Gingerbread
Single parents, equal families

BARROW CADBURY TRUST

Paying the Price: The impact of the Summer Budget on single parent families

October 2015[1]

Introduction

Single parent employment is at a record high, with nearly two-thirds (64.4 per cent) of the UK's 2 million single parents in work.[2] However, work is often low-paid or insecure which fails to provide sufficient income to meet basic living standards.[3] As both main carer and earner, single parents also need jobs which allow them to balance work with care, but the lack of flexible work and available and affordable childcare (particularly in the crucial early years, when childcare is most expensive) makes this difficult.

As a result, many single parents – including those in work – are struggling financially. Gingerbread's previous research shows many single parents have precarious finances; two-thirds (67 per cent) of working single parents surveyed found managing bills a constant struggle at best.[4]

In the Summer Budget, the government outlined proposals for a raft of tax and benefit reforms aimed at making work pay and ensuring a sustainable welfare system – admirable aims for both society and the economy. However, single parent households have already been worst hit by the previous round of tax and benefit reforms in 2010-15[5], and Gingerbread is concerned they do not continue to bear a disproportionate burden of continued austerity given the often fragile finances they must balance.

The government's impact assessments have yet to provide complete analysis on the financial impact by household type of the reforms in the Welfare Reform and Work Bill and separate regulations. The commissioned analysis below provides an overview of how single parents will be affected.

Modelling: The combined impact of reforms described below – the 'universal credit (UC) scenario' – assumes all households have moved to UC. Appendix 1 details which reforms are included. Unless otherwise stated, changes in income are taken by the end of this parliament (2020/21), and are expressed in real terms (in 2015/16 prices). Data is presented after housing costs as far as possible.

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[1] This report is part of Gingerbread's *Paying the Price* project, examining single parents' experiences of austerity. We would like to thank Barrow Cadbury Trust for funding this research.
[2] ONS (2015) *Working and workless households, 2015*. Table P.
[3] Rabindrakumar, S (2014) *Paying the price: The long road to recovery*. London: Gingerbread.
[4] Ibid.
[5] De Agostini, P., et al (2015) Were we really all in it together? The distributional effects of the UK coalition government's tax-benefit policy changes: an end-of-term update. London: CASE, LSE.

Single parents are the worst hit

As with the previous round of tax and benefit reforms under the 2010-15 coalition government, single parents are the worst affected by the Summer Budget reforms. Gingerbread's analysis shows that, on average, single parent households are expected to lose 7.6 per cent of their income – £1,300 a year – by 2020/21 as a result of the combined tax, pay and welfare reforms. This compares with an average loss of 1.2 per cent (£500) for couples with children. In fact, single parent households gain just £100 from the higher minimum wage, and a negligible amount in the higher personal tax allowance and higher income tax threshold.[6]

Over half (1.4 million) of the UK's nearly 2 million single parents are set to lose money by 2020/21 from welfare changes (see Appendix 1 for the welfare changes modelled). Even after taking into account the gains in pay and reduced tax, there are still well over ten times as many single parents who lose income than those who gain – 1.3 million single parent households are estimated to see their income fall by 2020/21, compared with just 100,000 whose income will rise.

Low-income working single parents lose most

In cash terms, working parents are worse affected than non-working parents (non-working single parents lose more than those in work as a proportion of income). Working single parents are forecast to lose £1,400 on average a year by 2020/21, compared with a £1,000 loss for non-working single parents (Figure 1). As a proportion of income, though, non-working single parent households lose slightly more than working single parent households.

It is also among working households where the difference in losses between single parents and other household types are most stark – working single parent households lose around seven times the share of income lost by working couple households (Figure 2).

Worryingly, working single parents with the lowest incomes – those in the bottom half of the income distribution – fare the worst from the combined impact of Budget reforms. In fact, low-income working single parents lose more than low-income households out of work both as a percentage of income and cash terms. Working single parents in the poorest fifth of households are set to lose 13.4 per cent – £1,610 – of their income a year by 2020/21 (Figure 2).

[6] There are gains of less than £100 by 2020/21 for single parent households at the higher end of the income distribution, but the overall impact is nil for all single parent households.

