



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Paul Gray CB
Chairman
Social Security Advisory Committee
5th Floor Caxton House
Tothill Street
SW1H 9NA

20 October 2015

Dear Paul,

Thank you for your letter of 9 September on behalf of the Social Security Advisory Committee regarding the Tax Credits (Income Thresholds and Determination of Rates) (Amendment) Regulations 2015. I would like to apologise for the delay in responding. I thought my reply would be most useful when I could point to the additional impact assessment which we released to the Secondary Legislation Scrutiny Committee last week.

First, let me assure you that the government has carefully considered the impact of the package of reforms announced in the Summer Budget, including the introduction of the new National Living Wage, increases in the Personal Allowance and changes to put welfare spending on a more sustainable footing. The government has considered these policies in line with all its legal duties, including the Public Sector Equalities Duty, Child Poverty Test and Family Test.

While the government is not required formally to publish an impact assessment for Statutory Instruments of this kind and does not usually do so, as I mentioned above, we have responded to a request from the Secondary Legislation Scrutiny Committee and released an impact assessment which you can find published on their website here: <http://www.publications.parliament.uk/pa/ld201516/ldselect/ldsecleg/38/3806.htm>

I am grateful for your question about the impact of the new National Living Wage alongside the tax credit changes because it is right to consider the impacts of the Summer Budget as part of a single coherent plan. The analysis set out in the impact assessment and at Summer Budget show that in 2020/21, households on low pay will be substantially better off in real terms compared to today, particularly if there are two earners, who are currently on the National Minimum Wage. Based on Office for Budget Responsibility forecasts, a full-time worker on the National Minimum Wage will earn over £4,800 more by 2020 as a result of the National Living Wage in cash terms, or £4,400 after taking into account inflation.

In response to your question about behavioural impacts brought about by the changes to tax credits, the Office for Budget Responsibility scrutinise all elements, including behavioural assumptions, when certifying policies in the Budget. I would refer the Committee to pages 198 onwards in the Office for Budget Responsibility's economic and fiscal outlook for their assessment of the indirect effects of the Summer Budget package

of reforms to welfare and wages. The government's welfare policies aim to encourage people to move into sustained employment, while making the system fairer for both taxpayers and claimants. The government's changes to tax credits will ensure that claimants will always be better off in work and working more hours.

You asked about the impact of the tax credits changes on the transition to Universal Credit. I can reassure you that the government does not expect the measure to have any particular impact on migration to the new system. The roll out of Universal Credit will continue to improve work incentives by getting rid of the worst aspects of the current benefit system. Universal Credit is now in over half of jobcentres across the UK.

The government's changes to tax credits will ensure that support is targeted to those on the very lowest incomes. In the impact assessment released to the Secondary Legislation Scrutiny Committee, new distributional analysis shows that the 10% of tax credit claimants on the highest incomes are contributing nearly 4 times as much as the poorest tax credit claimants to welfare savings. Average household income in the richest 10% of tax credit claimants is £42,000 per year which is significantly above the average household income of around £25,000 per year. 60% of the tax credit savings come from the half of tax credit claimants with the highest incomes.

Thank you once again for your letter and I hope you find my response helpful.

Sincerely
Damian Hinds

Damian Hinds
Exchequer Secretary to the Treasury