



Marginal Returns? – Universal Credit Could Hit Working Families, Family Action Report Warns

- As many as 1.35 million working families could see their work pay less under Government plans
- People who progress in work could be less well off

Charity Family Action is today warning that as many as 1.3 million families could be worse off under changes proposed as part of the Government's Universal Credit. The Credit, which the Government says will make work pay for families, could do precisely the opposite for low income families who get on and progress in work.

Family Action services support vulnerable adults with running their homes, caring for children and getting and staying in work. The charity's report – *Universal Credit: Marginal Returns? Assessing the Impact of the Universal Credit on Marginal Deduction Rates* - shows that the financial benefits of progressing in work, through increased hours or pay, could be cut for a group receiving some tax credit but also paying tax and national insurance due the impact of the Credit on Marginal Deduction Rates.* Family Action's research into the DWP documents and June Budget figures shows that for an estimated 1.35 million households, work progression incentives could be cut from allowing them to keep 30p for each additional £1 they earn, to around 24p for each additional £1.

Family Action are also concerned that the Government has not made clear what they will do about Council Tax Benefit and help with child care costs which could send the Marginal Deduction rate soaring even higher for some. Under some of the models proposed in the White Paper, their calculations suggest that Marginal Tax Deduction Rates could effectively exceed 100% for some families, meaning claimants would lose money if they worked longer hours.

Family Action Head of Policy and Campaigns Rhian Beynon said: *"We agree with the Government that action needs to be taken to increase financial incentives for people in low income working families to progress in work. However, we are concerned that for many people the Universal Credit could reduce work progression incentives meaning work won't pay for families that get on."*

Family Action is calling on the Government to change the taper rate affecting Marginal Deduction Rates from 65% to 55% as originally proposed by the Centre for Social Justice,** and for Council Tax Benefit to be included in the Universal Credit.

Ends

For further information and a copy of Family Action's report please contact Anthony McCaul, Senior Media and Campaigns Officer on 0207 241 7632 or 0871 309 2040 or email anthony.mccaul@family-action.org.uk

Notes to Editors

* HM Treasury (June 2010) "Budget 2010" p68-69 Table A3 on page 69 of the June budget shows that in 2010/11 330,000 households face MDRs of over 70%. In 2011/12 this would increase to 1,680,000 under changes introduced by the previous Government. The notes highlight that the increase of 1,350,000 households is the result of the 1% increase in National Insurance Contributions. It is reasonable to assume these households, currently facing MDRs of 70%, are paying Income Tax and National Insurance, receiving Tax Credits at more than the family element, but no other means tested benefits. Treasury figures are for working heads of families in receipt of income-related benefits or tax credits where at least one person works at least 16 hours per week, and the head of the family is not receiving pensioner or disability premia.

** Dynamic Benefits: Towards Welfare that Works, by the Centre for Social Justice September 2009