Tax & Benefits

2013

creditaction
Better thinking about money

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Foreword

Welcome to Credit Action's third annual Tax and Benefits Report highlighting key changes to taxes and benefits which take effect from the beginning of the new financial year. As in previous years, we have identified the main changes to the tax and benefits system that effect individuals in the U.K. But this year, there are a number of more fundamental reforms which go the heart of our benefit system. The first section of the report highlights and comments on these structural reforms, whilst the second section rounds up the rest of the changes. This report concentrates specifically on changes that will take place during April 2013 (regardless of when they were announced).

From a benefits perspective, there is no doubt that April 2013 is the most significant month for many years, as the start of several large scale structural reforms to the benefits system. Despite the recently announced delay to the "Pathfinders" for the Government's flagship Universal Credit benefit reforms, this will still go ahead in Ashton-under-Lyne in Tameside at the end of the month. Although only limited numbers of people will be affected to begin with, the "Pathfinder" represents an initial test of the implementation process ahead of national roll-out which will proceed in stages over the next few years.

In addition, April sees another large change: the introduction of a household benefit cap. This will initially affect certain parts of London but will be extended nationally by September 2013. For those claiming disability benefits, the process of transitioning from Disability Living Allowance to Personal Independence Payments also begins in April, although as with Universal Credit, this will take several years to complete, affecting small numbers of people to start with.

Furthermore, Council Tax Benefit will be localised this April (meaning it will be administered by local authorities and devolved administrations rather than central Government) and major reforms will also be made to the Social Fund.

In addition to these groundbreaking reforms there are a further 22 other changes to tax and benefits impacting on individuals in the UK from this month. These include the change of Personal Allowance to £9,440 and the introduction of a 1% limit on uprating of most working age benefits, as well as the under-occupation penalty for social housing tenants (the so-called "spare bedroom tax", which came into effect at the start of the month).

In total, we believe that 5 of these 27 other specific changes will have a positive impact on those affected, while 18 will have a negative impact (it is difficult to categorise the remaining change as being definitively positive or negative). We illustrate this in greater detail at the end of the report.

Many of these cases, will have at least two direct consequences. Firstly, many people will find they have less money to live on. And will need to do all that they can to make the most of what they have. Secondly, and perhaps equally as importantly, the continued shift of responsibility from state to individual picks up real momentum. With many millions of people, over the next few years, being asked to manage money, in relation to their housing or care costs, for the first time. Both these changes make the work of Credit Action, to help people gain the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives more crucial than ever. Whilst for many these changes will be daunting and alarming, there is a real opportunity here to engage with people about money and the benefits of staying on top of it, that must not be missed.

Michelle Highman
Chief Executive

Structural Reforms

1. Universal Credit

Under the Universal Credit system, six separate benefits will be merged into one payment – these are income-related Jobseeker's Allowance, income-related Employment and Support Allowance, Income Support, Child Tax Credits, Working Tax Credits and Housing Benefit.

The terms on which Universal Credit is paid will be different compared to the current system. Most notably:

- Payments will be made monthly rather than weekly
- Only one payment will be made per household.
- Universal Credit will be paid directly to the claimant, which is not necessarily the case at the moment (especially in the case of Housing Benefit, which is paid to landlords rather than tenants).
- Claimants will also require a bank or credit union account to receive Universal Credit, and will largely be expected to manage their payments online (although the Department for Work and Pensions is working out ways to support those for whom online claims may be particularly difficult).

On 29 April, the first Universal Credit "Pathfinder" will be launched in Ashton-Under-Lyne in Tameside to test the implementation process. In July, this will be extended to Wigan, Warrington and Oldham as well. However, the change will only affect specific groups of claimants in these areas.

