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the independent advice network

Advice NI Social Policy Briefing Paper
Couples with children - new working hours rules for Working Tax Credit

Version 1 - February 2012

Version 2 - March 2012 - amended due to WTC changes regarding Carers

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Executive Summary

Changes to the tax credit system being introduced in the next few years include the requirement for couples with children to work at least 24 hours per week in order to qualify for Working Tax Credit. This requirement can be met by one or both of the partners being in employment, provided at least one is working 16 hours or more and the total combined hours are at least 24 per week. Under existing rules, the current requirement for this group of people is 16 hours per week.

The new conditions are outlined at www.hmrc.gov.uk as follows, "At the moment, if you're responsible for at least one child and working at least 16 hours a week, you can get Working Tax Credit.

From 6 April 2012, the rules for couples with at least one child are changing. In most cases, to qualify for Working Tax Credit your joint working hours will need to be at least 24 a week.

This will mean:

- if you both work your joint weekly hours must be at least 24, with one of you working at least 16 hours a week
- if only one of you works, that person must be working at least 24 hours a week

If neither of these apply, your Working Tax Credit will stop from 6 April 2012. But there are some exceptions to the new rules".

The exceptions are:

- If one of the couple is aged 60 or over and working at least 16 hours per week
- If one of the couple qualifies for the disability element of Working Tax Credit and is working at least 16 hours per week
- If one of the couple is ill, an inpatient in hospital, or in prison, and the other partner works at least 16 hours or more per week

HMRC believes that the introduction of the increased hours requirement will make the tax credits system fairer by reducing the disparity in the number of working hours required of lone parents and couples. The Comprehensive Spending Review report states that this will bring about savings to the government of £390 million per year by 2014/15.

There are no proposed changes to Working Tax Credit eligibility for lone parents, who are required to work at least 16 hours per week, or for individuals or couples without children, who must be aged 25 or over and whose hours of work must be at least 30 per week.

Background

Advice NI is a membership organisation that exists to provide leadership, representation and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. Advice NI exists to provide its members with the capacity and tools to ensure effective advice services delivery. This includes: advice and information management systems, funding and planning, quality assurance support, NVQs in advice and guidance, social policy co-ordination and ICT development.

Membership of Advice NI is normally for organisations that provide significant advice and information services to the public. Advice NI has over 65 member organisations operating throughout Northern Ireland and providing information and advocacy services to over 100,000 people each year dealing with over 260,000 enquiries on an extensive range of matters including: social security, housing, debt, consumer, tax and employment issues. For further information, please visit www.adviceni.net.

In recognition of the complexities of the current tax and benefits systems, Advice NI have recently launched a Tax and Benefits service, providing free, confidential and impartial advice to vulnerable groups of individuals who need additional assistance with identifying, understanding and claiming their entitlements and complying with their responsibilities in relation to HMRC products and services. Specifically, this includes tax credits, Child Benefit, and tax. Clients can avail of the service through a nationwide Freephone telephone helpline (0800 988 2377), by email (tax@adviceni.net) and face to face at a number of outreach venues throughout Northern Ireland.

The service primarily targets 'vulnerable groups' of people, those who find themselves in uncertain circumstances, or who are facing 'life changing events' such as the birth of a child, marital breakdown, reduced hours or work, or unemployment.

Working Tax Credit – the hours requirement

It is widely accepted that the surest route out of poverty is through paid employment. The current eligibility rules for out-of-work benefits, such as Income Support and Jobseekers' Allowance, stipulate that those working fewer than 16 hours per week may be eligible, depending on circumstances (their partner must be working fewer than 24 hours), their household income and/or their National Insurance contribution records. In current circumstances, once hours of work reach 16, out-of-work benefits are no longer available and the in-work benefit, Working Tax Credit, applies. Many families in lower paid jobs rely heavily upon Working Tax Credit as a means of boosting their income and making ends meet. For these families, Working Tax Credit serves its purpose in helping to provide a route out of poverty.

The effect of welfare reform weighs heavily on the minds of many individuals and families, not least those who are working to support their families and are struggling to make ends meet. Advice NI advisers are dealing with increasing numbers of clients who are concerned about the impact of imminent tax credit changes. Specifically, advisers have received numerous queries from couples with children, who have recently been advised by HMRC that they will lose their entitlement to Working Tax Credit if they do not increase their hours of work to at least 24 per week. Advice NI recognises that HMRC have given timely notification to those couples who are likely to be affected by this change, which was not the case last year when tax credit thresholds were reduced without notifying many of the claimants who ultimately lost their entitlement to tax credits as a result.