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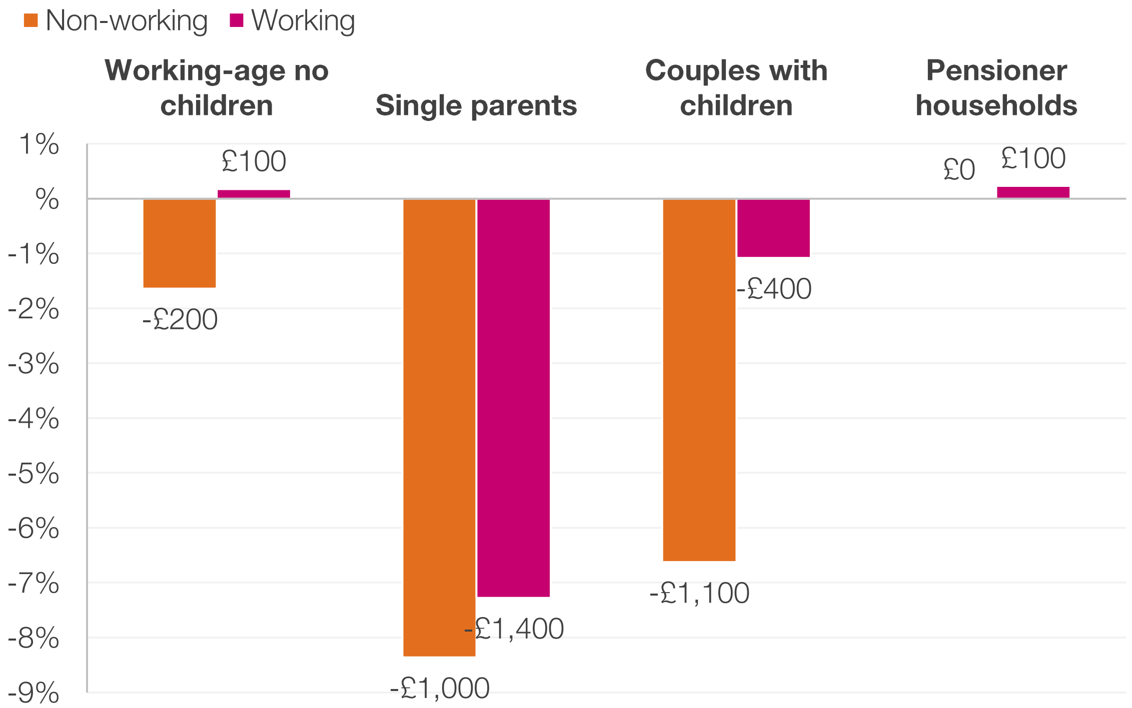
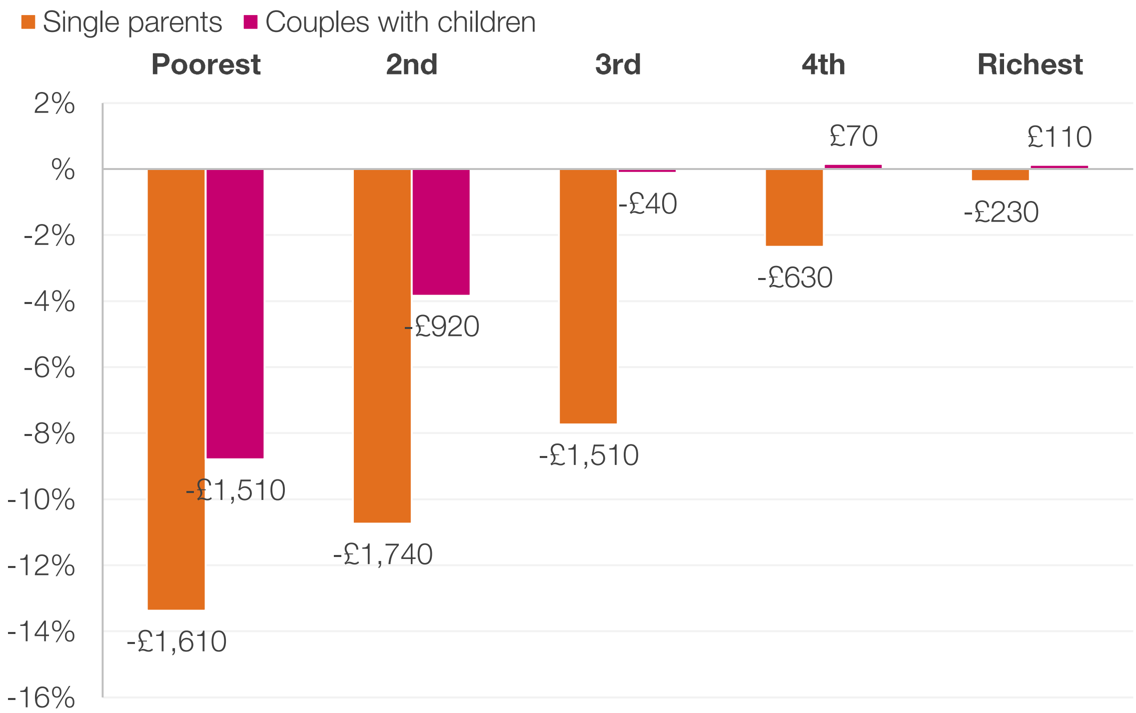
Figure 1 Combined impact of Summer Budget 2015 reforms, by work status and household type, 2020/21 (2015/16 prices)