In order to be placed on Universal Credit during the Pathfinder, someone needs to be making a new claim for Jobseeker's Allowance, and meet a range of eligibility criteria set by the Department for Work and Pensions (for example, these include requirements that claimants must be single, not have savings in excess of £6,000, and be at least 18 years old but also younger than 60 years and 6 months). It is anticipated that to begin with, only about 1,500 claims a month will go live on the new Universal Credit system.

Following the introduction of the Pathfinders, Universal Credit will start to be rolled-out nationally from October 2013. However, this will be a gradual process. Initially, only unemployed people making a new claim for a relevant benefit will be placed on Universal Credit. From April 2014, this will be extended to people who are in work and making a new claim. Existing benefit claimants will be transferred across from the old system during the period between 2014 and 2017 – while the details have not yet been finalised, the Department of Work and Pensions will contact those affected ahead of time to tell them what they need to do.

2. Household Benefits Cap

From 15 April, a benefit cap will be introduced for working age households in four local authorities in London (Bromley, Croydon, Enfield and Haringey). This will limit the combined amount that can be claimed from the main out-of-work benefits, as well as Housing Benefit, Child Benefit and Child Tax Credits. The cap will be set at:

- £500 per week for couples (with or without children living with them).
- £500 per week for single parents whose children live with them.
- £350 per week for single adults who don't have children, or whose children don't live with them.

There will however be a number of exemptions to the cap. It will not be applied to households that are eligible for Working Tax Credits, or those in receipt of:

- Disability Living Allowance
- Personal Independence Payments
- Attendance Allowance
- The "Support" component of Employment and Support Allowance
- Industrial Injuries Benefits (and equivalent war disablement pensions)
- War Widows and War Widowers Pensions

Furthermore, claimants who have been in employment for a period of 52 weeks or more before making a benefit claim will be exempt from the cap for a grace period of up to 39 weeks.

After the initial introduction of the cap in four London Boroughs, all other local authorities will begin to roll it out from 15 July, with implementation complete by September 2013. To begin with it will be administered through reductions to Housing Benefit, but in the longer-term will form part of the Universal Credit system (new claims for Universal Credit will be subject to the cap from October 2013).

3. Personal Independence Payments

From 8 April, the Department for Work and Pensions will begin the process of replacing Disability Living Allowance with a new system of Personal Independence Payments.

Personal Independence Payments are made up of two components, a Daily Living component which considers claimants' ability to carry out a range of daily tasks such as cooking and dressing (and is paid either at a Standard or Enhanced Rate) and a Mobility component which considers claimants' ability to get around outdoors independently (and is again paid at either a Standard or Enhanced Rate). Anyone making a claim will be assessed to determine whether they qualify for one of these two components, and the Rate at which they will be paid.

Eventually, everyone who wants to apply for disability benefits and was aged between 16 and 64 on the 8 April 2013 will need to make a claim for Personal Independence Payments, even if they have an indefinite or lifetime award for Disability Living Allowance (there will be no automatic transfer from Disability Living Allowance to Personal Independence Payments). However, to begin with only new claimants in certain parts of Merseyside, North West England, Cumbria, Cheshire and North East England will be affected by the transition. The national roll-out will then progress in stages.

From June 2013, new claims for Personal Independence Payments will start to be taken from all over the country. Then, from October 2013, the Department for Work and Pensions will begin to invite those receiving Disability Living Allowance to apply for Personal Independence Payments if:

- They report a change in how a health condition or disability affects them.
- They reach the end of an existing Disability Living Allowance award and haven't received a renewal letter.
- They are approaching the age of 16.

From 2015, all other existing Disability Living Allowance recipients will be invited to make a claim for Personal Independence Payments.

4. Council Tax Benefit

The national scheme of Council Tax Benefit was abolished on 1 April 2013, and has been replaced by a new localised system called Council Tax Support.

Council Tax Support will be administered by local authorities in England and the devolved administrations in Scotland and Wales, rather than central Government. Therefore, the precise details of the scheme will differ depending on where claimants live (however, Northern Ireland is unaffected by this change, as it does not operate council tax but instead uses an alternative system of domestic rates).

