

Welfare Reform Update

For Information

1) Purpose

- The purpose of this report is to outline the changes to the benefit system that were announced in the summer budget 2015, the implications these changes will have on the residents of the City and County of Swansea, and what activity is required to mitigate the impact of these changes. Unless otherwise stated, these changes will take effect from April 2016.

2) Tax Credits & and Universal Credit:

Tax Credits

The following three changes were due to be implemented via Statutory Instrument from April 2016. However, the House of Lords voted against these changes pending a report from the Institute of Fiscal Studies and a suggestion that transitional protection should be introduced for families affected. The timescale is not known at present.

The UK Government proposals of planned changes [whether it be a direct implementation in April 2016 or the suggestion of a phased implementation with transitional protection over a period of time] are:

- **Reduction to the income threshold for Working Tax Credit from £6,420 to £3,850 per annum.** The income threshold is the amount of income that is disregarded before a taper is applied to total taxable income when comparing it to the maximum amount of tax credits payable. This will result in claimants receiving reduced amounts of in-work benefits. This threshold has been reduced to realign amounts with Universal Credit.
- **Income disregard for Tax Credits reduced from £5,000 to £2,500.** This will have an adverse impact on claimants moving from out of work benefits (where their entitlement to Tax Credits had been based on 'nil' income), to in work benefits. All overpayments of tax credits are recoverable. When tax credits were introduced in 2003, the income disregard was originally £2,500 but due to the extent of overpayments in the first year of claim, the income disregard was increased to £25,000, but was then reduced to £10,000 in 2011 and £5,000 in 2013.
- **Taper increased from 41% to 48%.** Any excess income over the income threshold will reduce entitlement by 48% instead of 41%. This will further decrease entitlement to in-work benefits and result in claimants keeping only 52 pence per £ as opposed to 59 pence per £. The taper was originally set at 39% but increased to 41% in 2011.

The following changes have not been challenged and are due to be implemented:

- **'Definition of self employed'.** From April 2015 self-employment was defined as "engaging in carrying on a trade, profession or vocation on a commercial basis and with a view to the realisation of profits, either on one's own account or as a member of a business partnership and the trade, profession or vocation is organised and regular".

From April 2016 claimants will be required to register with HMRC and provide a unique tax reference code. Many foster parents are registered as self-employed and claim working tax credits and potentially could fall foul of the above definition; as they will not be able to show that they are undertaking this self-employment with a view to the realisation of profits. It is hoped that foster parents would be excluded, especially as there are changes within Universal Credit that will impact on foster carers.

Universal Credit

- **UC Work Allowances:** Work Allowances replaced Earnings Disregards and thresholds within current benefit rules. These work allowances were seen to be the route of supporting people into work and out of poverty and were significantly higher than the 'out of work' earnings disregards for means-tested benefits (which were £5, £10 or £20 per week and had not been increased since 1988), but were significantly lower than under tax credits rules (£535 per calendar month for those who had housing costs). From April 2016 these work allowances have further decreased and will be removed completely for single claimants. This will reduce the amount of in work financial support for benefit claimants which may not make them any better off in work than claiming out of work benefits.
- **Increase in percentage of childcare costs and increase in the amount of childcare costs of Universal Credit.** The amount of assistance families can get with childcare costs has been increased to 85% from 70%; and the maximum amount has also increased from £532.29 per month to £646 for one child and from £912.50 to £1108 for two or more children. The amount for childcare costs within tax credits was reduced from 80% to 70% in April 2011. Whilst this is a welcome change, much of the benefit is removed due to the reduction in the work allowances (see section 6) within Universal Credit and existing tax credit claimants will not see any benefit.
- **Impact of the above changes to working households: See Appendix 1**
- **From April 2017 the family element (worth £10.50 per week) will be abolished for new claims for tax credits and universal credit.**
The family element of tax credits replaced the tax allowance also known as the 'married man's allowance' when tax credits was introduced in 2003. The married man's tax allowance was available to either member of a couple, providing that their individual taxable income was less than £50,000. When tax credits were introduced in 2003, the family element was payable to families if their joint taxable income was less than £50,000, with a reduction to the element for those with earnings up to £66,000. The joint taxable income threshold was reduced to £40,000 in 2011; and removed completely if they did not qualify for any elements of child tax credit in April 2012. The equivalent is paid in UC with a higher amount for the first child – this higher amount will no longer be paid for new claims from April 2017.
- **The child element of tax credits will no longer be awarded for third or subsequent children born after 6th April 2017 and no longer included in new claims for Universal Credit made after the 6th April 2017 (worth £53.20 per week per child).**
Households who have been in receipt of tax credits or universal credit, with an interruption of less than six months, will be protected and children with disabilities

will continue to receive the disabled child element or severely disabled child element in tax credits and the equivalent in universal credit. Multiple births will be protected in both systems and the DWP and HMRC will develop protections for women who have a third child as the result of rape, or other exceptional circumstances. Consequential changes will also be made in housing benefit from April 2017;

