

Church of England Board for Social Responsibility

Response to

New Tax Credits: Supporting families, making work pay and tackling poverty

Introduction

1. The terms of reference of the Church of England Board for Social Responsibility require it 'to co-ordinate the thought and action of the Church in matters affecting the life of all in society'. The Board reports to the Archbishops' Council and, through it, to the General Synod.
2. The Council of Churches for Britain and Ireland (now Churches Together in Britain and Ireland) sponsored an enquiry into employment and the future of work in 1995 chaired by Bishop David Sheppard (then Chair of the Board for Social Responsibility). A working party looked at the profound changes taking place in the labour market and the ways in which they were affecting people in all kinds of situations, but especially those who are disadvantaged or poor. The report of the working party '*Unemployment and the Future of Work*'¹ drew on the images and narratives found in the Christian faith. In particular they argued that only a just and caring society could achieve real and lasting prosperity. They offered the image of living body of which we are all members as a model of a truly interdependent society in which suffering and good fortune are both shared. The Church of England's General Synod debated a report on the 'Health of the Poor' in July 2001. At the end of the debate a resolution was taken which encouraged action by all members of the Church to support policies, which will improve the health of the poor of the United Kingdom. Sir Donald Acheson, who spoke in the debate, highlighted the inequalities in health, which affect the whole of society. In the introduction to the Report of the Inquiry he chaired, he viewed the issues as being fundamentally a matter of social justice². The Board therefore welcomes the Government's commitment to tackle poverty and the opportunity to respond to the Consultation Document on '*New Tax Credits: Supporting families, making work pay and tackling poverty*'. Our response does not attempt to comment on all of the issues but highlights matters of particular concern to us.

¹ *Unemployment and the Future of work* (London: CCBI 1997)

² pp 3-9 The report of the *Independent Inquiry into inequalities in Health* (London: The Stationary Office, 1998) chaired by Sir Donald Acheson.

3. *Unemployment and the Future of Work* commented on the dramatic widening in the distribution of wages and of incomes. Indeed the gap is even wider now. The Inquiry chaired by Sir Donald Acheson, recommended as a strategic contribution to the reduction of inequalities in health, that inequalities in income should be reduced and living standards of households are improved. *Unemployment and the Future of Work* supported the principle of a statutory minimum wage because it found the very low rates of pay being offered unjust and offensive to human dignity³. Therefore we support the Government in its introduction of the minimum wage and for its attempts to help people into work.

4. *Unemployment and the Future of Work* went on to recommend an integrated tax and benefit system because means-tested benefits, whether paid to those in work or out of it, require much of the same information. It suggested that claimants moving into employment would have greater confidence in the continuity of their entitlement and income. Therefore we welcome the direction of the proposals to integrate the tax and benefits system and to bridge the divide between work and welfare put forward in the consultation document. We support the objectives for the system as set out in Para. 120, that they should be accessible, responsive and transparent. We welcome the move for claimants to need to provide information to a single agency. In our consultation, we were made aware of people, particularly in rural areas such as Cornwall, who were making expensive and time consuming bus journeys to several agencies. In an age of networked-computer systems, it should be possible for claimants to be able to provide changes in information through networks provided locally (such as through a local post office). The system has to be flexible enough to cope with the vagaries of the job market at this level where people are employed for short term contracts and where hours change, almost week by week. We are concerned that a large proportion of the job market is not covered by these proposals, such as seasonal and part time work (under 15 hours). In the research by the Greater Manchester Low Pay Unit on jobs advertised in Greater Manchester job centres for April 2000 (latest figures), 40% of all jobs were advertised as being less than 30 hours a week - and therefore would not qualify for Employment Tax Credit for anyone who wasn't disabled or didn't have dependent children. Almost half of these (i.e. 20% of all jobs) were less than 16 hours per week, and would not bring entitlement to Employment Tax Credit support. The rates of pay for these jobs were also extremely poor. 31% of part-time jobs paid exactly the minimum wage (£3.60 at the time of the survey); 68% paid less than £4 an hour (equivalent to just over 110% of the minimum wage). These are the type of jobs that are on offer to those who are unemployed but not taken up because of the low pay or because they are unstable. In our consultation with Church Action on Poverty and Communities against Poverty (Liverpool) it was suggested that one view for helping with this is to adjust credits through the tax code as in PAYE (p.66 Section 3 bulletin point 2). We would recommend a system between benefits and tax credits that would allow claimants to have support continuously in and out of work without having to apply for Income Support or tax credits again with the shortfalls to be

³ P.13 A summary of *Unemployment and the Future of Work* (London: CCBI 1997)

calculated at the end of the year. This would enable people to have the confidence to take jobs even if they were short term or insecure. Our consultation also highlighted the key role of passported benefits; for instance, one lone parent talked of the difference that losing free school meals would make to her family. These benefits are crucial to the well being of families and must be safeguarded when a family moves into or out of low paid employment. From our consultation we understand that a major concern about taking up work involves having to pay arrears that have accumulated during unemployment (such as heating costs, mortgage arrears). We suggest that the Inland Revenue consider recommending that the increase in costs to cover arrears are also staggered when a claimant re-enters work to allow some space and a chance to pay off arrears before bailiffs come round. The Inland Revenue has requested views about the appropriate treatment of particular benefits in new tax credits (p.67 Section 5 and p.68 Section 7). We would strongly recommend that it consult with those living on these benefits to help formulate an appropriate and fair way of ensuring that there is a just minimum income for low-paid households, which will include passported benefits. We suggest the report of the Uspeak consultation (London, Hansard Society, March 2001) as a good model.

