

Tax Credits in Wales
November 2015



Tax Credits in Wales

The current debate about Tax Credits matters to more than a quarter of a million families in Wales who receive some sort of payment. They also matter to 384,300 children who live in families receiving Tax Credits – around half of all children in Wales.

What this briefing is for:

Whatever your organisation does it is very likely that some of your service users, clients, customers or constituents will receive Tax Credits.

This briefing, exclusively for Bevan Foundation members, will help you to:

- understand what Tax Credits are;
- be aware of how many households in your area are likely to be affected by changes;
- identify the types of household affected;
- decide what action, if any, you might want to take in response.

Key messages for Wales:

- 238,000 households claim Tax Credits.
- Monmouthshire has the lowest Tax Credits claimant rate for working-age households at 18.6%, and Merthyr Tydfil has the highest rate at 32.2%.
- 69% of claimants are in work.
- Approximately one in four working-age households in employment receive Tax Credits.
- 56% are working families with children.
- 384,300 children live in households in receipt of Tax Credits.
- The majority of Tax Credits claims were made by families with one or two eligible children.
- 86% of all money spent on in-work Tax Credits was received by households with an average income of below £20,000.
- The average weekly Tax Credits award is £117.96 per week
- Total expenditure on Tax Credits in Wales is £1.460 billion.
- Approximately one in 20 Working Tax Credits claimants receives the disabled worker element.

1. What are Tax Credits?

1.1. Tax Credits provide financial support to families and working people aged 25 and over. The UK Government states that they are aimed at helping parents returning to work, reducing child poverty and increasing financial support for all families. A person or family's entitlement to Tax Credits is based on the claimant's:

- age;
- income;
- working hours;
- number and age of children;
- childcare costs; and,
- whether they, their partner or child/children has a disability/disabilities.

1.2. Tax Credits calculations are estimated by HMRC using the claimant's household circumstances, including their household income from the previous year and the number of children they are responsible for. Although an income 'disregard'¹ is applied, if a claimant's household circumstances change considerably during the financial year they can request a recalculation or accrue an under- or over-payment. In cases of over-payment, these are usually deducted from the following year's claim or treated as a debt.

1.3. Tax Credits awards are 'tapered' once the household income exceeds the threshold for Child and Working Tax Credits, so many claimants do not receive a full award. See annexe 1 for a list of Tax Credit values and tapers.

1.4. Tax Credits are a 'qualifying benefit' for certain forms of assistance, such as financial help with energy bills and funeral costs. They are a tax-free benefit, but are taken into account when calculating claims for Housing Benefit, Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance and Pension Credit.

1.5. Tax Credits are made up to Child Tax Credit and Working Tax Credit, both of which have different eligibility criteria and consist of several different 'elements'.

¹ For current claimants, an increase in income is disregarded up to £5,000 and an income decrease is disregarded up to £2,500.

Child Tax Credit (CTC)

1.6. CTC is awarded to the main carer of a child or young person² as a form of income-related support. It is not dependent on whether the adult(s) is in work, and is broken down into the following elements:

- **Family element:** basic element for families responsible for one or more qualifying child/young person.
- **Child element:** awarded for each child/qualifying young person the claimant is responsible for.
- **Disability element:** awarded for each child/qualifying young person the claimant receives Disability Living Allowance for.
- **Severe disability element:** awarded for each child/qualifying young person the claimant receives the Highest Care Component of Disability Living Allowance for.

Working Tax Credit (WTC)

1.7. WTC can only be claimed by households with at least one working adult. It is aimed at supporting families, couples and single people on low incomes, and it not affected by a CTC award. As with CTC, the claim is made by the household.

1.8. According to the current rules, an individual, couple or family with a low household income will normally qualify for CTC if they are:

- a single person who is responsible for a child/young person and works at least 16 hours a week;
- a couple who are responsible for a child/young person, and who jointly work 24 hours or more per week (one adult must be working at least 16 hours);
- someone aged 25 and over and work 30 hours or more a week.

1.9. WTC are broken down into the following elements:

- **Basic element:** awarded to all WTC claimants.
- **Lone parent element:** awarded to all lone parents.
- **Childcare element:** for single people who work 16 hours a week or couples who both work 16 hours a week each and pay for approved childcare.
- **Second adult element:** awarded to couples.
- **30 hour element:** awarded to individuals working at least 30 hours per week; couples where one person works at least 30 hours per week; or couples who both work a combined total of 30 hours a week, with at least one working 16 hours per week.

