

Women's



WOMEN'S NATIONAL COMMISSION

Cabinet Office ■ 35 Great Smith Street ■ London SW1P 3BQ

TELEPHONE: 020-7276 2555 ■ FAX: 020-7276 2563

E-MAIL: wnc@cabinet-office.x.gsi.gov.uk ■ WEBSITE: www.thewnc.org.uk

Please find attached the Women's Budget Group's
Submission to Social Security Select Committee's
inquiry into plans for an Integrated Child Credit

The Women's Budget Group can be contacted through
the Women's National Commission

Susan Himmelweit (Chair Women's Budget Group)

Women's Budget Group
**Submission to Social Security Select Committee's inquiry into plans
for an Integrated Child Credit
Summary**

Principles to inform the design of the Integrated Child Credit

The WBG recommends that the following principles should guide the design of the ICC:

- Society and thus all taxpayers should contribute to the support of all children
- The contribution all parents make to society deserves recognition and financial support
- Payments for children and childcare should be made to those who actually look after children's needs and arrange their childcare
- Payments for children should not be conditional on parents' behaviour; in particular, they should be paid independently of parents' employment status
- Couples should be encouraged to share caring and earning responsibilities; to do this, men's involvement in care and women's employment opportunities should be supported
- Any incentive or disincentive effects should not discriminate directly or indirectly against women
- Women's financial autonomy should, where possible, be encouraged

The wider context – the ICC in relation to Child Benefit

A fairer and more straightforward system of financial support for children would be to increase child benefit for all parents by the rate envisaged for the ICC, financing it out of general taxation. This would promote better horizontal equity between parents and non-parents. It would avoid the problems that household means testing produces, including distorting incentives to employment, penalising certain household types and failing to take account of any hidden poverty due to the maldistribution of resources within a family.

Reducing child poverty

ICC should be paid to a large proportion of families through their principal carer(s) as the most effective way of reaching children. Rather than saving money on children by increasing ICC at the expense of CB, the government should be committed to letting CB rise through time to absorb ICC as finances permitted.

Making work pay – but equally for men and women

ICC will be unrelated to parents' employment status. Any employment incentives that form part of any package of which ICC is a part should be targeted on men and women equally, and not discriminate directly or indirectly against women, so that a sharing of caring and earning roles between parents is encouraged. Whether making work pay is the best route to tackling child poverty is a matter of policy, and in particular depends on the levels of support received by families who are out of work. Reducing child poverty needs to be an aim even where it conflicts with providing work incentives.

Childcare subsidy

The Childcare Tax Credit in the WFTC system, by being paid only to parents who already have jobs, fails to meet job seekers needs and promotes insecurity among children. Further, the parent who organises and pays for childcare may not be the one receiving the Childcare Tax Credit. The WBG believes that these problems could best be solved by subsidising childcare at source. Failing that, any childcare subsidy would be better paid through the ICC than the ETC.

Delivery and take up rate

To encourage take up, the delivery mechanism for ICC should reproduce that of Child Benefit. Claim forms should be sent automatically and be easy to fill in. ICC should be paid along with CB, with the combined ICC and CB payment paid at whatever frequency and by whatever method the recipient requires in order to meet children's needs. ICC awards should state clearly the maximum that would have been paid without deductions for means testing, as well as the amount actually being paid.

Women's Budget Group
Submission to Social Security Select Committee's inquiry into plans
for an Integrated Child Credit

Background – the Women's Budget Group

1. The Women's Budget Group (WBG) is an increasingly influential think tank that brings together a unique configuration of women economists and social policy experts from academic institutions, voluntary organisations and unions, as well as independent researchers, to focus on the gender implications of economic and social policy. The aim of the Women's Budget Group is to transform government policy and practice to meet the reality of women's lives by incorporating a gender analysis into economic and social policy making.

We do this by:

- Attempting to raise the gender awareness of economic policy makers;
- Challenging the gender insensitive models on which much current policy is based;
- Creating alternative policy frameworks and making detailed recommendations on policy.

We are therefore pleased to have the chance to comment on the design of the Integrated Child Credit (ICC).