Source: IPPR tax-benefit model, 2015

Figure 2 Combined impact of Summer Budget reforms for working households, by income quintile and household type, 2020/21 (2015/16 prices)



Source: IPPR tax-benefit model, 2015

Damage to work incentives

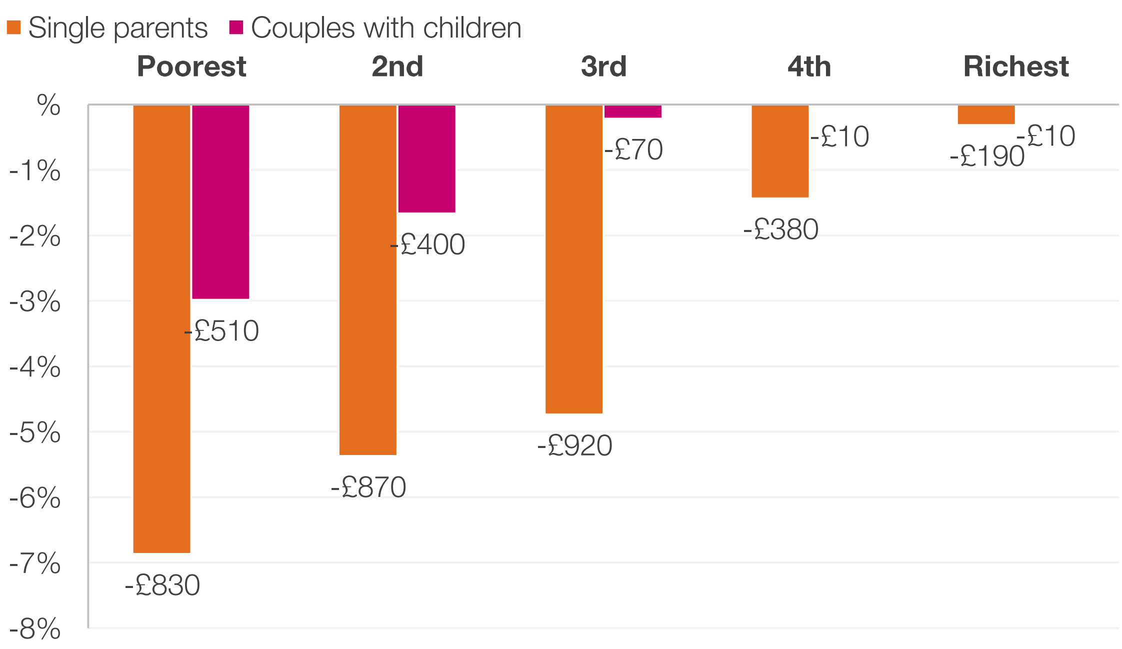
The government has made improving work incentives – 'making work pay' – a central plank of its tax, welfare and now wage reform. The following section looks at welfare reforms which directly affect incentives to move into and progress in work.

