Tax Credits, Benefits and Family Budgets

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Abstract

The introduction of Working Families' Tax Credit, replacing Family Credit, raised serious concerns about family budgets following the decision to make payment through the wage packet. This article uses large-scale survey data to assess families' responses to this change, and to other elements of the reform. It looks in detail at the effects of employer involvement, and the first effects of WFTC on rates of take-up. The evidence from a large survey tends to support some concerns, to rather downplay others, and to introduce some new ones. Payment through wages for couples has not generated large concerns, though for lone parents the resulting changes to budgets may have been more important. Take-up of WFTC is lower than for Family Credit, though this is readily explained by the creation of many more eligible families, often with relatively small entitlements.

Tax Credits, Benefits and Family Budgets

Introduction

One of the most important changes to have affected the contemporary UK system of income maintenance is the introduction of *tax credits* in situations where *benefits* have typically been payable. This includes the introduction of Working Families Tax Credit, replacing Family Credit in October 1999; the Disability Working Allowance was replaced by Disabled Person's Tax Credit at the same time. Within these new tax credits, a childcare tax credit has replaced the former childcare allowance. From April 2001, the Married Couples tax allowance was eventually superseded by a children's tax credit. More significantly, from April 2003 the system of support for families, and others, will receive a major overhaul. A Working Tax Credit will provide in-work support for working adults (with and without children), with a Child Tax Credit for the costs of children separated off into an integrated children's credit (combining elements from various social security benefits and tax credits).

The introduction of these new tax credits has been relatively rapid, as has the overall "step towards greater integration of the tax and benefits system" (HMT 1998: p 7). This paper reports on a large scale quantitative study designed to investigate the effects of new tax credits. It is also able to make comparisons between Family Credit and WFTC, particularly analysing the ways that the newer tax credit has been affecting family budgets. This is the first time that such large sample quantitative data has been available. Previous research on the anticipated and actual effects of tax credits has mostly been small-scale and qualitative (Goode et al 1998, Dean and Shah 2002), or based on data pre-dating the reform (McLaughlin et al 2001).

Background

FIS and Family Credit

In-work support for low/moderate-waged families has existed in twentieth century Britain since Family Income Supplement (FIS) was introduced in 1971. This lasted, as a relatively small element of the social security system until 1988, when it was replaced by Family Credit (DHSS 1985). In fact, FIS had started as a stop-gap measure, ahead of a promised closer integration of taxes and benefits, that in fact was never implemented (Hill 1990). It was a relatively small benefit, noted for having potential rates of withdrawal in excess of 100 per cent.

However, the introduction of Family Credit made a considerable difference. The new benefit simplified many of the rules, including the worst of the poverty trap, and expanded the number of families eligible to receive it. So, by the time it was replaced by Working Families' Tax Credit (WFTC) in October 1999, some 800,000 families were receiving it (Inland Revenue 2001).

Family Credit, likes its historical ancestor implemented at Speenhamland in the eighteenth century, could be criticised as a supplement which led employers to cut the wages of their workers – confident in the knowledge that the supplement would make up the shortfall. In fact, in the contemporary period for Family Credit this pattern was rarely found (Callendar et al 1995), principally through lack of knowledge of the relevant system.

The 1985 review again considered the potential for closer integration of taxes and benefits, which was among the more controversial elements of reform. The 1985 Green Paper had originally proposed that the new Family Credit should operate as a tax credit, either offsetting tax or being paid through the pay packet (DHSS 1985: p.29). However, this was vigorously opposed, partly because it would involve a transfer of resources from women to men (or from "purse to wallet", as this was termed), but also because of the burdens on employers (who were also having to contemplate considerable pension-related reforms at the same time). In the event, various sections of the Social Security Bill were defeated in the House of Lords. As a result, the then Thatcher Government agreed that Family Credit would be paid directly to recipients, as had FIS, and not via employers or using the tax systems.

