not good enough for the government to say that it only affects a few families. Those few families matter. It is lazy government policy making. We aren't all in this together when the burden falls disproportionately. And I'm sick of millionaire or supremely wealthy Cabinet ministers saying this time and again. My partner is a civil servant, so his income is already frozen – ie, falling. He is being required to additionally fund his pension... we have already lost tax credits of approximately £43 per month and we live in the south east of England with an expensive fixed-rate mortgage and staggering house prices. How does the government expect our household to survive in these circumstances? We are not all in this together!'

Respect for families

Many parents, especially mothers, spoke about the changes to child benefit affecting their family life and their sense of economic security. Unlike child tax credit, child benefit is usually paid to the main carer, usually mothers. Mothers spoke about these payments providing them with a sense of independence and recognition of the value of the caring work they provide. For many mothers who were not in paid employment, child benefit was the only independent source of income available to them.

'As a stay-at-home mum, it gives me an income to take my kids to groups etc, without the indignity of asking my husband for money.'

'It is a disgrace that I am being put in the position where I will have to ask my partner for support with my children.'

'Child benefit [was] an important way of ensuring that non-earning parents in a couple had some money of their own.'

'All my child benefit is spent entirely on the children. So much for ensuring all policies protect the family unit. This is so destructive and anti-women and children.'

'Before I had my family I worked in the City in a high pressure job, working long hours and I was paid well for it. However, my "job" now is much harder and longer hours... I plan to return to work once both my children are in school. To do so before then would be impossible as childcare costs are prohibitive.'

For some mothers, knowing that they were entitled to child benefit had influenced their decision about childcare, helping them to be able to choose to leave work or reduce paid employment while their children were young.

'Child benefit is what it says on the tin, a benefit for children that allows some mums the choice to work part time or even not work in order to raise their children.'

Many families had been experiencing more financial strain over the last few years and some spoke about how this could spill over into family tensions.

'When household budgets come under strain, so do marriages. The government says it supports the family, but this measure removes one of its great supports.'

'Having young children is the most expensive and generally stressful time in a person's life. The current situation puts huge pressure on couples and families. I'm surprised that the Tories want to be responsible for an increase in the breakdown of middle-class families.'

A handful of respondents went so far as to outline the importance of child benefit in cases of domestic violence, where a sense of financial dependence can make it even harder to seek safety.

'The government is choosing to ignore the fact that one in four women suffer domestic violence. It is common across all classes and income groups and it is a well known fact that women are more likely to spend money on children'

than men are. If child benefit is cut back... children may well suffer and women will be prevented from saving enough to escape with their children where the men keep tight control on the finances. Financial abuse is common where other domestic abuse occurs.'

Mothers faced with the prospect of having their child benefit clawed back because of their partner's earnings were angry about the prospects of being left without any independent income.

'It ... is a slap in the face for the status and value of mothers, who are subsidising the careers of men by taking care of the childcare and housework.'

'Child benefit is paid to the main carer, usually the mother, which is me in this case. This gives the mother some independent money that can be prioritised on the children. If this money is removed from my income, I have to seek it from my partner. The government assumes that a higher rate tax-paying partner will have the means and generosity to cover the loss. My partner has neither the means nor the generous spirit. I will lose this income for the children and it won't be replaced by my partner. I suspect that there are many, many more women out there for whom the child benefit represents a vital lump of independent money. Furious doesn't begin to describe how I feel about this. Shame on this government for an inexcusable piece of crass, unjust policy making. Please quote me on that!'

'With three children and a partner who works away from home, I find it difficult to work as [I] cannot afford childcare. Child benefit is therefore the only income I regularly receive. If we lose this we will have to cut back on everything, including clothes, children's activities and food.'

Mostly, however, all families talked about child benefit providing a little bit of respect; respect in terms of recognising the financial needs of their children and the importance of mothers' own incomes.

The consequences of freezing child benefit

A three-year freeze on child benefit is already biting hard on family budgets. With inflation running at above 4 per cent (RPI), the real spending value of child benefit is taking a hit.

Table 3:

Estimated amount of value child benefit will have 'lost' by 2013/14 compared with if it had been raised in line with inflation (for families without a higher rate taxpayer)

Family with one child	£125 a year
Family with two children	£205 a year
Family with three children	£286 a year
Family with four children	£367 a year

The freeze on child benefit payments is already taking its toll, especially on lower income families.

'I am really struggling to keep our grocery bills down, food is just so expensive. Unfortunately I think we will have a less varied and healthy diet as meat, fish and fruit and vegetables are so expensive.'

'It's the extras like school trips which will have to go, extra-curricular activities that require payment. Very concerned that although these are considered luxuries, it is the basics that will suffer too. We are in debt now so it will only get worse.'

'[The freeze] will mean that I will need to shop strategically. For instance, my middle child never gets new clothes and to add insult to injury, he's a boy so gets his sister's hand-me-downs. He is already feeling uncomfortable wearing his sister's old clothes, but there isn't the money to buy them all new clothes.'

Some mothers were already talking about taking desperate measures.

'I'm already on value cheap food and run the house with no gas, so I suppose I'll have to take the children out of school. We are a family with no alcohol and fags habits but find it very hard to live. So I'll home educate if this is the case.'

'Will have to sell things, give up sleep to get a night job. [We will go without] basically everything.'

The cuts to child benefit were painful for all families who responded to the survey. Britain is just coming out of one of the deepest recessions since the 1930s, and fears of a double-dip recession loom large. Parents spoke about the broader financial pressures they were experiencing and of the impact of economic insecurity on their families.

'Our budget is under a massive strain. We walk everywhere as petrol is so expensive. We visit family less as they are over a hundred miles away and we can't afford the petrol. We had to rely on the generosity of a grandparent to get a new washing machine when ours broke. The rise in tuition fees at university makes me feel bleak about my children's future and the increase in pension age makes me depressed about my own retirement.'

'Yes, never had it so hard – life is a struggle.'

'Our standard of living has dropped. Constant stress of looking after the pennies.'

'Husband and I now eat cereal for dinner to try and avoid debt each month.'

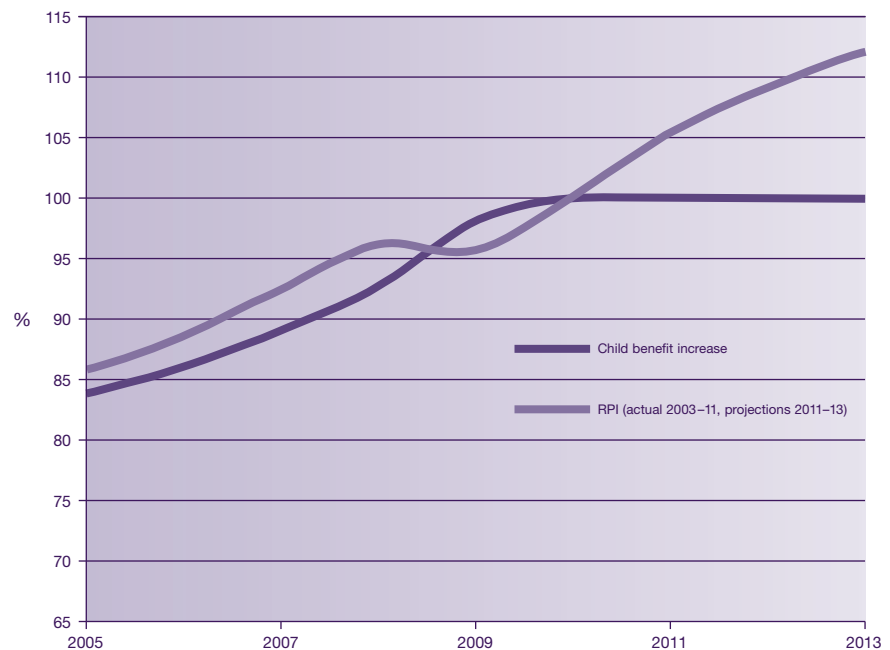
At the same time, families were acutely aware that inflation and the cost of necessities were increasing much faster than their family's income. Figure 1 shows the increases in the rates of child benefit and inflation.

'Food is more expensive. Child at sixth form is more expensive, bus fare must be paid etc. School trips are increasingly expensive. Clothes for teens are more expensive as they grow out of children's ranges and wear adult sized shoes.'

'Everything has risen in price. Petrol, food, energy, clothing etc. We have always lived within our means, but our 'means' are not stretching as far as they used to, to the point where even the basics are becoming harder to maintain.'

'We constantly review our budget and all the savings we make are outstripped by increasing prices.'

