Projecting Child poverty in Scotland

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Abstract

Following the devolution of fiscal powers in 2016 and passing of the Child Poverty Scottish Act in 2017, the Scottish government faces some very ambitious targets for child poverty by 2023/24. This paper estimates the distributional effects of tax-benefit policies in 2016-2018, a period for which survey data are not yet publicly available, using the micro-simulation model EUROMOD. It also analyses the policy effects on household disposable income and children poverty risk of reforms announced to take place between 2018 and 2023. Estimates suggest that child poverty has continued to rise between 2016 and 2018. If no further action is taken, the current projections would suggest that child poverty will continue to rise through to 2023. It becomes therefore important to understand which policy reforms would be more efficient in reversing such trend. To do this, the paper examines the likely impact of three hypothetical tax-benefit reforms on the incomes and poverty risk of families with children in Scotland in 2023/24. The policy scenarios were selected to illustrate the range of impacts that might be achieved through alternative policy actions and are purely illustrative in nature. They are intended to provide evidence to support the debate surrounding policy interventions in this area and should not be interpreted as recommended policy actions. The analysis was updated after the 2018 Scottish Budget and it reflects any changes to personal taxes and benefits for 2019-20 announced then.

JEL: @@@

Keywords: Child poverty, distributional analysis, miscosimulation

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Background

In Scotland, depending on the measure used, up to a quarter of children are living in poverty. According to the Scottish Government, if no action is taken, then this figure could increase to one in three children living in poverty by 2030.

The Child Poverty (Scotland) Act 2017 includes four targets aimed at reducing child poverty in Scotland by 2030.

The targets state that, by 2030-31, of children living in Scottish households:

- less than 10% should be living in relative poverty
- less than 5% should be living in absolute poverty
- less than 5% should be living with combined low income and material deprivation
- less than 5% should be living in persistent poverty

The Act also includes a set of interim targets to be met by 2023-24:

- less than 18% should be living in relative poverty
- less than 14% should be living in absolute poverty
- less than 8% should be living with combined low income and material deprivation
- less than 8% should be living in persistent poverty

(See Annex A for definitions of poverty measures)

All four targets are based on the income available to a household after they have paid their rent or mortgage ("income after housing costs").

The Child Poverty Act requires Scottish Ministers to publish regular child poverty delivery plans and to publish annual reports setting out progress against the targets. Local authorities and health boards are also required to publish annual reports setting out what they are doing to tackle child poverty in the local area.

The Act also establishes a statutory Poverty and Inequality Commission from 1 July 2019. There is currently a Poverty and Inequality Commission operating on a non-statutory basis, which was set up in July 2017. In February 2018, the Commission published its first report to the Scottish Government, providing advice and recommendations to the Scottish Government prior to publication of the first Delivery Plan.
Figure 1 - Child poverty targets - At March 2018, child poverty on all measures was at least double the 2030 targets.

Source: Scottish Government, 2018
Scottish Government child poverty strategy

On 29 March 2018, the Scottish Government published Every Child, Every Chance: the Tackling Child Poverty Delivery Plan 2018-22. This plan sets out the actions that the Scottish Government plans to take in order to reduce child poverty in Scotland.

The plan states:

"Poverty is fundamentally about lack of income. That’s why the targets in the Act focus primarily on income measures and why the majority of the actions set out in this Plan are aimed specifically at increasing family incomes or reducing costs."

Actions highlighted in the plan include:

- £12 million investment in employment support for parents
- Increased funding for the Workplace Equality Fund
- A new minimum payment for the School Clothing Grant
- £1 million on support for children experiencing food insecurity during school holidays
- New support for childcare after school and in the holidays
- A new focus on families in the Warmer Homes Scotland programme
- £3 million investment in a new Financial Health Check service
- £1 million for the Carnegie UK Trust’s Affordable Credit Loan Fund
- A new income supplement for parents on low incomes
- A new Best Start Grant for children in lower income families during the early years, to replace the Sure Start Maternity Grant
- £2 million investment for the Children’s Neighbourhoods Scotland programme
- £1.35 million for the further education sector to develop initiatives with colleges and for the Student Awards Agency for Scotland’s outreach programme
- £500,000 for a community education programme for Gypsy/Traveller families
- £7.5 million Innovation Fund with The Hunter Foundation
- £500,000 for the Healthier, Wealthier Children approach

Modelling alternative policy scenarios

The purpose of this project, undertaken jointly with the Scottish Parliament Information Centre (SPICe) and the Institute for Social and Economic Research (ISER) at the University of Essex, was to look at a range of alternative tax-benefit policy scenarios and consider the impact that they would have on child poverty in Scotland. The analysis was undertaken using EUROMOD, the tax-benefit microsimulation model for the European Union developed and maintained by ISER. Further details on EUROMOD and how it was used for this analysis can be found in Annex B.

A range of policy scenarios have been considered. The selected scenarios focus on tax and benefit measures, as EUROMOD models direct taxes and benefits. However, it is recognised that other non-tax/benefit measures are likely to be adopted in the bid to tackle child poverty. For example, the Scottish Government's Delivery Plan includes measures such as extended childcare and greater access to affordable credit. Measures such as these cannot be evaluated using a tax-benefit model.
It should be stressed that these policy scenarios were selected to illustrate the range of impacts that might be achieved through alternative policy actions and are purely illustrative in nature. They are intended to provide evidence to support the debate surrounding policy interventions in this area and should not be interpreted as recommended policy actions.

In order to illustrate the impact of different policy actions, both interventions that are within the Scottish Government’s powers and interventions that would require UK Government action have been considered. As noted by the Scottish Government in its Child Poverty Delivery Plan:

"There are...key policy levers that the Scottish Government has little control over. We will only be responsible for 15% of social security spend and crucially this doesn’t include the main aspects that affect children. We don’t have employment powers either and we can’t, for example, raise the National Minimum Wage."

The plan goes on to note that, where the Scottish Government does not have control over relevant policy levers, it will "continue to try and influence the agenda, making the case for why having very low levels of child poverty makes economic sense and is good for people and society too".