Means-tested benefits are never received by all those entitled to them, and often a sizeable proportion of potential recipients do not claim. Rates of non-take-up do vary across different programmes, but often around one third of eligible families do not receive them. In 1999 the take-up of Family Credit was estimated to be 72 per cent by caseload, and 81 for expenditure[1]. The base from FIS was rather uncertain, and take-up figures for FIS in the 30-40 per cent range had been known (Fry and Stark 1993).

Research on Family Credit also found that take-up was higher among lone parents than couples, for tenants rather than owner-occupiers, and for those with previous experience of receiving Income Support (Marsh et al 2001), even after controlling for the size of the award (i.e. they are derived from a multivariate analysis of take-up, including a term for size of award).

One feature of Family Credit that caused increasing attention towards the end of its life was the interaction with Housing Benefit. Those moving into work might find they lost all or most of their Housing Benefit, and thus not be as financially better off as they had expected. This problem of interaction persists, made worse by rising rents, though this is not discussed in this article.

From Family Credit to WFTC

Quite early into the New Labour Government, Martin Taylor (formerly Barclays Bank) was asked to investigate a number of ideas for promoting work incentives, including the possibility of a tax credit for low-earning workers (Taylor 1998). Some attention had been placed on the American Earned Income Tax Credit, which enabled low income families to recoup a tax rebate (Walker and Wiseman 1997). However, Taylor rejected such a structure in favour of retaining the structure of Family Credit but delivering it through the tax system, to become Working Families' Tax Credit from October 1999.

The most prominent change introduced by WFTC was that it was designed to be paid through employers as an addition to the wage packet (payment via employer, or PVE), whereas Family Credit was run by the then Department of Social Security (DSS) and paid in ways similar to other benefits (order books or through the banking system). It was widely believed that Family Credit was, as part of the overall benefits systsm, creating stigma for potential claimaints. This would, they believed, be reduced with WFTC paid by Inland Revenue, leading to higher levels of take-up. According to Taylor: *"As a tax credit rather than a welfare benefit, it would reduce the stigma currently associated with claiming in-work support … It would prove more acceptable than social security benefits to most claimants and taxpayers as a whole"* (Taylor 1998: p 22).

Where WFTC is paid via employer (PVE), amounts of tax credits are paid into the wage packets of workers by their employers, who offset this money against other liabilities to the Inland Revenue. PVE started from April 2000, six months after WFTC itself was introduced. Payment of WFTC by Order Books and ACT (and by cheque for small awards) did persist. For example, the self-employed cannot be paid through employers, and it can take some time to set up PVE arrangements once an award has been made). In addition, as we discuss below, WFTC *may* be received by some non-workers, if they choose to be the applicant/recipient for tax credits within couples. The payment method depends on the economic circumstances of the applicant.

The newer tax credit had much more generous levels of payment, and more assistance with certain childcare expenses (Strickland 1998). In fact, WFTC is always worth more than Family Credit to recipients, often considerably so, through:

- higher value credits;
- a higher income threshold before WFTC is tapered away (i.e before the maximum amount of WFTC is reduced);
- a lower taper (each extra pound of net earnings reduces WFTC by 55 pence, compared with 70 pence under Family Credit), and;
- more generous treatment of childcare spending and any maintenance received.

There are many major changes between WFTC, as a tax credit, and Family Credit, as a benefit, though also strong elements of continuity. There are very clear administrative differences: WFTC is administered by the Inland Revenue, who will be responsible for future tax credits, plus Child Benefit and related policy development.

As observers of the detail have appreciated, there is much to divide as well as unite these new 'tax credits', and in particular their relationship to the tax system as a whole. Some analysts continue to insist that these are not really tax credits at all, but instead benefits paid in an alternative way (Brewer et al 2001). However, tax credits as introduced in 1999 do embody a distinctive range of ideas. In particular, the notion that workers should not face the same regime of income maintenance as non-workers, since schemes for non-workers are regarded as inherently stigmatising – and therefore likely to suffer from problems of not being claimed. This point is reinforced through the administration of tax credits being part of the tax-collecting authority, the Inland Revenue, rather than the Department of Social Security as was the case with Family Credit.