² Qualifying young people are aged between 16-19, and are in full-time non-advanced education or training.

- **Disability element:** paid to those who are currently or recently in receipt of a qualifying sickness or disability benefit.
- **Severe disability element:** awarded to those in receipt of the Highest Care Component of Disability Living Allowance or the highest rate of Attendance Allowance.

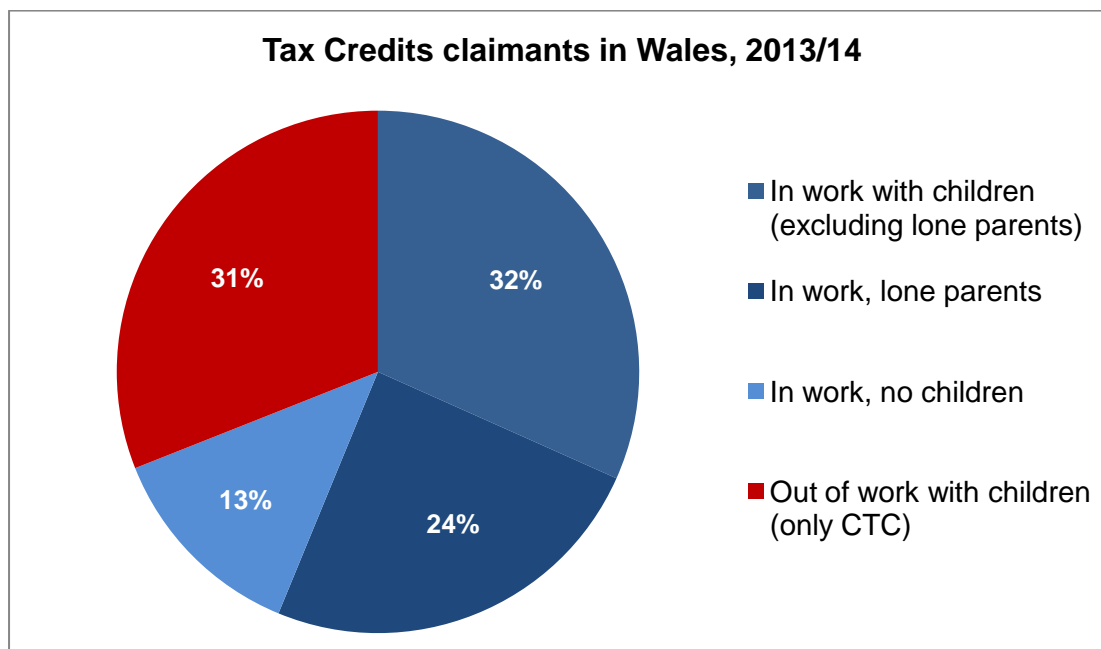
2. Who gets Tax Credits in Wales?

2.1. In Wales, 238,000 households are in receipt of Tax Credits. Around seven out of ten families receiving Tax Credits are in work. The majority are families with children, but a substantial minority – around one in ten – are childless but on very low pay.

2.2. A small proportion (fewer than 50,000 families) receive only Child Tax Credit – partly, this is to help with the costs of childcare for people with medium-level incomes, e.g. around £26,000.³

2.3. The rate of Tax Credits claims varies considerably between different local authority areas (see annexe 2). The areas with the highest Tax Credits claim rates are Merthyr Tydfil, Blaenau Gwent and Caerphilly, where almost a third of working age households are in receipt of the benefit. The areas with the lowest Tax Credits claim rates are Monmouthshire, Powys and the Vale of Glamorgan, where around a fifth of working age households receives it.

2.4. The rate of Tax Credits claims for in-work working-age households also varies considerably between local authority areas (see annexe 3). On average, one in four working-age households in employment receives Tax Credits in Wales, but this varies from 16% of households in Monmouthshire to 28.7% of households in Merthyr Tydfil.

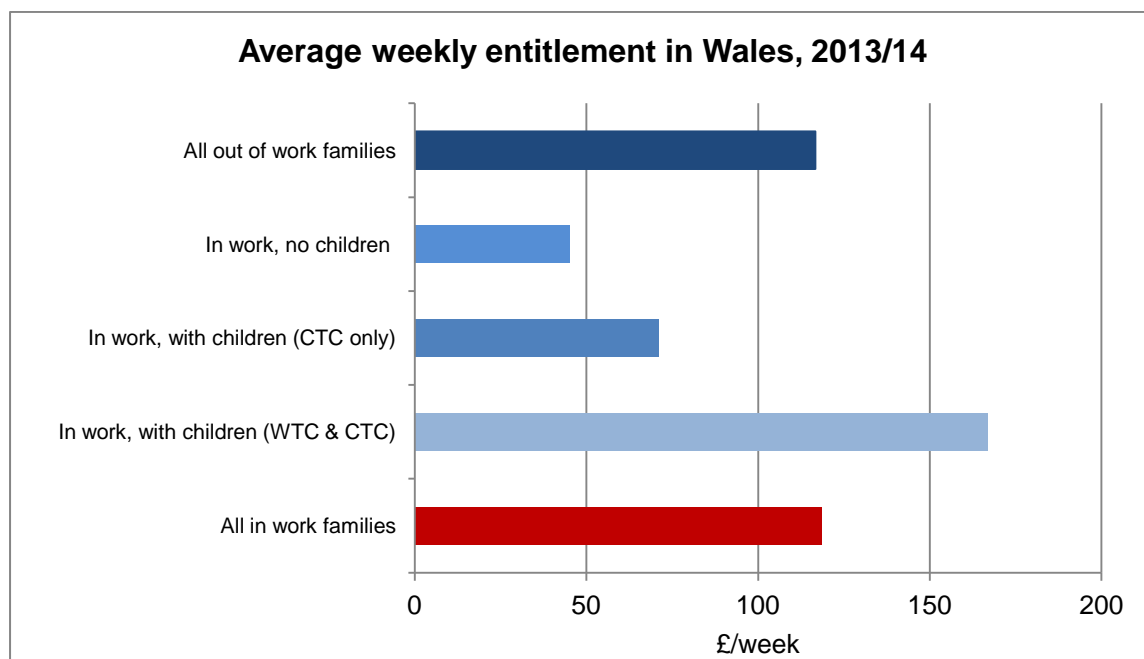


Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis*, Table 2

³ HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis*, Table 2

3. How much are Tax Credits worth?

- 3.1. The average value for a Tax Credits entitlement in Wales is £117.96 per week. The highest average award is received by in-work families with children who are eligible for both CTC and WTC, who receive £116.94 per week. In-work families eligible for only CTC receive just under half of this on average (£71.09 per week) and the entitlement for in-work claimants without children is worth just over a quarter of this on average (£45.31 per week).
- 3.2. There is a small difference between the average value of in-work and out-of-work Tax Credits claims in Wales, with the average for in-work entitlement slightly higher.
- 3.3. There are minor differences between the average Tax Credits award for out-of-work households in Wales' local authority areas. Blaenau Gwent (£110.81 per week) had the lowest average awards for those out-of work, while Denbighshire (£124.27 per week) had the highest.⁴
- 3.4. For in-work claimants, the difference between local authorities is greater. The lowest average annual award was in Blaenau Gwent (£111.65 per week) and the highest average annual entitlements was in Cardiff (£130.54 per week).⁵



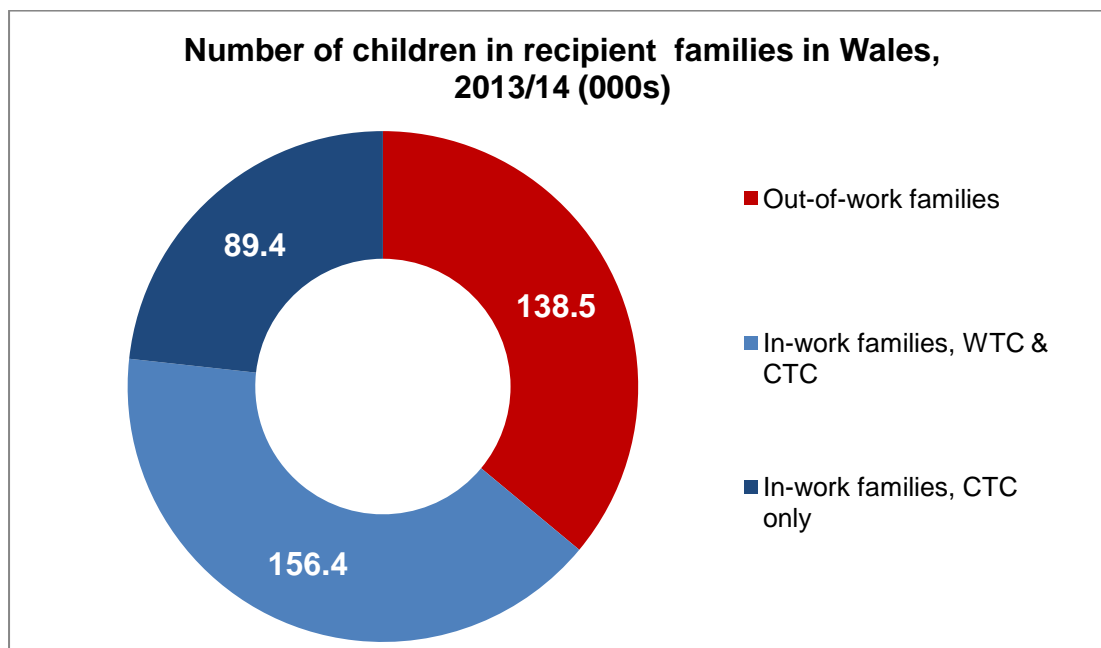
Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis*, Table 2