It should also be noted that this analysis looks at policy measures in isolation whereas, in reality, a number of interventions are likely to be introduced and run concurrently. In addition, in the real world, other external factors will also be changing, such as changes in the level of economic activity, changes in demographic composition or changes in the distribution of income. It is impossible to model all of these factors and influences, many of which are in any case uncertain. So, this analysis uses published forecasts for factors such as inflation and wages, but assumes other factors will remain constant, such as population characteristics and behavioral responses. This analysis is intended to support and inform the debate regarding the most appropriate policy interventions to reduce child poverty but, as reflected by the comments above, it is not seeking to identify any one solution or policy recommendation.

**Data and methods**

To calculate household disposable income under the different policy scenarios, our analysis makes use of the UK component of EUROMOD, the EU tax-benefit microsimulation model and information from the Family Resources Survey (FRS) micro-data. EUROMOD simulates cash benefit entitlements and direct personal tax and social insurance contribution liabilities on the basis of the tax-benefit rules in place and information available in the FRS. Market incomes are taken from the data, along with information on other personal and household characteristics (e.g. age and marital status). Policy instruments which are not simulated are also taken directly from the data: these include most contributory benefits and pensions (due to the lack of information on previous employment and contribution history) and disability benefits (because of the need to know the nature and severity of the disability, which are not present in the data). See Sutherland and Figari (2013) for further information about EUROMOD and De Agostini (2018) for a detailed description of the UK component.

Appendix 2 explains some of the details behind the modelling and the assumptions made. In particular, we have chosen to try to reflect non take-up of means-tested benefits and tax credits because of the importance of representing those not receiving their entitlements in the income distribution. The main effect is through the ranking of people according to their household income. Those not taking up naturally appear at or near the bottom of the distribution. As explained in the
Appendix, we assume (to the extent that is possible) that take-up behaviour remains the same across policy regimes.

More generally, the measure of income that is used to rank individuals in the analysis of the effect of policy change across the income distribution is critical to the picture that emerges. In this analysis, except where noted otherwise, we use a common ranking by household income from the starting point of our analysis in 2018/19, using 2018 simulated disposable household income and adjusting for differences in household size and composition using the modified OECD equivalence scale. Other analytical choices are made in other studies (as illustrated in section 6 of De Agostini, Hills and Sutherland, 2017).

In this analysis we make use of three FRS data (2014/15, 2015/16 and 2016/17) and update the values of market incomes to 2018/19 levels using appropriate indices. Benefits, pensions and Council Tax which cannot be simulated with the information available in the FRS are also updated to 2018/19 levels using available information on the indexation or change in average amounts of these (see Appendix 2). No adjustments are made for changes in the labour market, household composition or demographic characteristics of the population over this period. Tax-benefit policies for 2018/19 are then simulated using EUROMOD and the resulting levels of household income are compared with those applying the policy system announced by the government to take place by April 2023.²

**Projecting forward to 2023/24**

In projecting forwards to 2023/24, it is assumed that:

- wages, inflation and GDP move in line with November 2018 OBR forecasts
- tax thresholds and benefit payment levels rise in line with usual indexation (see Annex B for details)
- reforms that have been announced by the UK and Scottish Government up to January 2019, but not yet implemented (i.e. will be implemented on or after April 2019) are assumed to be fully in place by 2023 Universal Credit (UC) is assumed to be fully rolled out by 2023,
- in 2018 we account for the process of transferring claimants from the existing means-tested system to UC. We follow assumptions made in the OBR’s November 2016 report, when modelling 2018/19, we assume that 1 in 3 of eligible families receives UC and 2 in 3 receive legacy benefits (see Chart 4.7 of OBR (2016)). We did not account for the fact that roll-out might have been different for different family types.
- In simulating entitlement to means-tested tax credits and benefits EUROMOD makes some adjustment for non take-up of these payments based on statistics provided by DWP (2016) for Income Support, Pension Credit and Housing Benefit and HMRC (2016) for the tax credits.
- In adjusting for non take-up of Universal Credit, which cannot yet be measured, we seek to minimise the effect on the results of any spurious changes in take-up assumptions, while recognizing that there will be some positive effect on the amounts taken up due to a single application procedure. If any of the pre-reform elements (CTC, WTC, Income Support, Housing Benefit etc.) to which a particular benefit unit might be entitled are assumed to be taken up then it is assumed that UC would be taken up under the new regime. If a family

² We refer to this as the 2023/24 system.
becomes newly-entitled to means-tested support through UC then probabilities are applied as for IS under the old system. This is a significant assumption: in reality, take-up of means-tested benefits and tax credits amongst working families is far from complete, and the Government expects fewer working families not to claim UC than fail to claim their current entitlements. If so, such a take-up response would increase the apparent generosity or cost of UC, and increase the income gains amongst low income working families. However, it is also possible that the in-work conditionality regime under UC might deter some families from claiming UC.

The baseline position: no action

Before looking at the impact of alternative policy interventions, it is important to first consider what would be expected to happen to child poverty if no action was taken. That is, if no changes were made to the current tax and benefit policies, but economic growth, wages and inflation moved in line with current forecasts, what would happen to child poverty? The forecasts incorporated into the analysis are those published by the Office for Budget Responsibility (OBR) in November 2018.

Table 1 shows the proportion of people in relative and absolute poverty after housing costs (AHC):

- in 2016, based on Households Below Average Income (HBAI) data, for which 2016 is the latest date available
- what would be expected in the current year, 2018, based on what we know has happened and the policy changes that have taken place between 2016 and 2018
- what would be expected by 2023 on the basis of the forecasts available and the changes to tax and benefit policies (announced by March 2018) due to take place over that period (i.e. introduction of Universal Credit)
- As shown in the table, estimates would suggest that child poverty has continued to rise between 2016 and 2018, reaching 26% on the relative poverty measure and 23% on the absolute poverty measure. If no further action is taken, the current projections would suggest that child poverty will continue to rise through to 2023, reaching 28% on the relative poverty measure and 25% on the absolute poverty measure.

