



Department
for Work &
Pensions

Tax Credit expenditure in Great Britain

January 2013

Introduction

This note presents the methodology and sources behind the tax credit figures quoted in the article by the Secretary of State for Work and Pensions, published in the Sunday Telegraph on 30th December 2012.

As a result of changes to departmental responsibility for transfer payments to families and people in work, the analysis combines available information from both Her Majesty's Revenue and Customs (HMRC), and the Department for Work and Pensions (DWP), to present as consistent a picture of trends in spending as possible, so includes spending that can be regarded as equivalent to current tax credits. For this reason, figures cover the period from 1999/00, when Working Families Tax Credit and Disabled Person's Tax Credit were introduced, to 2010/11. However, there are elements of support for families that were previously made through tax allowances that it is not possible to include here.

Up to and including 1998/99 transfer payments in Great Britain were the sole responsibility of the then Department of Social Security (DSS, one of the predecessors to DWP). A full set of expenditure information for 1998/99 and before is published on DWP's website, and is not repeated here¹.

Furthermore, for full consistency with the geographical coverage of DWP (and DSS), these figures are for Great Britain only. HMRC expenditure covers the whole of the United Kingdom, and most statistics published by HMRC reflect this.

¹ Available at: <http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure>

Background

The current tax credit system, comprising Child Tax Credit and Working Tax Credit, was introduced in April 2003. It replaced:

- Working Families Tax Credit (which had previously replaced Family Credit);
- Disabled Person's Tax Credit (which had previously replaced Disability Working Allowance);
- Child allowances included in Income Support and Jobseeker's Allowance, and
- Children's Tax Credit (in place in 2001/02 and 2002/03).

The following transitional arrangements are important for this analysis:

- Child Tax Credit and Working Tax Credit replaced Working Families Tax Credit and Disabled Person's Tax Credit in April 2003. However, child allowances in Income Support and Jobseeker's Allowance continued to be awarded to claimants for another year, although the rates payable were aligned to the weekly equivalent of the Child Tax Credit rates.
- From April 2004 no new claims for child allowances in Income Support or Jobseeker's Allowance were permitted, although families who were already receiving child allowances at that date could receive additional allowances for children who became part of their family after that date. Since then the number of families with child allowances has gradually reduced as they have moved off benefit, and perhaps claimed Child Tax Credit instead, although the planned transfer of all child allowances to Child Tax Credit is not yet complete.
- Working Families Tax Credit and Disabled Person's Tax Credit replaced Family Credit and Disability Working Allowance from October 1999, but existing awards of these benefits were left to run until their expiry. Since both benefits were awarded for six months at a time, the last payments of these benefits, other than residual amounts, were made in March 2000.

Given these transitional arrangements, in order to provide consistent comparisons, the analysis in this note covers tax credits and the equivalent provision through child allowances in Income Support and Jobseeker's Allowance. Additionally, due to the transition to Working Families Tax Credit and Disabled Person's Tax Credit, and the fact they were introduced half way through a financial year, Family Credit and Disability Working Allowance are also included².

² In work support was also provided to non-disabled people without children through Earnings Top-Up during the period 1997 to 2000. This was a pilot programme operating in a small number of areas in Great Britain, costing £27 million in 1999/00. This is not included in this analysis, as it was not immediately replaced by tax credit provision: there was a three-year gap before Working Tax Credit provided transfer payments to some non-disabled people without children.

Methodology

Summary

The methodology comprises the following steps:

- Take published HMRC data on tax credits expenditure;
- Convert this from United Kingdom to Great Britain coverage;
- Add in expenditure on the equivalent DWP and DSS benefits; and
- Adjust to take account of price or earnings inflation.

As a result of these adjustments the resulting figures will not correspond to those published by HMRC, although they will be consistent with them.

More detail on each of these steps is given below:

1. United Kingdom tax credits data

HMRC publish a range of United Kingdom tax credits data on their website. The data used here is from HMRC's table of receipts³, which also includes spending on tax credits but is confined to those administered by HMRC; the National Statistics on personal tax credits on HMRC's website also include the corresponding child allowances in Income Support and Jobseeker's Allowance (for both Great Britain and Northern Ireland).

