



PRESS RELEASE

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Government paying tax credits and benefits to 200,000 more lone parents than live in the UK

The Government thinks it is paying out tax credits or out-of-work benefits to around 200,000 more lone parents than the Office for National Statistics estimate live in the UK, according to an analysis of official statistics by researchers at the IFS.

HM Revenue & Customs and the Department of Work and Pensions together estimate that they are paying income-related support for children to 2.1 million lone parents, even though the best estimate from other evidence is that there are only 1.9 million lone parents living in the UK.

Although there are other possibilities, it is highly likely that fraud or error explain much of this disparity. After analysing data from the latest Family Resources Survey (FRS), IFS researchers have concluded that a portion of the tax credits or out-of-work benefits which HMRC or DWP think they are paying to lone parents are probably being received by cohabiting couples with children, whether through deliberate fraud or errors made by claimants or the government. If one disregards the threat of fines or penalties, it is often financially worthwhile to pretend to be a lone parent, rather than a couple, when claiming tax credits or out-of-work benefits.

“We already know that the tax credit system is subject to fraud from people using stolen identities. The latest figures provide powerful – albeit circumstantial – evidence that the system is also subject to fraud from families not being honest about their circumstances. Given the Government’s reliance on tax credits to reduce child poverty, there is a need to review the safeguards against fraud in the tax credit system. To maintain political support for its policy of redistributing significantly more resources to less well-off families, the Government needs to be able to reassure taxpayers that their money is getting to those families that are genuinely entitled to it”, says Mike Brewer, Programme Director of the Direct Tax and Welfare sector at the IFS.

Claims affected by fraud or error may also explain a small part of the gap between the £15 billion that the government estimated that it paid to families with children in tax credits in 2004/05, and the £10 billion that was recorded by the FRS as being received by families. Instead, it is likely that much of this discrepancy arises because not all one-off payments of tax credits are captured in the FRS, and because adults are not always clear about which state benefits or tax credits they are receiving, perhaps because there have been so many changes to financial support for families with children since 1999. Whatever the reason, it seems that the FRS is producing an inaccurate impression of the incomes of families with children. Given that the Government is using tax credits as the main way to deliver support for families with children, and that it is committed to using the FRS to track child poverty to 2010/11, the Government should urgently review the quality of the data used to measure poverty.

ENDS

Notes to editors:

1. The key findings from “How many lone parents are receiving tax credits?” by Mike Brewer and Jonathan Shaw, IFS Briefing Note 70 will be presented at IFS on Monday 13th March 2006. The briefing will start at 10am and is expected to conclude by 11.30am, and will also include further analysis of the data underlying the official statistics on inequality and poverty in 2004/5. If you would like to attend, please

contact Bonnie Brimstone (020 7291 4800 or bonnie_b@ifs.org.uk). Households Below Average Income can be found on the Department for Work and Pensions website at www.dwp.gov.uk/asd/hbai/hbai2005/contents.asp.

2. Estimates of the number of lone parents receiving tax credits or out-of-work benefits can be found in Table 2.2 of "Child and Working Tax Credit Statistics". The latest edition is from April 2005 and can be found at <http://www.hmrc.gov.uk/stats/personal-tax-credits/c-wtc-stats-april05.pdf>
3. Disregarding the threat of fines or penalties, it is often financially beneficial to pretend to be a lone parent, rather than a couple, when claiming tax credits or out-of-work benefits because tax credits are assessed against the joint income of a couple, and make no allowance for the presence of any second adult. The following table gives some examples of how entitlement to out-of-work benefits (income support) and tax credits (child tax credit and working tax credit) would change if a cohabiting couple were to claim tax credits (through fraud or error) as a lone parent (all families are assumed to have 2 children under 16 and not to be claiming housing benefit nor council tax benefit and assume that the main carer would claim as a lone parent). It also gives the reduction in tax credits as a proportion of the other adult's earnings. The final two couples would receive the same tax credits whether they claimed as a lone parent or as a couple.

Family circumstances	Entitlements if main carer claims as a lone parent (£/year)	Entitlements if claim as a couple (£/year)	Difference (£/year)	Difference as % other adult's income
Main carer: no income Other adult: £10,000	Income support: £2,922.40 Working tax credit: £0 Child tax credit: £3,916.45 Total: £6,828.85	Income support: £0 Working tax credit: £2,100.40 Child tax credit: £3,916.45 Total: £6,016.85	Income support: £2,922.40 Working tax credit: -£2,100.40 Child tax credit: £0 Total: £822.00	8.2%
Main carer: no income Other adult: £20,000	Income support: £2,922.40 Working tax credit: £0 Child tax credit: £3,916.45 Total: £6,838.85	Income support: £0 Working tax credit: £0 Child tax credit: £2,316.86 Total: £2,316.86	Income support: £2,922.40 Working tax credit: £0 Child tax credit: £1,599.59 Total: £4,521.99	22.6%
Main carer: £5,000 Other adult: £15,000	Income support: £0 Working tax credit: £3,869 Child tax credit: £3,916.45 Total: £7,785.45	Income support: £0 Working tax credit: £0 Child tax credit: £2,316.86 Total: £2,316.86	Income support: £0 Working tax credit: £3,869 Child tax credit: £1,599.59 Total: £5,468.59	36.4%
Main carer: £10,000 Other adult: £25,000	Income support: £0 Working tax credit: £2,100.40 Child tax credit: £3,916.45 Total:	Income support: £0 Working tax credit: £0 Child tax credit: £543.85 Total: £543.85	Income support: £0 Working tax credit: £2,100.40 Child tax credit: £3,372.60 Total: £5,473	21.9%
Main carer: £25,000 Other adult: £25,000	Income support: £0 Working tax credit: £0 Child tax credit: £543.85 Total: £543.85	Income support: £0 Working tax credit: £0 Child tax credit: £543.85 Total: £543.85	Income support: £0 Working tax credit: £0 Child tax credit: £0 Total: £0	0%
Main carer: £60,000 Other adult: £60,000	Income support: £0 Working tax credit: £0 Child tax credit: £0 Total: £0	Income support: £0 Working tax credit: £0 Child tax credit: £0 Total: £0	Income support: £0 Working tax credit: £0 Child tax credit: £0 Total: £0	0%