

# How many lone parents are receiving tax credits?

Mike Brewer  
Jonathan Shaw

The Institute for Fiscal Studies

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*Mike Brewer and Jonathan Shaw\**

*Institute for Fiscal Studies*

*Copy-edited by Judith Payne*

## 1. Introduction

When data on child poverty in 2003/04 were released,<sup>1</sup> the fall in child poverty since 2002/03 was smaller than had been expected. Brewer et al. (2005) identified several reasons that might explain this, one of which was that the Family Resources Survey (FRS) – the data-set from which the Households Below Average Income (HBAI) income series is currently derived – may have been under-recording the number of families receiving tax credits (or the equivalent level of support in out-of-work benefits) and therefore underestimating the incomes of some low-income families with children.

Brewer et al. (2006), who analyse what happened to child poverty between 1998/99 and 2004/05, show that estimates of spending on tax credits received by families with children based on the FRS have been getting increasingly inaccurate over time compared with estimates made by HM Revenue & Customs (HMRC), with around £5 billion of spending on tax credits received by families with children going unrecorded by the FRS in 2004/05.<sup>2</sup>

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<sup>1</sup> Department for Work and Pensions, 2005c.

<sup>2</sup> We would expect estimates based on the FRS to be slightly lower than those based on HMRC’s administrative data: the FRS does not record tax credits paid to families as one-off payments (these payments usually occur when there has been an underpayment; see Brewer (2006) for more details). This will particularly affect the estimate of total spending on tax credits in 2003/04 based on the FRS, because administrative problems in the first months of that year meant that a large proportion of families interviewed for the FRS in April to June 2003 were still waiting to receive tax credits; when these families were finally paid tax credits, they would have received a one-off back-payment covering those months. The problem may also affect the estimate for 2004/05: officials from HMRC estimate that at least

However, a detailed comparison of estimates of the number of families with children receiving tax credits (or equivalent in out-of-work benefits) based on the FRS with the equivalent estimates based on the government's administrative data is confounded by the fact that HMRC estimates that the government is paying the child tax credit and the equivalent in out-of-work benefits to more lone parents than official statistics suggest live in the UK.

Section 2 presents the key facts. We offer some possible explanations in Section 3. Section 4 suggests some implications for the government's child poverty target and Section 5 concludes.

## **2. Comparing estimates of the number of families with children receiving tax credits or out-of-work benefits**

The Office for National Statistics (ONS) estimates that there were around 1.9 million lone-parent families with dependent children in the UK in 2004 (see Box 1), 0.2 million fewer than HMRC estimates are receiving tax credits or equivalent in out-of-work benefits. In fact, not all lone parents will be entitled to tax credits or the equivalent in out-of-work benefits – a very few with incomes over £58,000 will be too rich to be entitled to the child tax credit – so the discrepancy between the number of lone parents receiving tax credits or equivalent in out-of-work benefits and the number who ought to be receiving such support is slightly larger than these numbers suggest.