The overall budget for support is also being reduced by 10%, meaning that the amount of help available under the new system may decrease in some areas. However, some protections have been put in place:

- Local councils in England and Scotland must ensure that those who have reached Pension Credit qualifying age receive the same level of support as they did under Council Tax Benefit (this means that any changes in the new scheme will only affect working age people).
- The Scottish Government and Welsh Assembly have also announced funding to ensure that claimants in these parts of the UK will not see a reduction in the level of support available during 2013-14.

5. Social Fund

Significant reforms to the Social Fund also began on 1 April. There are three broad elements to this:

- Community Care Loans and Crisis Loans for general living expenses (including rent in advance) have been abolished. They are being replaced by local provision, administered by local authorities in England and devolved administrations in Scotland and Wales.
- Crisis Loan Alignment Payments and other Crisis Loans paid due to issues with benefits are being replaced by a new national system of Short Term Advances, administered by the Department for Work and Pensions.
- Budgeting Loans will continue to be available until Universal Credit is fully rolled out. As people move across, they will become eligible for a new system of Universal Credit Budgeting Advances.

Note: The status of many of these structural reforms in Northern Ireland are subject to the Welfare Reform Bill, which is currently passing through the Northern Ireland Assembly.

22 Other Changes

Income Tax

A number of significant reforms will take place to the income tax regime from 6 April:

6. **Personal Allowance**: The Personal Allowance will rise by £1,335 from £8,105 to £9,440 (this is the amount that can be earned before any income tax is paid).

7. **Higher Rate:** The Higher Rate threshold will be reduced from £42,475 to £41,450 (after this point, any income earned will be taxed at 40%).

8. **Additional Rate**: The Additional Rate of income tax, paid on all income earned over £150,000, will fall from 50% to 45%.

9. **Age Related Allowances**: The Age Related Allowance is an enhanced Personal Allowance for over-65s, enabling them to earn more money without having to pay income tax. In addition, once someone reaches the age of 75, the Age Related Allowance is further extended to what is termed the Higher Rate.

   - However, from 6 April 2013, the Age Related Allowance and Higher Rate are being abolished and will only be available to those who have already qualified for them.

