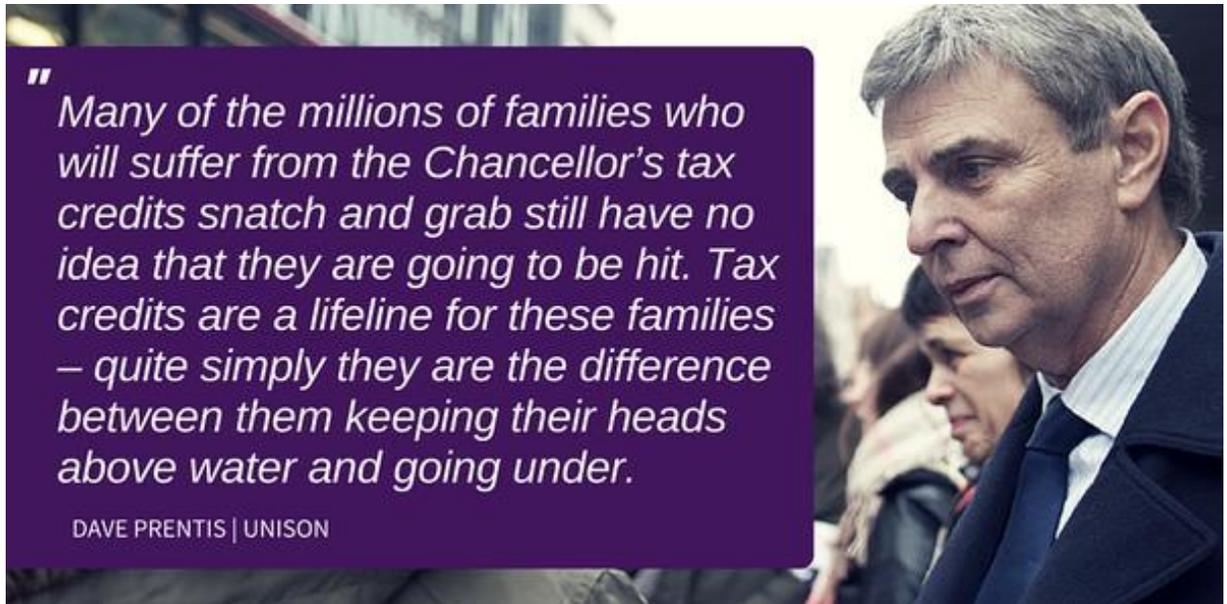


2015

20 October



## **UNISON BRIEFING - TAX CREDITS OPPOSITION DAY DEBATE**

## Opposition Day Debate

### Key Messages

1. The 2015 Conservative Manifesto promised to 'improve the lives' of 'the millions who work hard, raise their families, care for those who need help, who do the right thing'. The changes to the tax credit threshold and taper render that promise worthless.
2. The combination of the government's public sector pay policy and the changes to the tax credit threshold and taper mean that hundreds of thousands of public sector workers will have less income in 2016, in 2017, in 2018, in 2019 and in 2020 than they do in 2015.
3. The gain from the increase in the income tax personal allowance in 2016 is £80. It does little to compensate for the loss of £1,233.60 plus 7% of gross earnings above the current threshold of £6,420.
4. A cleaner with one child, who today earns £13,500/annum, instead of being £1,896.44 better off during the life of this parliament from a 1% pay rise each year, will instead be £6,845 worse off, as a result of the changes to tax credits. This is after taking account of the increase in the income tax personal allowance to £12,500 in 2020.
5. A passenger transport driver with one child who today earns £17,800/annum, instead of being £2,162.86 better off during the life of this parliament from a 1% pay rise each year, will instead be £8,114 worse off, as a result of the changes to tax credits. This is after taking account of the increase in the income tax personal allowance to £12,500 in 2020.