Families who switch between out of work benefits to Universal Credit or from tax credits to Universal Credit will receive protection providing that there isn't a break in claim for 6 months or more. This will have an impact on families who claim Universal Credit for the first time after the 6th April 2017 or for tax credit families who have a third or subsequent child born after the 6th April 2017

Impact of the above changes see Appendix 2

4) Housing Benefit / Universal Credit and the Benefit Cap:

The benefit cap will reduce benefit income to £20,000 per annum for couples and families and £13,400 to single claimants who are deemed to be in 'non-working' households. However the definition of 'non-working' is misleading as the cap will apply to those whose net income from work is not over a set threshold - £430 a month for Universal Credit or not working enough hours to receive Working Tax Credit.. This will particularly impact on those who are in low pay, part time work.

Currently the benefit cap applies to housing benefit entitlement and the cap will stop once housing benefit entitlement has been exhausted (the claimant must be left with 50 pence entitlement); however under Universal Credit, the cap will continue to erode the claimant's other elements of Universal Credit, impacting on allowances made for daily living.

In Swansea this will affect families with 3 or more children. The impact of these changes can be seen in Appendix 3.

5) Housing Benefit:

- **April 2016 - Backdating claims** - reduced from 26 weeks to 4 weeks for those of working age, this change will impact on rent arrears.
- **April 2016 - New claims** - the family element will be abolished (worth £17.45). A year earlier than the removal of the family element within tax credits and the higher child addition within universal credit that come into force in 2017.
- **From April 2017** – number of child dependent additions limited to two children in line with changes to tax credits and universal credit; Until the consequential amendments have been provided, this implies that 3rd or subsequent children will be excluded from the calculation of housing benefit if there has been a break in claim of more than 6 months.
- **From April 2017** - 18 – 21 year olds excluded from claiming housing benefit (with the exemptions for vulnerable young people – young parents; those who are unable to live with parents; can claim for 6 months if they were previously working for 6 months plus. Placing this group of individuals at risk of homelessness; stagnating mobility as they will be unable to secure accommodation to move to find work.

6) 2017 –Work Related Activity Component being abolished for new claims for Employment and Support Allowance and equivalent element within Universal Credit

Employment and Support Allowance replaced the sickness benefits of Incapacity Benefit; Income Support; Severe Disablement Allowance. Incapacity Benefit is currently worth a minimum of £105.35. Employment and Support Allowance aligned payments of means tested benefit and contributory benefits. The work related activity component provides an additional element, with it replacing the disability premium within means tested benefits. The disability premium was a cut to those who were long term sick, as it had previously been recognised the additional cost of living with a long term health condition. The disability premium is currently worth £32.25 for a single person and £45.95 for a couple compared to a WRAC component of £29.05. Removal of this component is a significant cut to those with a long term health condition and aligns payment to those who are job seeking.

7) 2018 – Assistance with interest payments of mortgages become a recoverable loan that accrues interest and admin charges.

Currently the main out of work subsistence benefit allows for some help towards certain interest mortgage payments for those claiming out of work benefits. This change proposes that any assistance provided towards mortgage payments become a loan which is repayable when a person returns to work or recovered in full on the sale of the home by placing a charge against the person's home. This could result in claimants having negative equity in their property and therefore no assets to pay for care in later life.

8) Landlords who have a 'buy to let' mortgage will not be able to claim the mortgage interest as an allowable expense to set against income tax from 2020. This change is being rolled out from April 2016 to 2020 and will impact on private landlords who currently receive tax relief on all their mortgage payments. This will inevitably push up rents within the private sector as private landlords try to recoup additional income to make up for their loss in profit. Local housing allowance rates will not increase in line with the rental market, making a shortfall between the amount of rent claimants are charged and the financial help claimants receive to pay for it.

9) April 2016 – 2020 Freeze on uprating of all benefits except disability benefits; the support component only of Employment and Support Allowance and Carer's Allowance.

Benefits rates used to be up-rated annually in line with retail price index (RPI), this changed to consumer price index (CPI) in 2011 as historically and consistently a lower rate; In 2015 benefit uprating was capped at 1% except for disability benefits (Personal Independence Payments; Attendance Allowance; Disability Living Allowance) and the support component only of Employment and Support Allowance. This freeze on up-rating is one of the largest cuts to benefits, breaking the link with wages and inflation on subsistence level incomes. This freeze will also apply to the Local Housing Allowance which will increase the gap between the amount of rent charged and the amount of 'eligible rent' on which housing benefit is calculated.