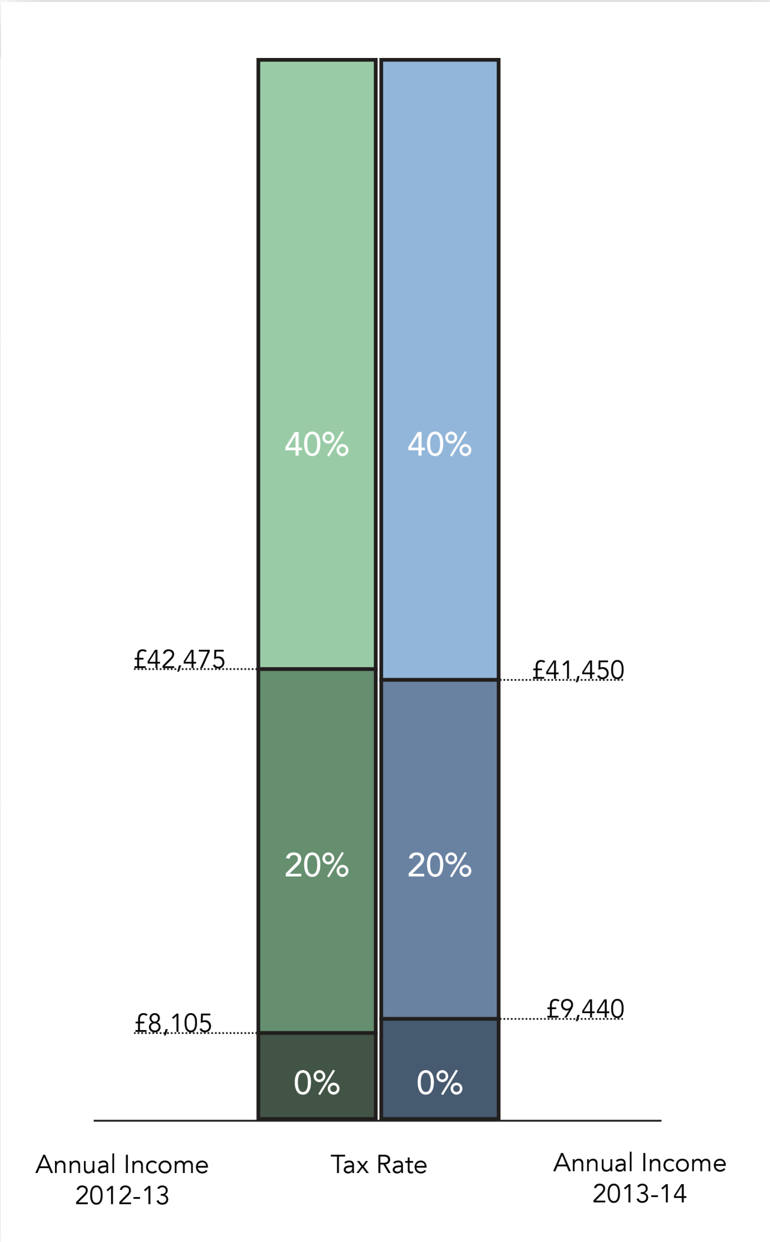
10. **Age Related Allowances**: Furthermore, those who still receive an Age Related Allowance or Higher Rate will see these frozen in 2013-14.

    - The standard Age Related Allowance will therefore remain at £10,500, and the Higher Rate will remain at £10,660.
    - They will be kept at these levels until they align with the main Personal Allowance at some point in the future.

11. **Income Tax Reliefs**: Certain income tax reliefs which have not previously been capped will now be limited to either 25% of income or £50,000 (whichever is the greater).

    - HMRC say that the main types of relief affected by this measure will be trade and property loss reliefs that can be relieved against general income, and qualifying loan interest relief.
    - However, the new cap will not be applied to charitable reliefs.

Income Tax Thresholds



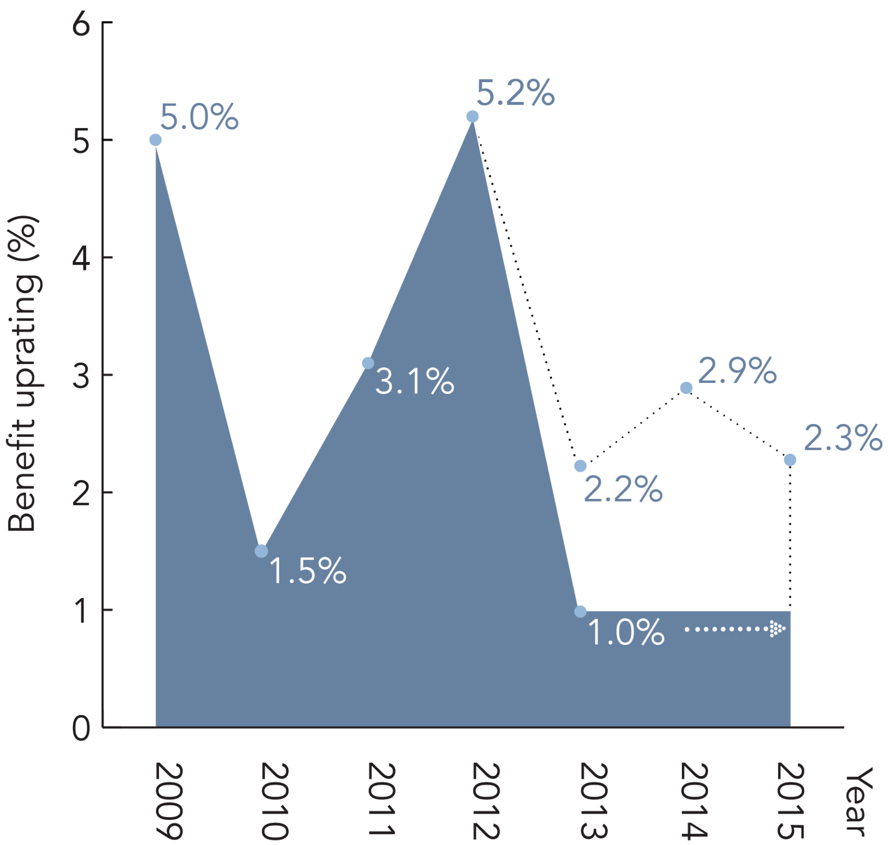
The above graph represents changes to tax thresholds as of April 2013. The personal allowance for income tax is rising from £8,150 to £9,440. And the higher rate threshold (of 40%) is being brought down from £42,475 to £41,450.

