

# Personal tax and benefit reforms

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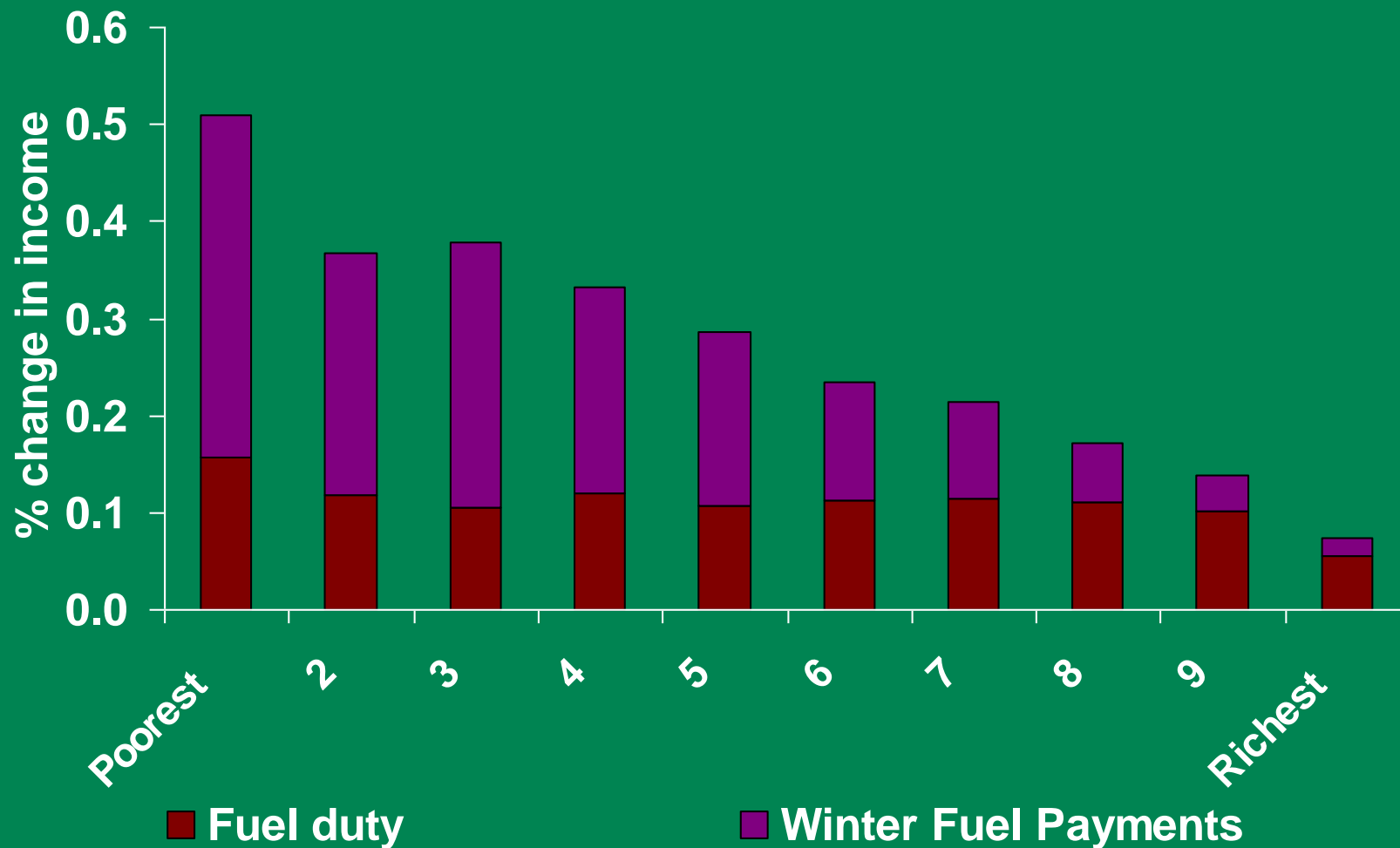
# Yesterday's announcements

- Tax credits package (cost: £100m, but revenue-raising in later years)
- Increased grant to local authorities (cost: £305m)
- Fuel duty frozen (cost: £610m)
- Winter Fuel Payments remain at current levels for this parliament (cost: £665m)
  - But “one-off” age-related payments still set to disappear

# Winter fuel allowance: a brief history

1997, 1998	£20 (£50 if on means-tested benefits)
1999	£100
2000 – 2002	£200
2003	£200 for 60-79, £300 for 80+
2004	£200 for 60-79, £300 for 80+ Plus “one-off” £100 for 70+
2005	£200 for 60-79, £300 for 80+ Plus “one-off” £200 if 65+ and don’t receive pension credit guarantee Plus “one-off” £50 if 70+ and receive pension credit guarantee
2006 before PBR	£150
2006 after PBR	£200 for 60-79, £300 for 80+

