Tax credits: the Autumn Statement and the future

Personal tax

01 January 2016

The Autumn Statement and the future

We welcomed the Chancellor’s announcement that he would not to go ahead with changes to the tax credit taper rate and thresholds planned from April 2016. The Autumn Statement said the decision would give working families on tax credits longer to adjust to the ‘transition to a higher wage, lower tax, lower welfare society’.

The Chancellor noted that tax credits were ‘being phased out anyway’ to make way for universal credit. However, some of the changes set to take place in April 2016, and those planned for April 2017, will go ahead – see below. We have stressed the importance of ensuring that tax credit claimants are given adequate notice of any significant reduction in their award.

Cuts to the universal credit work allowances – broadly, these are earnings disregards – will also go ahead in April 2016. For some claimants, there will be no work allowance at all. All existing tax credit claimants will be moved to universal credit over the next few years. Some may be entitled to less in universal credit than tax credits but may be eligible for some transitional protection. We have expressed concerns about the challenges faced by low income self-employed claimants. In particular, the minimum income floor (MIF) will restrict a universal credit award as though self-employed profits are at least equal to the MIF every month, regardless of fluctuations in income. The Autumn Statement announced that, as the national living wage (NLW) is phased in, the MIF will be increased in line with the NLW for those aged 25 or over.

April 2016 changes

The reduction in the income rise disregard from £5,000 to £2,500 will go ahead, and tax credit claimants who are repaying overpayments and have household income of more than £20,000 will have the maximum recovery rate increased from 25% to 50% of their award – see the revised code of practice COP26. Clause 10 of the Welfare Reform and Work Bill (see below) implements a four-year freeze on the elements of working tax credit other than the disability elements; and on the individual element of child tax credit, currently £2,780, for a non-disabled child.

April 2017 changes

The Lords Committee stage of the Welfare Reform and Work Bill was set to be completed in December. The Bill, showing the changes made in the Commons public bill committee, is available at here; LITRG’s submission to parliament on the Bill is on the LITRG website. The Bill removes the family element of child tax credit in particular cases, and introduces a two-child restriction for the individual element of child tax credit, as announced in the summer Budget. There are corresponding changes to universal credit.

Clause 11 provides for changes to the family element and the individual element of child tax credit. TCA 2002 s 9 is amended with effect from 6 April 2017 so that:

The family element, currently £545 and available in the case of all persons entitled to child tax credit, will be available only in the case of ‘every person or persons entitled to [child tax credit] who is, or either or both of whom is or are, responsible for a child or qualifying young person who was born before 6 April 2017’.

A new disability element of child tax credit to replace the current, higher rates of the individual element will be available if a child or qualifying young person is disabled. The rate will be set out in regulations.

If the claimant is – or either or both of them is or are – responsible for a child or qualifying young person born on or after 6 April 2017, no individual element of child tax credit will be available on the child or qualifying young person unless the claimant is (or they are) claiming the individual element for no more than one other child or qualifying young person, or a prescribed exception applies.

Although we do not generally comment on levels of taxation or welfare benefits, we do have an interest in the impact of any change of policy on low-income families. We have expressed concerns about the potential impact of the two-child limit applying to families who do go on to have more than two from April 2017, particularly in cases involving rape or other circumstances such as the death of a parent, where family may be less likely to step in and help if they receive no financial support. The government has indicated that careful thought will be given to these and other difficult situations that might merit an exception.