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3 Relative poverty measure is calculated as the proportion of people with household equivalised (adjusted for family size) income lower than 60% of median household income in each year. Absolute poverty measure represents the proportion of individuals in the population having income below 60% of median income in 2010/11. Relative measures are primarily measures of inequality. They depend on the distance between a disadvantage family and the median family in that year. Absolute measures capture what is happening to the income of those at the bottom, independent of the incomes of the rest of society. In a policy context they help to answer the following questions: are the poor gaining on the middle class (relative), or are incomes of the poor rising (absolute).
Table 1: the baseline scenario - child poverty in Scotland in the absence of any policy intervention

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2018</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative poverty (%)</td>
<td>19</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Absolute poverty (%)</td>
<td>17</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td><strong>Children</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative poverty (%)</td>
<td>23</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td>Absolute poverty (%)</td>
<td>20</td>
<td>23</td>
<td>24</td>
</tr>
</tbody>
</table>

Note: all poverty measures are after housing costs (AHC)

Source: HBAI 2016; Euromod analysis for 2018 and 2023

Figure 2 shows our starting point results – the effects on poverty risk in Scotland by 2023/24 of all announced changes to taxes and benefits and indexation decisions compared with what the system is today (2018/19). The results show average gains or losses from six broad parts of the direct tax and benefit systems, and (as the solid line) the net effect of all of them together combining the various negative and positive effects. Negative effects (downward pointing parts of the bars) are due to increases in tax and contribution liabilities, or to reductions in benefit and pension entitlements (for those receiving them), positive effects to tax and contribution cuts or benefit increases. This is shown for each tenth (‘decile’) of individuals.

The components are: income tax; National Insurance contributions (employee and self-employed); “state pensions” (including the Basic State Pension, War Pension and Widow’s Pension); Council Tax, net of Council Tax benefit or Council Tax support (referred to in graphs as Net Council Tax); non means-tested benefits (including Child Benefit, Winter Fuel Payments, Attendance allowance, Disability Living Allowance, Personal Independent Payment, contributory Jobseeker’s Allowance, contributory Employment and Support Allowance, Industrial Injuries pension, Carer’s Allowance and Scottish Supplementary Carer’s Allowance, Severe Disablement Allowance, Statutory Sick Pay, Statutory Maternity Pay, Maternity Allowance, training allowances, Student payments, Student Loan); and means-tested benefits (including Working Tax Credit, Child Tax Credit, Income Support, income based Employment and Support Allowance, income based Jobseeker’s Allowance, Universal Credit, Pension Credit, Housing Benefit and the effect of the benefit cap).

Looking at the results in Figure 2, the net effect of the reforms emerges as positive to the public finances (overall negative for the average household). Means-tested benefits will be cut, compared to a price-indexed system, and people will be paid less net Council Tax (as cuts of what was

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4 Universal Credit is included in means-tested benefits (replacing other means-tested benefits for working age benefit units).
Council Tax Benefit would be more than offset by Council Tax itself falling in value in real terms. But people gained from reduced Income Tax liabilities (with the increased personal allowance) and from lower national insurance contributions rising slower than CPI-inflation.

**Figure 2 Equivalised disposable income real changes (%) between 2018 and 2023 on Scottish families over the 2018 Scottish income distribution**

<table>
<thead>
<tr>
<th>% change</th>
<th>Income decile group</th>
</tr>
</thead>
<tbody>
<tr>
<td>-3</td>
<td>1</td>
</tr>
<tr>
<td>-2.5</td>
<td>2</td>
</tr>
<tr>
<td>-2</td>
<td>3</td>
</tr>
<tr>
<td>-1.5</td>
<td>4</td>
</tr>
<tr>
<td>-1</td>
<td>5</td>
</tr>
<tr>
<td>-0.5</td>
<td>6</td>
</tr>
<tr>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>0.5</td>
<td>8</td>
</tr>
<tr>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>1.5</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>All</td>
</tr>
</tbody>
</table>

Notes: Observations are ranked into decile groups using all Scottish family income in 2018 equivalised using the modified OECD equivalence scale. The simulation assumes partial take-up of means-tested benefits, partial Universal Credit roll-out in 2018 and full Universal Credit roll-out in 2023. Source: Authors’ calculations using EUROMOD I1.0.

But this overall negative effect hides a substantial distributional change. Overall, the bottom two decile groups will lose nearly 3 per cent of their incomes and the next tenths approaching 1 per cent. But, with the exception of the top tenth, the income groups in the top half of the distribution would lose less than 0.5 per cent. For the bottom three decile groups the announced changes will be clearly regressive, hitting those lower down hardest as a share of their incomes. This is because benefit reductions will be greater for the bottom half than their gains from lower Income Tax.\(^5\) But rising through the top fifth of the distribution the gains from higher income tax allowances are increasingly offset by other changes, so that those in the eighth decile group break-even, and the top tenth make a small loss on average (1 per cent)

\(^5\) Note that some of the poorest households are those who do not take up benefits they might be entitled to. As a result, they are unaffected by changes in the values of those benefits. For instance, some of those who might have claimed Council Tax Benefit are unaffected by its reform, but do gain from the freeze in gross Council Tax.
On this basis, the announced reforms by 2023/24 will have the effect of making an income transfer from the poorer half of households (and some of the very richest) to most of the richer half, with a net effect on the public finances.

**Selected policy scenarios**

Three alternative policy scenarios were selected for 2023/24. As highlighted previously, these were selected to provide a range of evidence to support the policy debate and should not be seen as policy recommendations.

The selected scenarios are:

- Reducing the starter income tax rate in Scotland
- Increasing child benefit
- Changing the child-related elements of universal credit

For each scenario, we show:

- What would be the impact on child poverty of spending a specific amount on a given policy? e.g. if the Scottish Government spent £800m\(^6\) on increasing child benefit, what would this achieve in term of child poverty?
- The distributional effect across the income distribution by income components.

**Scenario A: Reducing the starter income tax rate in Scotland from 19% to 0%**

In April 2018, the Scottish Government introduced a five-band income tax policy, as set out in Table 2.