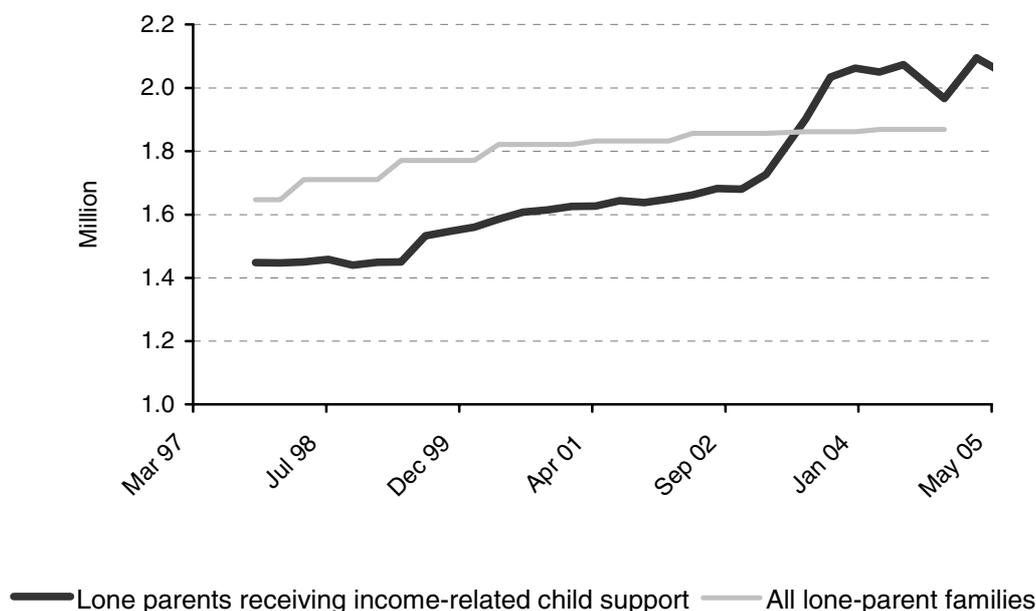
Figure 1 shows estimates based on administrative data of the number of lone parents receiving income-related support for their children since 1997, and the ONS's best estimate of the number of lone parents (both series show numbers for Great Britain). The graph shows that the number of lone parents receiving income-related support for their children rose from around 1.4 million to around 2.1 million as the government substantially increased entitlements to income-related support.<sup>3</sup> The ONS's estimate of the number of lone parents has also risen, but from 1.65 million to only 1.87 million.

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£500 million of tax credits was paid in one-off payments during 2004/05, but the true figure could be much higher.

<sup>3</sup> As discussed in Box 2, at present, non-working families with children receiving income support or income-related jobseeker's allowance (JSA) can receive child-contingent support through either the Department for Work and Pensions (through child additions to income support or income-related JSA) or HM Revenue & Customs (through the child tax credit), but not both. Hypothetically, it might be possible for a parent to receive both if he or she were receiving the child tax credit and income support or income-related JSA, whether through administrative error, unintentional errors made by claimants or intentional fraud, and for DWP not to realise that the parent was receiving the child tax credit.

**Figure 1. Estimates of lone parents receiving income-related child-contingent support, 1997 – 2005 (GB)**



Notes: *Lone parents receiving income-related child support*: Before April 2003, graph shows sum of lone parents receiving working families’ tax credit (WFTC) plus lone parents receiving any of income support (IS), jobseeker’s allowance (JSA), incapacity benefit (IB) and severe disablement allowance (SDA) in GB; this will double-count a very small number of lone parents who were previously in work and receiving WFTC but have since stopped work and claimed IS or JSA. From April 2003 onwards, graph shows lone parents receiving the child tax credit plus lone parents receiving IS/JSA and not receiving the child tax credit in GB; there should be no double-counting, but the published figures (which cover the UK) have been adjusted so they apply to GB (details available from authors).

Sources: *All lone-parent families*: Derived from grossing factors supplied with various years of HBAI data. *Lone parents receiving income-related child support*: HM Revenue & Customs (2005a) (2003 onwards); Inland Revenue (2003) and online table created using DWP’s Tabulation Tool (before 2003).

A similar discrepancy is also apparent if we compare estimates of the number of families receiving tax credits (or equivalent in out-of-work benefits) in 2004/05 based on the FRS with equivalent estimates made by HMRC based on the government’s administrative data, as shown in Table 1 (Box 2 explains why we have to consider tax credits and out-of-work benefits together).

Table 1 shows that the government believes it is paying tax credits (or equivalent in out-of-work benefits) to around 5,390,000 families with children in Great Britain. This is just under 650,000 more than an estimate based on the FRS of the number of families with children receiving tax credits (or equivalent in out-of-work benefits). The difference represents 12 per cent of the total number of families with children being paid tax credits or equivalent in out-of-work benefits estimated by HMRC.

**Box 1. How many lone-parent families are there?**

The most reliable estimates of the number of lone-parent families come from the Census; the 2001 Census estimated that there were 1,788,511 lone-parent families with dependent children in GB and 1,847,562 in the UK (see Office for National Statistics (2003); a dependent child is under 16, or under 19 and in full-time education).

