

Voices from the frontline...

Changes to Working Tax Credits

Introduction

The Scottish CAB Service forms the country's largest independent advice network. Citizen advice bureaux (CAB) are the key frontline service that hundreds of thousands of people turn to and they deal with over half a million new issues every year. As welfare changes begin to affect clients, CAS is producing briefings in our series *Voices from the Frontline*. These provide personal experiences of welfare reforms as they take effect in households across Scotland. Through these briefings, citizens advice bureaux will show the human impact of welfare reform.

Summary

In April 2012, changes to the number of working hours that couples must work to be eligible for Working Tax Credit affected thousands of families in Scotland. Around 11,770 families, with over 23,500 children, faced losing their Working Tax Credit payments (worth an average of £2,600 per year) if they could not increase their working hours to at least 24 hours per week. Case evidence from bureaux and other sources suggest that claimants have struggled to increase their working hours in the middle of a double dip recession. The outcome of this change is therefore likely to be that thousands of low income families in Scotland have lost millions of pounds of support.

Working Tax Credit

Working Tax Credit (WTC) is a payment for people who are working and on a low income, with or without children. It is part of wider government policy to provide support to parents returning to work, reduce child poverty and increase financial support for all families. Before April 2012, people in low-income work who were responsible for a child or young person, were receiving a disability related benefit, or were over 50 and returning to work, were eligible if they worked 16 hours per week or more. In addition, claimants were also eligible if they were aged 25 and over and worked 30 hours a week or more.

At the end of 2011, around 2.5 million families across the UK received Working Tax Credit payments. These families typically had low household incomes with 1.4 million recipient families having a household income of less than £10,000. There were around 208,600 families in Scotland receiving Working Tax Credit at the end of 2011.

April 2012 changes

Before April 2012, couples responsible for children, with one partner working at least 16 hours a week, could get Working Tax Credit. From April 2012, couples will now usually need to have joint working hours of at least 24 a week to qualify. This means that either:

- One person in the couple will need to increase their hours to at least 24 per week
- The other person will need to start working so that their combined hours increase to 24 (but with one partner working at least 16 hours)

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Around 11,770 families with 23,540 children in Scotland were affected by this change in April 2012 as their hours of work were between 16 and 24 per week. This includes over 2,000 families with 4,410 children in Glasgow. Unless they have increased the hours that they work, they are likely to have lost their entitlement to Working Tax Credits worth an average of £2,600 per family. For those eligible for maximum Working Tax Credit, the loss would be £3,870 a year. This will have a significant impact on the finances of low income families in a time of recession and will remove over £30m from the income of claimants in Scotland.

Evidence from citizens advice bureaux

In the five months following the changes, citizens advice bureaux in Scotland advised clients on 4,632 new issues related to Working Tax Credits (a 10% increase on the same period in 2011). Many of these clients had or were about to be significantly affected by the changes to Working Tax Credits with many losing their entitlement.

Unable to increase hours

Despite the changes being announced with the expectation that the economy would be growing again, bureau evidence shows that a number of clients had tried but were unable to increase the number of hours that they work in order to keep their entitlement. In addition, a survey of its members by the Usdaw union before the changes were introduced found that 78% of those affected were unable to find the extra hours of work that they need. Official figures released in response to a parliamentary question in May 2011 suggested that only 5% of families affected were able to get extra hours while almost all the remainder lost out.

- ▶ An East of Scotland CAB reports of a client who was concerned about losing her Working Tax Credit payments. The client worked 16 hours per week and had asked her employer to extend her hours to 25 per week from April to meet the new qualifying work hours for Working Tax Credit. The employer was unable to increase her hours leaving the client concerned about her finances.
- ▶ An East of Scotland CAB reports of a client and her partner who have recently lost their entitlement to Working Tax Credit because their hours worked per week are now too low. The client is unemployed and his partner works 16 hours per week. The client's partner is unable to get more hours at her current job but is looking for alternative work. They are also in receipt of Child Benefit and Child Tax Credit but these are due to be reduced as their elder child is soon to turn 16. The client and his partner wanted advice about other benefits they may be entitled to and how this would change if his partner found a full time job or stopped working completely. They were advised that the client will not qualify for income-based JSA or Income Support as his partner's working hours exceed the limits for 'full-time work' for these benefits.
- ▶ An East of Scotland CAB reports of a client who is worried about the changes to Working Tax Credit as she has a letter confirming that their payments will cease at the end of March. Her husband works 17 hours per week which is unlikely to increase. As a result, their income will be greatly reduced and she wanted to know whether there was a benefit she could claim to compensate.