Benefits

12. **Benefits**: From April 2013, most working age benefits will be uprated by 1% each year, rather than in line with the Consumer Prices Index as was the case previously.

- This policy applies to Jobseeker's Allowance, Employment and Support Allowance, Income Support, applicable amounts for Housing Benefit, Maternity Allowance, Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay and Statutory Adoption Pay.
- However, the disability, carers and pensioner premia of these benefits, as well as the "Support" component of Employment and Support Allowance, will continue to be uprated in line with prices. This 1% limit will stay in place for at least three years.

Uprating of Benefits from 2009 to 2015



From April 2013 until April 2015, most working age benefits will be uprated annually by 1.0%, rather than using a measure of inflation. The dotted line suggests the level of uprating that might have taken place, based on existing CPI data and OBR projections.

Tax Credits

13. **Working Tax Credit**: The Couple and Lone Parent Element of Working Tax Credit will be uprated by 1% each year (this 1% limit will also remain in place for three years).

- This means that in April 2013, the value of the Couple and Lone Parent Element will increase from £1,950 to £1,970.
- However, the Disabled Worker and Severe Disability Elements will continue to be uprated with prices (meaning that in April 2013 the former will increase from £2,790 to £2,855 and the latter from £1,190 to £1,220).
- Meanwhile, the Basic and 30 Hour Elements of Working Tax Credit will remain frozen at £1,920 and £790 respectively (in 2011-12, the value of these Elements was frozen for three years).

14. **Child Tax Credit**: The Child Element of Child Tax Credit will also be uprated by 1% each year (again, this limit remains in place for three years).

- This means that in April 2013, the value of the Child Element will increase from £2,690 to £2,720.
- However, the Disabled Child and Severely Disabled Child Elements will continue to be uprated with prices (meaning that in April 2013 the former will increase from £2,950 to £3,015 and the latter will increase from £1,190 to £1,220).

15. **Tax Credits**: From 6 April, the level of in-year rises in income that will be disregarded in the calculation of Tax Credits will be reduced from £10,000 to £5,000.

- This means that if someone's income increases by more than £5,000 over the course of the tax year, it may affect the final calculation of their entitlement to Tax Credit, and potentially require them to pay back some of their award.

Housing

16. **Spare Bedroom Tax**: On 1 April, an under-occupation penalty (often termed the "spare bedroom tax") was introduced for working age tenants in the social housing sector. If tenants are deemed to be living in a house which is larger than necessary for a family of their size, deductions will be made from their Housing Benefit award.

