BRIEFING ON THE DRAFT STATUTORY INSTRUMENT ON CUTS TO THE TAX CREDITS TAPER AND EARNINGS THRESHOLDS

Background

Set up in 1930, Equity is a trade union that represents over 40,000 actors, performers and other creative professionals working in the UK across the arts sectors and creative industries, including over 5,000 student members. Equity is not affiliated with any political party.

We know from our own surveying that many of our members rely on tax credits to help maintain them in the entertainment industry. The average income from self-employed entertainment work is less than £10,000 per annum and our typical members would therefore be classed as low income.

The creative industries as a whole makes a very significant contribution to the UK economy accounting for 5% of UK GDP according to figures released by the Department of Culture, Media and Sport at the beginning of 2015. However, workers in the entertainment industry are under very considerable pressure to sustain their profession due to a combination of local authority cuts, reductions in Arts Council funding and cutbacks in welfare spending. The LGA announced in July 2015 that cuts in local authority spending in 2016 could add up to £3.3 billion and in response our General Secretary, Christine Payne, stated that:

"We are deeply concerned about the crisis unfolding in local authorities. The most deprived areas of England have already dealt with an average funding cut of 18% since 2010, which has translated to a disproportionate cut of 22% to arts, libraries and heritage budgets. By the middle of 2014 the second poorest 25% of councils, which have faced an average resource loss of 10% had implemented a 19% cut to their culture budgets". This therefore forms the context in which our members face further income reductions through tax credit and other welfare changes.

Tax Credit proposals

The cuts to tax credits announced in the draft Statutory Instrument are likely to affect three million claimants[i] and will have a particularly heavy impact on families with children. Of current casework generated by our Tax & Welfare Helpline, over one third relate to tax credits queries and of those more than two thirds involved couples with children, those most affected by these proposals. It is therefore clear that many members will be suffer significant financial loss due to the proposed cuts.

Under the proposed legislation, the income threshold for tax credits will be reduced to £3,850 a year from £6,420 with effect from April 2016. The change in the taper will increase the rate at which tax credits are withdrawn from 41 to 48% and this will also take effect from April 2016.

There has already been some analysis done on the impact of these changes on tax credits awards[ii]. Under the current system, tax credits are reduced by 41 pence for every £1.00 that income rises above the relevant thresholds: £6,420 for Working Tax Credit claims, the same amount for Working Tax Credit and Child Tax Credit claims combined and £16,105 for Child Tax Credit only claims. These amounts are due to change to 48 pence in the case of the taper and £3,850 in the case of the income threshold relevant to WTC or WTC/CTC claims. LITRG calculations suggest that these two changes together with the freeze on some tax credit elements will also result in a reduction in the CTC only threshold to £12,125, although this has not been officially acknowledged. Whilst there has been some media coverage on the extent of these cuts their full impact has not become apparent.

Equity intends to carry out a lengthier piece of research over the coming months to follow the impact of the taper cut and income threshold changes on our members and we expect these to be devastating. However we have extrapolated the effect for three members in some fairly straightforward scenarios outlines below.

Effect of changes on Equity members – some examples

Case One – couple with two children aged under 16, he a self-employed actor, she in mainstream employment, aged 30-40. Based on annual income of £15,179. Under these proposal they would be worse off by over £1,800 per annum.

Case Two – couple with two children aged under 16, he a self-employed actor and she in part-time mainstream employment, aged 40-50. Based on annual income of £20,280. Under these proposals they would be worse off by approximately £2,200 per annum.

Case Three – couple with one severely disabled child under the age of 16, both self-employed actors, both over 45. Based on an annual income of £14,386. Under these proposals they would be worse off by nearly £1,800 per annum.

These cases will multiply many times over across our membership and make sustaining work in the profession increasingly difficult. Many members are prepared to make sacrifices to continue to do the performance work they love doing but substantial cuts in government support of this kind may make them think again, particularly when they have families to support.

It is also disturbing to note that the impact of the cuts has a disproportionate effect on those towards the lower end of the income scale something shown in our examples and borne out by more detailed analysis by the IFS[iii]

Conclusions

We would urge MPs to attend the debate on the Statutory Instrument and vote against the government's policy. These changes will impoverish the lives of many of our members who are already struggling to sustain themselves in the profession. Apart from its economic value, our entertainment sector is an industry leader in terms of its talent and quality; however, without a pool of talent to draw from that industry will decline. The combination of arts funding cuts and welfare reforms on this scale will lead to many members giving up the profession, many perhaps at an early stage in their careers.

As stated, we will be carrying out further detailed work on the tax credits changes and will communicate these to MPs in due course. In the meantime, we would urge you to show your support for our members by voting against these proposals. A copy of the draft Statutory

Instrument is attached to this briefing and is also available at the following link: http://www.legislation.gov.uk/ukdsi/2015/9780111138946/contents

Alan Lean, Tax and Welfare Rights Officer
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[i] Guardian article – "IFS picks the budget to pieces ...again" at www.theguardian.com/business/2015/jul/09/ifs-picks-the-budget-to-pieces-again

[ii] See for example the analysis by the Low Incomes Tax Reform Group (LITRG) at www.litrg.org.uk/News/2015/090715_tax_credits_cuts

[iii] Andrew Hood, "Benefit changes and distributional analysis", Institute for Fiscal Studies (IFS), at http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf