

Working Families' Tax Credit in 2001

By Stephen McKay

This report concerns WFTC – who receives it, at which times, how it affects their behaviour (regarding working hours and childcare), and families' experiences of applying for and receiving this tax credit. The report is one output (of four) from Families' And Children Study - a longitudinal study - that was commissioned in 1999 by the Department for Work and Pensions and Inland Revenue. The Families' And Children Study examines the opportunities and constraints that face families moving into paid work, providing valuable information on in-work support and exploring issues of family welfare.

In 2001 a representative sample of lone parents and **all couples with dependent children were interviewed**.

Key findings

Caseload

In 2001, 18 per cent of all families were receiving WFTC, with average weekly awards of £78.

Work incentives and WFTC

Those families that were receiving WFTC in 2001 (and had been claiming Income Support in 2000) were on (mean) average £64 better off, than if they had remained on Income Support. On average these families had entered employment working at least 24 hours.

The research supports other evidence to suggest that Housing Benefit interacts with WFTC as a disincentive to work for some families; those receiving Housing Benefit were less likely than average to have moved into work, both compared

with other tenants and those in other housing tenures.

Overall, more than half of WFTC recipients said that if they were not receiving WFTC they "couldn't manage at all". A further one-quarter of families receiving WFTC said they could only manage without WFTC if they "cut down a lot".

WFTC Awareness, take-up and administration

Awareness of WFTC has increased (among low and moderate-income families it has risen to 42 per cent, from 33 per cent a year earlier). However, both awareness of the in-work benefit and knowledge of the level of awards could be improved as most people, including WFTC recipients, assume the 'run-out' point for themselves is much lower than it really is. Those not in work under-estimate the 'run-out' point the most.

Take-up figures for couples (55 per cent) remain below figures for lone parents (80 per cent), but the increase for couples during 2000-2001 was higher than for lone parents.

Nearly 90 per cent of those who had renewed a WFTC claim said that they were satisfied with how this had been handled by Inland Revenue.

Summary of Research

Methodology

This report provides analysis of the first three waves of a large survey of families with children. In each year (1999, 2000 and 2001) a sample of lone parents has been interviewed. In 1999 and 2000, only low/moderate-income couples with children were interviewed. Interviews were extended to all couples, across the income distribution, in 2001 to create a representative sample of all families with children.

The data may be analysed in two different ways. First, as a picture of all Britain's families with children in 2001. Second, as a panel study showing how individual families developed and changed over time, between 1999 and 2001.

A total of 8,541 families were interviewed in 2001, and in total 10,428 different families have been interviewed as part of this series of surveys. The panel element of this study has meant that close to 4,000 families were interviewed in both 2000 and 2001, and these are one of the main groups analysed in this report (especially those with any experience of WFTC).

A changing caseload

Whilst 18 per cent of families received WFTC, it was received by 31 per cent of lone parents and 12 per cent of couples. Among families in paid work of at least 16 hours a week, 21 per cent were receiving WFTC (64 per cent of lone parents, 13 per cent of couples).

If we look at families with children sorted by income, and then look at each 'tenth' (or decile, after adjusting for family size), then families with incomes in the 30-40 per cent group (i.e below middle incomes, but better off than about one-third of families) were the income group most likely to be receiving WFTC.

Some 61 per cent of WFTC recipients in 2001 had been receiving WFTC in 2000. Just under half of the 'new' recipients were not in paid work in 2000 and just over half were already in work.

Among those modelled as entitled to the childcare tax credit and reporting help with childcare costs, over one-third said that WFTC had affected their childcare use, and one-quarter their own working hours.

Among lone parents receiving WFTC in 2000, 73 per cent also received WFTC in 2001. Nine per cent moved out of eligibility for WFTC due to increased income, eight per cent had stopped work, eight per cent had become eligible non-recipients, and two per cent had become self-employed, not receiving WFTC. Couples were more likely than lone parents to have moved out of eligibility for WFTC because they had higher incomes (14 per cent), though they started from having lower average awards too. Nearly two-thirds (64 per cent) of couples who received WFTC in 2000 were also receiving WFTC in 2001.

