Response from Women's Budget Group
to Inland Revenue consultation document
New Tax Credits: Supporting families, making work pay and tackling poverty

1. Introduction

1.1 The Women's Budget Group (WBG) welcomes the opportunity to comment on the Inland Revenue consultation document *New Tax Credits*, and more generally the government's increased openness to discussion about proposed policy changes. We also welcome the recognition, in the partial regulatory impact assessment contained in the consultation document, that the impact on equality is a key issue. Our comments below take this as our starting point, and focus on the impact of the government's proposals on relationships and the distribution of resources and work incentives between men and women, rather than on the general framework for the new tax credits or on specific groups affected. We do not give detailed comments on the integrated child credit (ICC), as we have already done so in our recent written submission to the Social Security Select Committee's inquiry.

1.2 We are conscious that the relative significance of some of the comments made below will depend on the amounts of allowances, taper rates etc. in the new tax credits structure. There is no information on this in the consultation document. In addition, it is disappointing that there are no further indications of which groups are likely to be the major beneficiaries of the extension of tax credits to the childless (the proportion of single people to couples, different age groups etc.). If there had been more information, our comments could have been more concrete.

1.3 The consultation document is well structured and easy to follow. However, the use of 'household' is confusing, as 'household' usually denotes a wider group of people living together than the 'benefit unit' or 'family' which will in fact be the unit of assessment for the new tax credits. Several crucial issues of policy and administration are also left unresolved in the consultation document. Overall, more detailed attention could have been paid to the impact of family/partnership changes on the proposed arrangements.

2. Welcome features of the proposals

2.1 The WBG has already welcomed the splitting off of income-tested support for children, and payment to the 'main carer', under ICC. (However, we remain concerned that the proposals for joint claims for the new tax credits, leaving the couple to specify which of them is the main carer, may not be helpful to those partners – more likely to be women – whose inadequate access to resources in inequitable relationships may be further undermined by an inability to assert a claim to ICC, or to challenge their partner's claim.)

2.2 We support the suggestion of having a lower minimum hours condition of 16 hours per week, should the employment tax credit (ETC) be extended in the longer term to carers of adults as well as parents of children. We believe a viable means of identifying such carers should be able to be devised to put this into practice, but also believe that other means of supporting carers who do paid work part time should be explored.

2.3 We also support the suggestion of allowing couples with children to share the qualifying hours for the 30 hour bonus, thus helping to encourage more equal sharing of childcare duties. We hope that this first step will eventually be accompanied by more direct and effective ways of achieving the latter.

3. Independent taxation or joint assessment – in principle

3.1 The consulation document suggests that the new tax credits are part of the income tax system; there now seems to be less emphasis on tax credits being a form of integration of the tax and benefits systems. However, when arguing that the principles of independent taxation are not breached by the proposals, the document seems instead to see tax credits as rather separate from the rest of the income tax structure.

3.2 It could be argued that if the income tax that one spouse pays (net of tax credits) is affected by changes in the income of the other, taxation is not independent; so if tax credits are seen as an integral part of the tax system, they do breach this principle. However, if the new tax credits are instead seen as part of the means-tested benefits system, they do not change the existing joint assessment in means-tested in-work benefits/tax credits – though they do extend it to a wider group of people. (The WBG has consistently argued for more emphasis on individually-based, non-means-tested benefits, such as national insurance contributory and non-contributory benefits, and less emphasis on means-tested benefits. Whilst there are various modifications which can be made in practical terms, it is much more difficult for jointly assessed benefits to give each partner individual autonomy and independence.)

3.3 It could therefore be argued that either tax credits are in effect means-tested benefits, and should be treated as public expenditure rather than revenue foregone as other benefits are, or that they are part of the income tax system and the principle of independent taxation has been breached. (We believe that the government has now agreed to implement the OECD conventions on accounting procedures for purposes of international comparison - i.e. that the refundable part of tax credits should count as public expenditure, and the remainder as revenue foregone; but we are not aware of any commitment to change HM Treasury documents to reflect this agreement.)

4. Independent taxation or joint assessment – in practice

4.1 Whatever the arguments about whether tax credits breach the principles of independent taxation, those affected may be more concerned about the practical effects. It can be argued that independent taxation is about privacy and financial autonomy. In terms of privacy, an application for benefits/tax credits is voluntary, whereas assessment for paying income tax is not – so joint assessment for benefits/tax credits could be seen as not breaching privacy in as fundamental a way.

4.2 Financial autonomy is restricted if the receipt of tax credit by one partner affects the returns to taking paid work by the other. Despite the government's efforts to reduce the impact of joint assessment on second earners – including the suggested use of gross rather than net income – the new tax credits will still link individual incomes together. The relative significance of this effect is difficult to assess without more information, as it will depend on both the level of allowances/tapers and how the credits are aligned/integrated with housing benefit, council tax benefit etc. However, it is clear that a system that relies on family income tests to support those with low earnings capacity automatically disadvantages potential second earners in any attempt to support themselves through the labour market.

4.3 It is unfortunate that the partial regulatory impact assessment contained in the consultation document does not consider the gender implications of joint assessment.

5. Child care

5.1 The WBG has argued in the past (e.g. in our submission on ICC to the Select Committee) that tying childcare tax credit to employment – which will continue if it is linked to ETC eligibility – limits the role of child care to the provision of care whilst parents are working. This narrowing of the multiple functions of child care contradicts the government's understanding in other policy areas, for example in its promotion of Sure Start. We are particularly concerned that no extension of eligibility is being proposed for those seeking work or who have temporarily lost their jobs. Sudden or frequent changes of childcare arrangements are not good for children and the need for childcare arrangements to start at the same time as employment provides an additional barrier to starting work. This applies both to couples and to lone parents.

5.2 However if eligibility is tied to ETC, we welcome the suggestion that, once eligibility is confirmed, payment of the childcare tax credit should be to the main carer, who is more likely to be the person who arranges and pays for childcare. This person would have to be in employment anyway, either as a lone parent or as a member of a two earner couple, for the family to qualify for childcare tax credit. The arguments for this option outweigh the arguments for paying childcare tax credit via the wagepacket.

6. Payment methods

6.1 The consultation document repeats the government's goal of paying the new tax credits, where they are not paid via the pay packet, direct into bank accounts rather than via giro cheques or order books at post offices. The WBG is concerned that this should not be made compulsory, particularly for a significant payment such as the ICC, if joint accounts are still open to one partner being able to obtain monies freely from them without the other partner's knowledge or consent.

7. Extending Employment Tax Credit

7.1 The government makes clear that ETC will be paid not only to parents with children and disabled people, to replace the existing tax credits, but will also be extended to some other individuals/families with a wage-earner but still on low income. This could be seen as providing a subsidy to one-earner couples, via the wage-earner. One of the partners in the couple will have to work 30 hours or more per week, and will be helped to support the other partner by the receipt of additional income in their pay packet, even if the other partner has no current caring responsibilities. At a time when in other contexts the government is emphasising individual self-provision (e.g. in saving for pensions), and increasing employment and employability, this proposal seems contradictory. The government could instead be exploring ways to help both partners into paid employment – including more determined efforts to deal with labour market disadvantage – and to ‘make work pay’.

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