5. One of the Government's strategies for getting people out of poverty is to increase the opportunities for education. Our consultation has highlighted the plight of low-income households where the main breadwinner has become a student (particularly in lone parent families). We fully support the extension of the eligible groups to include students with children (p.13 Section 21, p.62 Section 9.3)). We understand that funding for students is to be reviewed. We would recommend that students with children should be eligible for childcare tax credits and that no family should be in poverty because the main breadwinner is in education.
6. The success of the Government's proposals to combat poverty and to make work pay relies on the thresholds set for the appropriate tax credits to apply. The consultation document does not mention figures but welcomes views on the level of an appropriate threshold for changes in income to which the new tax credit should respond (p.68 Section 5). The General Synod's resolutions in July 2001 called on the Government to commission independent research that would identify minimum income standards related to need and then bring forward the legislation which would ensure the maintenance of such minimum income standards. Our consultation with Church Action on Poverty suggests that it could be argued that in relation to tax credits the minimum income standard should be used to set the level of income that people start with. Any earnings then take households above that level. Even if the Government is unwilling or unable to raise the level to the amount found by independent research, it should allow people to keep 100% of their earnings until they reach the minimum income standard level before tax or national insurance are deducted.

7. There are three aspects of supporting families, making work pay and tackling poverty that are not addressed fully in the consultation because they are not within the control of the Inland Revenue, yet they are crucial to the success of the proposals. These are the administration of the scheme, the role of the employers and the families themselves. We wish to consider each briefly.
8. During our consultation with Church Action on Poverty, we were made aware of problems there might be with implementing a new system. There are cases of people, under the old system, being made to wait to be assessed or to get in-work benefits, such as housing benefits. Radical reforms such as these have to be carefully planned so that people on low incomes are dealt with efficiently and fairly in a way that safeguards their integrity and dignity. Therefore extra costs to Government must be planned and allowed for (p.56 Section 5.2). When choices in implementation have to be made, the overriding principle should be in favour of the claimants (such as Section 5.3.6). We welcome the proposal to pay integrated child credit directly to the main carer by paying through a bank account and that families are able to choose the frequency with which they receive direct payments of tax credits. However this means that everyone must have an account, regardless of their financial status, and the Government must make sure this happens before these changes are implemented.
9. There was a concern about dealing with the Inland Revenue because it was perceived to be a Government department with more power to impose penalties than the Department of Work and Pensions. There was a real fear that people could inadvertently make claims that they were not entitled to and that they could be treated harshly. However the Inland Revenue was also thought to be a nicer environment, where people were treated with more dignity because they were working rather than with suspicion. We welcome the tone of the consultation because it conveys a wish to work with people rather than grudgingly giving them benefits. We support the desire to make things as simple as possible and for claimants to be treated in line with the way people paying tax are treated. For example, we would recommend treating benefits in kind for people on tax credits in the same way that other people on higher incomes are treated within the tax system. In the same way, we support the proposal to bring the treatment of capital and income from capital for the purposes of new tax credits into line with their treatment in the income tax system.
10. Whilst we support these proposals, we note that they impose certain obligations on employers. We have been disturbed by reports of cases in which employees eligible for tax credits, have been dismissed. We are also concerned by reports of the increase in part time work advertised at Job Centres offering 15 hours or less so that employees will not be eligible for the employment tax credit or national insurance (see Paragraph 4). We support proposals to help employers implement the changes, but care should be taken to ensure that any proposals do not provide incentives to create low paid jobs that should be paid at a higher level.

11. We welcome the consideration of equality issues in the consultation document. However we are concerned that the proposals are going to favour families where there is a high level of honesty and openness about finance. The proposals assume that adults in households talk to each other about their income. The consultations we have carried out lead us to question that assumption and there is concern that these proposals might in fact cause relationship problems despite the fact that they are intended to support families and stable relationships. There are questions of confidentiality and independence within households that are not addressed in this consultation document. There is also an argument put forward in *Unemployment and the Future of Work*⁴ that assessment based on the household create an incentive to tell lies, especially about co-habitation. They could be an incentive for couples to split up and live apart, so that one can claim tax credit on a low income while another earns a high income. We would urge the Government to give greater consideration to this and, as a first step, to monitor the effects of the proposed changes on family structure. We welcome the proposals to base the definition of the main carer on its everyday meaning and agree that the guidance in place is a good model. We would recommend the widening of the definition to include those who care for other adult dependents in future reforms.

12. In conclusion, the Board welcomes the opportunity to consider the proposals set out in the Inland Revenue's consultation document. It supports the Government's desire to integrate the benefit and tax systems in order to support families, make work pay and to tackle poverty. It is broadly in favour of the proposals, which offer claimants an opportunity to enter work supported by tax credits if their income falls below a certain level. We would recommend that the threshold for these tax credits to be awarded be set at a realistic level based on the recommendations of independent research into a minimum income standard. The system must also enable people to cope with the realities of insecure, short term work without worrying about losing levels of income brought in by benefits and that steps must be taken to ensure people can move on to full-time worthwhile and reasonably paid jobs.

+THOMAS SOUTHWARK
Chairman
23 October 2001

⁴ P.142-3 *Unemployment and the Future of work* (London: CCBI 1997)