Tax credits were introduced as a means of helping the government in their bid to reduce and ultimately eradicate child poverty. It is therefore difficult to comprehend why it is working families with children from whom this support is being removed.

As the current recession worsens and competition for jobs intensifies, those who have made considerable efforts to secure employment in order to improve their situation, sometimes after a long period of unemployment, and have secured hours of work between 16 and 23 per week, will be devastated to learn a short time later that their Working Tax Credit will be removed from April 2012. To have pulled themselves out of unemployment and off unemployment benefits in the knowledge that the meagre income they receive from paid employment will be topped up by Working Tax Credit, only to learn that the number of hours worked will no longer entitle them to receive this in-work benefit is a blow to many working families.

One solution provided on the HMRC website for those who may be affected by the increased hours requirement is “You can increase the hours you work, so you would still be entitled to Working Tax Credit.” However, given the current labour market, high levels of unemployment, competition for employment and reductions to working hours being enforced by many employers, this is not a realistic option for the majority of individuals.

It is commendable that HMRC have introduced exceptions to the hours requirement for those who are aged 60 or over, those who qualify for the disability element of Working Tax Credit and those whose partner is ill, in hospital or in prison, however, Advice NI believes that there are other vulnerable groups for whom an exception to the increased hours requirement would be beneficial. Particularly, the increase in the weekly hours requirement from 16 to 24 for couples with children is particularly harsh for couples where one parent has caring responsibilities, whether this is responsibility for dependent children and/or responsibility for someone who receives a qualifying benefit such as Disability Living Allowance.

Advice NI Case Study

Client had been notified by HMRC that they would lose their entitlement to Working Tax Credit from April 2012 unless they increased their hours of work. The client’s husband had secured employment of 18 hours per week after a long period of unemployment, during which he worked for 12 hours per week and his earnings were topped up by a small amount of Jobseekers' Allowance. The client herself was a stay at home mother to care for their four dependent children and was expecting a baby early in 2012. Aware of the financial pressures that the family would face with the imminent birth of their fifth child and the financial implications of losing the Working Tax Credit that they had come to rely on to supplement their meagre earnings, the client's husband asked his employer if it would be possible to increase his hours of work to 24 or more. His employer advised him that this would not be possible as no extra hours were available. Obtaining employment prior to April 2012 was not a realistic option for the client herself due to her existing caring responsibilities and pregnancy. The couple decided that their only option would be for the client's husband to seek a part time job of at least six hours per week in addition to his main job. However, given the current shortage of jobs and the client's husband's own recent experience of jobseeking, the couple are not hopeful that this will be achievable before April 2012.

The client sought benefits advice and was informed that, should her husband remain working for 18 hours per week, they would lose almost £4,000 per year in Working Tax Credit. Overall, their household income would be £3.49 per week higher than if the client's husband were to receive Jobseekers' Allowance. Once the costs associated with employment (travel etc) were taken into consideration, the family would be substantially worse off in employment, due to non-receipt of Working Tax Credit. The government's aim is to move people into work; why, therefore, are families who wish to work, being penalised for doing so?

Impact

Advice NI has been unable to obtain data from HMRC in relation to the number of families who will be negatively impacted in Northern Ireland. However the *'Spending Review 2010 policy costings'* document (http://cdn.hm-treasury.gov.uk/sr2010_policycostings.pdf) estimates the following savings will be achieved by this policy:

Table 1 – Post-behavioural Exchequer impact (£m)

		2011-12	2012-13	2013-14	2014-15
Restrict eligibility to the Working Tax Credit to 24 hours for couples with children from 2012-13	AME	0	+380	+385	+390
	Negative tax	*0*	*+130*	*+125*	*+120*

Interestingly the same document believes that the only "behavioural" impact may be that parents alter their childcare arrangements: no mention that some parents in this situation may be forced to give up their employment as a result of losing their Working Tax Credit award.

Advice NI has calculated a number of scenarios depending on whether families (couple, 3 children) can increase their working hours, or indeed are forced to give work altogether due to these changes.