⁴ Ibid.

⁵ Ibid.

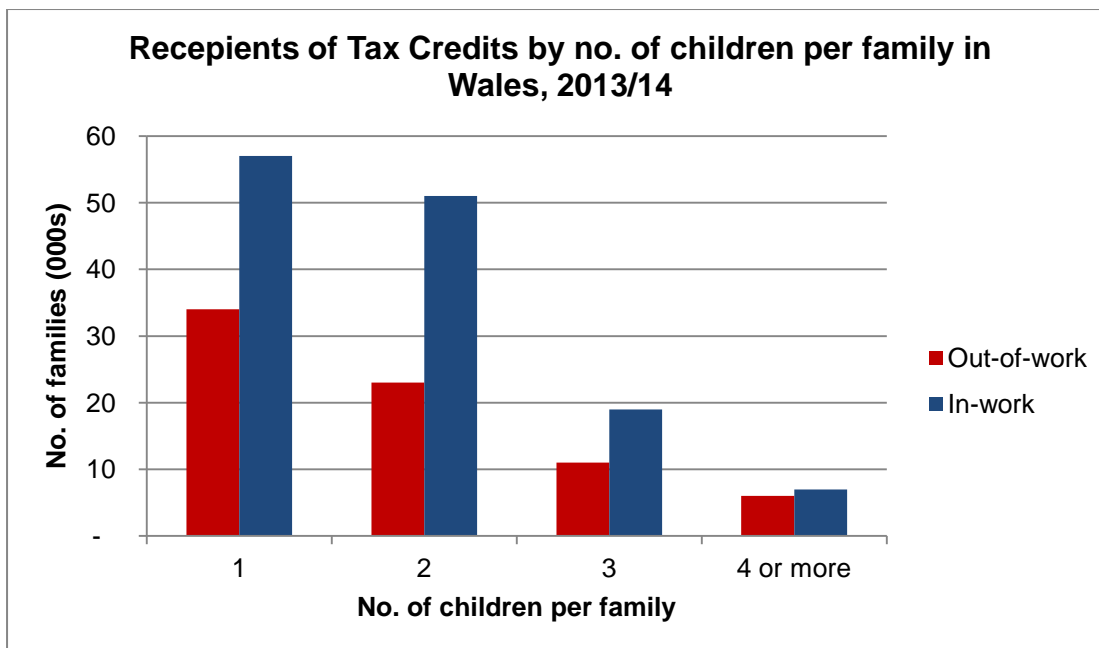
4. Indicator 1: Number of children & childcare element

4.1. Almost two-thirds of the children living in families in receipt of Tax Credits live with an adult who is in work. Well over half of these children live in families which are eligible for both WTC and CTC, so are from lower-income households compared to children from families eligible for only CTC.