Principles to inform the design of the Integrated Child Credit

2. Our recommendations are based on certain principles that we believe should inform the design of the ICC:
 - Society and thus all taxpayers should contribute to the support of all children
 - All parents who care for children are making a contribution to society that deserves recognition and financial support from the wider community
 - Payments for children and childcare should be made to those who actually look after children's needs and arrange their childcare
 - Payments for children should not be conditional on parents' behaviour; in particular, they should be paid independently of parents' employment status
 - The system should encourage couples to share caring and earning responsibilities; to do this, given current patterns, it should in particular promote men's involvement in care and support women's employment opportunities
 - Any incentive or disincentive effects should not discriminate directly or indirectly against women
 - Any new system should where possible encourage, and certainly not stand in the way of, women's financial autonomy
3. The Women's Budget Group welcomes the recognition that while the Working Families Tax Credit (WFTC) has brought benefit to many families, it should be reformed to make it more effective by splitting it into two separate tax credits, Employment Tax Credit (ETC) and Integrated Child Credit (ICC), the latter also incorporating the Children's Tax Credit (CTC). In particular, we welcome two features of the ICC: that it will go some way towards providing an integrated and seamless system of financial support for children that is unrelated to parents' employment status and that it will be paid to the children's principal carer.

The wider context – the ICC in relation to Child Benefit

4. However, aspects of the ICC, in particular that it will be withdrawn for higher levels of income, will recreate some of the problems of the WFTC (and CTC), albeit in less severe forms. We do already have a seamless system of payments for children that is unrelated to parents' employment status and paid to the children's principal carer in Child Benefit (CB). Child Benefit is important for this country as a demonstration of the responsibility of society as a whole for the well-being of its children. The payment of Child Benefit recognises, though does not fully meet, the extra costs borne by parents and validates the contribution they make to society by caring for children. Parents make an investment in a public good, their children, from which we will all eventually benefit since children are the future workers who will produce the resources to support the current productive generation in their old age. Child Benefit thus promotes horizontal equity (between parents and non-parents) and between generations (between adults and children). This should not be confused with considerations of vertical equity, the distribution of resources between income groups, which only a progressive tax system can deal with fairly.
5. It would be a fairer and more straightforward system of financial support for children to increase child benefit by the rate envisaged for the ICC and pay it to all parents. This would be more expensive and therefore necessitate increasing taxes, but it would mean spreading the cost of supporting children over all taxpayers. The savings produced by withdrawing ICC from parents with higher levels of income will be paid for by those parents alone, rather than by taxpayers more generally. Paying a correspondingly higher level of CB to all parents would also be simpler administratively with no requirement for means testing. This would be a genuinely fully integrated seamless payment for all children, with a 100% take up rate. It would also produce fewer distortions and disincentives to earning extra income. All means testing produces such disincentives to some extent. However, the net disincentive effect of an increased tax rate spread across all taxpayers would be much less than one that has to raise revenue from parents alone.
6. Another problem with means-testing, when it assesses entitlement on the basis of the couple's income, is that any hidden poverty due to the maldistribution of resources within a family is not taken into account. The more that benefits/tax credits received by a woman are means tested on a couple's income, the more she loses her independent access to income and becomes dependent on her husband's sense of fair play. Means testing and the fear of the financial dependence that it brings also may trap women in particular household types, not necessarily those that are best for them and their children.
7. Our concerns about the disadvantages of means-testing also make us wary about government claims that the ICC and ETC are the first steps towards the longer term goal of tax-benefit integration. Tax-benefit integration on this model could mean the complete means-testing of the system and the end of child benefit as a universal payment. This would be against the interests of many women in couples who would not qualify for a payment under a totally means-tested system based on the couple as the unit of assessment. It would also erode the explicit

recognition, that universal Child Benefit currently provides, of the social contribution made by those bringing up children.

8. In designing the ICC, it is important to recognise that the aims of reducing child poverty and making work pay are not the same. The separation of ICC and ETC goes some way towards doing this. The government's own evidence in *Supporting Children Through the Tax and Benefit System* (HM Treasury, 1999b, page 15, Chart 1.8) shows that both the proportion of children living in poverty and the proportion living in workless households vary substantially across Europe and these proportions are not highly correlated. Whether making work pay is the best route to tackling child poverty is a matter of policy, and in particular depends on the levels of support received by families who are out of work. There are connections between the two in that benefits paid for the support of such families need to be financed, but "making work pay" should not be a substitute for helping children directly and cannot ever hope to succeed in reaching all children. Reducing child poverty needs to be an aim even where it conflicts with providing work incentives. In particular, we cannot hope to relieve the poverty of children without relieving the poverty of those who care for them, largely women. It is important that children are not penalised further by the tax and benefit system for their parents' inability or unwillingness to engage with the labour market, and that caring responsibilities are recognised as the main reason why parents, particularly mothers, may have difficulty doing so.