**Table 2: Scottish Government 2018-19 tax policy**

<table>
<thead>
<tr>
<th>Bands</th>
<th>Band name</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over £11,850 - £13,850</td>
<td>Starter</td>
<td>19</td>
</tr>
<tr>
<td>Over £13,850 - £24,000</td>
<td>Basic</td>
<td>20</td>
</tr>
<tr>
<td>Over £24,000 - £43,430</td>
<td>Intermediate</td>
<td>21</td>
</tr>
<tr>
<td>Over £43,430 - £150,000</td>
<td>Higher</td>
<td>41</td>
</tr>
<tr>
<td>Above £150,000</td>
<td>Top</td>
<td>46</td>
</tr>
</tbody>
</table>

\(^{\ast}\) Assumes individuals are in receipt of the standard UK personal allowance (£11,850 in 2018-19)

\(^{\ast\ast}\) Those earning more than £100,000 will see their personal allowance reduced by £1 for every £2 earned over £100,000

\(^6\) This was chosen in order to make the three scenario comparable in term of costing. £0.8bn is the cost of setting the Scottish starter income tax rate from 19% to 0%.
Scenario A1 considers the effect of reducing the starter rate of income tax to 0% rather than 19%. Note that this is not quite the same as extending the personal allowance to £13,850, as the Scottish Government does not have the power to vary the personal allowance. The personal allowance would remain at £11,850 and would still be tapered from this level for those earning more than £100,000. The estimated annual cost of this policy is £0.8bn.

Table 3: Scenario A - This table shows the impact of reducing the starter rate of income tax on relative and absolute child poverty

<table>
<thead>
<tr>
<th>% of children in poverty, after housing costs</th>
<th>2016</th>
<th>2018</th>
<th>2023: no action</th>
<th>2023: with policy action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative poverty (%)</td>
<td>23</td>
<td>26</td>
<td>27</td>
<td>28</td>
</tr>
<tr>
<td>Absolute poverty (%)</td>
<td>20</td>
<td>23</td>
<td>24</td>
<td>24</td>
</tr>
</tbody>
</table>

Note: under ‘no action’, it is assumed that the tax threshold rises in line with inflation

Source: HBAI (2016); Euromod (estimates for 2018 and 2023)

Table 3 shows that under this Scenario child poverty risk would not change. The relative measure of poverty suggests that the distance between the average disadvantage family and the median family would increase; whilst the absolute poverty measure suggests that the income of the poor remains on average unchanged. Hence this policy would do little for the poorest in the population, but would rather benefit the middle and higher incomes. This is confirmed by Figure 3 which analyses changes in family net income ranking Scottish families by net income decile groups in 2018. Specifically, Figure 3 shows how Scottish families would gain on average 1% of their HDI from reduced income taxes if the starter tax rate would be reduced to 0%. However, the families gaining from this reform would be mainly those working and with earnings above the personal tax allowance. For families at the bottom of the income distribution, a greater household income would be overshadowed by a lower entitlement to means-tested benefit. Such trade-off would mean an average loss of more than 1% for the first two decile groups. Like explained above, the results assume families do not alter their employment (or other) decisions in response to policy changes, hence the effect shown in Figure 3 is a pure policy effect.
Scenario B: Increase child benefit

Child benefit is paid to families with children and currently stands at £20.70 per week for the eldest (or only) child and £13.70 per week for additional children. Child benefit rates and eligibility are set by the UK Government. The Scottish Government can, however, top up existing benefits and could use these powers to achieve the same result as an increase in child benefit.

Scenario B1 considers the effect of increasing child benefit by £22 per week. The estimated annual cost of this policy is £0.8bn.
**Table 4: Scenario B - This table shows the impact that increasing child benefit payment rates would have on relative and absolute child poverty**

<table>
<thead>
<tr>
<th>% of children in poverty, after housing costs</th>
<th>2016</th>
<th>2018</th>
<th>2023: no action</th>
<th>2023: with policy action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative poverty (%)</td>
<td>23</td>
<td>26</td>
<td>27</td>
<td>24</td>
</tr>
<tr>
<td>Absolute poverty (%)</td>
<td>20</td>
<td>23</td>
<td>24</td>
<td>21</td>
</tr>
</tbody>
</table>

Note: under ‘no action’, it is assumed that child benefit payment rates rise in line with inflation

Source: HBAI (2016); Euromod (estimates for 2018 and 2023)

**Figure 4: Equivalised disposable income real changes (%) between 2018 and 2023 on Scottish families over the 2018 Scottish income distribution if Child Benefit in Scotland increased by £20 per week**

Notes: Observations are ranked into decile groups using all Scottish family income in 2018 equivalised using the modified OECD equivalence scale. The simulation assumes partial take-up of means-tested benefits, partial Universal Credit roll-out in 2018 and full Universal Credit roll-out in 2023. Source: Authors’ calculations using EUROMOD I1.0.
Table 4 shows that Scenario B1 would reduce relative child poverty by 3pp to 24%, and it would reduce absolute child poverty to 21%. This means that increasing the child benefit would reduce the average distance between the average disadvantage child in Scotland and the median Scottish child in 2023. Absolute child poverty is also reducing under this scenario, suggests that many poor families in Scotland have children and targeting children through child benefit, this reform also increases the incomes of their families (by about 1 per cent).

The distributional effect of this policy is shown by Figure 4. Overall, the average household in Scotland would gain slightly less than 1%. All income groups, apart from the top tenth, would be net gainers from an increased child benefit. However, the bottom half of the distribution loses entitlement to some means-tested benefits for which child benefit counts as income. ........

**Scenario C: Change child-related elements of universal credit**

Universal credit is a single payment replacing six previous benefits. Families with children get an extra £2,780 per year per child (for all children born after April 2017; higher amounts are paid for first children born before April 2017). For the majority of families, this extra amount will be only available for a maximum of two children by 2023. This is known as the "two child limit". Under the tax credit system that is one of the benefits being replaced by universal credit, a further "family element" was paid to every family. This was a set amount regardless of the number of children and currently stands at £545 per year.

Universal credit has not yet been fully rolled out but it will be by 2023/24. Hence, for the purposes of this analysis, it is assumed that all families eligible for support are in receipt of universal credit, rather than the benefits it replaces.