Among eligible non-recipients of WFTC in 2001, 21 per cent had received WFTC at some point since October 1999 (when it was introduced). A further 10 per cent had applied for WFTC and had been unsuccessful. Such rejections may have taken place before a change of circumstances that meant they were eligible at the time of interview – or could indicate that the survey assessment of eligibility is not precise.

Moving into work: how important is WFTC?

One-quarter (23 per cent) of those not in paid work of 16 or more hours in 2000, had moved into work of 16 or more hours by 2001. Half of the lone parents moving into paid work had jobs where they worked for 16-23 hours a week.

Among those moving into work between 2000 and 2001, 63 per cent were receiving WFTC in 2001 (76 per cent for the lone parents, 48 per cent for the couples. A further 17 per cent appeared to be eligible for WFTC, but not receiving it. WFTC receipt was more common among those working shorter hours than average, particularly among lone parents.

Those receiving Housing Benefit were less likely than average to have moved into work, both compared with other tenants and those in other housing tenures. However, the level of rents itself did not appear to affect the rate of moving into paid work – among tenants those with higher rents were as likely, or not, to move into work as those with lower housing costs.

There was a strong association between having been on the New Deal for Lone Parents, and receiving WFTC having moved into paid work of 16 or more hours.

Most movers into work had pay rates above the level of the National Minimum Wage, with an average hourly wage rate of £4.94.

Families receiving WFTC in 2001, having received Income Support in 2000, were estimated to be £64¹ a week better off than if they were not working, and instead receiving Income Support.

WFTC Recipients: Changes in work

Among lone parents receiving WFTC at 2000 and 2001, 38 per cent were working the same hours, 33 per cent more hours, and 23 per cent fewer hours. The picture for couples was more complex. By and large the number working more hours was balanced by the number working

fewer hours, with a significant proportion of couples continuing to work the same hours. Among lone parents, hours increases were more likely among those working shorter hours, and hours decreases among those working longer hours than average. This was somewhat linked to family circumstances.

Among couples, there was a very wide range of changes in hours of work and work status. However, the number of single-earner couples receiving WFTC in 2000 who became dual-earner couples in 2001 was broadly equivalent to the number of dual-earner couples becoming single-earner couples. However, there were too few two-earner couples receiving WFTC in 2000 to conduct very detailed analysis.

WFTC awareness and take-up

Awareness of WFTC among low and moderate-income families has risen to 42 per cent, from 33 per cent a year earlier. However, understanding of the levels of earnings that may still qualify for WFTC was quite poor – most people, including WFTC recipients, assume the 'run-out' point for themselves is much lower than it really is. Those not in work underestimate the most.

The rate of take-up of WFTC among eligible families increased from 62 per cent in 2000 to 67 per cent in 2001. Expenditure-based take-up increased from 76 per cent to 78 per cent. The caseload grew by more than 10 per cent between these dates, whilst the size of the eligible population also grew, but more slowly. Hence there was an overall rise in the rate of take-up.

This overall increase in the caseload, and in the rate of take-up, translated into higher rates of take-up among all the groups analysed, with a sizeable increase among families with relatively small levels of entitlement to WFTC. Take-up among couples, especially two-earner couples, remains considerably lower than for lone parents.

¹ The median figure was £50.

Administration of WFTC

In 2001, as in 2000, about one WFTC recipient in every five had spoken to their employer about their most recent application. Employers were either positive or neutral in dealing with this group.

A similar number – 23 per cent of applicants – had contacted Inland Revenue about the progress of their application, which was an increase on the 16 per cent of 2000. Levels of ‘customer satisfaction’ with this contact had not changed; as this is a group who perceive some problem with their application, such as it appearing to be taking a while to resolve, satisfaction levels are likely to be lower than among the WFTC population as a whole. This is reinforced by the fact that nearly 90 per cent of those who had renewed a WFTC claim said that they were satisfied with how this had been handled. Only a minority of applicants (15 per cent) said that the time between application and WFTC payment took longer than they were expecting.

About half the WFTC recipients, and 72 per cent of the lone parents, were being paid WFTC directly into their wages. There is now greater understanding of this method, and fewer people said it caused them any concerns (dropping to 24 per cent in 2001 compared to 44 per cent a year earlier).

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 531 8. Price £27.50. Research Report 181. January 2003).

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