



The Church of Scotland



Child tax credits and Universal Credit: limit on support for families with more than two children

Briefing for House of Lords on the Welfare Reform & Work Bill, 2nd Reading

Summary

This briefing has been prepared jointly by The Baptist Union of Great Britain, the Board of Deputies of British Jews, Caritas Social Action Network, The Church of England, The Church of Scotland, Interlink, The Methodist Church, Quakers in Britain, and the United Reformed Church. We represent faith communities from different traditions, but share deeply held concerns about clauses 11 and 12 of the Welfare Reform and Work Bill, which will limit the support provided to families through tax credits and Universal Credit to the first two children. For brevity, we refer to this measure as the “two-child limit”.

Judaism and Christianity, through their shared inheritance, have always treated children as a blessing rather than as a burden. A third, fourth, or fifth child is no less precious than the first. Anything which sends the implicit message that a child is unwanted, unvalued or superfluous should be strongly resisted.

We understand and respect the need for a more sustainable fiscal policy as part of the Government’s deficit reduction strategy. However, this measure should be urgently reconsidered in view of the likely economic and social impact on families and their children:

- It will undermine the financial security of larger families, who stand to lose up to £2,780 for each additional child beyond the first two. By 2020/21, at least two million children will be affected, many of whom are already in, or at risk of, poverty. Many families will be unable to meet their children’s essential needs.
- The majority of those affected are working families. Substantially cutting their support sends an unhelpful message about the rewards of work.

- This measure will impact on many families who already have three or more children if they make a new claim for Universal Credit as a result of common, but unpredictable, life events, such as job loss or the onset of disability.
- These changes will also impact negatively on family life and have unintended consequences on bereaved parents, victims of domestic violence, and kinship carers.

We urge Peers/Members to support amendments that would remove or reduce the impact of these clauses.

The "two child" limit

Child Tax Credits are designed to help low and moderate income families with the additional costs of raising children. They are available to families regardless of work status, with the sum paid varying according to family size and household income. Each additional child increases a family's maximum entitlement by £2,780. Under Universal Credit (UC), which will replace tax credits, an equivalent "per child element" is incorporated into a family's entitlement. Currently, 872,000 families in the UK receive an average of £3,670 a year in support for a third or subsequent child through the tax credit system. 548,000 of these families are in work.¹

Clause 11 would remove eligibility to the 'child element' of child tax credits for third and subsequent children born after 6 April 2017. Clause 12 would have a similar impact on households eligible for UC. In addition, households making a new claim for UC after April 2017 will be subject to the two-child limit, irrespective of when their children were born. Corresponding changes will be made to Housing Benefit to ensure that any loss of tax credits or UC is not offset by an increase in other benefits.

The following groups will be exempt:

- Those migrating from tax credits to UC
- Those claiming UC within 6 months of a previous claim to tax credits or UC
- Lone parents on UC forming a couple with a single claimant not on UC.

In addition, the Government is developing protections for women who have a third child as a result of rape or other "exceptional" circumstances. For families with one child, multiple births will be counted as a single birth.

Financial impacts

The Government's Impact Assessment estimates that this measure will affect around 640,000 families by 2020/21²; as each of these families must by definition contain three or more children, at least two million children will be affected by the end of the parliament.

¹ Hood, A (July 2015), *Benefit changes and distributional analysis*, Institute for Fiscal Studies.

² HMT/DWP (July 2015), *Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit*. <http://www.parliament.uk/documents/impact-assessments/IA15-006E.pdf>

The projected savings are £1.4bn in 2020-21 (rising to £3bn in the longer-term, according to IFS forecasts). A “small” part of the savings may come from low income families having fewer children, but most of the savings will be due to reducing the amount of tax credits or UC paid to low and moderate income families with three or more children. The majority will be working families with limited scope for increasing their income from other sources. Substantially cutting their level of support sends an unhelpful message about the rewards of work.

Families will lose up to £2,780 for each additional child beyond the first two. With the removal of the family element of tax credits (also from April 2017), a family with three children will lose up to £3,325, and a family with four children up to £6,100. The precise impact on individual families will depend on complex interactions with other benefit changes. According to the Government’s own figures, the average saving per affected household will be around £2,100 a year, after taking into account the impact of the uprating freeze and lowering the benefit cap. The cumulative impact, including other measures announced in the Summer Budget, will be substantially greater than this for many families.

The risk of child poverty is already significantly higher among families with three or more children – 35%, compared to 25-26% for one- and two-child families³. This policy will further undermine the financial security of hundreds of thousands of vulnerable families, impacting on their ability to meet their children’s essential needs. Children raised in poverty face many disadvantages: they are more likely to die as infants, do worse at school and have poorer health.⁴ We fail to understand how making families poorer will “increase financial resilience and support improved life chances for children”, as claimed in the Government’s Impact Assessment.

Transitional arrangements are supposed to ensure that existing claimants are unaffected by these changes. However, households who are in receipt of tax credits and who are migrated onto UC, will only be protected in so far as they maintain their current claim. If their claim is interrupted for more than 6 months (perhaps because an adult has temporarily been able to take on higher paid work), this will count as a new claim and the two-child limit will apply.