The introduction of WFTC clearly led to a large increase in the size of the caseload, and by August 2000 this had reached 1.09 million in Great Britain, compared with a figure of 0.8 million for Family Credit at its peak in June 1999. (It is worth noting that the rate of increase in the Family Credit caseload had slowed somewhat between 1996 and 1999, with a very flat caseload through 1999).

The number of both couples and lone parents receiving in-work support has risen with the introduction of WFTC. However, it is interesting that the number of lone parents receiving support continues to outstrip the number of couples. Analysis of 1999 data (Marsh et al 2001: chapter 12) suggested that those brought into scope of support by WFTC would be 70 per cent couples, and 30 per cent lone parents. The continued majority of lone parents may imply that lone parents have been quicker to take up their new entitlements – and this is supported by the data analysed later in this article.

WFTC: Initial concerns

The extra resources included in WFTC, compared to Family Credit, promised higher living standards to families with children. But while it was generally recognised that WFTC provided considerably greater resources to working families (McLaughlin et al 2001), WFTC provoked controversy on a number of grounds. Some of these were continuations of doubts expressed about Family Credit, others were new areas of potential concern.

In particular, the introduction of payment through wages, and the involvement of Inland Revenue which were both designed to reduce the alleged stigma of means-tested benefits.

The proposed administrative changes created two main concerns. The first set were linked to the behaviour of employers. First, that the involvement of employers might lead to fraud (Field 1998), or to a perceived insecurity in payments by marginal employers, or possibly to reduced labour mobility as recipients might be concerned about moving jobs (Social Security Committee 1998). A report by NACAB appeared to find extensive evidence of problems created by the link with employers (NACAB 1999), including dismissals of staff who might receive it. They recommended greater choice of payment methods. Of course, it is difficult to be certain how widespread such problems were, and how far WFTC had altered the situation compared with Family Credit.

The second set of concerns, following the change of payment arrangements, was that women (as recipients of Family Credit) would generally lose out to men (in whose wage packet WFTC might generally be paid), and that the family would have a lower standard of living as a result. In short, the 'purse to wallet' argument, with the key argument that money paid direct to mothers would benefit children to a greater extent than money paid as an addition to wages.

Goode et al (1998) interviewed 31 families receiving social security benefits (Income Support and Family Credit), interviewing both adults in each family. They identified opposition towards payment of benefits/tax credits through the wage packet. First, since it potentially removed from women an independent source of income from, that they were accustomed to with Family Credit. Second, men were not trusting of employers and so did not want their family income to dependent on the flow of income from employers, who some workers at least said could not be trusted.

In the mid-1980s the combined force of these arguments had changed policy. With WFTC the latter was probably significant in introducing, for couples, a choice of which one of them applies for WFTC and hence receives the payment. The payment method for the applicant will then depend on the applicant's employment status. However, there is no choice of payment method *per se*, instead a choice of applicant and (if successful) recipient. A lone parent in employment will be PVE. In a couple with a working husband and non-working wife, the method of payment will be PVE if the man is the applicant, and ACT/Order Book if the woman is the applicant. Naturally, PVE is not available for self-employed recipients.

In other research, Dean and Shah (2002) interviewed 47 low-income working families, also drawn from Income Support and Family Credit records, but including both lone parents and couples. They found some evidence of support for WFTC, especially in its extra amounts. But they remained sceptical about its potential beneficial effects, suggesting that feelings of insecurity might increase.

WFTC: The key questions

Now is an appropriate time to consider how far the concerns expressed regarding WFTC have come to pass. The rest of this paper qualifies a number of these areas of concern, by looking at a large representative sample of WFTC recipients, and those eligible for WFTC but not receiving it. The above analysis suggests a range of questions, these include:

- Has far has the change of payment mechanism affected attitudes to WFTC, and its likely use?
- Has far does the perceived greater involvement of employers affect claiming WFTC?
- What has been the response to the change of payment mechanism?
- What has been the effect on take-up?