For years in between the Censuses, the ONS produces a best estimate based on a number of household surveys, each of which is informative about the proportion of households or of families with children that have lone parents (see Haskey (2002)). Estimates based on the Labour Force Survey are that there were 1,874,000 lone-parent families with dependent children in the UK in 2004 and that 24 per cent of dependent children lived in lone-parent families (Office for National Statistics, 2005, table 1.2).

DWP's best estimate is that there were 1,868,000 lone-parent families with dependent children in GB in 2004/05, and the grossing weights in the FRS survey are designed to produce this total (see Department for Work and Pensions (2005b) for more information about grossing weights).

To the nearest 100,000, we can therefore be confident that there were 1.9 million lone-parent families in 2004/05.

**Table 1. Tax credit (or equivalent in out-of-work benefits) receipt amongst families with children in 2004/05 in Great Britain: comparing FRS with HMRC estimates**

<i>(thousands)</i>	<i>All families with children</i>			<i>Lone parents</i>			<i>Couples with children</i>		
	<i>Admin</i>	<i>FRS</i>	<i>Shortfall of FRS</i>	<i>Admin</i>	<i>FRS</i>	<i>Shortfall of FRS</i>	<i>Admin</i>	<i>FRS</i>	<i>Shortfall of FRS</i>
Child tax credit (or equivalent in out-of-work benefits)	5,390	4,740	12%	1,970	1,610	18%	3,420	3,130	9%
Child tax credit: more than family element	3,370	3,270	3%	1,860	1,540	17%	1,510	1,730	-15%
Child tax credit: family element or less	2,020	1,460	28%	110	70	33%	1,910	1,390	27%
Working tax credit	1,440	1,070	26%	790	540	32%	650	530	18%

Notes: Numbers have been rounded to the nearest 10,000 but percentages are based on unrounded numbers. Administrative totals relate to December 2004 and have been adjusted so they estimate the number of families with children in GB, to be consistent with the FRS: contact authors for details.

Sources: Authors' calculations from various HBAI data-sets and Inland Revenue (2004).

**Box 2. How have families with children received income-related child-contingent support since April 2003?**

The original aim behind the child tax credit was that it would replace working families' tax credit, the children's tax credit and child additions to out-of-work benefits (income support and income-related JSA) to become the only income-related form of child-contingent support.

The child tax credit has replaced working families' tax credit and the old children's tax credit, but, to date, it has not yet fully replaced child additions to out-of-work benefits. Families with children who have made a new claim for out-of-work benefits since April 2003 do not receive child additions to out-of-work benefits, and instead must claim the child tax credit. But families with children who have been claiming child additions to out-of-work benefits since before April 2003 can receive child-contingent support through either child additions to out-of-work benefits or the child tax credit (if they claim it), but not both (the amount of child-contingent support should be the same regardless of how families receive it).

Eventually, no families with children will receive child-contingent support through out-of-work benefits, either because the government will migrate these families to the child tax credit (this is currently due to happen in Autumn 2006, although the date has been continually postponed since April 2003) or because all families receiving child additions to out-of-work benefits will have started a claim after April 2003.

To avoid producing misleading statistics, HMRC tends to publish estimates of the number of families with children receiving tax credits together with estimates of the number of families with children receiving out-of-work benefits and not receiving the child tax credit. We use the phrase 'tax credits (or the equivalent in out-of-work benefits)' as shorthand for this.

However, this shortfall is much greater for lone-parent families than it is for couple families: the estimate of the number of lone parents who are recorded as receiving tax credits (or equivalent in out-of-work benefits) in the FRS is 18 per cent lower than the number of lone-parent families to whom the government thinks it is paying tax credits (or equivalent in out-of-work benefits); the shortfall for couples is only 9 per cent. Furthermore, this difference between couples with children and lone parents is particularly marked for those families receiving more than the family element of the child tax credit (these families will tend to be in the poorer half of families with children).<sup>4</sup> In fact, the estimate based on the FRS of the number of couples with

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<sup>4</sup> This group will also include some better-off families who are receiving help with childcare costs.

children receiving more than the family element of the child tax credit is higher than the equivalent estimate based on administrative data, while the estimate based on the FRS of the number of lone parents in the same situation is 17 per cent smaller than that made by HMRC.<sup>5</sup>

In Section 3, we explore some possible explanations for these findings.