Universal credit

UC is the government's flagship welfare policy, intended to simplify the welfare system and improve work incentives. The government's Summer Budget proposed a reduction in the amount you can earn before WTC is withdrawn (the 'work allowance') for UC – an allowance specifically designed to ensure claimants have a strong incentive to work.

Separating this reform from other changes illustrates its significance – losses to working households are striking. Necessarily, non-working households will not be affected. Instead, working households will lose large amounts – by 2020/21, single parents are expected to lose £800 a year (3.9 per cent of income), compared with £200 a year for couple parents (0.5 per cent of income). As a share of income, working households on the lowest incomes lose far more than those on the highest; working single parents in the poorest fifth of households are set to lose nearly 7 per cent of their income by 2020/21 (Figure 3).

Figure 3 Impact of reducing the UC work allowance for working households, by income quintile and household type, 2020/21 (2015/16 prices)



Source: IPPR tax-benefit model, 2015

Tax credit losses

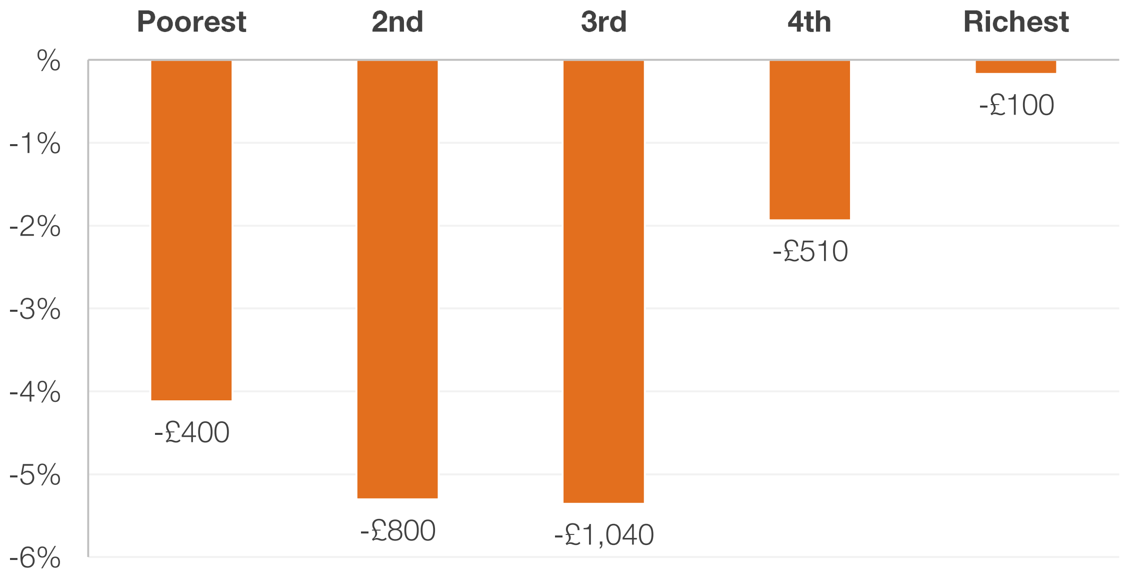
With the limited UC roll-out to date for families with children, many will not be in the 'UC scenario' outlined above, but will instead be subject to tax credit reforms. These will:

- Increase the rate at which tax credits are withdrawn (the 'taper rate') as income increases (from 41p to 48p withdrawn for each additional £1 of income)
- Sharply reduce the amount that can be earned before tax credits are withdrawn (the equivalent to the UC work allowance – the 'income threshold' in tax credits); for working tax credits (WTC), this will be cut from £6,420 to £3,850
- Limit new child tax credit (CTC) claims for third or later children (from April 2017)
- Cut the premium paid for eldest children (the 'family element'; from April 2017).