The study data

The results presented in this paper are based on a representative sample of over 5,000 low and moderate income families with children, interviewed in mid-2000. Each family was interviewed for an average of one hour, with partners interviewed where possible. The study included 4090 families who were also interviewed in mid-1999, and a booster sample of new families to ensure representativeness (Woodland and Collins 2001).[2]

The research was intended to provide information to Government on lower and moderate income families (Marsh et al 2001). For this current study (*reference withheld*) the main aims were to study work incentives, the continuing role of in-work support and family living standards. It was thought important to capture those who might be affected by in-work support, and not just current recipients of such support. Various arrangements for remaining in touch with respondents were put in place (eg collecting ‘stable’ address details, sending out regular address check reminders).

The samples were systematically selected by interviewers from a sample drawn from Child Benefit records. Those interviewed comprised lone parents of all income level, plus couples with dependent children who were either:

(a) not in paid work of 16+ hours, or
(b) receiving Family Credit, or on low or moderate earnings – that is, either eligible for Family Credit or with an income up to 35 per cent above this level

The response rate to interviews among the panel was 88 per cent. Among new ('booster') cases the response rate was 72 per cent. All are respectable figures, increasing confidence in the reliability of the data collected.

Main Results

The foregoing discussion has identified a range of areas where tax credits might be expected to affect family budgets, compared to the payment of social security benefits. How far have the potential benefits, and costs, of WFTC been realised in practice? This section focuses in on four areas: the value of awards, contact with employers, concerns about payment methods, and the level of take-up.

The Value of WFTC compared to FC

The introduction of WFTC appeared to promise larger average awards, covering a wider range of families. However, this was tempered by concerns about potential interactions with Housing Benefit, and whether the amounts were sufficient to make a real difference to people's experiences.

For most WFTC recipients, the size of their award met or exceeded their expectations. Around two in five (38 per cent) said their award was about what they had expected, but 42 per cent received more than expected and 12 per cent less, with nine per cent having no clear expectation of the likely level of award. One new feature of WFTC is that maintenance payments are not taken into account in calculating entitlement. As many as 49 per cent of those receiving any maintenance said their award of WFTC was larger than expected, and eight per cent had expected more than they actually received).

Awards of WFTC may also be compared with those that would have been awarded under Family Credit had it continued to exist. Of course, if Family Credit had continued to exist after October 1999, it would probably have been uprated in April 2000. We have derived an uprated or 'shadow' level of Family Credit against which to compare the level of WFTC awards. To make appropriate comparisons, the value of Family Credit, including the income threshold, in these calculations has been uprated from 1999 to 2000 values in the appropriate way used for social security benefits.[3]

Among those receiving WFTC, amounts of award were approximately £30 per week more than would have applied under Family Credit, with a slighter larger average (mean) gain for couples (£31.05) than for lone parents (£28.96). Among WFTC recipients who would have qualified for Family Credit (had it remained), the weekly money gain was slightly higher than for all WFTC recipients – at around £33. This gain is higher than average because many of the smaller gainers were those who were ineligible for Family Credit. However, so far relatively few new WFTC applicants have emerged from the group who would have been ineligible for Family Credit-style levels of support.

The size of the monetary gain from WFTC over Family Credit was higher for some groups than others. Those paying for childcare gained an average of £39 per week, reflecting the more generous treatment of childcare expenses in WFTC than Family Credit. Under WFTC, the amounts awarded for childcare are added to the maximum award, whereas under Family Credit they were not, resulting in higher awards for childcare payers under WFTC. Even so, given the increased support available for eligible childcare, this gain may be less than expected.

People's views

To what extent did this quantitative gain translate into people's perceptions of WFTC, compared to Family Credit? Those who had received both Family Credit and WFTC were asked which they believed was better for them. Their responses were:

- 11 per cent said they believed Family Credit to be better for them than WFTC.
- 53 per cent said they believed WFTC to be better for them than Family Credit.
- 36 per cent could not say which was better for them, perhaps because too many other circumstances had changed.

Five times as many people believed WFTC was better for them than Family Credit, as believed the reverse. The high numbers of those unable to state which was better means that the ratio between the two clear choices is a helpful statistic, at least compared to citing proportions of particular groups believing one to be better than the other when the proportion unable to choose is high and variable. However, in this analysis both sets of figures are presented to give the fullest information.