Similarly, the two-child limit will apply to households making a completely new claim for UC, irrespective of the age of their children. This might arise in a wide range of mostly unpredictable circumstances, such as the onset of disability, family breakdown, job loss, or a reduction in income from self-employment. A policy designed to incentivise families to make responsible choices, becomes an unavoidable financial penalty for anyone confronted by relatively common life events.

³ DWP (2015), *Households below average Income: an analysis of the income distribution 1994/95-2013/14*. These figures are based on the After Housing Cost measure. The BHC figures are 22% and 15%, respectively.

⁴ JRF (Oct 2013), *Does Money Affect Children’s Outcomes?*: <https://www.jrf.org.uk/report/does-money-affect-children%E2%80%99s-outcomes>

Implications for family life

The current government has repeatedly affirmed its support for marriage and families. Yet, these changes will have a profoundly negative impact on family life, as well as wider implications for UK society:

- Money worries and debt problems cause serious difficulties within families, which this measure will exacerbate. A recent survey by The Children's Society, found that 57% of parents in problem debt said that their financial situation had put their relationship under strain.⁵
- The changes will also create perverse financial incentives for some families. In extreme circumstances, older children may be forced to leave home before they are fully ready, and large families may break up in order to avoid the two-child limit. Two single parents who wish to re-partner could be worse off if there are three or more children in their combined household.
- Parents with three or more children who have been bereaved or are fleeing domestic violence will be unable to obtain adequate support for all their children. Both groups are likely to need extra support where the deceased or abusive partner was the main earner. But, as a result of this measure, bereaved families will face additional pressures at a time of acute need. Victims of domestic violence will find it harder to escape abusive relationships.
- There may be further unintended consequences for kinship care arrangements and private fostering. Over 215,000 children in the UK are cared for in this way – often in response to events such as parental illness or disability.⁶ But, if a potential new carer is no longer eligible for additional support because of the two-child limit, this may preclude them from taking on such a role.
- Larger families are strongly prevalent within some faith traditions and cultures, leading to legitimate concerns (within but certainly not limited to some of our own communities) about the different ways this policy will be felt throughout society as a whole. There is an issue of equality for children born into families of faith. The proposed measure will disproportionately affect families where, perhaps because of the parents' faith there is a devout desire to avoid contraception or abortion.
- Despite advances in contraception, family planning is not infallible. Many people of faith - and other like-minded people – are concerned that unexpected pregnancies could lead to a rise in abortions because the new benefit rules will make additional children unaffordable.

For all these reasons, we regard this measure as fundamentally anti-family. It would, in our view, fail on all six of the DWP's "Family Test Questions".⁷

⁵ The Children's Society (May 2014), *The Debt Trap: Exposing the impact of problem debt on children*.

⁶ Cited in briefing by The Children's Society for Report and 3rd reading stages of the Welfare Reform & Work Bill.

⁷ DWP (Oct 2014), *The Family Test: Guidance for Government Departments*:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368894/family-test-guidance.pdf

Effectiveness and fairness

If the two-child limit is intended to encourage lower income families to have fewer children, then there is very little evidence that it will be effective. In the US, where 'family caps' have been applied in a number of states, most studies find little or no effect on fertility. According to Professor Bruce Stafford, who co-authored a DWP review of the evidence⁸, "*decisions about reproduction and family size are not simply the outcome of some rational calculation of the benefits and costs of having a child. Unless policymakers can highlight something about the UK context that means financial incentives here work differently from those across the Atlantic, then I can't see any case for using a 'cap' to control fertility decisions.*"

The other stated objective is to ensure that the benefits system is more affordable and fairer to those who pay for it. Whilst this policy will undoubtedly generate savings in the short- and medium-term, we do not believe it is fair:

- The majority of those affected are in work and will contribute substantially in taxation over the course of their working lives. Withdrawing support at their point of greatest need, often due to unforeseen circumstances, runs counter to the argument that this measure is about fairness to the taxpayer.
- More fundamentally, this measure will penalise, and in some cases impoverish, children for being born into a large family. Is it fair that children should be left without enough to meet their essential needs in an attempt to influence their parents' behaviour?
- Furthermore, we do not think it is fair that the two-child limit is to be applied to Child Tax Credits and Universal Credit, which are targeted at lower income families, and not to Child Benefit, which also benefits middle-high income families.

One of the core foundations of a just and compassionate benefits system is that the level of support should be linked to need. These changes are a major contravention of this principle.

Recommendations

In view of the likely economic and social impact on families and children, we urge Peers/Members to support amendments that would remove or reduce the impact of clauses 11 and 12 of the Bill.

⁸ DWP (2009), *The impact of financial incentives in welfare systems on family structure*: <http://webarchive.nationalarchives.gov.uk/20130314010347/http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep569.pdf>. This quote is from email correspondence with Professor Bruce Stafford (on 04/11/15) and is used with his permission.