	16 hours	24 hours	30 hours	Not working
Child Tax Credit	£108.29	£108.29	£108.29	£108.29
Working Tax Credit	£74.06	£64.91	£65.16	Nil
Housing Benefit	£57.07	£31.40	£7.52	£60.00
Child Benefit	£33.70	£33.70	£33.70	£33.70
Earnings	£97.28	£145.92	£182.40	Nil
Jobseekers' Allowance	N/A	N/A	N/A	£105.95
TOTAL	£370.40	£384.22	£397.07	£307.94
State financial (total)	£273.12	£238.30	£214.67	£307.94

In addition, the increase to the hours requirement for Working Tax Credit for couples with children is likely to go against the government's current aims two-fold:

- **Child poverty**
  The government has set a clear objective to abolish child poverty by 2020; however, those who will be adversely affected by the changes outlined herein will be couples with children, who are working under 24 hours per week on a low income (the gross annual income of someone working 23 hours per week at minimum wage is £7,271.68). The removal of Working Tax Credit will in many instances cause these families to fall below the poverty line (income of less than 60% of median household income), thus defeating the government's objective of ending child poverty by 2020.

- **Unemployment**
  The government has implemented a number of key measures with the aim of reducing unemployment. Given the current labour market and the difficulties being faced by those who are proactively seeking employment, this will be a challenge for the government which will be made all the more difficult by removing incentives for those who are in work. In the case study outlined herein, the family were advised that they would be substantially worse off in employment after losing their entitlement to Working Tax Credit and taking into account their associated expenses than if they were to be unemployed and in receipt of Jobseekers' Allowance.

Conclusion

Advice NI is committed to proactively helping the most vulnerable people across Northern Ireland. Advice NI advisers are at the forefront in helping families as households struggle to cope with the 'double whammy' of recession and welfare cuts. Advice NI have been heavily involved in the welfare reform debate over the past number of years, have produced several welfare reform briefing papers, have responded to numerous welfare reform consultations responses and are a member of the Northern Ireland Welfare Reform Group and the HMRC Benefits and Credits Consultation Group.

Advice NI appreciates that, in the midst of the economic recession, the government finds itself in a position whereby public expenditure needs to be reduced. Advice NI recognises that the government anticipates making substantial savings through the implementation of this change. However, Advice NI is concerned that hard-working families on low incomes will face significant reductions to their household income as a result.

Advice NI is aware that there are a large group of claimants working between 16 and 23 hours per week who are being treated unfavourably because they are unable to increase their working hours in advance of the changes being implemented in April 2012.

Advice NI recognises that HMRC have identified some of the vulnerable groups of tax credits claimants for whom an exception to the increased hours requirement will apply, namely those who are aged over 60, those who are disabled and those whose partner is ill, in hospital or in prison.

However, given the current instability of the labour market and the difficulties being faced by those who are proactively seeking employment, Advice NI calls upon HMRC to delay the implementation of this requirement until such times as the labour market is more stable and employment is more readily available.

Additionally, Advice NI would ask HMRC to consider introducing a further exception to the increased hours requirement for those who are entitled to Carers' Allowance (either payable or with an underlying entitlement). This would give recognition to the fact that working hours are likely to be limited where one member of a couple spends at least 35 hours per week caring for someone who is in receipt of Disability Living Allowance care component at the middle or highest rate, or Attendance Allowance at the higher rate. Carers' Allowance by its very nature is an earnings replacement benefit, indicating that those in receipt of this benefit will have limited ability to work.

In light of these recommendations, on 19th March 2012 the government agreed to introduce an exception for couples where one of the couple is entitled to Carer's Allowance. At time of writing, further details have not yet been released, however Advice NI welcomes the decision. (Document amended on the 19th March 2012)

It is commendable that HMRC recognises the need to reduce the disparity between the entitlement conditions for couples and lone parents, however Advice NI believes that the negative effects of introducing this change at the current time, both on family incomes and on the government's long term objectives, will far outweigh the short-term gains.

Advice NI will continue to highlight the potential impact and consequences of welfare reform and would welcome the opportunity to explore and discuss the implications of welfare reform in further detail with any / all interested individuals, groups and organisations.

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Amended Document 19th March 2012 – Changes to WTC in relation to Carers

Contact information:

Bob Stronge (Chief Executive)
Fiona Magee (Deputy Chief Executive)
Kevin Higgins (Head of Policy)
Tax & Benefit Advisers
Advice NI
1 Rushfield Avenue
Belfast
BT7 3FP

Tel: 028 9064 5919
Fax: 028 9049 2313

Email:
bob@adviceni.net
fiona@adviceni.net
kevin@adviceni.net
tax@adviceni.net

Website: www.adviceni.net

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Advice NI
1 Rushfield Ave
Belfast
BT7 3FP
Tel: 028 9064 5919
Fax: 028 9049 2313

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www.adviceni-learningonline.net
www.debtaction-ni.net
www.rights4seniors.net
www.wiseradviser.org

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