6. A medical secretary with two children who today earns £22,236/annum, instead of being £2,437.70 better off during the life of this parliament from a 1% pay rise each year, will instead be £9,423.11 worse off, as a result of the changes to tax credits. This is after taking account of the increase in the income tax personal allowance to £12,500 in 2020.
7. The government says it wants people to keep more of what they earn. But the people who need tax credits to make ends meet will keep just £20 of every extra £100 they earn as a result of these changes, while someone earning over £150,000/year keeps £53 of every extra £100 they earn.
8. The government gives the impression that it is not being straight with the public by claiming that 8 out of 10 working households will be better off. The information MPs need is how many of people who currently receive tax credits will be better or worse off and by how much.
9. The government has choices. It has chosen to spend, over the parliament, £2.63bn helping the well off by cutting inheritance tax; to hand £7.25bn to big businesses by cutting corporation tax, to give another £0.657bn to banks by cutting the bank levy and to give away or sell at less than market value public assets that the nation or local communities own. It has chosen to leave the cut in taxes for the wealthy, from 50p to 45p, in place allowing someone earning £2m/year to continue to pay £250,000 a year less in income tax. It has chosen to cut the tax credits of low to middle income families next April to pay for it. They are the wrong choices.

## Introduction

The Conservative Manifesto promised a plan 'for you and your family at every stage of your life'

It said that 'those who work hard and do the right thing must be rewarded'

It said 'The British character is renewed every day by the millions who work hard, raise their families, care for those who need help, who do the right thing – and make this country what it is. **THIS MANIFESTO IS ABOUT IMPROVING THE LIVES OF EACH AND EVERY ONE OF THESE PEOPLE.'**

This UNISON briefing shows that those manifesto promises are being broken, that those 'who work hard and do the right thing', instead of being 'rewarded', are being punished, simply because their income is so low that they need tax credits to make ends meet.

In his 2015 summer budget speech the Chancellor said

*"It's because we've taken...difficult decisions....that Britain is able to afford a pay rise. Because let me be clear: Britain deserves a pay rise and Britain is getting a pay rise."*

It sounds great but when you look at his plans it turns out that low-paid workers will see their incomes *fall*, many by thousands of pounds. Any union negotiator who told their members they were getting a pay rise and then delivered this would find that they would not be a union negotiator for very long.

The Chancellor announced that the personal tax allowance would rise next April from the planned £10,600 to £11,000 and that, as a result, basic rate taxpayers would pay £80/year each less in income tax.

But he also announced changes to the tax credit threshold and taper that will more than wipe out any gain from that increase in the personal tax allowance

### **The reduction in the threshold from £6,420 to £3,850**

By reducing the threshold the Chancellor lowers the point at which the taper kicks in and tax credits are reduced.

The lower threshold means the taper applies to an extra £2,570.

The current taper rate is a reduction in tax credit of £41. But the Chancellor did not stop there. He increased the rate of withdrawal from £41 for every £100 above the threshold to £48 for every £100.

According to the House of Commons Library, for most working families receiving tax credits, the lower threshold and increased taper rate have the combined effect of reducing a working family's tax credit award in 2016-17 by:

A- 48% of the difference between the old and new thresholds (48% of £6,420-£3,850 = £1,233.60)

B- 7% of gross earnings above £6,420 (this income is currently tapered at 41%, from 2016 at 48%)

## **Tax credits and public sector pay**

Many public sector workers won't just be worse off in 2016, the scale of the reductions, coupled with the government's public sector pay policy means that they will be worse off in 2017, in 2018, in 2019 and in 2020 than they are today.

