contact a family
for families with disabled children

How tax credits cuts will affect families with disabled children

Summary

- Contact a Family is concerned about the impact of tax credit cuts on disabled children. Around 149,000[1] families with disabled children could be affected by the changes planned in April 2016.

- Contact a Family welcomes protection for the disabled child and severely disabled child elements of tax credit. However, overall many families with disabled children will see a reduction in their overall tax credit award when the changes are introduced.

- Contact a Family's helpline has spoken to many worried parent carers since the announcement was made in the July budget to change the earnings threshold, the taper rate and income threshold under the tax credit system. Case studies are provided throughout this briefing.

- Families with disabled children are more likely to be on lower incomes. Juggling paid employment with heavy caring responsibilities is already hugely challenging and increasing working hours is simply not an option for many of the families we talk to.

- A lack of affordable and appropriate childcare for disabled children alongside the need for parents to be close by for emergencies means opportunities in the workplace are too often restricted for families with disabled children.

- An increase in earnings from increases in the minimum wage will not offset the reduction in tax credits for many parent carers who can only work part-time. Some families will lose carer's allowance if wages increases too.

- **Contact a Family is calling on the Chancellor to think again about making the cuts because they impact on far too many disabled children.**

[1] The figure quoted is based on the most recent HMRC stats. This suggest that there are 149,000 in-work families receiving the disabled child element of working tax credit (See table 3.5 at http://tinyurl.com/oa5u5qd)

Case Study from the Contact a Family helpline

Jacinta Goode and her husband Tony from Norwich have two daughters aged 12 and 18. Their 12 year old gets Disability Living Allowance (DLA) middle rate care, lower rate mobility. Their 18 year old gets Personal Independence Payment (PIP) enhanced rates for daily living and mobility.

Jacinta is a full-time carer and her husband works full-time at present, although he is having to consider reducing his hours to assist with his older daughter's increasing care needs. Tony is already paid more than the living wage proposed amount.

Tax Credits amount

Based on earnings of £28,973 plus carer's allowance of £62.10 per week, this family's tax credit entitlement is £150 per week. From April 2016, due to the lowering of the threshold and increase in taper, they would qualify for approximately £90 per week, a reduction of £60 per week or £3,120 for the whole tax year.

On top of this, they may have a reduction in earned income of around £3,300 for the year, or £63 per week. This would mean a slight increase in tax credits of around £10 per week using current year's income. From April 2016 if Tony has to reduce his hours to 25, the overall loss from earnings and tax credits to this family would be £113 per week or £5,876 for the whole tax year.

As they do not receive any other benefits, such as housing benefit, there would be nothing to offset this loss. As already shown, they are not in a position to increase working hours; instead they are having to reduce their earnings in order to provide care for their daughters.

Impact on families with disabled children

Families with disabled children are more likely to be living in poverty or on low incomes than others. Many have already been affected by other changes to the social security system. Every two years Contact a Family carries out Counting the Costs research looking a family finances.

Last year we surveyed more than 3,500 respondents and found that:

- A third of families with disabled children are worse off as a result of benefit changes – nearly half by £1560 a year
- 60% see their financial situation worsening in the next year (UP from 43% in 2010)

Examples of where families with disabled children have already been affected by changes to the social security system since 2010:

- Reduction in help with council tax as result of local schemes replacing council tax benefit
- Other tax credits changes eg cut in % of childcare costs met by tax credits
- Housing benefit size rules - social landlord (i.e the bedroom tax)

The same research found increasing numbers of families with disabled children are being forced to regularly go without food and heating due to money worries. The numbers going without good and heating has doubled since 2010. This is causing ill health and marriage breakdown.

Increases in the minimum wage and free childcare for 3 and 4 year olds.

The government argues that the tax credit cuts will be offset by an increase in the minimum wage and by greater provision of free childcare for 3 and 4 years from 2017. However, many families with disabled children are unlike to benefit from these measures in the same ways as other families.

Parent carers are often unable to increase their working hours, as they have to juggle paid employment with heavy caring responsibilities, so they are notably less likely to benefit from the increase in the minimum wage.

Similarly, many families with disabled children report a distinct lack of appropriate and affordable childcare options. Research shows that young disabled children are less likely to take up the current 15 hours of free childcare for 3 and 4 year olds[1]. In its policy statement on the Childcare Bill, the Department for Education noted the challenges families with disabled children experience accessing childcare:[2]

"We know that families with disabled children and children with special educational needs can too often experience challenges in accessing childcare. While the legal framework is clear that all eligible children must be able to take up a place under the existing and new entitlement, in practice we are hearing that the system does not always deliver for all children."

Tax credits are a lifeline for many families with disabled children. If they are cut as planned, this will cause a great deal of stress and anxiety for the families we work with, which could place many family relationships under extra pressure. Indeed Contact a Family's helpline has already spoken to many families worried about the planned tax credit cuts.

Contact a Family is calling for the Chancellor to reconsider these cuts, to support families in their caring role, a role that saves the country billions each year in health and social care costs, and to help to make paid employment sustainable for families.

The scale of the tax credits cuts

If the government does not reconsider its position, then the following changes will come into effect in April 2016. The earnings threshold for working tax credit will be reduced from £6,420 to £3,850. The taper rate at which tax credits are lost will increase, from 41p to 48p per pound earnt above the threshold. The income threshold for child tax credit will also be reduced, from £16,105 to £12,125.