There was a strong association between the size of money gain that WFTC provided over Family Credit (for the same circumstances) and expressing a preference for WFTC. These 'gains' are, of course, notional. They will approximate to any gain that was personally experienced only if all family circumstances have remained similar. Where the gain was less than £20 per week, WFTC was preferred to Family Credit by just under four to one (Table 1). Among the small number where the gain was £60 per week or higher, WFTC was thought to be better for respondents and their families than Family Credit by nearly twenty to one. The higher the money gain that WFTC provided over Family Credit, the more likely that respondents were also able to distinguish which was better for them. Those with smaller gains were the least able to state which was better for them. This analysis is based on those with experience of both Family Credit and WFTC. Of course, WFTC potentially creates a large number of recipients with relatively small awards, who do not form part of this analysis if they had no prior experience of Family Credit.

Table 1 Preferences for WFTC or Family Credit by gain from WFTC over 'shadow Family Credit'

Column percentages

	Gain from WFTC over 'shadow Family Credit'				
	Up to £20	**£20-£40**	**£40-£60**	**£60+**	**All**
FC	11	12	11	4	11
WFTC	44	53	62	74	53
Can't say	45	35	28	22	36
Ratio of WFTC to FC	3.8:1	4.6:1	5.8:1	18.5:1	5.0:1
Unweighted base	*167*	*336*	*170*	*50*	*846*

Base: those who had ever received both Family Credit and WFTC

In summary, recipients of WFTC are around £30 a week better off than they would have been under an uprated system of Family Credit. And although a sizeable minority is unable to state a preference, among those with experience of both a narrow majority prefers WFTC to its predecessor, with one in ten stating a preference for Family Credit over WFTC.

Employer contact

In the assessment of Family Credit, employers were, of course, involved to confirm employee details. Their role became greater with the introduction of WFTC and payment of the tax credit through the wage packet. This has raised concerns that employers might construct barriers to their staff claiming, to avoid the administration involved.

Over one in five (21 per cent) of WFTC applicants had spoken to their employer about their current (or most recent) claim. This figure was higher, at 29 per cent, for those applicants who went on to qualify and then were PVE cases. Few applicants perceived their employers to be against such applications: 47 per cent were perceived by respondents to be broadly in favour, 45 per cent as neutral, and seven per cent against. The proportion of applications perceiving their employer to be for or against an application was not associated with the eventual payment mechanism.

Respondents were asked if this contact affected their views about any future application. It is possible that a negative employer reaction might dissuade people from applying; conversely, a positive reaction might help them to overcome any doubts they might have. Overall, four per cent of those with employer contact were less likely to apply, and 22 per cent more likely, as a result – the remainder stating that it made no difference. Where employers had been in favour of applications, 37 per cent said this made them more likely to apply, compared with seven per cent of those whose employer had been neutral. Clearly, a positive employer reaction to the idea of a WFTC application serves to reinforce the likelihood of applying again.

This data is limited, in that it does not identify those who might have been dismissed, or not recruited in the first place, because of their status as tax credit recipients. However, among continuing recipients it appears that employers had not acted as barriers to the receipt of WFTC. What is less clear, though this will emerge over time, is whether receipt of tax credits will affect other aspects of the employment relationship, including their wage progression (Bryson 1998).

The payment mechanism and family budgets

The payment mechanism has been the most controversial element of WFTC, and this was explored with respondents in detail.

Respondents (which, in couples, was the mother rather than father) were asked which mode of payment they would prefer if they had a completely free choice. Among those who had ever received Family Credit/WFTC as employees, 11 per cent expressed a preference for PVE, 53 per cent for Order Books, and 36 per cent for payment through the banking system. Those paid by Order Book and ACT overwhelmingly suggested these as their preferred method of payment (87 per cent and 83 per cent respectively). Those with experience of being paid via employers were the most likely to give this as their preferred payment mode (24 per cent), but it was still the least popular of the three choices offered by the questionnaire for this group.