Reducing child poverty

9. We particularly welcome the recognition that ICC should be paid to the main carer. Research both in the UK and elsewhere has shown that money paid to the main carer is far more effective than money paid to other family members in reaching children. We also know from research how much importance women, who are usually the main carers, attach to the direct payment of benefits for children. However, by agreement it should be possible for parents to split, in appropriate proportions, their claim for ICC and CB. This is particularly important where parents are separated and children spend a proportion of their time with both parents, an increasingly common arrangement.
10. How effective the ICC is in reducing child poverty will depend on the level at which it is set. It will inevitably not eliminate child poverty at a stroke, so whatever level it is initially set at, the combined level of CB and ICC should be increased steadily each year in real terms. For the reasons given above, the temptation to save money on children by increasing ICC at the expense of CB should be resisted. Indeed we would rather see the government committed to letting CB rise through time to absorb ICC as finances permitted.
11. CB commands widespread support as a contribution to the costs of child rearing. If ICC is to have a high take-up rate (essential if it is to be effective in reducing child poverty) it will need to have similarly widespread support by being paid to a large proportion of families. For this reason, it is important that ICC does not start being withdrawn until income is reasonably high – in effect so that it is affluence that leads to ICC being withdrawn, rather than poverty having to be demonstrated in order to have the right to claim it. Having a lower rate of withdrawal would

also increase the number of families eligible to claim ICC. If large numbers could claim ICC, it should win widespread support from middle and lower income families and should reduce any stigma associated with means testing. It is this, far more than labelling it a tax credit, that might reduce the problem of low take-up associated with other means tested benefits.

Making work pay – but equally for women and men

12. The primary intention of ICC should be to help support children. However, it has been proposed as part of a package of measures whose aims include making employment pay. It is important that these parts of the package do not undermine the primary purpose of ICC or its ability to enable both men and women to support and care for their children. Any employment incentive effects should be targeted on men and women equally, so that work pays equally well for both sexes and a sharing of caring and earning roles between parents is encouraged. This should enable couples to make decisions about hours of work that allow each partner time for their children and the opportunity to take employment. Current incentives, work in such a way that for many families it is most practical for one parent to work long hours while the other takes on the bulk of caring responsibilities and only a secondary labour market role, if any. Unequal pay and the difficulties of finding suitable childcare are primarily responsibility for these patterns. It is particularly important that government policy does not exacerbate these inequalities.
13. The WFTC, because it is designed primarily to get at least one parent from workless households into employment, can act as a disincentive to second earners in households (despite the child care tax credit). This is because a second earner in a family claiming WFTC faces a high withdrawal rate of 55% with no individual incentive to start. Indeed there is a disincentive to sharing hours and caring responsibilities between the two parents, with a premium paid if one partner is employed for 30 hours or more, but no premium if those hours are shared between partners.
14. A further problem arising from the WFTC being means tested on family income is that it makes it costly for single parents to form new partnerships. Indeed women may effectively lose their financial autonomy through cohabiting with a new partner if they then find it is no longer financially worthwhile to stay in employment. This is very undesirable, particularly since such relationships will not necessarily survive. Whether this feature will be the case in the new ETC/ICC system will depend on the design of the ETC, in particular on whether two independent earners would lose their separate entitlement by forming a partnership, and the ETC's interaction with the ICC.
15. It is important that these distorting effects on people's relationships are not reproduced in the ETC/ICC system, and that everyone is treated equally by any incentive to take employment. Not to do so not only indirectly discriminates against women, who are more likely to be second earners, but is very short-sighted in terms of preventing household and thus child poverty. Many households depend on two earners to keep them out of poverty and much employment these days is insecure. Households with only a single earner are not only likely to be poor; they will become workless if the sole earner loses their job.

Further, with increasing family breakdown many of today's second earners will be tomorrow's single parents.