Although not directly relevant to the issue around lone parents, Table 1 also shows the following:

- The estimate of the number of families receiving only the family element (or less) of the child tax credit based on the FRS is 28 per cent lower than the equivalent estimate based on administrative data. This shortfall is greater than that for tax credits overall: this could be because families entitled to the family element (or less) of the child tax credit will be relatively well-off and receiving only a small fraction of their total income in tax credits; it is possible, therefore, that they forget to mention their receipt when interviewed for the FRS. However, the shortfall for lone parents is much closer to the shortfall for couples with children than is the case for the estimate of the number of families receiving more than the family element of the child tax credit.
- The estimate based on the FRS of the number of families with children receiving the working tax credit is even less accurate than the estimate for child tax credit. This could be because families are failing to identify correctly the names of the tax credits that they are receiving (all families with children receiving the working tax credit will also receive the child tax credit, and it is entirely plausible that they may not realise that they are receiving two different tax credits or that they may not be able to name them both correctly, especially given the number of times tax credits and in-work benefits have been reformed since 1999). For couples, it could be because the child and working tax credits are usually not paid to the same adult.

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<sup>5</sup> To allow for errors in reporting monthly awards of child tax credit in the FRS, the definition of ‘more than family element’ that we used when constructing our estimate based on the FRS is ‘receives more than £11.35 child tax credit a week’. The family element corresponds to £545 a year, or £10.48 a week, but the estimates based on the FRS suggest that there are 350,000 families with children receiving between £10.48 and £11.35 in child tax credit each week: this number seems too high and we think this corresponds to reporting error in the FRS (i.e. people incorrectly reporting how much they are receiving); estimates based on the FRS suggest that there are only 50,000 families with children receiving between £11.35 and £12.35 in child tax credit each week.

### **3. How can the government be paying child-contingent support to more lone parents than live in the UK?**

Section 2 showed that estimates of the number of families receiving tax credits (or equivalent in out-of-work benefits) based on the FRS are lower than the equivalent estimates based on administrative data, particularly for lone-parent families. We also showed that HMRC estimates that the government is paying income-related support to around 0.2 million more lone-parent families than the ONS thinks live in the UK.

The fact that estimates based on the FRS of the number of families with children receiving tax credits (or equivalent in out-of-work benefits) are lower than the equivalent estimates based on administrative data is consistent with either or both of the following scenarios:

- a. Some families with children – particularly better-off families newly entitled to relatively small amounts of the child tax credit – might fail to report that they are receiving tax credits (or not realise that they are receiving the working tax credit as well as the child tax credit) when discussing their sources of income with an FRS interviewer.
- b. The FRS may be undersampling those lone parents who are receiving tax credits, and the techniques used by DWP to correct for differential non-response in the FRS may not be compensating adequately for this (see Department for Work and Pensions (2005b) for details of the grossing regime).

However, these scenarios cannot explain why HMRC estimates that the government is paying income-related support for lone parents to more lone-parent families than are thought to live in the UK. Scenarios that might explain this finding are as follows:

- c. HMRC may be paying tax credits (or DWP may be paying out-of-work benefits) to people who are not entitled to tax credits at all, and who are making wholly fraudulent claims as lone parents.<sup>6</sup>
- d. HMRC could be paying tax credits to lone parents to whom DWP is also paying child additions to out-of-work benefits (whether through administrative errors, claimant error or deliberate fraud).

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<sup>6</sup> Scenario c can also help explain why estimates based on the FRS of the number of families with children receiving tax credits (or equivalent in out-of-work benefits) are lower than the equivalent estimates based on administrative data: it is highly unlikely that people fraudulently claiming tax credits (or out-of-work benefits), even if they consented to be interviewed for the FRS, would report receiving such to the FRS interviewer.

- e. HMRC could be paying tax credits (or DWP may be paying out-of-work benefits) to people whom it thinks are lone parents, but who would be classified as living with a partner in the eyes of a government statistician.