APPENDICES: All calculations in relation to tax credits are approximate

Appendix 1:

Reduction in threshold and increase in taper

Following the House of Lords vote, it is not known whether these changes will be implemented from April 2016. It has been suggested that they will be phased in with transitional protection for claimants. If these changes are implemented, whether phased in or not, the end result of who will be affected will not change..

(i) A lone parent aged 24 with one child aged 2, working 21 hours per week and earning £9.50 per hour with childcare costs of £127.75 per week and pays rent of £74.00.

Current tax credit entitlement: £10,330.66, less childcare costs of £6643 = Disposable Tax Credits of £3687.66 = **£70.92** per week

Earnings	£194.16
Tax Credits	£70.92
Child Benefit	<u>£20.70</u>
Total weekly income:	£285.78
Less rent	<u>£42.59</u>
Disposable income	£243.19

From 2016 tax credit entitlement: £8818.58 less childcare costs of £6643 = Disposable tax credits of £2175.58 = **£41.84** per week.

Earnings	£194.16
Tax Credits	£41.84
Child Benefit	<u>£20.70</u>
Total weekly income:	£256.70
Less rent	<u>£23.69</u>
Disposable income	£233.01

Weekly loss of income **£10.18** (annual loss of £529.36).

Moving from out of work to in work benefits during 2016/17:

If the same lone parent moved from Income Support to Working Tax Credits, in the first year of work they would be receiving tax credits of £11,950.10 but would only be entitled to £10,018.58. In their first year of work, they could be potentially **overpaid tax credits** of £1931.52 equivalent of **£37.14 per week**.

2016/17 - New claim for Universal Credit which includes increase in % of childcare costs and reduction in work allowance: UC of £897.97 pcm less childcare costs £553.58 = £344.39. Disposable Universal Credit of £79.47 per week.

Earnings	£194.16
Universal Credit	£79.47
Child Benefit	<u>£20.70</u>
Weekly income	£294.33
Less rent	<u>£74.00</u>
Disposable income	£220.33

In 2016/17 this lone parent is **£10.18 a week worse** than in 2015/16 claiming tax credits and **£29.72** claiming Universal Credit. For the first 7 days of claim (waiting days), there will be no assistance available to help with the rent £74.00, childcare of £127.75 or help with all daily living costs, such as transport to and from work.

(ii) A couple with two children earning £20,000 per year, one working 35 hours a week and the other working 21 hours a week, both earning minimum wage of £6.70 per hour with childcare costs of £255.50 per week.

Current tax credit entitlement: £14,628.28 less childcare costs of £13,286.00 = Disposable tax credits of £1,342.28 = £25.69 per week

Earnings	£320.91
Tax Credits	£25.69
Child Benefit	<u>£34.40</u>
Total weekly income:	£381.00

From 2016 tax credit entitlement: £12,439.80 = £239.23 (but childcare costs have not been deducted, because childcare costs exceed amount of tax credits:

Earnings	£322.45
Tax Credits	£239.23
Child Benefit	<u>£34.40</u>
	£596.08
Less childcare costs	<u>£255.50</u>
Total weekly income:	£340.58

Weekly loss of income **£40.42** (annual loss of £2101.84)

Moving from out of work to in work benefits:

If the couple were previously claiming Jobseekers Allowance and moved into work and claimed Working Tax Credit, in the first year of work they would be receiving tax credits of £20,191.80 but would only be entitled to £13,639.80. In their first year of work they could be potentially **overpaid** tax credits of £6,552.00 equivalent of **£126.00 per week**.

Removal of work allowance:

The large reduction in the work allowances in universal credit announced in the Summer Budget - which follow on from the reduced threshold in tax credits (which is not in question) - fundamentally changes how universal credit is going to feel for people on low hours, particularly single parents;

ii) A single person aged 24 years old who has no health problems and works 16 hours a week on minimum wage with take home pay of £104; living in private rented accommodation and pays £68 per week rent. Was previously claiming Jobseekers Allowance of £57.90 per week

Current system:

Claiming out of work benefits:	Jobseekers Allowance	£57.90
	Less rent	<u>£10.66</u>
	Disposable income	£47.24

Claiming Housing Benefit as nil entitlement to in work benefit (tax credits) as single and working less than 30 hours a week:

Weekly income:	£104.00
Housing Benefit	£30.63
Less rent	<u>£68.00</u>
Disposable income	£66.73

This young person is **£19.49** per week better off working than claiming out of work benefits.