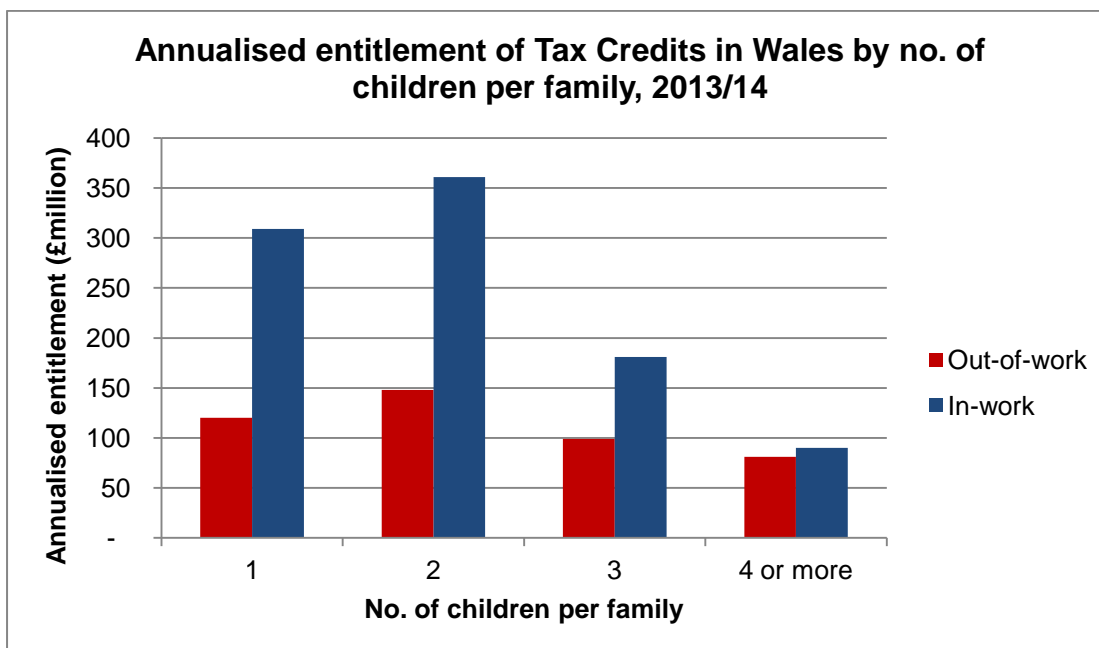
Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis*, Table 2

4.2. The largest number of Tax Credits awards for those with children were given to families with one eligible child. Tax Credits were received by fewer than 15,000 families in Wales with four or more children, and there were more claimants by those in-work for all categories of family size.



Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis, Table 1d*

4.3. Families with two children eligible for CTC have the highest annualised entitlement of Tax Credits in Wales. A higher proportion of the overall Tax Credits entitlement was received by larger families compared to the number of claimants because elements of CTC are awarded per child.

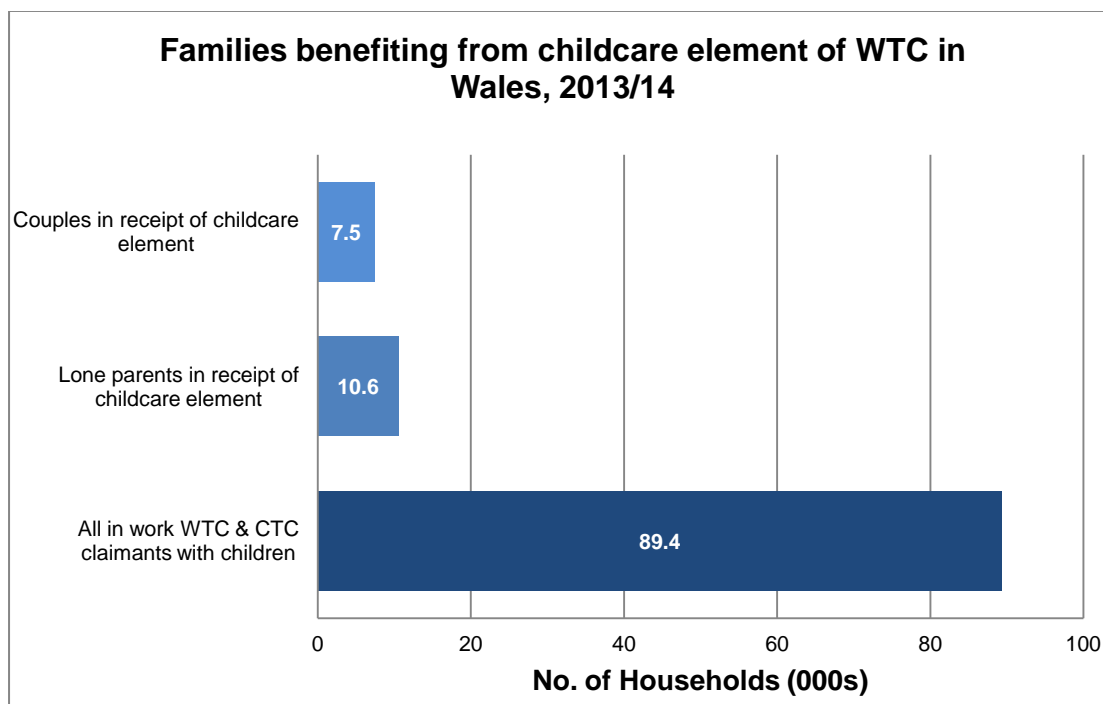


Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis, Table 1d*

5. Indicator 2: Childcare element

5.1. WTC claimants are entitled to the childcare element to cover the costs of childcare for in-work single people and couples who spend money on registered or approved childcare.