The partners of respondents were asked a similar question – since the main respondent was the mother, these are male respondents, with only a handful of exceptions. Overall their preferences were 56 per cent for payment through ACT, 28 per cent favoured Order Books and 16 per cent would prefer PVE. In other words, relatively similar to their female counterparts in their lack of spontaneous preference for PVE.

Whilst some commentators have linked the payment mechanism to issues about the control of money within couples (Goode et al 1999), it was much more common for lone parents to express concerns than couples. Lone parents in employment will generally be paid through wages; among couples the payment method is determined by the employment status of the applicant. The reasons why perhaps become clearer on inspecting the reasons for these concerns. The most commonly expressed concerns related to budgeting processes and the effect of changing from (say) weekly payment of Family Credit to a payment cycle (on PVE) that was (say) per calendar month. Two representative verbatim quotes (from open-ended survey questions) help to illustrate these points:

> *"it all gets paid in one lump whereas previously it was paid at different times so I always had money to bail me out"*
> *"It goes straight into the bank from wages and if overdrawn can't use it"*

The main objections to PVE came from lone parents, and concerned methods of budgeting, rather than from couples concerning control over money. However, WFTC did permit couples to nominate the mother as recipient, avoiding potential problems of the control of money within families. So, it is unclear to what extent PVE *would* have created problems if it had been compulsory for earners to receive the tax credit.

Take-up

In introducing WFTC, Taylor (1998) argued that the take-up of Family Credit was depressed by stigma, WFTC would reduce stigma, and hence that take-up would rise. The range of other reasons for non-take-up (Corden 1999) received rather less attention.

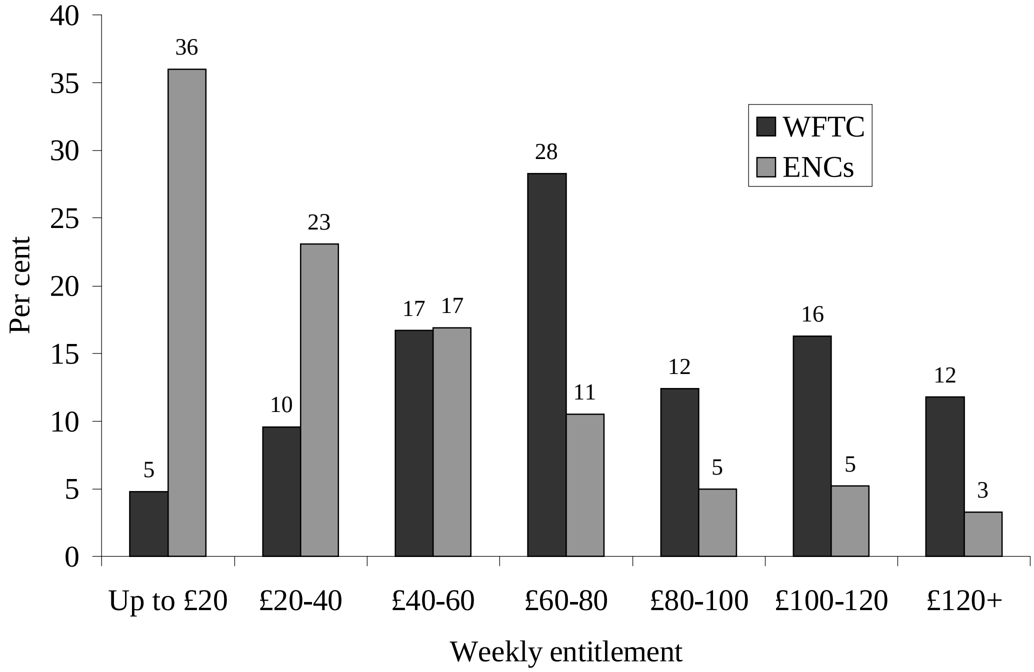
However, WFTC extends in-work support rather further up the income distribution than did Family Credit. It also provides sizeable cash gains for those at the borderlines of Family Credit entitlement, where many eligible non-claimants were to be found. Higher incomes, unfamiliarity with in-work support, and relatively low awards for a new large group, combined with the recent introduction of WFTC, would tend to be associated with lower take-up than for Family Credit. However, the rate of take-up by caseload is likely to be affected rather more than the expenditure-based measure. This is because most of the money gains from WFTC will accrue to existing recipients, and the entitlements of those brought into eligibility are lower than the average of existing recipients.