In our view, the fact that estimates based on the FRS of the number of couple families receiving more than the family element of the child tax credit exceed the equivalent estimates based on HMRC's data strongly suggests that scenario e is playing a large role. In other words, it is highly likely that the government is paying tax credits (or out-of-work benefits) to adults responsible for children whom the government thinks are lone parents, but who are living as couples in the eyes of government statisticians, and there may be up to 0.2 million such families.

One clear instance where the government would be paying tax credits (or out-of-work benefits) to adults responsible for children whom the government thinks are lone parents, but who are living as couples in the eyes of government statisticians, would be where an adult living as a couple with children is intentionally defrauding the government by claiming state support as a lone parent.<sup>7</sup> There is usually a strong financial incentive for families with children receiving tax credits or out-of-work benefits not to admit to having a partner, because entitlements depend on the joint income of a couple (see Box 3).

But there are three less troubling or more benign explanations.

First, the rules used by DWP and HMRC to determine which families with children are couples and which are lone parents are not exactly identical to those used in household surveys or the Census. In the Census and most household surveys, interviewers ask for details of how many adults (normally) live in a given household, and then respondents are asked to set out the relationships between these adults; this process identifies a couple only if an adult declares that another adult living in the same household is their partner.

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<sup>7</sup> Department for Work and Pensions (2005a) estimates that in 2004/05, £140 million was overpaid in claims of income support by lone parents because of fraud, plus £50 million due to claimant error and £60 million due to official error, but it is not clear what proportion of that fraud was due to adults not declaring that they were living as husband and wife: in 2002/03, half of IS overpaid to lone parents because of fraud was due to cohabiting couples not declaring that they were living together as husband and wife (see Department for Work and Pensions (2004, tables 2.1 and A6.1)). The first robust estimates of the level of fraud and error under tax credits since 2003 are due to be published soon. In July 2005, interim results suggested that HMRC had overpaid £460 million (around 3.4 per cent by value) because of claimant error and fraud in 2003/04, but it is highly likely that the true figure will be higher than this, because this estimate was based on tax credit cases that were likely to be more compliant. It is also not known how much of this was due to couples not declaring that they were living together as husband and wife. See HM Revenue & Customs (2005b, p. R13, para. 2.3).

**Box 3. Does it pay a couple to pretend to be a lone parent when claiming tax credits or income support?**

Low- to moderate-income cohabiting couples with children will usually be entitled to less state support if they (correctly) declare that they are living together as husband and wife than if they (incorrectly) declare that they are a lone parent.<sup>a</sup>

The reason for this is that out-of-work benefits and tax credits are assessed on the joint income of a couple; furthermore, entitlement to tax credits depends only on the joint income of a family, and not on how many adults are in a family (entitlement to income support, on the other hand, is greater for a couple than for a lone parent if the two families have the same level of income).

The main exceptions are as follows (in what follows, we refer to the primary carer and the other adult; we assume that the cohabiting couple is choosing between claiming tax credits or income support as a couple, and the primary carer claiming as a lone parent):

- couples claiming tax credits where the other adult has no income; in such families, it would make no financial difference whether the family claimed as a couple or as a lone parent;
- couples claiming tax credits where the primary carer has sufficiently high income that he or she would be entitled only to the family element of child tax credit were he or she to claim tax credits as a lone parent, and where the joint income of the couple is less than £50,000;
- couples where the primary carer has income in excess of £58,000; in these cases, the family would not be entitled to tax credits even if it claimed as a lone parent;
- couples claiming out-of-work benefits where the other adult has very low earnings (less than £31.95 a week) or is receiving disability benefits; a couple with children is entitled to more income support than a lone parent, and so cohabiting couples with children receiving income support would usually be entitled to less state support were they to claim as a lone parent.

<sup>a</sup> See Draper (2005), Kirby (2005) or Civitas (2002) for more discussion and examples.