The data covers both the "public expenditure" element of tax credits, and that which counts as "negative tax" – where the amount of tax credit paid out is less than or equal to the tax liability of the household. Negative tax is included for comparability with the pre-1999 tax and benefits system, where households could receive Family Credit or Disability Working Allowance, and also be paying income tax. This will also aid comparisons with the future system when Universal Credit is introduced.

Information pre-2003 is more difficult to source. The negative tax element of Working Families Tax Credit and Disabled Person's Tax Credit comes from Income Tax statistics⁴, while the public expenditure element for 2002/03 is taken from the Country and Regional Analysis of the Public Expenditure Statistical Analyses, 2008/09⁵. The necessary detail for previous years is not readily available so the public expenditure element has been obtained directly from HM Treasury's public expenditure database.

2. Conversion to Great Britain figures

³ <http://www.hmrc.gov.uk/statistics/receipts/receipts-stats.xls>

⁴ <http://www.hmrc.gov.uk/statistics/tax-statistics/table2-9.pdf>

⁵ http://www.hm-treasury.gov.uk/d/pesa0809_c10database.xls

Estimates of tax credit spending in Great Britain have been derived from the United Kingdom figures using HM Treasury's Country and Regional Analyses⁶, which shows the proportion of spending in Northern Ireland to be between 3.4% and 3.8% depending on the year. Prior to 2002/03 figures are not readily available, so the 2002/03 proportion has been used for previous years. In common with DWP's responsibility for benefit payments overseas, tax credit payments outside the UK have been included under "Great Britain".

3. Add equivalent DWP and DSS benefits

Spending on child allowances in Income Support and Jobseeker's Allowance, and spending on Family Credit and Disability Working Allowance, is published on DWP's website⁷. The child allowance data also feeds into HMRC's National Statistics on personal tax credits, though the HMRC source used here ensures there is no double-counting of expenditure.

The proportion of the total spending attributable to child allowances in Income Support and Jobseeker's Allowance included in DWP's published tables is calculated using the Quarterly Statistical Enquiry data. In this calculation the value of the allowance, minus Child Benefit brought to account as income, is multiplied by the number of claimants with child allowances, and summed over the whole financial year.

Putting these figures together with the tax credit figures derived under section 2 gives a consistent series of expenditure in nominal terms (line P of the table in the results section).

4. Taking account of price or earnings inflation

Over a long time period comparisons of nominal expenditure (how much money is actually paid out in a year) can be misleading, since general inflation over time means that the purchasing power of a given amount of money diminishes. Therefore an established statistical approach is to convert expenditure into "real terms" – the prices of a given year. For some purposes it may also be appropriate to look at expenditure movements relative to earnings, and convert expenditure into "earnings terms". Since prices and earnings generally increase over time, making adjustments to convert spending to 2012/13 prices or earnings increases spending in past years (relative to their nominal values), but in turn means that the growth rates observed in the past are lower.

Standard practice for deflating Government expenditure by prices is to use the "GDP deflator"⁸, which is a wider measure of inflation than the Consumer Prices Index (CPI), and this approach is used in this note. However, the GDP deflator is subject to periodic revision, meaning that the current year values of past nominal spending can change. Figures will also change whenever the current year moves on.

⁶ http://www.hm-treasury.gov.uk/d/pesa0809_c10database.xls and http://www.hm-treasury.gov.uk/d/pesa_2011_database_tables_chapter9.xlsx

⁷ <http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure>

⁸ http://www.hm-treasury.gov.uk/d/gdp_deflators.xls, based on ONS figures.

In this analysis we are also interested in comparing changes in benefits and tax credits relative to earnings so to do this we use the Average Weekly Earnings index⁹. In this note two different approaches have been used:

- **Using previous year's earnings:** Conventionally, benefits and tax credits have been increased in April of each year, based on a historic figure for annual prices or earnings growth. Therefore the first approach to deflating expenditure uses the July Average Weekly Earnings index from the previous year because July data is used for uprating benefits that are linked to earnings. It should be noted that the earnings figures used here are not those used to uprate tax credits at the time – both because tax credit uprating did not necessarily follow benefit uprating, and because for much of the period a different index, the Average Earnings Index, was the headline measure of earnings growth.
- **Using earnings for the same year:** We have also deflated using the September Average Weekly Earnings index for the same year in which expenditure occurs – September being a mid-year figure to best approximate the growth in earnings between financial years.