The changes with most immediate effect on a large number of tax credit claimants will be those due to come into force from April 2016 – the changes to the taper rate and the income threshold – subject to secondary legislation.[7] A quarter of single parents (500,000) are expected to lose income due to these two reforms alone. They make up around half of single parents on in-work tax credits (ie claiming both WTC and CTC).[8]

Single parents are expected to lose 2.6 per cent of their income (£400) a year due to these changes in 2016/17 alone. For working single parents, the loss increases to £700.[9] Significant losses occur across the income spectrum for working single parents – rising to £1,040 at their highest (Figure 4). These losses will also be compounded by the tax system; those paying both income tax and national insurance will have 80p taken away from every additional £1 earned, leaving little incentive to increase earnings.

Figure 4 Impact of reducing the working tax credit income threshold and taper rate for single parent households, 2016/17 (2015/16 prices)



Source: IPPR tax-benefit model, 2015

[7] The Tax Credits (Income Thresholds and Determination of Rates) (Amendment) Regulations 2015.
[8] HMRC (2015) *Child and working tax credits statistics: Finalised annual awards – 2013-2014*.
[9] For comparability with the UC scenario, this average is taken of all working households; the average loss of just tax credit claimants (as with the alternative £1,300 average for all households calculated in a House of Commons Library briefing) will be higher.

Making up lost income

Not only will single parents be hardest hit by the Summer Budget reforms, many are also likely to be in the hardest position to mitigate losses through increasing pay or working hours due to significant barriers to work faced.[10] These include:

- A lack of affordable childcare which offers both quality and flexibility to manage around work, particularly outside school hours/terms
- A lack of flexible working which allows parents to balance work and parenting
- A lack of opportunities to increase hours or progress in work – particularly in flexible/part-time jobs.

While the government has recognised the need to ameliorate losses with alternative support for low income working households, these are either poorly targeted or will not make up for the significant losses as a result of welfare cuts:

- Three in four of all households on WTC will not be affected by the higher over-25s minimum wage;[11] it is expected to offset just 26 per cent of income losses from tax and benefit changes for those in work and eligible for benefits (including tax credits)[12]
- The increase in the personal tax allowance and higher tax threshold will not support the lowest paid workers, as they will earn too little to pay tax – our analysis shows a negligible gain from these measures for working single parents[13]; furthermore, under UC, any income gains will be offset by the UC taper rate (65p per extra £1)[14]
- The financial gain from the extension of free childcare for three and four year olds for working parents (not included in this analysis) will not make up for income losses:
  - The extended free provision is restricted to those with children aged three and four, for 38 weeks of the year – those with children of different ages will not gain and there are outstanding weeks of the year with no free provision
  - The value of extra childcare support (around £700 million[15]) is far outweighed by welfare cuts (£12 billion); under UC, incomes are likely to be boosted by around

[10] Rabindrakumar (2014).
[11] D'Arcy, C., Corlett, A., and Gardiner, L. (2015) *Higher ground: Who gains from the National Living Wage?* London: Resolution Foundation.
[12] Elming, W. et al (2015) *An assessment of the potential compensation provided by the new 'National Living Wage' for the personal tax and benefit measures announced for implementation in the current parliament*. London: IFS
[13] The model showed a gain of 0.1 per cent of income, rounded to £0 in cash terms.
[14] Gingerbread (2012) *Unintended consequences: how the structure of Universal Credit undermines the coalition commitment to support low income workers through raising the personal tax allowance*.
[15] HM Treasury (2015) *Summer Budget 2015: Policy costings*.

£11 a week[16] (c£420 for 38 weeks) compared with an average loss of £1,400 for working single parents (£1,610 for those on the lowest incomes)

- The new provision will not be in place until September 2017, by when working families will have already experienced significant losses
- Fully funded places have not been guaranteed, so some parents may need to top-up funding or providers will be unable to supply the free service

• Reducing social rents by 1 per cent a year until 2020/21 (ie four years) will not help around 80 per cent of single parents in the social rented sector[17], as they receive housing benefit to pay social rents; housing benefit payments will reduce in line with the cut, leaving families no better off in terms of disposable income.