Contact a Family calculates that around **149,000 working families with disabled children will be affected** by these cuts. In general, the IFS estimates that these cuts will leave 3.2 million people worse off, by an average of £1,350.

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[1] Parliamentary Inquiry into childcare for disabled children

[2] Department for Education (2015) *Childcare Bill: Policy statement*

How much are families likely to lose as a result of tax credit cuts?

The table below sets out the maximum amount of tax credits that families might lose, dependent on the amount of income they have for tax credit purposes. You are treated as a working family if you are working enough hours to be eligible for working tax credit – this is either 16 or 24 hrs a week depending on your circumstances. The table assumes that your circumstances will remain the same – if your annual income has recently changed or will change next year then the impact on your tax credits will be different.

Annual household income for tax credits	Maximum loss in tax credits (annual amount)
£5000	£552
£10,000	£1484
£15,000	£1834
£20,000	£2184
£25,000	£2534
£30,000	£2884
£35,000	£3234
£40,000	£3584

Out of work families will also be affected by the tax credits cuts if they have an income for tax credits purposes of £12,125 or more. However please note that many types of benefits income including DLA, PIP, child benefit, tax credits and most means tested benefits are not counted as income. This means most out of work families are unlikely to be affected.

You will also not be affected by the tax credits cuts if you receive income support, income-based job seekers allowance, income-related employment and Support Allowance or Pension Credit.

If you are in rented accommodation with a low income and your tax credits drop, you may be able to get extra housing benefit to make up some of the loss in tax credits. Families with disabled children worried about the impact of tax credit changes should ring the free Contact a Family Helpline on 0808 808 3555 for further advice.

The follow three case studies are based on real calls to the Contact a Family helpline.

Case study 1

Couple with 2 children aged 4 and 10 months. 4 year old has Autism and gets the highest rate care component of DLA as he has day and night-time care needs.

Father works over 30 hours per week and earns £24,000 gross per annum.

Mother is unable to work because of son's needs. She claims carer's allowance of £62.10 per week. They have no childcare costs at present.

<u>Tax credit amount</u>

Based on their circumstances and their 'current year's' income they are entitled to tax credits of £114 per week.

From April 2016, because of the increase in the taper to 48% and the reduction in the threshold to £3,850, the family's tax credit award will be reduced by£30.

This reduction would be greater but the income figure used to calculate the award from April 2016 will be lower than the current income figure.

The family's tax credit award will be further reduced by £10 per week if proposals to scrap the 'family element' go ahead as planned.

Case study 2

Lone parent with 2 children aged 13 and 15. 15 year old gets DLA middle rate of care component. The mother is self-employed, working 30 hours per week. Her taxable profit in the previous year was £19,500.

<u>Tax credit amount</u>

Her tax credit award is £164 per week.

From April 2016 she will get tax credits of £125 per week if her income figure stays the same. This reduction of around £40 per week is due to the reduction of the threshold and increase in the taper. A further £10 per week reduction will be incurred by this family if the family element is scrapped.

In both cases an increase of over £2,500 within the tax year 2016 – 2017 will mean an immediate decrease in tax credits. At present an increase in income of up to £5,000 is ignored for the current year and only has an effect on the following year's award.

The figures used to calculate these families' tax credit awards from April 2016 are based on current rates. This gives a reasonably accurate figure as the tax credit amounts for 2016 will be frozen at this year's level. The only increase, in the case of these families, will be to the disabled child and severely disabled child elements. This year's increase represented a rise of around £1 per week where both elements were payable.

Disabled children as changes to tax credits as set out in the Welfare and Work Bill

Four year freeze on working age benefits (Clause 9)

We welcome the freeze does not apply to the extra disability additions/premiums that are paid as part of tax credits and means-tested benefits, nor to disability and carers benefits such as Disability Living Allowance, and Carers Allowance. However, overall low income families with disabled children will still be worse off in real terms as a result of the freeze in the other amounts they receive. Freezing working age benefits for four years will mean a cut in income in real terms.

Removing payments for third or subsequent children and the family element from tax credits (clause 11) and universal credit (clause 12).

Contact a Family is concerned about the impact on families of disabled children of the proposal to limit Child Tax Credit to 2 children. Normally the amount of tax credits received increases with your family size. This is because you receive an additional payment known as the child element for each child in your family. However, families will no longer receive an additional child element for a third or subsequent child born after 6 April 2017. Similarly families claiming Universal Credit will also not receive a child element for a third or subsequent child born after that date. Removing payments for third or subsequent children means that families claiming after 2017 will get £2780 less than under the current system for each subsequent child.

The family element is a tax credit payment of £545 per year which is awarded where the claimant has at least one dependent child. This will be scrapped for new tax credit claims from April 2017. From the same date an equivalent Universal Credit payment known as the higher first child element will also be scrapped for families making new claims under the Universal Credit system. In housing benefit a similar amount known as the family premium will be removed for new claims and new births from April 2016.

While we welcome the Disabled Child Element being retained we believe that where a family includes a disabled child, their claim for Tax Credits or Universal Credit should not be subject to the rule limiting payments of the child element to two children or removal of the family element in child tax credit, the family premium in housing benefit and the higher first child element in Universal Credit.

About Contact a Family

Contact a Family supports families with disabled children whatever their child's condition, wherever they are in the UK, we're there from the start and we're there whenever they need us. Call there Freephone helpline on 0808 808 3555. For further information visit www.cafamily.org.uk

For more information

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