## **Public Sector Pay Policy**

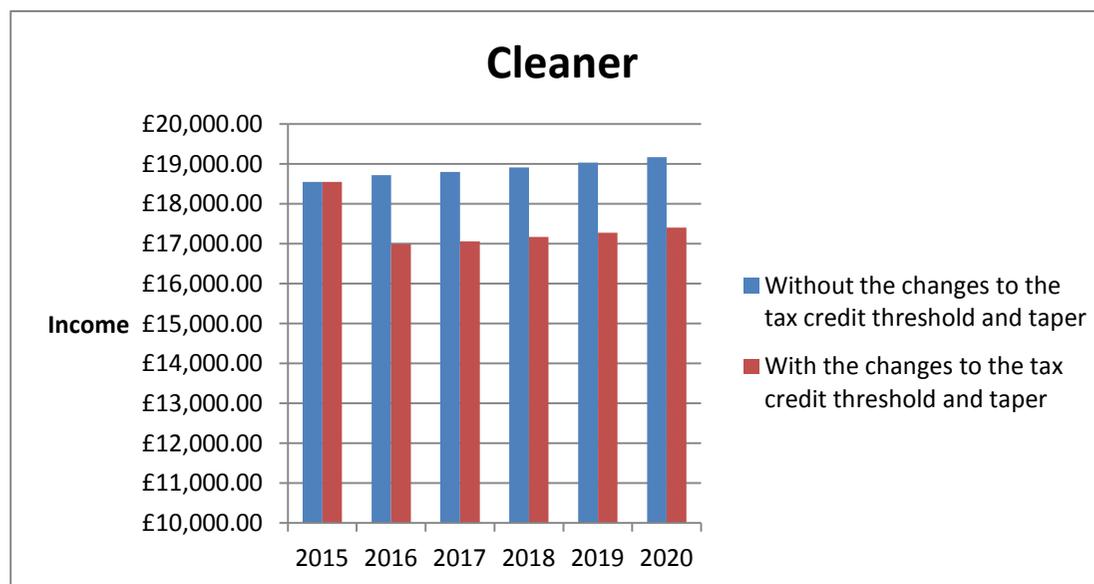
The Summer Budget 2015 announced that pay awards in the public sector would be restricted to 1% per annum for 4 years from 2016/17.

'So to ensure we have public services we can afford, and protect more jobs, we will continue recent public sector pay awards with a rise of 1% per year for the next four years. (George Osborne, Hansard, 8 July 2015)'

**1.87 .... the government will therefore fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards.** This will save approximately £5 billion by 2019-20. The government expects pay awards to be applied in a targeted manner within workforces to support the delivery of public services.

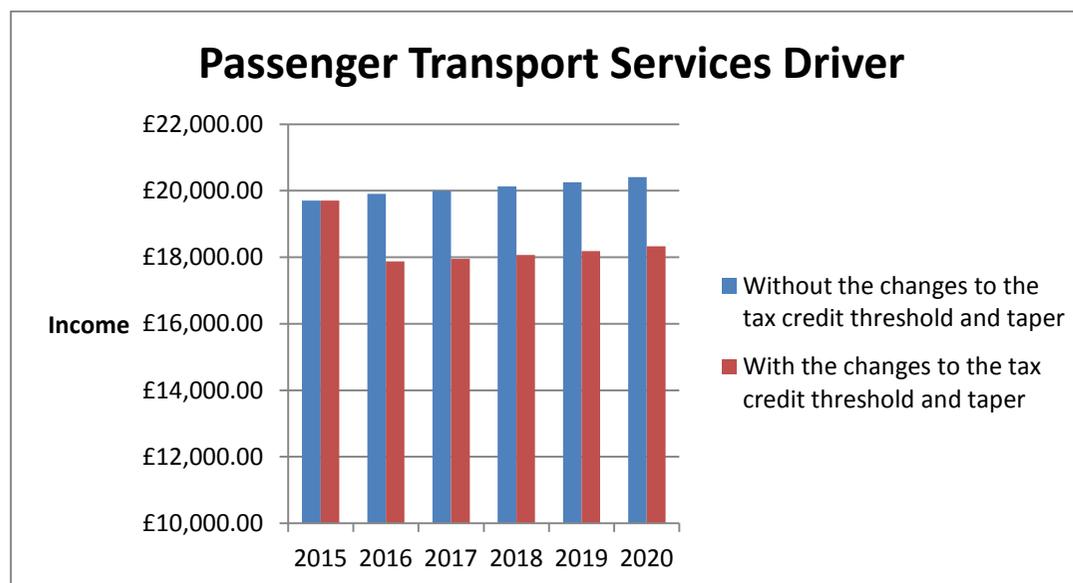
**Cleaner with one child, 2015 pay £13,500 per annum (see Appendix 1 for detailed calculations)**

	2016	2020	Over the life of this Parliament
Annual pay	£13,635	£14,188.64	
Without the changes to the tax credit threshold and taper	£171.80/year or £3.30/week better off than in 2015	£623.53/year or £11.99/week better off than in 2015	£1,896.44 better off
With the changes to the tax credit threshold and taper	<b>£1,557.40/year or £29.95/week WORSE OFF than in 2015</b>	<b>£1,144.04/year or £22.00/week WORSE OFF than in 2015</b>	<b>£6,845.01 WORSE OFF</b>