**Scenario C1** considers the effect of:

- doubling the child element of universal credit to £511.6 per month
- removing the two child limit
- reintroducing a family element of £602 per year

This would have an estimated annual cost of £0.8bln.

Table 5 shows that Scenario C1, for the same costs as Scenario A1 and B1, would be more effective in reducing both relative and absolute child poverty in Scotland in 2023. Figure 5 shows how, although the average household gains a similar amount as for scenario B1 (1%), the distributional effects of Scenario C1 are more focus toward families at the bottom of the income distribution. Those families gain mainly from increases in the amount of their means-tested benefit (which may have negative effects on the incentive to work^8). Such policy would reduce the distance between disadvantaged families and the median family in the year, resulting in a lower relative poverty by 5pp. As Figure 5 shows, it would also significantly raise the income of those at the lower end of the income spectrum. This is reflected in the decrease of absolute poverty of about 6pp.

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7 This corresponds to the current family element for tax credit uprated by the Consumer Price Index from 2018 to 2023.

8 We do not control for this in this briefing, but this is something that can be done in future analyses.
Table 5: Scenario C - This table shows the impact that changing the child elements of universal credit would have on relative child poverty

<table>
<thead>
<tr>
<th>% of children in poverty, after housing costs</th>
<th>2016</th>
<th>2018</th>
<th>2023: no action</th>
<th>2023: with policy action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative poverty (%)</td>
<td>23</td>
<td>26</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>Absolute poverty (%)</td>
<td>20</td>
<td>23</td>
<td>24</td>
<td>18</td>
</tr>
</tbody>
</table>

Note: under 'no action', it is assumed that payment rates would rise in line with inflation.

Source: Source: HBAI (2016); Euromod (estimates for 2018 and 2023)

Figure 5: Equivalised disposable income real changes (%) between 2018 and 2023 on Scottish families over the 2018 Scottish income distribution if changes to Universal Credit child related elements apply in 2023

Notes: Observations are ranked into decile groups using all Scottish family income in 2018 equivalised using the modified OECD equivalence scale. The simulation assumes partial take-up of means-tested benefits, partial Universal Credit roll-out in 2018 and full Universal Credit roll-out in 2023. Source: Authors’ calculations using EUROMOD l1.0……..
Comparison of impact of policy interventions

The set of scenarios (A1, B1, C1) discussed above, were designed so that the costs of implementation were broadly comparable. Each one has an annual cost of around £0.8 billion. This means that the effectiveness of the various measures could be compared.

Table 6 provides a direct comparison of the impact on relative child poverty of spending a sum of around £0.8 billion on each of these policies.

Table 6: Comparing policy options - This table shows the impact by 2023 of alternative policies on relative child poverty

<table>
<thead>
<tr>
<th>% of children in relative poverty by 2023, after housing costs</th>
<th>Relative poverty</th>
<th>Absolute poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline 2023: no actions</td>
<td>27</td>
<td>24</td>
</tr>
<tr>
<td>Scenario A1: Reducing the starter income tax rate to 0%</td>
<td>28</td>
<td>24</td>
</tr>
<tr>
<td>Scenario B1: Increasing child benefit by £20 per week</td>
<td>24</td>
<td>21</td>
</tr>
<tr>
<td>Scenario C1: Increasing UC child related elements</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>Scottish Government Interim Target</td>
<td>18</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: HBAI (2016); Euromod (estimates for 2018 and 2023)

This comparison highlights that, if a sum of £0.8 billion was spent on one of the selected policy measures, Scenario C1 would be the most effective in reducing child poverty by 2023. However, this would be still far from the Government targets. [Explore further e.g. targeting of measure on low income families]

As noted before, this is looking at individual policy measures in isolation and - in the real world - a number of different measures will be operating concurrently and could act to support or counteract the effect of the chosen policy. In addition external factors, such as the general economic climate, will also provide either a positive or negative influence.

It should also be noted that the policy effects are not necessarily linear. That is, if double this amount was spent on each measure, it would not necessarily be the case that child poverty would decrease by the same additional amount. Certain policies could be more or less responsive to the additional expenditure depending on the interaction with the wider tax and benefit system.
Other analysis

IPPR
SG analysis

Conclusions
Annex A: Definitions of poverty

The measures of poverty that the Scottish Government uses in its targets are defined in the Child Poverty (Scotland) Act and set out in Table A1.

Table A1: Definitions of poverty

<table>
<thead>
<tr>
<th>Measure</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative poverty</td>
<td>Children in families with incomes less than 60% of the contemporary UK median income</td>
</tr>
<tr>
<td>Absolute poverty</td>
<td>Children in families with incomes less than 60% of inflation adjusted 2011-12 median income</td>
</tr>
<tr>
<td>Combined low income and material deprivation</td>
<td>Children in families with incomes less than 70% of the contemporary median and who cannot afford a number of essential goods and services</td>
</tr>
<tr>
<td>Persistent poverty</td>
<td>Children in families who have been in relative poverty for three out of the past four years</td>
</tr>
</tbody>
</table>
Annex B: EUROMOD and project technical details

EUROMOD is a tax-benefit microsimulation model for the European Union that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole.

EUROMOD is maintained, developed and managed by the Institute for Social and Economic Research (ISER) at the University of Essex, in collaboration with national teams from the EU member states. We are indebted to the many people who have contributed to the development of EUROMOD. The process of extending and updating EUROMOD is financially supported by the European Union Programme for Employment and Social Innovation ‘Easi’ (2014-2020). The results and their interpretation are the authors’ responsibility.