5.2. Eligible lone parents are slightly more likely to claim the childcare element compared to couples, but fewer than one in four families receiving both WTC and CTC receive the additional childcare element.



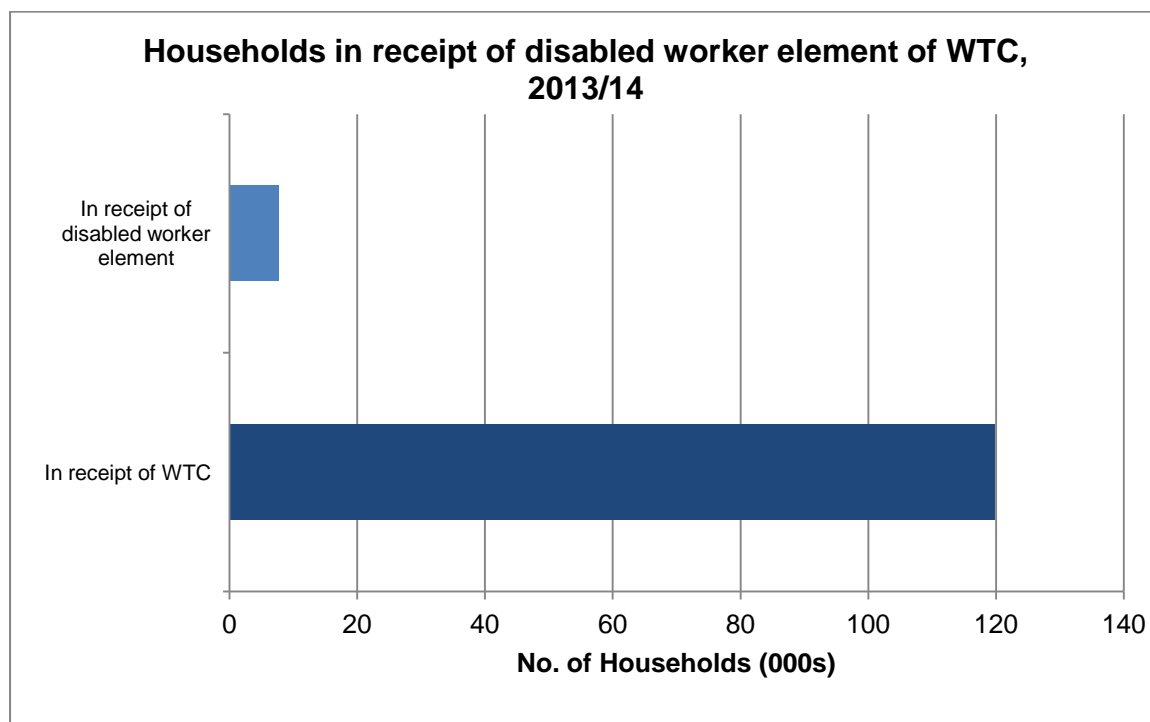
Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis*, Table 2

6. Indicator 3: Disability elements

6.1. Very few recipients of WTC in Wales receive the disabled worker element.

Out of the 119,800 families awarded WTC, 7,800 receive the disabled worker element – just over 5%.⁶

6.2. Data is not available for the numbers awarded the severely disabled adult element of WTC, or the disabled child additional element and the severely disabled child additional element of CTC.