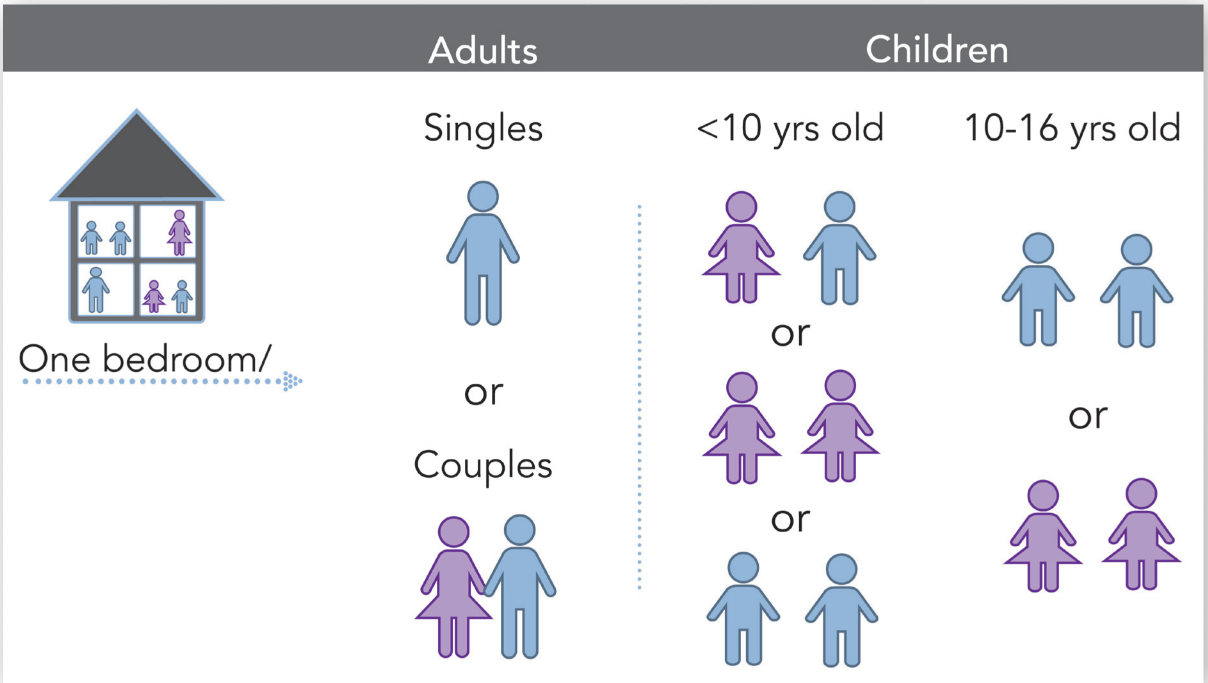
    - The Department for Work and Pensions has set down specific "size criteria" to define the number of bedrooms a family is permitted before the penalty is applied. In general, one bedroom is permitted for each person or couple living as part of the household, although there are certain exceptions.
    - For example, children under 16 of the same gender will be expected to share, and children under 10 will be expected to share regardless of gender. Meanwhile, if a tenant or their partner is disabled and requires a non-resident overnight carer, they will be allowed an extra bedroom.
    - A number of other exemptions are in place - for instance, the Government announced in March that approved foster carers and the parents of adult children who are away serving in the Armed Forces will be exempt from the cap.
    - Households with one extra bedroom will lose 14% of their Housing Benefit entitlement. Those with two or more extra bedrooms will lose 25% of their entitlement.

17. **Local Housing Allowance**: Rates for Local Housing Allowance (paid to those in the private rented sector) will be uprated using the Consumer Prices Index in 2013-14, having been frozen in 2012-13.

18. **Council Tax**: The Government will provide a grant to English local authorities to enable them to freeze Council Tax in 2013-14.

    - Devolved administrations will also receive funding to do so.
    - However, the rate of Council Tax is ultimately a local decision, so the provision of finance by central Government does not guarantee that this will be frozen.

Spare Bedroom Tax



Social housing tenants will face deductions to their Housing Benefit if they are judged to be "over-occupying" their property. The graphic demonstrates the guidelines described in change no. 16.