The approach used makes little difference to spending growth prior to the start of the recession in 2008, but does have a bigger impact in 2008 to 2010 when earnings growth falls significantly. Since in practice the benefits and tax credits uprating in a particular year uses the previous year's growth figures, the spending on tax credits and equivalents grows more rapidly relative to earnings if we use the second method: between 2007/08 and 2009/10 spending growth relative to earnings is either 21% or 27%, depending on the method used.

Between 2002/03 and 2003/04 the growth in tax credit and equivalent spending is fairly similar – at around 60% - regardless of whether earnings or prices are used as the deflator, and regardless of which approach to earnings deflation is used.

5. Cumulative expenditure figures

The results table shows cumulative spending on the current tax credit system, starting in 2003/04, in nominal terms, and in both 2012/13 prices and earnings, although the nominal figures are misleading for reasons given previously.

The table shows that in 2012/13 prices, over the period 2003/04 to 2009/10, £170 billion was spent on tax credits and equivalents in Great Britain. This has changed slightly from figures quoted previously due to revisions to the GDP deflator. In 2012/13 earnings terms, the comparison is very similar, with £171 billion spent.

6. Caveats

The main caveat with this analysis is the exclusion of the Children's Tax Credit, a tax allowance that was incorporated into Child Tax Credit as the Family Element.

⁹ <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-222525>

Definitive figures on the cost of this tax credit are difficult to obtain, but the 2001 Budget documents suggest it cost around £2.23 billion in 2002/03, equivalent to around £2.85 billion in 2012/13 prices. Spending in 2001/02 was lower than this as the allowance was less generous.

If account was taken of this then spending growth between 2002/03 and 2003/04, relative to prices or earnings, would have been around half that shown in the results table – at about 30% year-on-year. However, growth in spending in the previous two years would have been correspondingly higher, and since there was no Children's Tax Credit or equivalent in 2000/01, total growth in spending between 2000/01 and 2003/04 would be exactly the same – representing around a doubling of expenditure after taking account of inflation.

Results

Details of the calculation are given in the following table, which is also available in Excel alongside this document.

Derivation of Great Britain tax credit and equivalent expenditure figures		1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1. Published HMRC figures - United Kingdom - £ million, nominal									
A	Child Tax Credit and Working Tax Credit								
B	Negative tax Expenditure component					3,948	4,373	4,437	4,402
C	Working Families Tax Credit and Disabled Person's Tax Credit								
D	Expenditure component	924	3,695	4,969	5,834	79			
	Negative tax	173	774	704	814				
E	Total United Kingdom personal tax credits	1,097	4,469	5,673	6,648	13,438	15,896	17,332	18,684
2. Convert from United Kingdom to Great Britain - £ million, nominal									
F	Proportion of expenditure going to Northern Ireland residents								
G	Child Tax Credit and Working Tax Credit					3.6%	3.5%	3.4%	3.3%
	Working Families Tax Credit and Disabled Person's Tax Credit	3.8%	3.8%	3.8%	3.8%	3.8%			
H	Total Northern Ireland personal tax credits	42	171	217	255	487	557	586	626
J	Total Great Britain personal tax credits	1,055	4,298	5,456	6,393	12,951	15,339	16,746	18,058
3. Add equivalent DWP / DSS benefits - £ million, nominal									
K	Jobseeker's Allowance child allowances	2,384	2,944	3,325	3,655	3,753	3,278	2,526	2,050
L	Income Support child allowances	285	305	284	290	256	143	24	12
M	Total Income Support and Jobseeker's Allowance child allowances	2,669	3,249	3,609	3,945	4,009	3,421	2,550	2,062
N	Disability Working Allowance	39	0	0	0				
O	Family Credit	1,896	2	-1	-1				
P	Total Great Britain personal tax credits and equivalents	5,659	7,550	9,064	10,337	16,960	18,760	19,297	20,120
4a. Deflate by earnings - £ million, 2012/13 earnings terms									
Q	Average Weekly Earnings, seasonally adjusted, July of year		100.1	104.9	109.0	111.9	117.1	122.6	128.2
R	Total Great Britain personal tax credits and equivalents			13,230	14,397	22,732	24,494	24,075	23,977
S	Year on year change				9%	58%	8%	-2%	0%
T	Average Weekly Earnings, seasonally adjusted, September of year		101.2	105.7	109.1	113.0	118.2	123.8	128.4
U	Total Great Britain personal tax credits and equivalents		11,071	12,726	14,061	22,273	23,553	23,131	23,254
V	Year on year change			15%	10%	58%	6%	-2%	1%
4b. Deflate by prices - £ million, 2012/13 prices									
W	GDP deflator, financial year average	76.6	77.0	78.5	80.4	82.2	84.6	86.6	88.9
X	Total Great Britain personal tax credits and equivalents	7,575	10,051	11,842	13,176	21,150	22,724	22,851	23,204
Y	Year on year change		33%	18%	11%	61%	7%	1%	2%
5: Cumulative expenditure on tax credits and equivalents since 2003/04 (inclusive)									
Z	£ million, nominal					16,960	35,720	55,016	75,137
AA	Deflated by Average Weekly Earnings (£ million - 2012/13 earnings terms)					22,273	45,826	68,957	92,211
AB	Deflated by prices (£ million - 2012/13 prices)					21,150	43,874	66,725	89,929