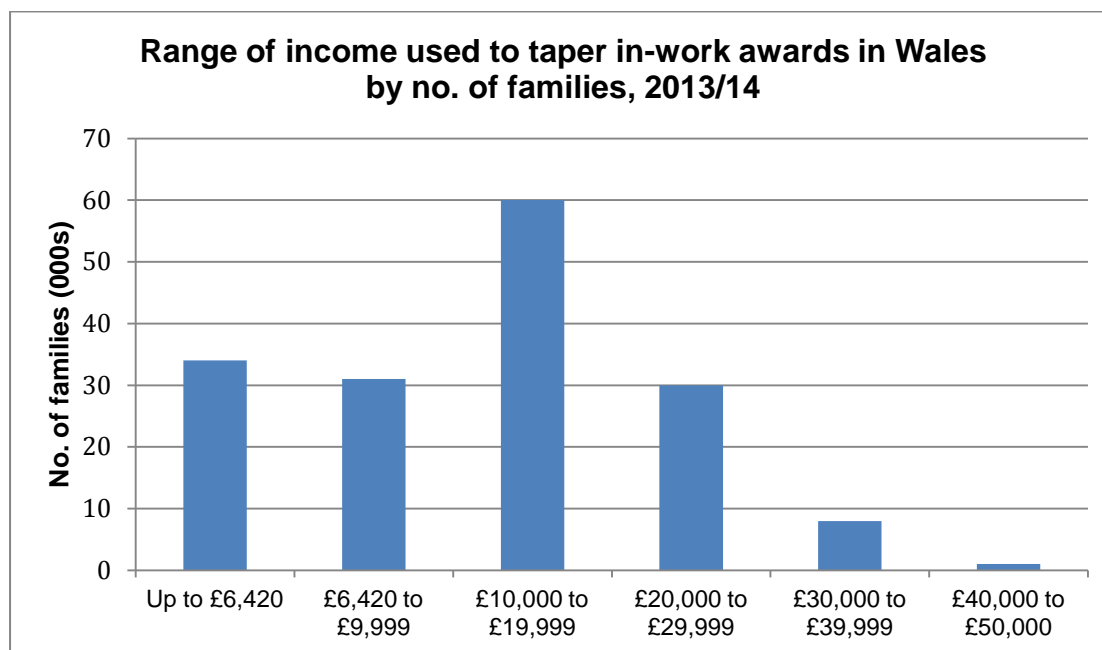


Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis*, Table 2

⁶ Ibid.

7. Indicator 4: Income taper

7.1. The income received by families receiving in-work Tax Credits varies considerably. 60,000 families in receipt of in-work Tax Credits are within the £10,000-£19,999 income bracket, which is almost double the number in the next closest category. Fewer than 10,000 families receive Tax Credits in Wales with an income between £30,000-£50,000.



Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis*, Table 1c

7.2. The number of children in families of each income bracket correlates with the number of families overall for in-work Tax Credits.

7.3. Households with an income of below £10,000 receive over half of the annualised entitlement for in-work Tax Credits in Wales. Families with an income of £20,000 and over receive less than 15% of the annualised entitlement overall.

Claimants of in-work Tax Credits by income band, no. of families and no. of children in Wales, 2013/14

| Income range | Up to £6,420 | £6,420 to £9,999 | £10,000 to £19,999 | £20,000 to £29,999 | £30,000 to £39,999 | £40,000 to £50,000 | Total |
|---|--------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------|
| No. of families (000s/%) | 34 20.7% | 31 18.9% | 60 36.6% | 30 18.3% | 8 4.9% | 1 0.6% | 164 |
| No. of children in families (000s/%) | 45 18.3% | 40 16.3% | 82 33.3% | 57 23.2% | 20 8.1% | 2 0.8% | 246 |
| Annualised entitlement (£million/%) | 289 28.6% | 235 23.2% | 348 34.4% | 117 11.6% | 21 2.1% | 2 0.2% | 1,012 |

Source: HMRC (2015), *Child and Working Tax Credits statistics finalised annual awards - geographical analysis, Table 1c*

Annexe 1: Tax Credits annual entitlements and thresholds

| Child Tax Credit | |
|--|---------|
| Family element | £545 |
| Child element | £2,720 |
| Disabled child additional element | £3,015 |
| Severely disabled child additional element ⁴ | £1,220 |
| Working Tax Credit | |
| Basic element | £1,920 |
| Couples and lone parent element | £1,970 |
| 30 hour element | £790 |
| Disabled worker element | £2,855 |
| Severely disabled adult element | £1,220 |
| Childcare element (Maximum eligible costs allowed (per week)) | |
| Eligible costs incurred for 1 child | £175 |
| Eligible costs incurred for 2+ children | £300 |
| Percentage of eligible costs covered | 70% |
| Income threshold and disregard | |
| First income threshold | £6,420 |
| First withdrawal rate | 41% |
| First income threshold for those entitled to Child Tax Credit only | £15,910 |
| Income increase disregard | £5,000 |
| Income fall disregard | £2,500 |

Source: HMRC (2015), *Child and Working Tax Credits statistics: finalised annual awards - 2013 to 2014*, Appendix b