Other Changes

19. **Legal Aid**: Sweeping changes are being made to legal aid, as the *Legal Aid, Sentencing and Punishment of Offenders Act* comes into force.

    - This will remove legal aid funding for whole areas of civil law. As a result, legal aid will no longer be available for some debt, housing and benefit cases, unless someone's home is at immediate risk.
    - Other areas affected include private family law (such as divorce and custody battles), clinical negligence and personal injury, employment and education law and immigration where the person is not detained.
    - The changes also mean that anyone with assets worth more than £1,000 will have to pay at least £100 towards their legal costs.

20. **Public Sector Pay**: From April 2013, public sector pay rises will be limited to an average of 1%, for a period of three years.

21. **Redundancy**: The consultation period for large scale redundancies will be reduced from 90 days to 45 days from 6 April.

22. **Pension Credit**: The standard minimum guarantee for Pension Credit will rise by 1.9% in April (equivalent to the cash rise in the basic State Pension).

    - For single people, the minimum income level will therefore rise by £2.70 from £142.70 to £145.40 per week, while for couples it will increase by £4.15 from £217.90 to £222.05 per week.

23. **Pension Credit**: In order to pay for the increase in the minimum guarantee, the eligibility threshold for the Savings Credit component of Pension Credit will rise (meaning fewer people will qualify for the Savings Credit).

    - In order to qualify for Savings Credit, claimants' weekly income (from various sources specified by Government) needs to exceed certain thresholds. These thresholds will increase by 3.1% in April 2013, rising from £111.80 to £115.30 per week for single people and from £178.35 to £183.90 per week for couples.

24. **Pension Credit:** There will also be a reduction in the maximum amount payable through Savings Credit.

    - For single people it will fall from £18.54 to £18.06 per week, and for couples it will fall from £23.73 to £22.89 per week

25. **Capital Gains Tax**: From April, the Consumer Prices Index will be used to uprate the Annual Exempt Amount for Capital Gains Tax, rather than the Retail Prices Index.

- However, it has already been announced that in the two years from April 2014, the annual rise in the Annual Exempt Amount will be limited to 1%.

26. **Water Bills**: From April, the Government will fund South West Water to enable it to cut bills for all household customers by a flat rate of £50 per year (regardless of the amount of water they use). This funding will run every year until at least 2020.

27. **Prescriptions**: Prescription charges in England rose by 20p to £7.85.

Summary of Changes

Positive

6. Personal Allowance increases to £9,440
8. Additional Rate of income tax falls to 45%
18. Council Tax freeze
22. Minimum income guarantee of Pension Credit rises 1.9%
26. South West Water cuts all customers' bills by flat rate of £50

* Not all changes are included in this list due to their complexity. Such ambiguity applies to structural reforms such as Universal Credit (no. 1), Personal independence Payments (no. 3) and the Social Fund (no. 5). Similarly, it is difficult to categorise change no. 17 as positive or negative.

Negative

2. Household Benefits Cap
4. Council Tax Benefit reduced by 10%
7. Higher rate threshold falls to £41,450
9. Age Related Allowances restricted to those who have already qualified
10. Age Related Allowances frozen at 2013-14 levels
11. Income Tax Relief capped
12. Working age benefits uprated by 1%
13. Couple and Lone Parent Element of WTC uprated by 1%
14. Child Element of CTC uprated by 1%
15. In-year income disregard for Tax Credits reduced to £5,000
16. "Spare Bedroom Tax" introduced
19. Reform of funding for Legal Aid
20. Public sector pay rises limited to 1% for 3 years
21. Consultation period for large scale redundancies reduced to 45 days
23. Eligibility threshold for Savings Credit rises 3.1%
24. Maximum amount payable through Savings Credit falls
25. CPI used to uprate Annual Exempt Amount for CGT
27. Prescription charges in England rise 20p