The phrase used in the legislation for both social security benefits and tax credits is that an unmarried couple is a man and a woman who are ‘living together as husband and wife’, and claim forms and guidance notes for tax credits state that ‘you are a couple if you are married and not separated, or a

man and a woman living together as if you are married'; families who are not defined as couples in this way are counted as lone parents.<sup>8</sup>

Under such a definition, there is very little ambiguity for people who are married to each other, but rather more ambiguity around cohabiting couples. It is possible that some cohabiting couples, at some point in their relationship, might genuinely consider themselves – and be considered by the government – to be living as partners in the same household but not 'living together as husband and wife'. If so, then such a couple would be classified as a couple with children in the Census (or by government statisticians) but as a lone parent for tax credit purposes.<sup>9</sup> The key issue here is that there is no set of unambiguous rules that determine what it means to 'live together as husband and wife' for tax credit or out-of-work benefit purposes. In disputed cases, HMRC and DWP officials are likely to consider a range of factors, such as whether a couple live in the same household (and, if not, how long they have lived apart), whether they have a sexual relationship, their financial arrangements, whether the relationship is stable and how they appear in public.<sup>10</sup> This means that it is legitimate for a couple to argue that, despite being co-resident with someone they consider to be their partner, they do not consider themselves to be living together as husband and wife; equally, it is difficult for HMRC and DWP to establish whether cases were due to deliberate fraud.

Second, a lone parent receiving the child tax credit who starts to live together with someone as husband and wife is supposed to tell HMRC within three months of this happening (and those receiving income support are supposed to tell DWP immediately). A similar obligation applies to adults in couples if they cease to live together as husband and wife. If, though, lone parents who start to live together with someone as husband and wife are slower to inform HMRC (or DWP) than are couples with children who stop living together as husband and wife, then estimates based on HMRC's and DWP's administrative data will overstate the number of lone-parent families compared with those based on the FRS.<sup>11</sup> Essentially, couples with children who have been living together as

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<sup>8</sup> Claim forms for benefits also use the phrase 'person you live with as if you are married to them' to define a partner for those benefits that depend on the circumstances of the claimant and their partner. See Sax (2005) for more details.

<sup>9</sup> It is not clear, though, whether Parliament intended that an adult could be co-resident with someone he or she considers to be their partner, yet not be living together with that person as husband and wife for tax credit purposes.

<sup>10</sup> The concept of 'living together as husband and wife' has developed through social security case law and practice: see Child Poverty Action Group (2005, p. 1332) and Sax (2005).

<sup>11</sup> We might expect an asymmetry because a couple with children who stop living together as husband and wife will usually have a higher entitlement to tax credits having separated.

husband and wife for less than three months and have not yet informed HMRC are not yet being non-compliant with tax credit regulations.

However, this hypothesis cannot explain much of the discrepancy identified in Section 2: very roughly, around 1 in 10 lone parents (around 190,000 lone parents) will be living with a partner a year later.<sup>12</sup> If all these lone parents are receiving tax credits and they all take three months to inform HMRC that they are now living with a partner, and if all of the couples with children who stop living together as husband and wife inform HMRC immediately, then estimates based on government administrative data will overstate the number of lone parents receiving tax credits by around 47,500.

Lastly, it is possible that some couples with children are receiving tax credits (or out-of-work benefits) as a lone parent because of claimant or administrative errors, rather than intentional fraud.

It should not be inferred from Figure 1 that this issue (of paying tax credits or out-of-work benefits to adults responsible for children whom the government thinks are lone parents, but who are living as a couple in the eyes of government statisticians) only began when the child tax credit was introduced in April 2003. It is perfectly possible that some families with children receiving working families' tax credit before April 2003 were being paid it as a lone parent but were actually living as a couple (means-tested benefits and in-work benefits have contained the sort of financial penalties to admitting to living together as husband and wife described in Box 3 since at least 1988), but this fact would not have been apparent simply from comparing the numbers of lone parents being paid tax credits (or out-of-work benefits) with estimates of the number of lone parents living in the UK. It is because entitlement to income-related child support was genuinely extended to a very high proportion of lone parents in April 2003 that more lone parents are now being paid income-related child-contingent support than are thought to live in Britain.