# Yesterday's announcements



# Pre-announced changes

## Tax credits:

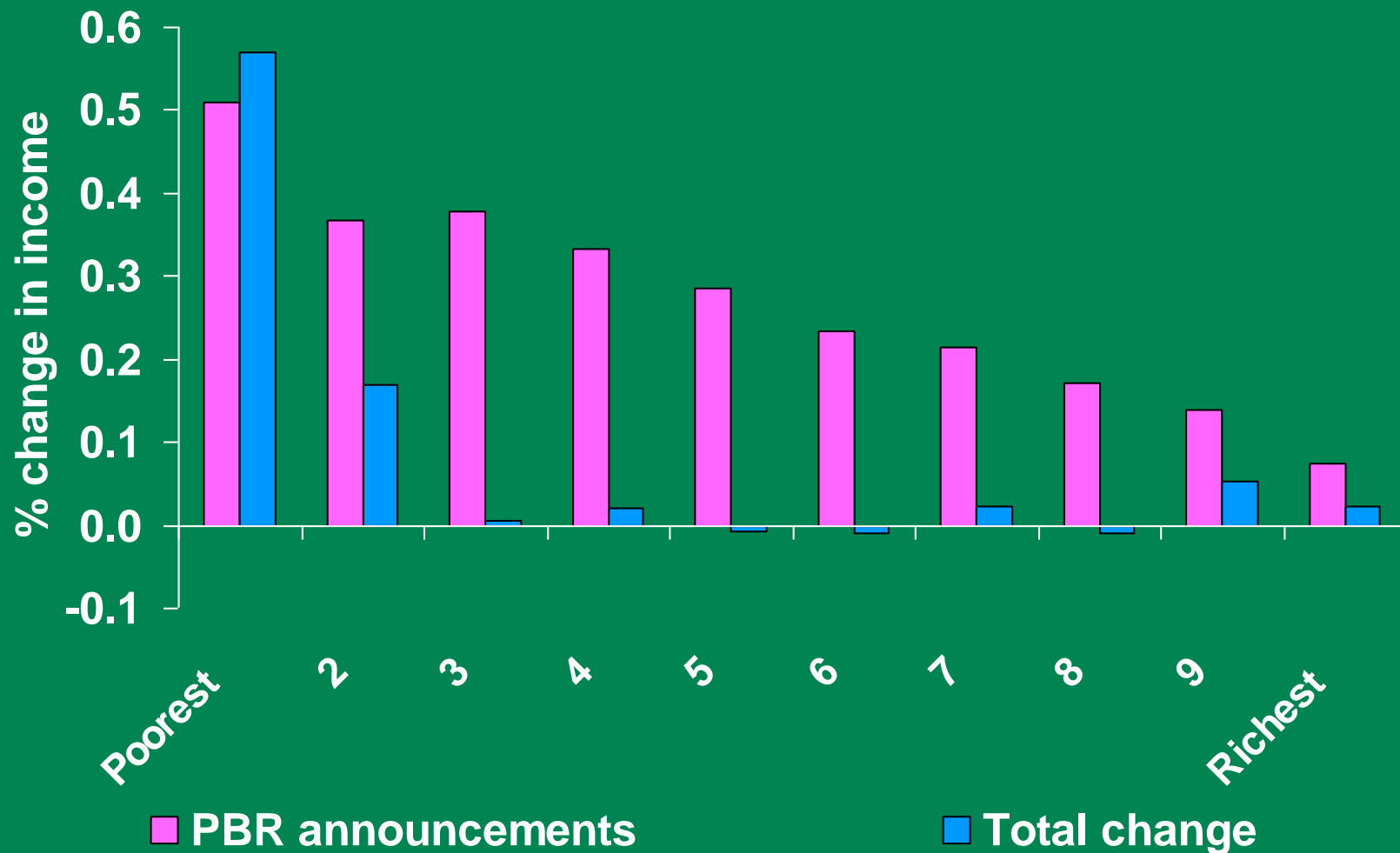
- Child element of Child Tax Credit increases with earnings
- Family element (and baby addition) of Child Tax Credit frozen
- Two main income thresholds frozen
- Childcare credit increases from 70% to 80% of eligible costs

## Pensioners:

- Pension Credit Guarantee increases with earnings
- Winter Fuel Payments fall from £200 (£300 for over-80s) to £150
- End of “one-off” age-related payments

Net effect: £1bn savings

# Changes 2005-06 to 2006-07



# Tax credit reforms (1)

- Initial award set at start of year based on previous year's income

Reform 1: Better initial income assessments for “key groups”

- Claimants required to report some changes of circumstances during the year, encouraged to report others

Reform 2: More changes must be reported during the year, and reported sooner

- If change justifies higher award: payment increased for rest of year; one-off payment covers under-payment in the year to date

Reform 3: No one-off payment for the year to date; instead, paid when the award is finalised after end of year

## Tax credit reforms (2)

- If change justifies lower award, payment reduced or stopped for rest of year

Reform 4: Payments for poor families cut by no more than 25%

- First £2,500 increase in income doesn't reduce award

Reform 5: Increase disregard from £2,500 to £25,000

- Claimants required to verify final circumstances after end of year

Reform 6: Verification required sooner



## Tax credit reforms (3)

### Revenue effects:

- Higher disregard costs money
- Reducing overpayments saves money
- Government thinks broadly revenue-neutral

### A return to fixed awards?

- Almost fixed awards in respect of income rises
- Keep responding to other changes
- More obligations on claimants so that respond more quickly