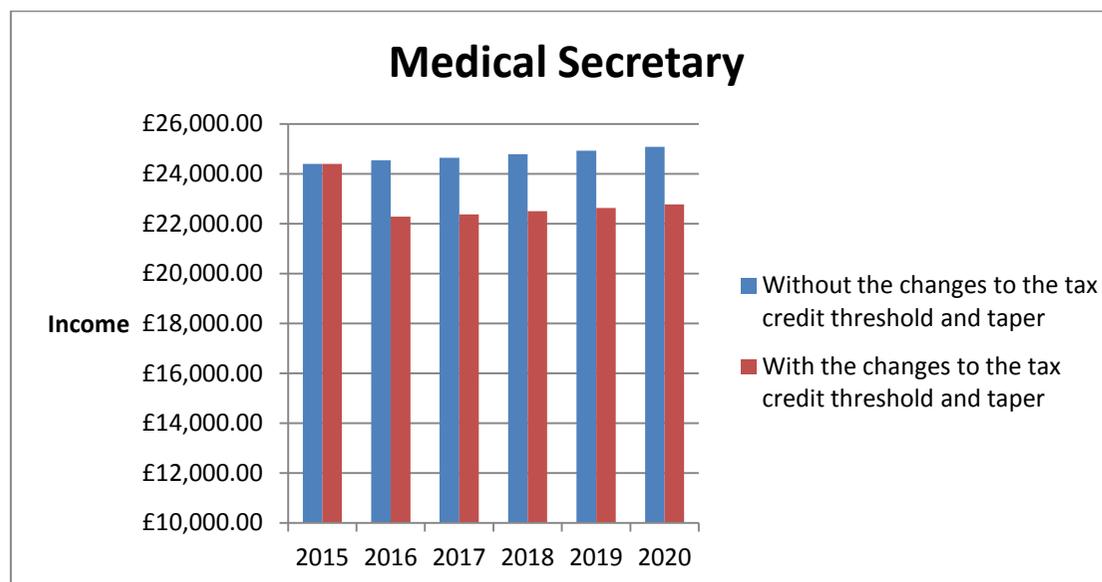
**Passenger Services Transport Driver with one child, 2015 pay £17,800/annum (see Appendix 2 for detailed calculations)**

	2016	2020	Over the life of this Parliament
Annual pay	£17,978	£18,707.98	
Without the changes to the tax credit threshold and taper	£201.01/year or £3.87/week better off than 2015	£701.10/year or £13.48/week better off than in 2015	£2,162.86 better off
With the changes to the tax credit threshold and taper	<b>£1829.18/year or £35.18/week WORSE OFF than in 2015</b>	<b>£1,379.70/year or £26.53/week WORSE OFF than in 2015</b>	<b>£8,114 WORSE OFF</b>



**Medical Secretary with two children, 2015 pay £22,236/annum (see Appendix 3 for detailed calculations)**

	2016	2020	Over the life of this Parliament
Annual pay	£22,458.36	£23,370.26	
Without the changes to the tax credit threshold and taper	£231.20/year or £4.45/week better off than 2015	£781.12/year or £15.02/week better off than in 2015	£2,437.70 better off
With the changes to the tax credit threshold and taper	<b>£2,109.52/year or £40.57/week WORSE OFF than in 2015</b>	<b>£1,622.80/year or £31.21/week WORSE OFF than in 2015</b>	<b>£9,423.11 WORSE OFF</b>

