

--- starts ---

TWO CHILD LIMIT TO TAX CREDITS SET TO DRIVE CHILD POVERTY UP 10% BY 2020

New child tax credit rule means a third child born to low income families will miss out on up to £2,780 of tax credit support in April, affecting 8,000 families each month.

From Thursday 6 April 2017 the amount of Child Tax Credit support available to families across the UK will be limited to two children. The measure will affect all households with two or more children that have an additional baby after this date.

New independent analysis by Policy in Practice finds that more than 2 million low-income families are at risk of being hit if they have a third child, 70% of whom are in work.

The measure is set to save the government £1bn per year by 2020, helping it to meet its stated objective to reduce the public deficit and rebalance the finances of the welfare state.

There is no evidence that the policy will have any impact on birth rates. Policy in Practice will track the impact on birth rates in the coming months but find that many potential parents are unaware of the changes.

104,000 third or additional children will be born to these families in the next twelve months. The 8,000 babies born in April will miss out on up to £2,780 of tax credit support.

Over 1 million children will be hit by this policy by the end of this parliament.

- This policy alone will drive an increase in child poverty of more than 10%, with 266,000 additional children living in poverty by the end of the parliament.
- Over a quarter of a million children (256,000) already in poverty today will fall deeper into poverty as a result of this policy.
- 609,000 children in 'Just About Managing' (low to middle income) households will be pushed closer to the poverty line.

Child Tax Credits were originally intended to provide financial support to low earners with larger families, yet those who have a third child after April will need to find £1,737 to make up the difference.

Children who grow up in poverty can have lower productivity as adults and a higher risk of unemployment. There are also immediate costs to other public services that support families on low incomes.

Policy in Practice estimates that support targeted to low income households, including housing, schooling and childcare will cost an additional £300 million per year by 2020 as a result of the increase in child poverty.



Deven Ghelani, Director of Policy in Practice said:

"The behavioural impact of the policy remains unclear, but we know that the costs of poverty are significant.

"The Government wants to restore fairness to the benefit system. This is a worthy aim, but the cost of this policy will ultimately fall on children in the families affected. The impact of growing up in a family that struggles to provide basic necessities will mean this policy is likely to have financial and social consequences well into the future."

Within the wider context of welfare reform, this policy represents another cap on the amount of public spending on welfare. It adds to measures which include a freeze on benefits, tighter limits on housing support and the introduction of an overall benefit cap, moving away from the needs-based principles on which the British welfare system is based.

---- ends ----

Contact details

Contact: Deven Ghelani
Title: CEO and Founder
Telephone: 07863 560677
Email: deven@policyinpractice.co.uk

The full report will be available at policyinpractice.co.uk on Monday 3rd of April 2017. Please call or email for an advance embargoed copy.

Editors notes:

About Policy in Practice

Policy in Practice was founded by Deven Ghelani, one of the architects of Universal Credit, to make the welfare system simple to understand. Their analysis helps local authorities across the UK to use data to identify affected households. Their software shows people how they will be impacted by reforms and what they can do to improve their situation. They have a proven impact on people's lives.

Methodology

Policy in Practice's analysis is based on the Family Resources Survey 2014/15.

Limiting Child Tax Credit to two children: Analysis by Policy in Practice						
	ouseholds with 2+ children		Households	Average	Children impacted	
	Share	Number	losing CTC	No. of	2017/18	2019/20*
Household in poverty	23.2%	487,200	24,128	3.5	84,448	256,000
Households at risk of poverty	20.9%	438,900	21,736	3.2	69,555	266,000
Just about managing households	55.9%	1,173,900	58,136	3.5	203,476	609,000
Totals	100.0%	2,100,000	104,000	3.4	357,479	1,131,000

*2019/20 analysis takes into account other policy reforms including NLW, UC, Inflation and Benefit Freeze

We identified 2.1m households with two or more children currently in receipt of Child Tax Credits or who are potentially eligible for Universal Credit, and observed 104,000 third or additional children born to these low income households in the last twelve months.



To assess the impact that this policy has on child poverty, we use relative poverty (i.e. 60% of median income).

Based on the ONS 2015 figures of median income, and taking into account all sources of income including benefits, we then equivalised this figure for different household sizes and applied it to the 2.1m families with two or more children.

The ONS figures on relative poverty show that households in the UK need an extra £286 a month per extra child to remain above the poverty line. This amount (£286) is currently covered by support received through Child Tax Credits (£232 per month) and through Child Benefit (£59 per month for second or additional children). When Child Tax Credit support is limited to two children, families affected by this reform will therefore face a monthly shortfall of £227 each month (£286 needed to remain above the poverty line - £59 child benefit for a current third child).

We identified 487,000 households (23.2%) of households in poverty, 440,000 households (20.9%) with a monthly income of less than £227 above the poverty line and 1,176,000 households (55.9%) with a monthly income more than £227 above the poverty line.

With an average number of children per household in each cohort as 3.5, 3.2 and 3.5 respectively we therefore estimate an additional 69,00 children will be living in poverty by April 2018, rising to 266,000 by the end of this parliament.

We apply the same methodology to derive the number of children pushed deeper in to poverty in the years leading up to 2020, and the impact on low to middle income households with children. In the modelling we take into account projected inflation, wage increases, a higher National Living Wage and partial migration to Universal Credit.