The project uses the pooled Scottish sample of Family Resources Survey from 2014/15, 2015/16 and 2016/17 and the UK component of EUROMOD. The latest published guide to the UK component is De Agostini (2017). The newer version has been updated to include all UK and Scottish policy changes announced in the 2018 UK Spring Statement, and any revisions to the OBR's economic forecasts (which have been published alongside it) and Scottish macro-economic forecasts announced by April 2018. The report discusses xxxx Scottish specific reform scenarios to the tax and benefit rules and considers their effectiveness toward both the 2023-24 interim targets and the 2030-31 final child poverty targets. Specifically, it discusses the potential effects of:

1. **Reducing the starter income tax rate in Scotland from 19% to 0%**
2. **Increasing child tax credit**
3. **Increasing the child element of Universal Credit (tbc)**
4. **Increasing child benefit**
5. **Introducing a universal basic income**
6. **Introducing a minimum income guaranteed.**

The project uses EUROMOD for simulating the tax and benefit rules to produce an estimate of the net income of each household, and of various measures of poverty in 2015/16 (the latest period for which outturn statistics on poverty are available), 2018/19, 2023-24 (the date set in legislation for the interim targets) and 2030-31 (the date set for the final targets to be met). These are used to assess the impact of policy changes on three measures of child poverty in Scotland: relative child poverty after housing costs (AHC), absolute child poverty (AHC), combined low income and material deprivation (AHC).
<table>
<thead>
<tr>
<th>Category</th>
<th>Reforms</th>
<th>When first implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reforms introduced in 2016/17 and 2017/18</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income tax</strong></td>
<td>Introduce savings allowance</td>
<td>2016/17</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>Introduce NLW for NMW workers age 25+</td>
<td>2016/17</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>UC to replace WTC, CTC, IS, income-related JSA, income-related ESA and HB</td>
<td>Phased in</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>Change childcare support within UC from 70% to 85% of eligible costs</td>
<td>2016/17</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>Freeze most working-age benefits and Child Benefit from April 2016 for two years</td>
<td>2016/17</td>
</tr>
<tr>
<td><strong>Benefit cap</strong></td>
<td>Exemption from benefit cap for receivers of Carer’s Allowance and carer’s element of UC (from Autumn 2016) - Announced Budget 2016&lt;sup&gt;(a)&lt;/sup&gt;</td>
<td>Autumn 2016</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>UC work allowance frozen at the 2016/17 level for 2017/18</td>
<td>2017/18</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>Limit family and child element of CTC and child element of UC to 2 children for new claimants</td>
<td>2017/18</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>Cut personal allowance for ESA WRAG new claimants</td>
<td>2017/18</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td>UC taper rate to decrease from 65% to 63%</td>
<td>2017/18</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td><em>Introduction of tax-free childcare for 2-earner families paying formal childcare costs&lt;sup&gt;(b)&lt;/sup&gt;</em></td>
<td>[2015/16 (Oct 15)]</td>
</tr>
</tbody>
</table>

**Reforms announced 2018/19-2020/21**

<table>
<thead>
<tr>
<th>Category</th>
<th>Reforms</th>
<th>When first implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working age</strong></td>
<td>Abolition of Class 2 NICs</td>
<td>2018/19</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td>Downrating of social sector rents</td>
<td>2018/19</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td>Capping HB in the social rent sector</td>
<td>2018/19</td>
</tr>
</tbody>
</table>
Reforms

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>When first implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>Increase personal allowance to reach £12,500p.a. and associated reduction in basic rate limit</td>
<td>2020/21</td>
</tr>
<tr>
<td>Working age</td>
<td>NLW to rise to 60% of average earnings</td>
<td>2020/21</td>
</tr>
<tr>
<td>Working age</td>
<td>UC to replace WTC, CTC, IS, income-related JSA, income-related ESA and HB</td>
<td>Phased in continue</td>
</tr>
</tbody>
</table>

Notes: (a) In Euromod this is taken into account from 2017. (b) Not included in our analysis.

CPI – Consumer Prices Index; CTB – Council Tax Benefit; CTC – Child Tax Credit; DLA – Disability Living Allowance; ESA – Employment and Support Allowance (WRAG – Work Related Activities Group; SG – Support Group); HB – Housing Benefit; IS – Income Support; JSA – Job Seeker’s Allowance; LHA – Local Housing Allowance; NIC – National Insurance contribution; PC – Pension Credit; PIP – Personal Independence Payment; UC – Universal Credit; VAT – Value Added Tax; WTC – Working Tax Credit.
Modelling details and assumptions

Updating to 2017/18

Our simulations are based on FRS data collected between April 2014 and March 2015. Income variables are updated to 2017/18 levels using source-specific indexes as described in Table A2.1. Relevant expenditures, such as housing costs, childcare costs and maintenance payments are also updated as shown.

Table B.2 Adjusting 2014/15 FRS levels of income and expenditure to 2017/18.

<table>
<thead>
<tr>
<th>Income source</th>
<th>Updating factor</th>
<th>Factor Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income, self-employment income</td>
<td>Average weekly earnings index</td>
<td>ONS financial year (March-April) annual average K54U; extrapolated beyond available statistics using OBR earnings forecast Table 3.5⁵</td>
</tr>
<tr>
<td>Non-simulated benefits (disability, carer’s and maternity benefits) and Basic State Retirement pension</td>
<td>Change in main rate of benefit</td>
<td></td>
</tr>
<tr>
<td>Earnings-related pension income (state, occupational and personal)</td>
<td>CPI</td>
<td></td>
</tr>
<tr>
<td>Mortgage interest payment</td>
<td>Change in the mortgage interest rate (annual average)</td>
<td>Bank of England IUMLTMV¹⁰; extrapolated assuming moves with trend (2 years)</td>
</tr>
<tr>
<td>Rent paid or received</td>
<td>Rent element of CPI</td>
<td>ONS¹¹; extrapolated to 2015 using same method as for earnings</td>
</tr>
<tr>
<td>Childcare expenditure</td>
<td>As employment income</td>
<td></td>
</tr>
<tr>
<td>Maintenance paid or received</td>
<td>As employment income</td>
<td></td>
</tr>
<tr>
<td>Other private transfers</td>
<td>As employment income</td>
<td></td>
</tr>
<tr>
<td>Council tax</td>
<td>Change in average band D Council Tax by country</td>
<td></td>
</tr>
</tbody>
</table>

¹⁰ http://www.bankofengland.co.uk/boeapps/idadb/index.asp?first=yes&SectionRequired=I&HideNums=-1&ExtraInfo=true&Travel=NlxIzS5Ux

23
Generally, no other adjustments are made to the composition of market income or to the characteristics of the population in terms of labour market participation or demographic change. However, there are some important changes in the period 2014/15 to 2017/18 that we account for approximately through adjustments to the data, and which are held constant across the policy scenarios that are simulated. These changes were initiated by previous governments and continued by the current one. They include:\(^{12}\)

- In the period 2008 to 2014 **Incapacity benefit** (IB) was gradually replaced by **Employment and Support Allowance** (ESA). This involved more stringent tests of capacity to work, time limits on receipt of the non means-tested benefit and the establishment of a means-tested element. The remaining cases in the 2014/15 FRS receiving IB have been adjusted so that they receive the 2015/16 ESA to which they would be entitled. In our simulations of policy change only indexation of the contributory element of ESA is captured. Changes to the income-related component are simulated in the same way as Income Support.