Annexe 2: Rate of Tax Credits claims by local authority area, 2013/14

| Local Authority Area | Estimated no. of working-age (16-64) households ¹ | Estimated no. of Tax Credits claims ² | Percentage rate of households in receipt of Tax Credits |
|----------------------|--|--|---|
| Monmouthshire | 25,838 | 4,800 | 18.6% |
| Powys | 38,297 | 9,300 | 22.5% |
| Vale of Glamorgan | 111,943 | 8,600 | 22.7% |
| Gwynedd | 45,780 | 8,700 | 23.4% |
| Flintshire | 74,725 | 10,700 | 23.8% |
| Ceredigion | 38,367 | 5,300 | 24.2% |
| Swansea | 35,330 | 17,800 | 24.6% |
| Conwy | 21,086 | 8,900 | 25.1% |
| Cardiff | 41,786 | 25,400 | 25.8% |
| Isle of Anglesey | 42,719 | 5,400 | 26.7% |
| Carmarthenshire | 20,229 | 14,500 | 26.7% |
| Pembrokeshire | 41,938 | 9,900 | 26.7% |
| Denbighshire | 53,645 | 7,600 | 27.0% |
| Wrexham | 32,873 | 10,800 | 27.1% |
| Neath Port Talbot | 27,514 | 11,400 | 27.6% |
| Bridgend | 27,412 | 11,200 | 27.7% |
| Torfaen | 35,622 | 7,600 | 27.8% |
| Rhondda Cynon Taf | 72,529 | 20,200 | 27.9% |
| Newport | 45,143 | 12,600 | 27.9% |
| Caerphilly | 54,473 | 15,400 | 28.3% |
| Blaenau Gwent | 21,761 | 6,400 | 29.4% |
| Merthyr Tydfil | 17,717 | 5,700 | 32.2% |
| WALES | 926,727 | 238,000 | 25.7% |

Sources: ¹2011 Census, LC4601EW - Tenure by economic activity by age - Household Reference Persons, accessed via Nomis; ²Child and Working Tax Credits statistics finalised annual awards - geographical analysis, Table 2

Annexe 3: Rate of in-work Tax Credits claims by households in employment by local authority area, 2013/14

| Local Authority Area | Estimated no. of working-age (16-64) households in employment ¹ | Estimated no. of in-work Tax Credits claims ² | Percentage rate of working households in receipt of Tax Credits |
|-----------------------|--|--|---|
| Monmouthshire | 21,943 | 3,500 | 16.0% |
| Cardiff | 87,358 | 16,000 | 18.3% |
| The Vale of Glamorgan | 31,342 | 6,000 | 19.1% |
| Flintshire | 38,260 | 7,700 | 20.1% |
| Swansea | 56,221 | 12,300 | 21.9% |
| Bridgend | 32,628 | 7,300 | 22.4% |
| Wrexham | 33,858 | 7,700 | 22.7% |
| Newport | 35,078 | 8,100 | 23.1% |
| Powys | 32,409 | 7,500 | 23.1% |
| Torfaen | 21,383 | 5,000 | 23.4% |
| Neath Port Talbot | 31,622 | 7,400 | 23.4% |
| Caerphilly | 41,791 | 10,000 | 23.9% |
| Gwynedd | 28,305 | 6,800 | 24.0% |
| Rhondda Cynon Taf | 54,091 | 13,000 | 24.0% |
| Denbighshire | 21,835 | 5,300 | 24.3% |
| Isle of Anglesey | 16,066 | 3,900 | 24.3% |
| Conwy | 26,264 | 6,600 | 25.1% |
| Carmarthenshire | 42,169 | 10,600 | 25.1% |
| Blaenau Gwent | 15,339 | 3,900 | 25.4% |
| Ceredigion | 16,734 | 4,300 | 25.7% |
| Pembrokeshire | 28,548 | 7,500 | 26.3% |
| Merthyr Tydfil | 13,227 | 3,800 | 28.7% |
| WALES | 142,281 | 36,700 | 25.8% |

Sources: ¹2011 Census, LC4601EW - Tenure by economic activity by age - Household Reference Persons, accessed via Nomis; ²Child and Working Tax Credits statistics finalised annual awards - geographical analysis, Table 2

Equality and Social Justice Briefings

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We have made every effort to ensure that the data in this briefing is accurate and up to date at the time of writing. However we cannot be held responsible for any error or omission in the briefing or change in the source data.

All the data used in this briefing is publicly available. We hope that future briefings on health will include unpublished and bespoke data.

About the Bevan Foundation

The Bevan Foundation develops ideas to make Wales a fairer, prosperous and sustainable place. We are independent of government or any political party, and are funded by membership subscriptions, donations, grants from charitable trusts and foundations and commissions.



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