

**Proposed changes to the Council Tax Reduction Scheme – East Devon District Council  
Response from the Low Incomes Tax Reform Group (LITRG)**

**1 Comments**

- 1.1 We welcome the opportunity to respond to this consultation on proposed changes to the Council Tax Reduction Scheme (CTRS)
- 1.2 Our comments relate to the proposed change in relation to the self-employed – to introduce a Minimum Income Floor (MIF) after a 12 month start-up period. The rationale for this is to align with universal credit.
- 1.3 During the passage of the Welfare Reform Bill and following publication of the universal credit main regulations, we made numerous representations to Government about the treatment of self-employed claimants under universal credit.
- 1.4 Although some concessions were introduced as a result of our representations, we believe that there are still many flaws in the design that will discourage people from taking up self-employment but perhaps none as harsh as the MIF. The MIF not only affects those who are not earning at a certain level month to month, but it also impacts unfairly on self-employed earners who happen to have a big business expense in one particular month (such as an insurance premium) or who hit an unexpected problem in their business (such as flooding or the loss of a major client). The MIF also gives a reduced level of support for those self-employed people with normally fluctuating incomes from one assessment period to the next by comparison to an employed person (to whom the MIF does not apply) who earns the same as the self-employed person over a year.
- 1.5 We therefore strongly oppose the introduction of the MIF into the CTRS system.

- 1.6 However, if the proposal goes ahead, it is important that safeguards are included to match those that are in universal credit. In particular, the MIF in universal credit only applies to people who are in the 'all-work' requirements group. Claimants who are in the other three groups (no work-related requirements, work-focused interview group or work preparation group) are exempt from the MIF. In addition, the MIF will not be set at 35 hours x National Living Wage (NLW) for everyone – some people may only be required to work 16 hours and so their MIF would be set lower.<sup>1</sup>
- 1.7 Although East Devon have produced an equality impact document<sup>2</sup> that shows there are a significant number of self-employed claimants who are disabled, carers or have care of a child under five, no mention is made of the exception from the MIF available in universal credit for these groups. The rationale behind the exception is that some claimants are unable, because of their circumstances, to work 35 hours a week.
- 1.8 If this proposal goes ahead without a similar exception it will most certainly have a disproportionate impact on disabled claimants, carers and those with children under the age of five.
- 1.9 We would also like to highlight another issue in relation to the MIF and that is how it is calculated. The current universal credit regulations set the MIF by taking the relevant number of hours x NLW with a deduction for notional tax and National Insurance (equal to that which an employed person would pay on those earnings). It is important that some acknowledgement of tax and National Insurance is given if the MIF is to be introduced into the CTRS.
- 1.10 When calculating employed and self-employed earnings under universal credit, claimants can deduct any pension contributions made to a registered pension scheme when calculating their net income. Their universal credit is then calculated based on this net amount.
- 1.11 However, when calculating the MIF, no account is made for pension contributions in the universal credit legislation. There is simply no rationale for this disparity between the employed and self-employed and we would urge the Council to consider calculating the MIF after the deduction of tax, National Insurance and pension contributions.
- 1.12 Consider the following example – Jemma is a single parent with two children. She works 35 hours a week as an administrator earning the national living wage and her net income (after tax and NI) is £1006 a month. Jemma is entitled to £430.72 a month in universal credit. Jemma decides to contribute £200 a month to a pension scheme. Her universal credit increases to £560.72 a month. Sandra is also a single parent with two children. She works 35 hours a week as a self-employed virtual office assistant so that she can work around her

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<sup>1</sup> See Regulation 62 SI 376/2013 – universal credit Regulations 2013

<sup>2</sup> <http://eastdevon.gov.uk/benefits-and-support/council-tax-support-scheme-201718-consultation/>

children's school hours. Sandra has fairly stable income from self-employment and her net income (after tax and National Insurance) is also £1006 a month and she also receives universal credit of £430.72. Sandra decides to contribute £200 a month to a pension scheme, however she continues to receive £430.72 a month universal credit because her income is now less than the MIF and so she is treated as earning the MIF (which, allowing for notional tax and National Insurance, is £1006 a month for 2016/17). Jemma therefore receives £130 a month more in universal credit support than Sandra despite them both working the same number of hours, earning the same amount and making the same pension contributions.

- 1.13 We are happy to discuss any of these points further and to provide any further information to aid the consultation process.

## **2 About Us**

- 2.1 The 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. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 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.