Claiming Universal Credit 2015/16:

Weekly income:	Earnings plus Universal Credit	£168.49
	Less rent	<u>£68.00</u>
	Disposable Income	100.49

This person is **£33.76** per week better off under current Universal Credit rules than they would be under the current benefit system and **£53.25** better off than if they claimed Jobseekers Allowance.

Claiming Universal Credit claim 2016/17

Weekly income:	Earnings plus Universal Credit	£151.84
	Less rent	<u>£68.00</u>
	Disposable income	£83.84

This young person is **£16.65 per week worse** off in 2016/17 than they were claiming Universal Credit in 2015/16 but **£36.60 better off** than if they claimed out of work benefits..

Appendix 2

Removal of the family element / higher child dependent addition for oldest child and restricting to 2 children

(i) A family with three children who were previously in full time work and not entitled to tax credits, becoming unemployed and making their first claim for Universal Credit after the 6th April 2017.

<i>Universal Credit:</i>	<i>£306.67</i>
<i>Child Benefit</i>	<i>£48.10</i>
<i>Less rent:</i>	<i><u>£84.62</u></i>
Disposable Income	£270.15

Had this family been on tax credits prior to the 6th April, they would have received £284.95 per week. Reduction of income between the two benefits: £14.80 per week.

Appendix 3:

The impact of the benefit cap for families with 3 or more children.

(i) Couple with 3 children claiming JSA and council tenant:

<i>Personal Allowance of JSA</i>	£114.85
<i>Child Tax Credit</i>	£170.10
<i>Child Benefit</i>	£48.10
<i>Housing Benefit</i>	<u>£84.62</u>
<i>Total Benefit payable</i>	£417.67
<i>Benefit cap</i>	<u>£384.62</u>
<i>Loss of income</i>	£33.05 per week = £1718.60 per annum.

(ii) As above but living in private rented accommodation:

<i>Personal Allowance of JSA</i>	£114.85
<i>Child Tax Credit</i>	£170.10
<i>Child Benefit</i>	£48.10
<i>Housing Benefit</i>	<u>£115.07</u>
<i>Total Benefit payable</i>	£448.12
<i>Benefit cap</i>	<u>£384.62</u>
<i>Loss of income</i>	£63.50 per week = £3,302.00 per annum

(iii) Lone parent claiming IS or JSA living in private rented accommodation (lone parents in these circumstances who are council tenants are just under benefit cap, so will not be affected)

<i>Personal Allowance</i>	£73.10
<i>Child Tax Credit</i>	£170.10
<i>Child Benefit</i>	£48.10
<i>Housing Benefit</i>	<u>£115.07</u>
<i>Total Benefit payable</i>	£406.37
<i>Benefit cap</i>	<u>£384.62</u>
<i>Loss of income</i>	£21.75 per week = £1,131 per annum

(iv) Couple with 3 children in receipt of work related component of ESA and council tenant

<i>Personal Allowance</i>	£114.85
<i>WRAC</i>	£29.05
<i>Child Tax Credit</i>	£170.10
<i>Child Benefit</i>	£48.10
<i>Housing Benefit</i>	<u>£84.62</u>
<i>Total Benefit income</i>	£446.72
<i>Benefit cap</i>	<u>£384.62</u>
<i>Loss of income</i>	£62.10 per week = £3,229.20 per annum

(v) As above but in private rented accommodation:

<i>Personal Allowance</i>	£114.85
<i>WRAC</i>	£29.05
<i>Child Tax Credit</i>	£170.10
<i>Child Benefit</i>	£48.10
<i>Housing Benefit</i>	<u>£115.07</u>

Total benefit income	£477.17
Benefit cap	<u>£384.62</u>
Loss of income	£92.55 per week = £4,812.60 per annum

(vi) Lone parent with 3 children and in receipt of Work related component of ESA and council tenant:

Personal Allowance	£73.10
WRAC	£29.05
Child Tax Credit	£170.10
Child Benefit	£48.10
Housing Benefit	<u>£84.62</u>
Total benefit income	£404.97
Benefit cap	<u>£384.62</u>
Loss of income	£20.35 per week = £1,058.20 per annum

(vii) As above but living in private rented accommodation:

Personal Allowance	£73.10
WRAC	£29.05
Child Tax Credit	£170.10
Child Benefit	£48.10
Housing Benefit	<u>£115.07</u>
Total benefit income	£435.42
Benefit cap	<u>£384.62</u>
Loss of income	£50.80 per week - £2,641.60 per annum