Figure 1:

Child benefit and inflation rates (RPI), held constant in 2010 terms

The consequences of the claw-back

While many families are already feeling the bite of the ongoing freeze of child benefit, many middle income earners are gearing up for the substantial losses of child benefit to be introduced in 2013.

Table 4:

Annual amount of child benefit that will be lost by families with a higher rate taxpayer in 2013/14

Family with one child	£1,055.60
Family with two children	£1,752.40
Family with three children	£2,449.20
Family with four children	£3,146.00

While the proposed claw-back will only affect families with an income over £42,475 (and at least one parent earns enough to be in the 40 per cent tax bracket), many parents were keen to point out that, in this day and age, this is not a lot of money.

'Child benefit improves children's lives even when one parent earns more than £42,500. This threshold is far too low.'

'I ... think that anyone who thinks that an income of £44,000 plus does not require child benefit has not surveyed families in that income bracket. I earn quite a bit more than that and still we only just make ends meet as a family.'

'One wage of just over £43,000 for a family of five is not a high income. We voted Conservative because we thought they supported family values. I stayed at home to bring up our children. I now need to return to work to earn the money that we will lose. This is very difficult when you have three kids' childcare to consider and the fact that there are no jobs. Our child benefit

was taken into account as earnings when we got our mortgage so it will be such a struggle when we lose it.'

An overwhelming sense of dread emerged from parents' narratives, and many were struggling to see how they could stretch already stressed family budgets even further.

'I am dreading losing [child benefit], times are hard enough as it is.'

'This will massively impact on my family. We have one wage earner just over the threshold and can't make ends meet currently. This is our emergency fund and will definitely mean we will not be able to afford even the cheapest family holiday as we need to be mindful of unforeseen emergencies.'

'I dread to think of the impact this will have... my husband already works very full-time hours and I think I will have to look to do the same, which will mean having to find a cheap childcare provider for my only child. We've already made significant changes, we hardly buy new clothes these days and have to consider car journeys because of the cost of fuel. We do our food shopping differently now... it does make you wonder where other changes can be made.'

'We now have no disposable income whatsoever. Every penny is accounted for, and when child benefit stops, we are going to struggle to find more ways to cut. We'll be cold!'

'We will basically be poorer as a family; already we struggle some months with all the outgoings. We might have to think about stopping some after-school clubs and look carefully at our family budget in general. A proper summer holiday will probably be out of the question.'

Child benefit has been available to all families since the late 1970s, and many parents had already factored child benefit into their family budgets. The decision to claw back child benefit, decided and announced only a year ago, will affect them for years to come. Some parents suggested that a change like this really requires 18 years of advanced notice, so that parents can have a fair chance to decide whether or not they can afford to have a family.

'Our decision to have children hasn't been one we've taken lightly – we were married/paying a mortgage for ten years before we had our first, and any further decisions were considered in great depth. Even with our youngest child, conceived soon after the government announced child benefit would definitely stay as a universal benefit... this amount was factored into our decision to have another, so to now backtrack and take the money away is heartbreaking.'

Recognising the costs of children in the tax and benefits system

Child benefit was introduced in the late 1970s. However, for over a hundred years, the British tax and benefits system has recognised the costs of raising children, by either providing a tax allowance, direct

payments for children, or both (see Appendix). Between 1977 and 1979, family allowances and child tax allowances were amalgamated and transformed into direct child benefit payments, because tax allowances often benefit high income earners more and, importantly, because child benefit could be paid to the main carers (usually mothers) rather than the main earners (usually fathers). A number of families who will be affected by the claw-back recognised the important function of child benefit in balancing the 'tax take' between those with and those without children.

'It's not a benefit, it's a tax allowance. There has to be recognition in the tax system of the financial burden that raising future taxpayers for society brings.'

'It should remain a universal benefit paid for all children. The argument that those being paid the most should take the biggest hit as they have the broadest shoulders is a nonsense and distorts reality as we pay tax too, a much larger proportion of our income. It is also a nonsense to argue that those earning £10,000 a year (for example) are paying for my children's benefit – I pay for mine and also for theirs. That thinking just continues to pit 'rich' against 'poor' and is extremely divisive, fuelling the politics of envy and hatred... I strongly believe that this is a punitive, nasty measure that is ill-conceived, short-sighted (for the political long term as well. Why would my children even consider voting Tory in the future?), that is manifestly unfair, fuelling a culture of haves and have-nots instead of treating all children as equal.'