- **Female state pension age** (announced in 1995) is in the process of gradually rising from 60 (in 2009/10) to 65 (in 2018/19) and both male and female state pension ages are then set to rise to 66 by 2020. Since in 2017/18 the state pension age for women was 63 (and nine months in April 2017), we adjust the data so that women aged 61 to 62 (who are observed in the data to receive a pension in 2014/15) no longer receive state pensions and are assumed to be in work, unoccupied or on working age benefits in the same patterns as shown by women aged 59-60 in the data. A state pension age of 63 for women and 65 for men is assumed throughout our analysis.

- In 2011 the maximum rent covered by **Local Housing Allowance** (Housing Benefit for private tenants) were reduced from the median of local rents to the 30\(^{th}\) percentile. In our analysis we assume the latter limit (applying in 2011) throughout, but indexed according to prevailing policy (See Appendix 3).

*Policy changes*

The following policy changes are not included in our analysis because the information in the FRS data is not sufficient: (i) abolition of the 50+ element of WTC for those returning to work; (ii) changes in welfare-to-work and lone parent obligation regimes, or benefit sanctions regimes; (iii) changed treatment of within-year changes in circumstances in WTC; (iv) restricting Sure-Start Maternity Grant to first babies; (v) introduction of UC extra conditionality; (vi) restrictions on pension contributions eligible for tax relief (reduced from £50,000 to £40,000 per year in 2014/15 and from £1.5 million to £1.25 million on a lifetime basis).\(^{13}\)

\(^{12}\) For more information, see section 3 of De Agostini (2016).

\(^{13}\) These tend only to affect people with the very highest incomes, and may affect their savings patterns and incomes in the long run, rather than immediately, depending on how they adjust their behaviour, which is hard to allow for. In addition, there are transitional protection schemes in place.
A further set of changes can only be modelled approximately. These include:

- The conditions of receipt of **Disability Living Allowance** – DLA (to be replaced by the Personal Independence Payment) were tightened in 2013/14 such that it was expected, at the time of the announcement in the June 2010 Budget, that 20 per cent of recipients would lose their entitlement. 2014/15 FRS data record both DLA and Personal Independence Payment (PIP), which will replace the former in the long run. We do not approximate any transition from one to the other and our simulations only capture the effects of indexation.

- In 2013/14 **Council Tax Benefit** (CTB) was abolished and responsibility for supporting low income households with their Council Tax was devolved to local authorities. In this analysis we follow Adam and Browne (2013) and assume that local authorities in England chose to apply a scheme similar to the old CTB, but cutting by 10.4% the maximum amount of support that non-pensioners can claim when liable for Council Tax. This is based on the average reduction made by local authorities in England in 2013–14, in response to the cut in funding from central government. Council Tax Support (CTS) is assumed to remain unchanged for pensioner households as well as for household in Scotland and Wales.

- From 2017/18 the family element of CTC/UC is only paid to new claims that include a child born before 6 April 2017. Similarly, the child element of CTC/UC is not payable for third and subsequent children born on or after 6 April 2017. Since these changes only affect families with new births and then (towards the end of 2018) new claims, no one will see their benefit income fall in the short period. But these are substantial changes to the long run generosity of the system. Hence, in this analysis we assume no immediate effect in 2017/18 fiscal year, while in 2020/21 we award the family element only if there is a child age 3 or more. Similarly for the child element of CTC/UC in 2020/21, we restrict eligibility based on the number of children age 3 or more.

- From 2017/18 new ESA claimants in the Work Relate Activities Group (WRAG) receive per week the same amount as jobseekers allowance claimants (£73.1 per week), in practice abolishing the WRAG component of ESA (which will reduce from £29.05 per week to zero) and the equivalent element of UC. This change will not create immediate losses of benefit income in our base year (2017/18), because only new recipients are affected. Ultimately though, all claims will be assessed under the new, less generous, rules, which is what we assume will happen by 2020/21.

In modelling the introduction of **Universal Credit (UC)** some further assumptions have been made, including:

- The treatment of limits on the amount of **housing cost support** for owner occupiers with mortgages who are not in paid work and the treatment of waiting time for this support are assumed to mirror what is done in the corresponding element of Income Support (IS). (In each case the limits and waiting times are not modelled.) This avoids spurious gains or losses due only to different treatments, even if the treatments themselves are both too generous, which will to some extent affect where the household is situated in the income distribution.
• The definition of **non-dependants** in Housing Benefit for pensioners and in Council Tax Support (which is assumed to follow the same structure as Council Tax benefit) assumes that assessed income includes income from UC (as was the case for CTC and WTC but not IS).

• **Council Tax Support** is assumed to be automatically passported to those on UC who would have been eligible for IS (or income-related JSA or ESA) under the pre-reform system.

