Welfare Reform Bill
Evidence to the Public Bill Committee

1 Introduction

1.1 *About us*

1.1.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.

1.1.2 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

1.2 *The Bill*

1.2.1 The Bill is very much a framework Bill that sets out the broad structure of universal credit with enabling powers but provides very little other detail. This makes it difficult for us to give detailed comments and it is therefore important that Committee members have available to them a full set of draft regulations to inform their deliberations.

1.2.2 Universal credit is being held out by its proponents within Government as a simplification of the benefits and tax credits systems. There are some respects in which that claim is justified:

- administration under one central Government department rather than two;

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- a single withdrawal taper for earned income rather than many;
- one set of rules governing what were previously several different benefits; and
- tax credits.

1.2.3 There are other aspects of universal credit that should also be applauded:
- some increased earned income disregards in comparison with those previously in force within the benefits system; and
- the abandonment of the complex and restrictive working hours rules currently in working tax credit.

1.2.4 But such simplification as there is should not be used as a pretext to proceed harshly against claimants who make genuine errors in their claims or reporting of changes, or who fail to spot mistakes by departmental officials or computer systems. We say more about that below at 2.2.3.

2 Potential areas of concern

2.1 However, we remain concerned about a number of matters which in our view have not been thought through.

2.2 *Over-reliance on real time information*

2.2.1 The White Paper suggests that the real time information system (RTI) under which employers will be able to report their employees' earnings at the time they are paid can also be used to determine entitlement to universal credit.

2.2.2 The problem here is that income is defined according to one set of rules for income tax and PAYE purposes, another for universal credit. Accordingly there will have to be adjustments as the information crosses over from the one system to the other. There will need to be further adjustments if the same information is to be re-used by local authorities for council tax purposes.

2.2.3 The potential for distortion and error to enter the information while in transit is obvious. Will individual claimants be expected to check that the information on which their entitlement has been calculated correctly reflects all the discrepancies between PAYE income and universal credit? That would in our view be a wholly unrealistic burden to place on the unrepresented majority of claimants.

2.2.4 HMRC have not yet explained how they expect to dragoon micro-employers into monthly routines at an acceptable cost to business and with the degrees of accuracy necessary for RTI.

2.2.5 A further complication is that people are on the whole paid monthly, but benefits are often paid weekly or four-weekly. Is the period of assessment for universal credit to be aligned with that for PAYE earnings?

2.2.6 Information flows may be the Achilles Heel of UC.

2.3 ***Calman and the Scottish variable rate of tax***

2.3.1 The potential for distortion and error referred to in 2.2.3 above will undoubtedly increase when the Scottish variable rate of income tax is introduced, which could be as early as 2015.

2.3.2 It will also have to be decided whether or not the withdrawal taper on earned income will take account of the Scottish variable rate as it applies to non-savings income of a Scottish taxpayer. Also, clear information will need to be given to those affected.

2.4 ***Self-employment***

2.4.1 We shall submit separately from this written evidence a paper which outlines our concerns about the treatment of self-employed people under universal credit, and our fears that they may be getting a much worse deal than they do currently under working tax credit, particularly if the proposed income-floor is introduced.

2.4.2 It is essential in our view to align the definitions of self-employed income as between universal credit and income tax, in order to recognise investment in essential equipment and trading losses, and to make the crucial distinction between profits and drawings. The working tax credit does this far better than the current social security income measurement based primarily on cash flow.

2.4.3 It will be essential to get this right, since if universal credit is to take over from tax credits there will be a great many more self-employed claimants than there are self-employed people currently claiming DWP benefits. The numbers will be further augmented by ESA claimants entering the workplace for whom traditional employment may well be unsuitable, and for whom self-employment is often a far preferable option.

2.5 ***Disability and work incentives***

2.5.1 We understand that the disability element of working tax credit, which provides a clear work incentive for people who meet the conditions to enter and stay in work, may not be replicated in universal credit.

2.5.2 We cannot be certain that the proposed disregard for people with particular needs or circumstances (clause 12) will adequately compensate for the loss of the disability element in working tax credit.

2.6 *Passported benefits*

2.6.1 When it is claimed that universal credit will make work pay, it is unclear whether the effect of the possible withdrawal of passported benefits is taken into account. Currently, the loss of certain important passported benefits (such as free school meals) can be a strong disincentive to take up work. We see no sign that this is considered when it is said that under universal credit claimants will always be better off in work.

2.6.2 We urge the Committee to pin officials down to a clear definition of the phrase 'better off in work' – what precisely is meant by this, and what exactly are the elements of the calculation that produces this result in individual cases.

2.7 *Marginal deduction rates*

2.7.1 The impression is given that work incentives under universal credit will be better than now. Yet, taking the figures given in the White Paper, for claimants on modest as opposed to very low incomes, both the withdrawal taper and the disregards will be less generous than under tax credits.

2.7.2 We are also concerned that the introduction of capital ceilings for people currently within WTC will introduce perverse and unwelcome behaviours, for example, older workers ceasing to save for retirement, or younger workers giving up the thought of the first-time house deposit.

LITRG

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