'I think is outrageous. My family will lose the only benefit they receive from the tax and benefits system in the UK. I pay thousands of pounds in taxes each year and now see no clear benefit from doing so outside of the normal education and NHS services. I think it is important that some benefits are paid to most members of society such as child benefit because it is inclusive and helps one feel like one is gaining something from all one pays in taxes... I feel very let down by the Conservative government for whom I voted, not least because it was never in their manifesto and indeed they pledged to do the opposite. I will certainly not be voting for them again and my vote makes a difference as I live in a marginal seat ... It seems to be another attack on the middle classes and particularly those with children.'

'As a working family I feel that we are being penalised when we are the ones who contribute to the tax system.'

For families who have a stay-at-home mum, the tax and benefits system will no longer recognise them or their children at all.

'It seems the [government's] claim that they support families is false. They allow a two-income couple with no kids to have two tax allowances and a couple with kids who have had to have one stop work get one allowance and now get their child benefit removed.'

'Targeting families with one higher tax payer is unfair as joint-income families will not be affected. This penalises families where one parent chooses to stop work to look after children.'

From 2013, the tax system will recognise:

- ◆ pension contributions;
- ◆ gifts to charity;
- ◆ trains between work meetings;
- ◆ work clothing;
- ◆ membership of professional organisations;
- ◆ printing letterheads;
- ◆ paying an accountant;
- ◆ a tax-free personal allowance for workers, of no value for full-time carers;
- ◆ a tax-free personal allowance for blind people, of no value for full-time carers.

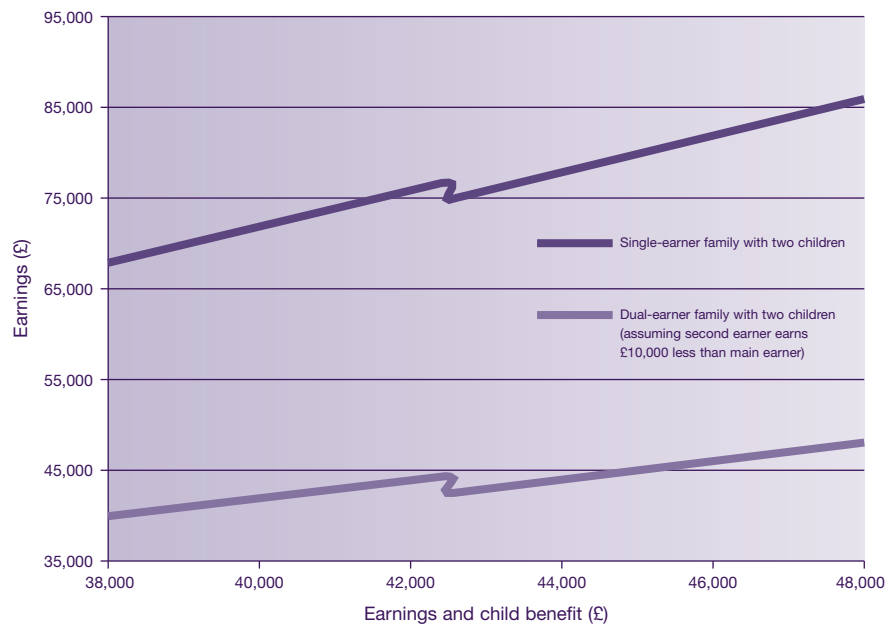
But it will not recognise children – often our biggest cost. This is what child benefit does, and why keeping child benefit universal is essential.

A steep ‘cliff edge’: the unfairness of the claw-back threshold

As well as the financial hardship, the proposed claw-back was roundly criticised by parents as being unfair. The mechanism, which is based on the income of only one earner in the family, will introduce a dramatic ‘cliff edge’ for families. This is inevitable, as the UK has individual taxation. If one person earns so much as £1 over the threshold, the whole household stands to lose thousands of pounds in child benefit. It also introduces deep unfairness into the system because entitlement depends on only one earner’s income: a family with two earners both earning just below the threshold can keep child benefit, whereas a family with one earner just over the threshold will lose it. For example, a family with two earners on £41,000 a year (or £82,000 in total) will still benefit from child benefit, but a lone parent or single earner on £44,000 will not.

Figure 2 illustrates the effect of the cliff edge on family incomes – the impact of suddenly withdrawing child benefit from the household’s income. It shows how, after earnings reach a certain point (when the higher rate tax bracket kicks in), the loss of child benefit sharply decreases family income. It also shows the disparity that can occur between dual-earner and single-earner households, with dual-earner households taking home much more than single earners before the cliff edge is reached.