*Non take-up of means-tested payments*

In simulating entitlement to means-tested tax credits and benefits we make some adjustment for non take-up of these payments based on statistics provided by DWP (2016) for Income Support, Pension Credit and Housing Benefit and HMRC (2016) for the tax credits. Making such adjustments involves selecting randomly within client groups and benefits such that a proportion of those entitled, based on the official statistics, do not receive their entitlement. Clearly this is a rather approximate process and such adjustments are not always made in UK microsimulation analysis of policy changes. However, we believe that it is important to represent those not taking-up their entitlements in the income distribution and in the analysis of policy changes. In adjusting for non take-up of Universal Credit, which cannot yet be measured, we seek to minimise the effect on the results of any spurious changes in take-up assumptions, while recognising that there will be some positive effect on the amounts taken up due to a single application procedure. If any of the pre-reform elements (CTC, WTC, Income Support, Housing Benefit etc.) to which a particular benefit unit might be entitled are assumed to be taken up then it is assumed that UC would be taken up under the new regime. This is similar to the assumption used in Treasury modelling (HMT, 2013) although they additionally make the more optimistic assumption that some of those not taking up any of their entitlements to the old benefits and tax credits will nevertheless claim UC (20% of the employed in this group and 10% of the self-employed). In our analysis, if a family becomes newly-entitled to means-tested support through UC then probabilities are applied as for IS under the old system. The resulting average take-up rate of UC (calculated as the number of benefit units modelled to be receiving divided by the number simulated to be entitled) is approximately 80 per cent.

*Simulating the Universal Credit rolling-out process*

In 2017/18, the baseline year for this analysis, Universal Credit (UC) is still on its rolling-out phase\(^\text{14}\), which will continue until 2022. In order to take into account the transferring process between the legacy benefit system and the Universal Credit system we followed OBR and when modelling 2017/18 we assumed that 1 in 10 eligible claimants receive UC and 9 in 10 receive legacy benefits; when modelling 2020/21, we assumed that 5 in 6

\(^{14}\) See [https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-07-20/HCWS96/](https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-07-20/HCWS96/)
eligible claimants receive UC and 1 in 6 receives legacy benefits (see OBR (2016). We do not account for the fact that roll-out might be different for different family types.

**NMW/NLW projection to 2020/21**

The NLW and NMW used in this analysis follow OBR’s projections from March 2017.

**Table B.3 NMW/NLW rates 2017-2020**

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
<th>2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NLW 25+</strong></td>
<td>7.5</td>
<td>7.9</td>
<td>8.3</td>
<td>8.75</td>
</tr>
<tr>
<td><strong>NMW 21-24</strong></td>
<td>7.05</td>
<td>7.25</td>
<td>7.5</td>
<td>7.75</td>
</tr>
<tr>
<td><strong>NMW 18-20</strong></td>
<td>5.6</td>
<td>5.74</td>
<td>5.9</td>
<td>6.08</td>
</tr>
<tr>
<td><strong>NMW 16-17</strong></td>
<td>4.05</td>
<td>4.15</td>
<td>4.27</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: Table 1.19 OBR’s Supplementary Economy Tables March 2017

**Equivalisation methodology**

In order to take into account the fact that larger households require a higher net income to achieve the same economic well-being and standard of living as a household of a smaller size, we adjust household’s net income using the OECD’s modify equivalence scale using a single person household as reference household. The household equivalised net disposable income is then used to calculate income decile groups.
<table>
<thead>
<tr>
<th>Tax-benefit element</th>
<th>Default indexation for the fiscal year starting April 2017</th>
<th>Changes up to April 2020</th>
<th>Rounding conventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax personal allowance(^{15})</td>
<td>CPI</td>
<td>By April 2020 to reach £12,500p.a.</td>
<td>Rounded up to nearest £10 pa</td>
</tr>
<tr>
<td>Income tax Basic Rate limit</td>
<td>CPI</td>
<td></td>
<td>Rounded up to nearest £100 pa</td>
</tr>
<tr>
<td>Income tax starting rate limit for savings income</td>
<td>CPI</td>
<td></td>
<td>Rounded up to nearest £10 pa</td>
</tr>
<tr>
<td>Income tax threshold for additional (top) rate</td>
<td>Fixed in cash terms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax income limit for tapered withdrawal of personal allowances</td>
<td>Fixed in cash terms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax threshold for Child Benefit clawback</td>
<td>Fixed in cash terms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NICs lower earnings limit</td>
<td>CPI</td>
<td></td>
<td>Rounded down to the nearest £1 pw</td>
</tr>
<tr>
<td>NICs Primary Threshold/Lower Profits Limit</td>
<td>CPI</td>
<td></td>
<td>Rounded down to the nearest £1pw/£5pa</td>
</tr>
<tr>
<td>NICs Upper Earnings Limit/Upper profits Limit</td>
<td>Aligned with the income tax Higher Rate Threshold(^{16})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NICs small Earnings Exception</td>
<td>CPI</td>
<td></td>
<td>Rounded up to the nearest £10 pa</td>
</tr>
<tr>
<td>NICs Class 2 rate</td>
<td>CPI</td>
<td></td>
<td>Rounded to the nearest 5p pw</td>
</tr>
<tr>
<td>Disability, Carer’s and Maternity benefits</td>
<td>CPI</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{15}\) From 2015/16, when it is introduced, the transferable marriage tax allowance will be uprated in proportion to the personal allowance.

\(^{16}\) This is equal to the Personal Allowance + Basic rate Limit.
Income-tested benefits
Basic State Pension
Pension Credit Guarantee Credit
Pension Credit Maximum Savings Credit
Child Benefit
Child Tax Credit and Working Tax Credit most elements
Child Tax Credit family element
Working Tax Credit maximum eligible childcare costs
Most earnings and other disregards in benefit assessments; capital limits in income related benefits; minimum payments of benefits and tax credits
Non-dependent deductions from Housing Benefit
Winter Fuel Allowance
Local Housing Allowance local reference rent caps by size of accommodation
Benefit cap
Tax-free childcare support
Council Tax

CPI
Highest of earnings, CPI or 2.5%
Earnings
CPI
CPI
CPI
Fixed in cash terms
Fixed in cash terms
Fixed in cash terms
CPI
Fixed in cash terms
Fixed in cash terms

Notes: CPI – Consumer Prices Index calculated as the annual change up to the previous September; For projections to 2017/18 and beyond, OBR assumptions about the evolution of CPI, earnings and Council Tax (by country) are used. Sources: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597335/PU2055_Spring_Budget_2017_web_2.pdf Budget 2017 policy costings Annex A
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