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- ▶ A West of Scotland CAB reports of a family who have received a letter stating that their Working Tax Credit of £73 per week was being stopped. The client's husband works 16 hours per week and has no possibility of increasing his working hours in his current employment. The client states that the family was already struggling financially and was having difficulty paying for gas and electricity. The sudden cut, which the client did not understand, will have a very serious effect on the family's ability to live without running up debts.

Claimants losing hours

Whilst the Government hoped that claimants would be able to increase the number of hours that they work, in many cases the opposite has been the case. As the economy struggles to grow, not only are claimants struggling to increase the number of hours that they work, others are finding that employers are decreasing their hours. The number of families losing Working Tax Credit may therefore be higher than predicted if claimants continue to lose hours of work.

- ▶ A West of Scotland CAB reports of a client whose son lost his entitlement to working tax credits after his hours at work were reduced from 30 hours to 18 hours per week in June. The client's son has suffered a substantial drop in income and is now facing financial difficulties.

A disincentive to work

The Government hoped that the changes would provide an incentive for claimants to increase their working hours. However, with claimants struggling to find extra hours, the changes might instead prove to be a disincentive as families may decide that they are better off out of work.

- ▶ A West of Scotland CAB reports of a client who is struggling to cope with the loss of her Working Tax Credit payments. The client works 16 hours per week, but is considering stopping work altogether as she cannot support her family on the wages alone. The client is going to speak with her employer to see if they will increase her working week to 24 hours or more. If she cannot do this, the client is thinking about leaving her employment altogether and claiming JSA. However, if the client was deemed to have left her employment voluntarily she is likely to face sanctions to any JSA claim.

Changes to Child Tax Credits

Around 150,000 families in Scotland claim both Working Tax Credit and Child Tax Credit. This is significant because entitlement rules for Child Tax Credit also changed in April 2012, meaning that many families were affected by both changes. Before April 2012, families could claim Child Tax Credit if their income was not over the limit of £41,300. While entitlement depends on individual circumstances, the HMRC state that the changes in April 2012 mean that families may stop receiving Child Tax Credit if they:

- Have one child, and their annual income is more than around £26,000
- Have two children, and their annual income is more than around £32,000

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These changes mean that an estimated 73,300 families in Scotland will have lost Child Tax Credits worth around £545 per year. Citizens advice bureaux have advised a number of clients who have lost both Working Tax Credits and Child Tax Credits.

- ▶ Citizens Advice Direct reports of a client and her partner whose combined earnings mean that they are now over the threshold for claiming Working Tax Credit and Child Tax Credit. The client works part-time and her husband full-time, with their combined earnings (before deductions) coming to £26,530. Due to the new changes, they are over the threshold for Working Tax Credit and Child Tax Credit by £7,000 and £530 respectively. The client wanted to know if she would be better off reducing her hours as they are struggling to cope as a family with these changes.

Putting families into poverty

A press release issued by the Child Poverty Action Group in February 2012 warned that half a million children were at risk of being “plunged into poverty” as a result of the changes to Working Tax Credits. Due to the nature of tax credits, many claimants live on or near the poverty threshold. Therefore, families who have lost tax credits are at risk of moving below the poverty line. Citizens advice bureaux have advised clients who have lost their entitlement to tax credits and who have subsequently fallen into financial difficulties.

- ▶ An East of Scotland CAB reports of a client who wanted to know how to access a food bank as she and her partner simply could not make ends meet. The client has fallen into financial difficulties following the change in the rules for Working Tax Credit. The bureau referred the client to a local church for a food parcel. The client is going to try to increase her employment hours in order to receive tax credits again.

Conclusion

The changes to Working Tax Credits were announced in the expectation that the economy would be growing again and claimants would be able to increase their hours of work. Instead, the changes came in during a double dip recession and claimants have struggled to increase their hours. As a result, thousands of low income families across Scotland are likely to have lost the support that was designed to help them stay in work.

The changes have therefore worked against the policy intentions of the UK Government. Rather than ensuring that work always pays, these changes have meant that claimants in work are being penalised for working less than an arbitrary figure of hours. This removes the incentive to work and could actually serve as a discentive to work. The Government estimates that they will make savings of £550 million from the change. However, it may be low income families that are paying for these savings.