Figure 2:

The impact of clawing back child benefit on take-home income

'Like most people, the biggest issue I have with the removal of child benefit is the way that it is being implemented. Our government has been banging on about "fairness", but there is nothing fair about a household bringing in £70,000, because two people earn £35,000 each, keeping their child benefit, while a household with a single earner of £42,000 loses theirs.'

Parents spoke about the cliff edge as a financial disincentive to do better. Child benefit payments do not currently create a poverty trap. They unambiguously encourage income progression and therefore social mobility. The proposed claw-back will undo this.

'I am a single parent who has made the sacrifices for my children and has studied at university to improve my family income for our lives. I work full time and already cut back... because I have managed to get a good job I will lose out on a benefit that assists me in clothing my ever-growing children.'

'Because I've done well in my job and been promoted we will lose the child benefit – I'm seething about it. It's a very unjust system and does not give you any incentive to improve yourself.'

Many talked about needing to implement tricky 'fixes' in their family finances to make sure their incomes did not fall.

'My husband will be going to a four-day week so that his salary falls below the cut-off, and I will go out to work that day instead. Not ideal by any means, but £3,000 is a lot of money.'

Five

What do young people think about child benefit?

As child benefit is the only near-universal benefit for children, we thought it was important to include at least some young people's thoughts about the changes. To this end, we conducted an hour-long focus group with 12 young people at a youth club in London. The young people were mostly aged between 13 and 15 years old (although we also spoke to two 17/18-year-olds), comprising 10 boys and two girls. Young people wrote their thoughts on post-it notes as the discussion progressed, and these are the origins of the quotes presented below, albeit with some corrections for grammar and spelling. Although we did not ask them about their family circumstances, the conversation suggested that the young people came from a range of households across the income scale, from out-of-work single-parent households to dual-earner homeowners. We asked them initially if they felt that all families with children should receive some financial support from the government and, after briefly outlining the changes to child benefit, directed the subsequent conversation towards these changes specifically.

All the young people with whom we spoke thought the proposed changes – both the freeze (framed as child benefit being worth less) and the 'claw-back' (framed as not available to higher earners) – were unfair. They felt disrespected by the political priorities that had made the finances of their families a target. A number of young people felt, for example, that money spent on the Olympics, replacing bendy buses or on 'wasted, pointless things' would be better spent on helping families with children.

They were all aware that they 'cost' more than £20.30 a week, often 'way more than that', and while ideally parents should be able to meet these costs, too often they simply could not. The fact that parents need to feed their children was discussed at length, and the young people thought that the freeze on child benefit would probably reduce the quality of food available to them.

The group was also acutely aware of other reforms that were reducing the amount of financial support available to them. The child benefit claw-back was aligned with the increase in university fees and especially the loss of education maintenance allowance payments, as a collection of reforms that they felt unfairly targeted their age group. They were also aware that many of their peers – and perhaps themselves – were struggling more than they had in the past and that the freeze would make things harder. Members of the group spoke of parents losing jobs and classmates going without meals. They felt that the combination of hard times and changes to child benefit, university fees and the education maintenance allowance was a recipe for disaster for their generation.

'Because not every child/teenager will be able to afford university fees and because if parents don't have much money and are struggling, so it's hard work as it is.'

'We don't get enough child benefit because if you have three kids and you're a single parent you are going to struggle.'

There was also a substantive discussion about the contradictions between increasing the minimum school-leaving age and the changes to child benefit. Young people were worried that if their support was being cut, they should be able to work to make up this loss of family income. They specifically requested that we ask policy makers to look at reducing the legal minimum working age and the length of the school day. They had an implicit understanding that completing their education was their contribution to society and felt that child benefit helped recognise and facilitate this. As one young man put it: 'If they make us go to school, we need more help', or another: 'If you ditch child benefit, we'll need to work'. A young woman suggested that if young people had to leave school to go to work, it would 'be like going back to the 40s' and the whole economy would suffer. The group strongly felt that they were the future of the country, and that child benefit should be provided to all families to help them achieve their full potential.

At the conclusion of the focus group, we asked the young people to write (or dictate) a final thought on a post-it note.

*'You shouldn't stop child benefits because it's not fair that the country is going to struggle to provide for their children.'*¹

'You shouldn't give up child benefit because it will cause more poverty.'

'Poor families will have to cut spending on essentials and funds will have to go to school instead of the things that the kids want.'

*'If you're not going to raise our benefits, everyone is going to stop going to school and get small jobs, which a lot of children already do. So if you want to carry on lowering our benefits [education maintenance allowance and child benefit] the economy is going to be ruined and you'll be making a massive mistake that will affect the UK very soon. So have a good, good heart and think about us, not the money and power.'*²

Notes

- 1 Christie, 13 years old
- 2 Ashton, 13 years old

Six

What is wrong with the changes to child benefit?

1. They are unfair to families with children

- ◆ Only families with children will lose out from the changes to child benefit, not households that do not have children.
- ◆ Many of the wealthiest households are not affected by the changes, because they do not have children. Everyone should have to pay their fair share, including all wealthy households.

2. They are unfair to women

- ◆ Child benefit is paid to the main carer – in most cases, mothers – so it is women's income that will be cut. Women already earn, on average, 20 per cent less than men.¹
- ◆ Research shows that, in many households, income is not shared equally. Providing women with child benefit payments ensures that mothers have some independent income to help meet their children's needs. Research shows that paying mothers and clearly labelling money 'for children' is the best way of ensuring that money is spent on children.²
- ◆ Women with partners who fall into the higher income tax bracket who choose not to work while caring for their children will 'pay' by losing their child benefit twice. Entitlement to child benefit is currently used to provide automatic entitlement to state retirement pensions. Without child benefit, many mothers could lose out again in their old age as their pension entitlement will be reduced, while that of their husbands will not. An estimated 1.5 million mothers will be affected by this.

3. Families cannot afford them

- ◆ Stagnating wages and rising costs mean that many families are struggling. Real disposable incomes and living standards are falling as families are forced to make difficult choices.³
- ◆ Parents spend child benefit on their children. Cuts to this benefit mean they will have to decrease spending on things like clothing, shoes and food.
- ◆ For many families, an increase in child benefit payments may make the difference between just getting by and falling into debt and poverty.
- ◆ The cost of raising a child from birth until the age of 21 has reached

£210,000 – £192.50 a week. The cost of raising a child is increasing above inflation rates and well above average wage increases. Cutting support for children at a time when the cost of raising children is increasing does not make sense.⁴

4. The mechanism for the claw-back is unfair and unworkable

- ◆ The proposed mechanism to claw back child benefit through the tax system is unworkable.
- ◆ It has been suggested that if child benefit is paid to a household with a higher rate taxpayer and s/he declares this on her/his PAYE or self-assessment form, the amount of child benefit paid to the household will be taxed back from her/him. However:
 - ◆ the government has no way of checking if someone's partner receives child benefit, or how much child benefit s/he is paid. Because we have individual taxation in the UK, HM Revenue and Customs does not keep information on partners. This is likely to produce a lot of errors;
 - ◆ parents might not be able to say, even if they want to, that they receive child benefit on their PAYE or self assessment form. Many people might not know if their partner claims child benefit or pays the higher rate of tax, or couples might not want to tell each other. Unless the government is planning to pass a law to require all couples to share details of their finances, this will be unenforceable.
- ◆ If families do tell the government that they are receiving child benefit, a costly new administrative system will need to be in place to ensure that it can be clawed back. A new IT system will be needed to oversee this.
- ◆ Increasing complexity will mean an increasing number of errors and delays in payments. Families may be left without child benefit when they really need it, or face paying back overpayments running into thousands in one lump sum.
- ◆ Child benefit currently goes to families regardless of whether they are working, working part time or full time, regardless of salaries or hours. Many families just below the threshold for the higher rate of income tax who take on extra hours or get a promotion could lose their child benefit payments.
- ◆ Clawing back benefit discourages income progression, breaks ambition and decreases social mobility. The poverty trap, embodied in benefits like the new universal credit, should not be replicated in the child benefit system.
- ◆ Taking child benefit from families in which one earner falls into the higher rate tax bracket is unfair to single-earner households. A family with two earners on an annual income of £84,000 could still receive

child benefit, while a single parent earning £43,000 will not, regardless of how many children they have.

5. They do not recognise the importance of children

- ◆ Child benefit recognises the importance of every child in every household, and the increasing cost of raising a child.
- ◆ Article 27 of the United Nations Convention on the Rights of the Child, which the UK has signed, outlines an obligation on states to assist parents meet the material needs of their children.
- ◆ Every other European country, except Italy, offers a universal child benefit or a child tax allowance to all children.
- ◆ Many of these countries have less money than the UK, but still believe it is important to recognise the cost of children because of a moral conviction. Cutting child benefit is a political choice, not an economic necessity.