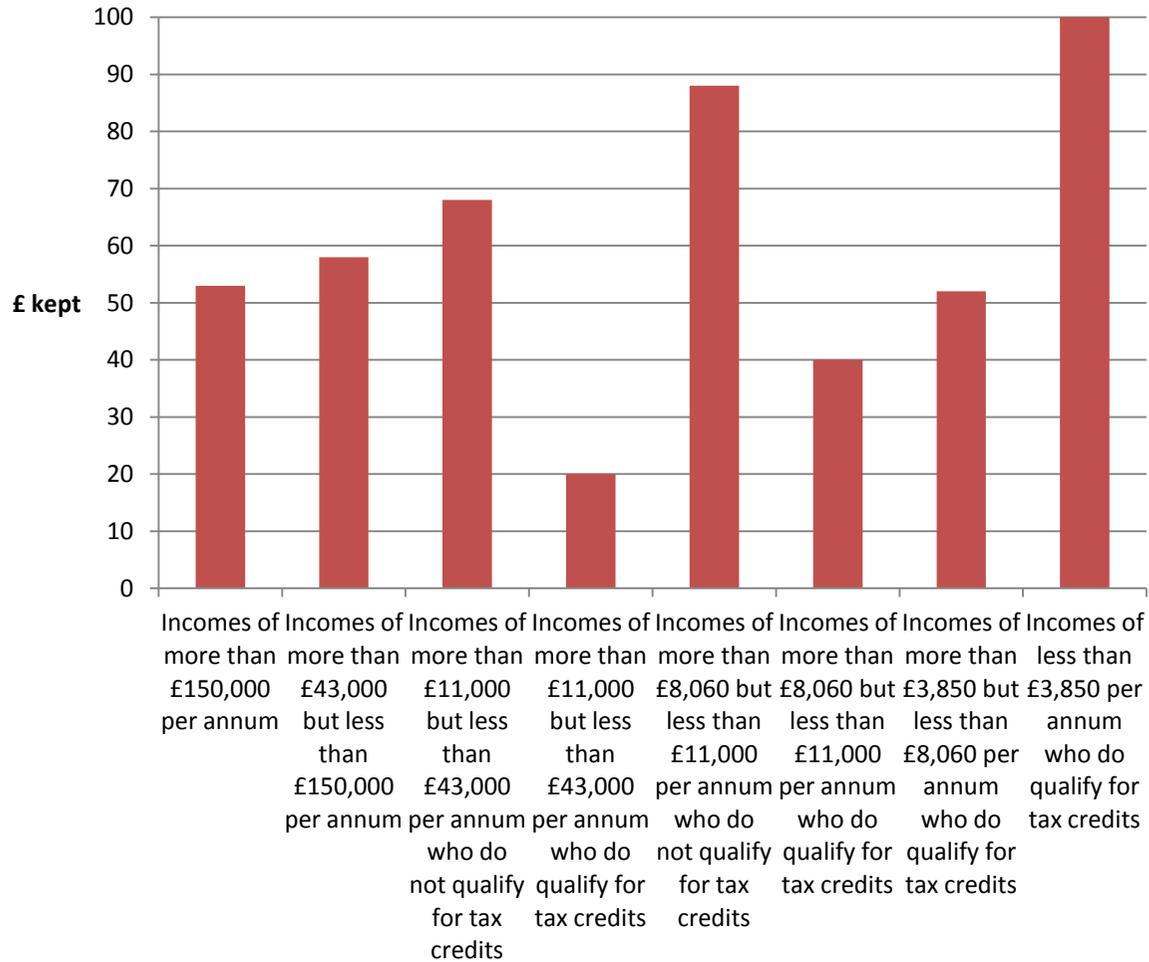


## **Keeping more of their money**

The government says it wants people to keep more of their money.

The government argues that people should be allowed to keep more of their money and that high marginal taxation does not make work pay. Yet ordinary people doing ordinary jobs but who need tax credits to make ends meet will keep just £20 of every extra £100 they earn and face higher marginal rates of taxation than the highest earners who keep £53 out of every extra £100 they earn.

### Earning an extra £100 - amount kept by taxpayer



## Broken promises

In the days running up the General Election Labour claimed that the Conservatives were planning a £3.8bn raid on tax credits (Mirror, 29 April 2015), affecting parents, disabled workers and other workers on low incomes.

The BBC's Martha Kearney asked Michael Gove if the Conservative party would cut tax credits.

"No; we are going to freeze them for two years; we are not going to cut them" replied former Conservative Education Secretary and Chief Whip in the last Parliament.

<http://www.bbc.co.uk/programmes/p02q82yj>

## Disguising the impact

From the outset it appears that the government has sought to disguise the impact of these changes and conceal them from the public.

First, the Summer Budget does not set out the impact of the changes on those in receipt of tax credits. Instead it says

"By 2017-18, 8 out of 10 working households will be better off as a result of the income tax Personal Allowance, living wage and welfare (including tax credits) changes in this Budget. On average, these households will be £130 per year better off." Paragraph 1.66, page 25, of Summer Budget 2015

The House of Commons Library notes 'that this figure is for all working households, not just those in receipt of tax credits' and that according to the latest data there are:

**17,413,000 working-age households containing someone is in work** (source: Working and Workless Households, Apr-June 2015 table A)

2 out of 10 working households (the number that will not be better off) is 3,482,600 working households.

**There are 3,277,300 in-work families on tax credits**

The average gain of £130 per year by 2017/18 claimed in the budget is almost entirely accounted for by the changes to the income tax Personal Allowance.

The changes to the income tax Personal Allowance to £11,000 in 2016 and then £11,200 in 2017 will mean that basic rate taxpayers are better off by £80 and £40 respectively giving a total of £120 by 2017/18

The government also raised the higher rate threshold from £42,385 to £43,000 in 2016 and everyone earning £43,000 or more gains the £80 that basic rate taxpayers gain and a further £123 because £615 will be taxed at 20% instead of the current 40% giving a total of £243 by 2017/18 plus any further increase in the higher rate threshold in 2017 that the Chancellor announces in the Autumn Statement or the March 2016 budget.

## Choices

The government has made a deliberate choice between cutting the tax credits of low to middle income families and helping wealthy individuals, big business, the banks and private landlords.

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m	£m
Changes to Inheritance Tax			270	630	790	940
Cutting Corporation Tax to 19% from 2017/18 and 18% from 2020/21			700	1765	2035	2750
Maintaining Bank Levy at 0.21%		132	176	219	262	0
No phasing for financial relief to landlords		665	665	440	250	0

Source: HC 264; HM Treasury

“We looked very carefully before introducing the budget and went through every change in a huge amount of detail to try to get right what I accept is a difficult set of measures”

David Cameron speaking on the BBC Today programme, 15 August 2015.

## Appendix 1

### Cleaner

Assumptions						
Assumptions	April 2015	April 2016	April 2017	April 2018	April 2019	April 2020
Personal Tax Allowance reaches £12,500 in April 2020	£10,600.00	£11,000.00	£11,200.00	£11,600.00	£12,000.00	£12,500.00
National Insurance - no change	£8,060.00	£8,060.00	£8,060.00	£8,060.00	£8,060.00	£8,060.00
Child Benefit frozen	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40

	With the changes to the tax credit threshold and taper							Without the changes to the tax credit threshold and taper					
	Cleaner							Cleaner					
	NJC Scale Point 5							NJC Scale Point 5					
Income	£13,500.00	£13,635.00	£13,771.35	£13,909.06	£14,048.15	£14,188.64		£13,500.00	£13,635.00	£13,771.35	£13,909.06	£14,048.15	£14,188.64
Income Tax	-£580.00	-£527.00	-£514.27	-£461.81	-£409.63	-£337.73		-£580.00	-£527.00	-£514.27	-£461.81	-£409.63	-£337.73
National Insurance	-£652.80	-£669.00	-£685.36	-£701.89	-£718.58	-£735.44		-£652.80	-£669.00	-£685.36	-£701.89	-£718.58	-£735.44
Child Benefit	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40		£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40
Tax Credits	£5,202.20	£3,473.00	£3,408.20	£3,342.75	£3,276.65	£3,209.89		£5,202.20	£5,202.20	£5,146.85	£5,090.95	£5,034.48	£4,977.46
	£18,545.80	£16,988.40	£17,056.32	£17,164.52	£17,272.99	£17,401.76		£18,545.80	£18,717.60	£18,794.97	£18,912.71	£19,030.83	£19,169.33
	Annual	Weekly						Annual	Weekly				
April 2016 compared with April 2015	-£1,557.40	-£29.95						£171.80	£3.30				
April 2020 compared with April 2015	-£1,144.04	-£22.00						£623.53	£11.99				
Loss or Gain 2016 to 2020	-£6,845.01							£1,896.44					

## Appendix 2

### Patient Transport Services Driver

Assumptions						
Assumptions	April 2015	April 2016	April 2017	April 2018	April 2019	April 2020
Personal Tax Allowance reaches £12,500 in April 2020	£10,600.00	£11,000.00	£11,200.00	£11,600.00	£12,000.00	£12,500.00
National Insurance - no change	£8,060.00	£8,060.00	£8,060.00	£8,060.00	£8,060.00	£8,060.00
Child Benefit frozen	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40