#### **4. Implications for the government's child poverty target**

Is the discrepancy between estimates based on the FRS and those from administrative data relevant for the government's child poverty target? There are several possibilities, depending on what is causing the discrepancy between the FRS and administrative data:

- If it only reflects a likelihood that tax credit recipients fail to tell the FRS interviewers about part of their income, then the FRS may well be understating the fall in child poverty since 1998/99.<sup>13</sup> On the other hand, the

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<sup>12</sup> The appendix of Brewer, Myck and Reed (2001) estimates the proportion of lone parents who are living as a couple with children a year later at between 7 and 13 per cent, depending on what data-set is used.

<sup>13</sup> Brewer et al. (2006) show that the discrepancy has been growing since 1998.

discrepancy is larger for those better-off families receiving only the family element of the child tax credit, and these families are very unlikely to be in poverty even if they did not receive tax credits.

- If the discrepancy reflects wholly fraudulent tax credit claims,<sup>14</sup> then this should not have affected the level of child poverty estimated by the FRS, although it would have made it more expensive for the government to achieve such a fall.
- If it arises because of couples with children erroneously receiving tax credits (or out-of-work benefits) as lone parents, then this may have lifted some children out of poverty who would have been in poverty had they received only that financial support to which they were entitled. But such a situation may also have increased median income, thereby increasing the number of children in poverty. In either case, it would have made it more expensive for the government to achieve any given reduction in child poverty than a world where all families received only that financial support to which they were entitled.

Given that there are legitimate doubts that the administrative data are accurately estimating which sort of families are receiving tax credits and out-of-work benefits, and given that any fraudulent tax credit claims might mask lower-than-expected take-up of tax credits amongst those genuinely entitled to them, there is one conclusion that can be drawn. This is that it is very hard for us to say whether the FRS is accurately capturing receipt of tax credits amongst low-income families with children, or what the true level of take-up of tax credits is.

HMRC is due to announce its first estimates of the level of fraud and error under the child and working tax credits later this year. But given that the government has committed to using the FRS to track progress towards its child poverty target for 2010/11, it should also review urgently the way that the FRS records families' receipt of tax credits.

## **5. Conclusions**

HMRC estimates that the government is paying income-related support for lone parents to around 0.2 million more lone-parent families than the ONS thinks live in the UK, and estimates of the number of families with children receiving tax credits (or out-of-work benefits) based on the FRS are lower than the equivalent estimates based on administrative data, particularly for lone-parent families.

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<sup>14</sup> In other words, those sorts of claims that led HMRC to close the online portal to tax credits in December 2005.

We think it likely that these findings arise because the government is paying tax credits (or out-of-work benefits) to adults responsible for children whom the government thinks are lone parents but who are living as couples in the eyes of government statisticians. This could be because the adults in such couples do not consider themselves to be living together as husband and wife, or it could be because they have been co-residing for only a short while and have not yet informed HMRC, or it could reflect administrative error, claimant error or deliberate fraud.

Incentives to commit fraud – as well as penalties for being caught – exist under all taxes and income-related benefits or tax credits. However, by extending the generosity of income-related tax credits that depend on the joint income of a couple, the government has increased the number of cohabiting couples with children who face a financial incentive to claim that they are not living together as husband and wife. Because it is very hard to produce an unambiguous definition of ‘living together as husband and wife’, it seems unlikely that such fraud can ever be eliminated, and it is a troubling aspect of the design of tax credits (and out-of-work benefits) that this ambiguity should exist when there are considerable financial penalties inherent in tax credits and out-of-work benefits to living together as husband and wife.

Certainly, the incentive for cohabiting couples with children receiving tax credits to claim that they are not living together as husband and wife would be reduced (but not eliminated) if there were an additional credit for couples in the tax credit system, as there is for couples without children. On the other hand, such a change would introduce a theoretical incentive working in the opposite direction – for some lone parents to claim that they were living with another adult as husband and wife. The only genuine solution would be for the government to rely less on income-related tax credits that depend on the joint income of a couple; such a policy, though, would make it more expensive for the government to deliver a given reduction in child poverty.

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