Notes:

- Calculations in lines Q to R use July figures for the previous year to most closely approximate those used for benefit uprating. For benefits uprated by earnings, figures from July are used as the basis for uprating the following April. In this table the earnings indices are shown against the financial year to which they relate, so each year's spending figure will be deflated using the previous year's earnings index. Average Weekly Earnings figures are not available before 2000/01.
- For comparison, calculations in lines T to V use average earnings figures for the same year to which expenditure relates. Since there is not a complete set of average earnings figures for 2012/13, the figures for September of each year are used, approximating to mid-year average earnings. Average Weekly Earnings figures are not available before 2000/01.
- Figures may have changed since earlier editions due to the release of more up to date expenditure or statistical data, in particular in relation to earnings or GDP.

Tax Credit expenditure in Great Britain

2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Notes
4,414	5,586	5,600	5,542			From: http://www.hmrc.gov.uk/statistics/receipts/receipts-stats.xls Columns AH and AI
15,617	18,513	22,001	23,338			Does not include spending on child allowances in Income Support and Jobseeker's Allowance.
						From: http://www.hm-treasury.gov.uk/d/pesa0809_c10database.xls Programme object group 280101 (for 2002/03, previous years sourced from HM Treasury) From: http://www.hmrc.gov.uk/statistics/tax-statistics/table2-9.pdf
20,031	24,099	27,601	28,879			Calculation: A + B + C + D
3.4%	3.4%	3.4%	3.4%			Calculated from: http://www.hm-treasury.gov.uk/d/pesa0809_c10database.xls and http://www.hm-treasury.gov.uk/d/pesa_2011_database_tables_chapter9.xlsx Programme object groups 280101 and 280105
687	830	951	995			Calculation: ((A+B) x F) + ((C+D) x G)
19,344	23,269	26,650	27,884			Calculation: E - H
1,738	1,456	877	624			From DWP expenditure tables at: http://research.dwp.gov.uk/asd/asd4/budget_2012_211212.xls Table 2a, lines 12 and 13
0	0	0	0			
1,738	1,456	877	624			Calculation: K + L From DWP expenditure tables at: http://research.dwp.gov.uk/asd/asd4/budget_2012_211212.xls Table 1a, lines 15 and 21
21,081	24,725	27,527	28,509			Calculation: J + M + N + O
134.3	138.7	139.3	141.9	146.1		From: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-222525 (series K54U) See note 1
24,025	26,897	28,996	29,900			
0%	12%	8%	3%			
135.5	139.2	139.8	143.0	145.8	148.4	From: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-222525 (series K54U) See note 2
23,088	26,359	29,220	29,585			
-1%	14%	11%	1%			
91.1	93.6	95.0	97.7	100.0	102.5	From: http://www.hm-treasury.gov.uk/d/gdp_deflators.xls
23,720	27,081	29,704	29,905			
2%	14%	10%	1%			
96,218	120,942	148,469	176,978			Using line P
115,299	141,658	170,878	200,463			Using line U
113,649	140,730	170,434	200,338			Using line X

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