Childcare Subsidy

16. The Women's Budget Group welcomes the introduction of the National Childcare Strategy and believes that high quality childcare should be the right of every child. As the Paymaster General, Dawn Primarolo, has said “Decent childcare at an affordable price for those families who wish to work should be a right, not a privilege” (HM Treasury, 1999a, our emphasis). No child should be denied that right by the poverty of their parents. The childcare tax credit embodied in the WFTC should be a great help to single parents and to couples with children where both parents want paid work. However, there are some problems with the way paying the childcare subsidy through the WFTC works in practice.
17. First, regrettable though it may be, it is almost always the case that in two earner families childcare arrangements are seen as the mother's responsibility and the costs as a deduction from her income. Yet in many such families, the WFTC including the childcare tax credit is paid to the father. This reduces the woman's net income and gives a distorted impression of how worthwhile it is for her to be employed and of each partner's contribution to the household.
18. Further, because the childcare subsidy is not payable until employment has started, parents are discouraged from arranging childcare before finding employment. Not being able to see their children settled into secure and suitable childcare before finding employment in some cases may deter parents from seeking employment at all. For others, it leads to hurried and less than ideal childcare arrangements that cannot be good for their children and to stress and anxiety for the parents at the same time as starting a new job. Making the payment of the childcare tax credit dependent on currently having employment means that childcare arrangements have to be disrupted if parents lose their jobs, even if they are intending immediately to seek new employment. This again cannot be good for their children who need secure and stable childcare arrangements.
19. Further, the fact that WFTC awards are fixed for six months does not mesh well with the difficulty of finding good childcare. Many parents make temporary arrangements for their children when they first start employment, putting their children on waiting lists for forms of childcare that they would ideally prefer. In particular, as a temporary informal arrangement children are often left with relatives who can cope in the short term but are not able or willing to do so in the longer term. However, the inflexibility of the WFTC means that waiting list places cannot then be afforded when they become available because the initial award did not take account of childcare costs since they cannot be claimed for informal arrangements with relatives.
20. These problems are caused in the WFTC system by a combination of to whom WFTC is paid, its inflexibility, its restriction to formal care alone, and the linking of the childcare subsidy to already having, rather than looking for, employment.

We believe these problems could best be solved by subsidising childcare at source, paying the subsidy directly to the providers of childcare, as happens in many other countries. There are a variety of ways in which this could be done so that the subsidy to a provider is matched to the number of childcare places going to low income families.

21. However, if the current system of subsidising childcare through a tax credit to the parents is to be carried over into the new ETC/ICC system, paying it as part of the ICC would remove some of the problems currently experienced in paying it through the WFTC. In particular, breaking the childcare tax credit's dependence on having rather than wanting employment would mean that childcare arrangements could be made and started before employment began, thus easing the transition to employment for both parent and child.
22. Another advantage of paying the childcare subsidy through the ICC is that it would signal that childcare is meant to be of benefit to the child. In the long-run we would hope that supply of childcare and financing arrangements would be such that all children would have access to whatever form of childcare best meets their needs, irrespective of the labour market behaviour of their parents.

Responsiveness of the ICC

23. It is important that the ICC system responds immediately to changes in needs e.g. it should automatically be uprated along with child benefit when a new child is registered, or when a child becomes disabled. It should also be responsive to major changes in income e.g. when a parent loses a job which had paid well enough to mean that the full ICC was not being claimed or when parents split up. This was one problem with the WFTC when awards were fixed and unresponsive to changes in circumstances. Any childcare subsidy included in the ICC will have to be immediately responsive to changes in childcare arrangements. The ICC ought to be paid at higher rates to some families that incur additional costs in looking after their children, such as those with children with disabilities.
24. However, the ICC should not be too responsive to small changes in income. It is important that families are able to depend on it being paid at the expected rate. The principal carer who will be receiving the ICC needs to be able to rely on her money in order to be able to spend it effectively. It should therefore not vary weekly according to small fluctuations in income that may be being received by her partner. ICC should be fixed for a period, six months or even a year, during which time any small increases in income should be ignored.

Delivery and take up rate

25. Child benefit is effective in reaching children because it is universal and easy to claim and consequently has a 100% take up rate. ICC will not be universal, but its delivery mechanism should reproduce that of CB as far as possible. A high take-up rate is most likely to be achieved if ICC is available to a large proportion of families and claiming it is as easy and automatic as possible. All parents should be routinely sent claim forms along with any correspondence about child benefit, for example along with annual notices uprating CB.

26. ICC awards should state clearly the maximum that would have been paid without deductions for means testing as well as the amount actually being paid. This will make clear that the award is for the benefit of children and indicate the element that parents are expected to contribute themselves.
27. ICC should be paid along with CB, with the combined ICC and CB payment paid at whatever frequency the recipient requires in order to meet children's needs. Since for some parents ICC will be a replacement or an element of income support/income related JSA, it must be paid in cash at the same frequency, at least fortnightly, whenever parents want it paid in this way. There should be no pressure or incentive for recipients to have it paid less frequently or directly into bank accounts rather than by cash. Payments by the recipient's, that is the principal carer's, method of choice is the most effective way of ensuring that goes through the carer to meet the needs of the child.

References

HM Treasury (1999a) News Release "Childcare is a right, not a privilege" says Paymaster General, 13 January 1999

HM Treasury (1999b) Supporting Children through the Tax and Benefit System