Notes

- 1 J Hills and others, *An Anatomy of Economic Inequality in the UK*, National Equalities Panel, 2010, http://sticerd.lse.ac.uk/dps/case/cr/CASereport60_summary.pdf
- 2 S Lundberg, R Pollak and T Wales, 'Do husbands and wives pool their resources? Evidence from the United Kingdom child benefit', *Journal of Human Resources* 32 (3), 1997, pp463-80; J Goode, C Callender and R Lister, *Purse or Wallet? Gender inequalities and the income distribution within families on benefit*, Policy Studies Institute, 1998
- 3 www.guardian.co.uk/uk/feedarticle/10014189
- 4 www.guardian.co.uk/money/2011/feb/24/cost-of-raising-child

Seven

Recommendations

To ensure that child benefit continues to respect the needs of children and the increasing financial strains on families, CPAG recommends the following.

- 1. Child benefit rates need to be restored.** When the freeze on child benefit is over, rates need to be increased in line with three years of inflation to restore them to what they should have been. With child benefit clearly being such an important part of family incomes, this is the only way to guarantee its value is maintained.
- 2. The proposed 'claw-back' should not be implemented.** As the proposals stand, they will introduce a deeply unfair and divisive 'cliff edge' for families with children. Even if this can be smoothed (as government ministers are hinting at the time of writing), the proposal itself is flawed in principle. Child benefit recognises the value of caring and enshrines the needs of children in our tax and benefits system. Child benefit needs to remain a universally available payment for *all* children.

Appendix **Child benefit timeline**

1798	Child tax allowance is introduced.
1805	Child tax allowance is abolished.
1909	A 'modern' child tax allowance is introduced. The amounts paid vary by the age of the child. They are available for the first child, and continue as long as the child is dependent, even if s/he is over 18 years old. It is 'paid' to earners – almost entirely men. It is also potentially worth more to higher earners, as they receive more of a 'tax break'.
1946	Family allowance is introduced. Small cash sums are made available to mothers for their second and subsequent children.
1950–1960	The value of family allowance does not keep up with inflation.
1977	Child benefit is introduced and phased in by 1979. It combines family allowance and child tax allowances, but pays them both as a cash payment, so that it goes directly to the mother and is worth as much to low earners.
1980–1983	Child benefit rates do not keep up with inflation.
1983	Child benefit is uprated again.
1985	There is much talk about abolishing or means testing child benefit, leading to the first Save Child Benefit campaign, chaired by CPAG and including 60 organisations.
1985	Child benefit rates are cut by 5 per cent.
1986	Child benefit rates are frozen for three years, taking its value to less than it was worth in the 1950s.
1987	The Save Child Benefit campaign continues, as there is a legitimate fear that child benefit is being abandoned.
1990	John Major announces his support for child benefit and rates are increased by £1 a week for the first child. Higher rates are now introduced for the first child.
1991	Child benefit is increased by a further £1 a week for the first child, and 20p per week for the second and subsequent children.
1991	The Save Child Benefit campaign decides that child benefit has now been 'saved' and symbolically changes its name to the Coalition for Child Benefit.
1991–1997	Child benefit is slowly uprated. By 1997, the rate for the first child is almost at the same level as it was in 1987, but support for a family with two children has fallen by 6 per cent as a result of earlier freezes and cuts.
1997	There is talk of limiting child benefit to those aged 16 and under, but this is not taken up.
1999	Child benefit is increased dramatically for the first child.
2000	Child benefit is given a small, real increase. Overall, child benefit levels are dramatically increased. Between 1997 and 2003, the rate of child benefit for the first child increases by 25.3 per cent, and the rate for subsequent children by 3.1 per cent.
2002	There is discussion about removing child benefit from parents whose children persistently truant.
2004	Child benefit is restricted to people who have a right to reside in the UK.
2005	The Child Benefit Act makes child benefit available for young people up to the age of 20 who are completing full-time education, provided they began their course when they were under 19.
2011	Child benefit rates are frozen for three years, decreasing at least 10 per cent in value.
2013	Child benefit will be clawed back from families with an earner in the higher rate tax bracket, ceasing to be a universal payment for the first time in its history.



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