Low tax and low welfare – at what cost?

The government aims to move towards a "higher wage, lower tax, lower welfare" economy.[18] However, the government's ambitions should not be achieved at the expense of low income families, particularly those doing all they can to support their children through work. These findings raise serious questions about whether current proposals will make work pay, when those who most need support to make work viable are due to lose the most from the changes.

The government can make alternative choices in reaching its goal. Cost neutral alternatives already mentioned have included the phased implementation of cuts and the redistribution of the £4.4 billion savings to tax credits. While these have merits, Gingerbread would urge policymakers to carefully consider the scale of cuts and impact on work incentives (particularly the returns from increasing earnings) for single parents on already fragile incomes, facing significant barriers to work.

There are also other choices around allocation of spending which could be considered. We recommend reallocating some or all of planned spending on raising the personal allowance and on the marriage tax allowance (currently forecast to cost around £700 million and have limited impact on couples with the lowest incomes[19]) to fund policies better targeted at low income households. These alternatives include increasing the work allowance, raising the maximum cap on help with childcare costs within WTC and UC (which has remained the same for ten years while costs have rocketed) or piloting the impact of reducing the universal credit taper from 65 per cent to 62 per cent.

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[16] Finch, D. (2015) *A Budget for workers? The impact of the Summer Budget on work incentives in Universal Credit*. London: Resolution Foundation. Based on the Family and Childcare Trust data on the average cost for a 25-hour nursery place for a child aged two or more.
[17] Gingerbread calculations. DCLG (2015) *English Housing Survey, 2013-2014: Household Data*. [data collection]. UK Data Service. SN: 7801, http://dx.doi.org/10.5255/UKDA-SN-7801-1.
[18] HM Treasury (2015) *Chancellor George Osborne's Summer Budget 2015 speech*.
[19] Joyce, R. (2013) *The new tax break for some married couples*. London: Institute for Fiscal Studies.

Similarly, with no guarantee of wages high enough to compensate for state support losses, the government could invest in higher level qualifications or better employment support to ensure those entering work can move into better quality, more sustainable employment. This would pay dividends for the economy in the long term[20] – more single parents in work would have significant positive effects for the Exchequer, with a five percentage point increase in the employment rate estimated to yield a £436 million annual gain – as well as for children's well-being and future life chances.[21]

What is clear is that we have an opportunity to pause reforms while their full impact is assessed – in terms of income and work incentives and across household types – and alternatives considered. Proceeding as planned will, as this research shows, see working single parents with the lowest incomes lose most, almost immediately affecting their families' often precarious finances. Moreover, the government's long term goal to ensure work always pays will be significantly undermined.

[20] Newis, P. (2014) *Making the grade: How government investment in further education can benefit single parents and the state*. London: Gingerbread.
[21] Brewer, M. and DeAgostini, P. (2013) *Credit crunched: Single parents, universal credit and the struggle to make work pay*. London: Gingerbread.

Appendix 1 Methodology

This analysis uses the IPPR tax-benefit model, based on the Family Resources Survey. Income figures are rounded to the nearest £10; numbers on those who lose and gain are rounded to the nearest 100,000.

Figures for the highest income quintile for single parents should be treated with caution, due to the small numbers which fall in this group.

The scope of the modelling is summarised in the table below.

Included in the model		Excluded from the model
Welfare	• UC work allowance/Working Tax Credit income threshold reduction • Working age benefits freeze • Tax credit taper rate reduction • Limit on UC/tax credits to two children for new claims • End of the first child premium in UC/tax credits	• Lower thresholds for the benefit cap in and out of London • Limit on housing benefit to two children for new claims • End of the family premium in housing benefit for new claims • End of the entitlement to housing support for 18-21s • ESA rate reduction for the work-related activity group
		• Social housing rent reduction by 1 per cent a year for four years
Tax changes	• Higher personal tax allowance for the next two years • Higher threshold for the higher tax rate for the next two years	
Other	• 'National living wage' (a higher minimum wage for over-25s)	• Free 30 hours' childcare for 38 weeks a year for three and four year olds