	With the changes to the tax credit threshold and taper							Without the changes to the tax credit threshold and taper					
	Passenger Transport Services Driver							Passenger Transport Services Driver					
	Agenda For Change band 2							Agenda For Change band 2					
Income	£17,800.00	£17,978.00	£18,157.78	£18,339.36	£18,522.75	£18,707.98		£17,800.00	£17,978.00	£18,157.78	£18,339.36	£18,522.75	£18,707.98
Income Tax	-£1,440.00	-£1,395.60	-£1,391.56	-£1,347.87	-£1,304.55	-£1,241.60		-£1,440.00	-£1,395.60	-£1,391.56	-£1,347.87	-£1,304.55	-£1,241.60
National Insurance	-£1,168.80	-£1,190.16	-£1,211.73	-£1,233.52	-£1,255.53	-£1,277.76		-£1,168.80	-£1,190.16	-£1,211.73	-£1,233.52	-£1,255.53	-£1,277.76
Child Benefit	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40		£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40	£1,076.40
Tax Credits	£3,439.20	£1,409.00	£1,323.56	£1,237.27	£1,150.11	£1,062.08		£3,439.20	£3,439.20	£3,366.22	£3,292.51	£3,218.06	£3,142.87
	£19,706.80	£17,877.64	£17,954.45	£18,071.63	£18,189.18	£18,327.10		£19,706.80	£19,907.84	£19,997.11	£20,126.87	£20,257.13	£20,407.90
	Annual	Weekly						Annual	Weekly				
April 2016 compared with April 2015	-£1,829.16	-£35.18						£201.04	£3.87				
April 2020 compared with April 2015	-£1,379.70	-£26.53						£701.10	£13.48				
Loss or Gain 2016 to 2020	-£8,114.00							£2,162.86					

## Appendix 3

### Medical Secretary

Assumptions						
Assumptions	April 2015	April 2016	April 2017	April 2018	April 2019	April 2020
Personal Tax Allowance reaches £12,500 in April 2020	£10,600.00	£11,000.00	£11,200.00	£11,600.00	£12,000.00	£12,500.00
National Insurance - no change	£8,060.00	£8,060.00	£8,060.00	£8,060.00	£8,060.00	£8,060.00
Child Benefit frozen	£1,788.80	£1,788.80	£1,788.80	£1,788.80	£1,788.80	£1,788.80

	With the changes to the tax credit threshold and taper							Without the changes to the tax credit threshold and taper					
	Medical Secretary							Medical Secretary					
	Agenda For Change band 4							Agenda For Change band 4					
Income	£22,236.00	£22,458.36	£22,682.94	£22,909.77	£23,138.87	£23,370.26		£22,236.00	£22,458.36	£22,682.94	£22,909.77	£23,138.87	£23,370.26
Income Tax	-£2,327.20	-£2,291.67	-£2,296.59	-£2,261.95	-£2,227.77	-£2,174.05		-£2,327.20	-£2,291.67	-£2,296.59	-£2,261.95	-£2,227.77	-£2,174.05
National Insurance	-£1,701.12	-£1,727.80	-£1,754.75	-£1,781.97	-£1,809.46	-£1,837.23		-£1,701.12	-£1,727.80	-£1,754.75	-£1,781.97	-£1,809.46	-£1,837.23
Child Benefit	£1,788.80	£1,788.80	£1,788.80	£1,788.80	£1,788.80	£1,788.80		£1,788.80	£1,788.80	£1,788.80	£1,788.80	£1,788.80	£1,788.80
Tax Credits	£4,400.44	£2,059.72	£1,952.99	£1,845.19	£1,736.31	£1,626.34		£4,400.44	£4,400.44	£4,309.27	£4,217.19	£4,124.19	£4,030.26
	£24,396.92	£22,287.40	£22,373.39	£22,499.83	£22,626.74	£22,774.12		£24,396.92	£24,628.12	£24,729.67	£24,871.84	£25,014.63	£25,178.04
	Annual	Weekly						Annual	Weekly				
April 2016 compared with April 2015	-£2,109.52	-£40.57						£231.20	£4.45				
April 2020 compared with April 2015	-£1,622.80	-£31.21						£781.12	£15.02				
Loss 2016 to 2020	-£9,423.11							£2,437.70					