So it turns out. In 2000, the rate of take-up of WFTC was 62 per cent by caseload and 76 per cent by total spending; for Family Credit they were 72 per cent and 81 per cent respectively.

In other words, just under two-thirds of the people eligible for WFTC in year-2000 were receiving WFTC, but they were receiving three-quarters of the total amount payable if everyone claimed. WFTC take-up rate was as high as 80 per cent among those who would have qualified for Family Credit had it remained, but less than one-third (31 per cent) for those who only qualified for in-work support because of the enhanced value of WFTC. The extra resources available with WFTC have therefore mostly gone to those on lower, rather than moderate or higher incomes.

There was a rather pronounced association between the size of different families' entitlements, and the likelihood that they were receiving WFTC (Figure 1). There was a clear symmetrical pattern for recipients: some small awards, some large, but with most occurring in the middle of the range. The picture for eligible non-claimants of WFTC was highly skewed: most were entitled to the lower end of awards (over one third were entitled to £20 a week or less), and there were few at the higher end of awards.

Figure 1 **Distribution of WFTC recipients and eligible non-claimants (ENCs) by size of entitlement (pounds per week)**



Base: All respondents eligible for WFTC (N=1365)

The rate of take-up may be plotted against various personal characteristics. Take-up reached 78 per cent among lone parents, but less than one-half (49 per cent) among couples with children. Partly this result confirms previous research on Family Credit, for which lone parents invariably had higher rates of take-up than couples. It is also a reflection that the expansion introduced by WFTC brought into scope many more couples than lone parents, and it is among this newly qualifying group that take-up has been low.

Among lone parents, take-up was higher for those working 16-29 hours, than for those working 30 or more hours (90 compared to 63 per cent). A take-up rate of nine in ten, found among this group of lone parents working 16-29 hours, is among the highest found in empirical research on in-work support.

Discussion and Conclusions

The introduction of WFTC brought recognition of the need for increased resources for families with children, but also key changes in the administrative and payment arrangements designed to separate methods of income maintenance for those working (=tax credits) from those not working (=benefits).

The evidence from a large survey tends to support some concerns, to rather downplay others, and to introduce some new ones.

Overall WFTC recipients much preferred it to its predecessor, FC, and payment through wages is not appearing to deter claims from continuing recipients. Of course, this may be reflecting the choices made about which person is the recipient, which tempers some of the concerns expressed and reduces employer involvement in payment. For lone parents, where no such choice is permitted, the concerns have been around patterns of budgeting – the change to the frequency of payment (matching wage payment periods) and access to cash.

The rate of take-up has some way to go to match the levels found under Family Credit. Early into the life of WFTC the performance has neither been an overwhelming success nor an unmitigated disaster. To reach Family Credit levels of take-up, given the creation of large numbers of small weekly entitlements, would take some time if indeed it would be achievable at all.

Overall, in many ways the arguments concerning employer involvement, and 'purse to wallet' do seem to have been taken on board by Government in the design of the new tax credits being introduced in 2003 (Greener and Vidler 2001). The child-related elements are going to be paid to the 'main carer', mirroring Child Benefit. The assessment of the new tax credits is also set to depend on a previous year's earnings, reducing the need for changes affecting employers on a regular basis.

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[1] The **caseload** measure is based on the number of still-eligible WFTC recipients, as a proportion of all families eligible for WFTC. The **expenditure** measure uses the same groups, and with modelled entitlements rather than reported levels of current awards of WFTC. Other approaches are possible. The lengthy period of award means that no measure is likely to be infallible as a measure of all those who ever become eligible during a period of time.

[2] The data is held at the ESRC data archive at Essex University, serial number 4427.

[3] That is, using the so-called 'ROSSI index' prevailing at the relevant time (1.6%). However, it was assumed that there were no changes to the childcare allowance or maintenance disregard, which had not been uprated for some years, and the taper remained at 70 per cent.