

## WHERE DOES WORKING TAX CREDIT GO?

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New Policy Institute: October 2014

### Introduction and findings

Working tax credit (WTC) is a benefit paid to workers with a low family income. The aim of this report is to calculate the amount of WTC that can be attributed to different parts of the economy. For instance, how many workers in the retail sector benefit from working tax credit? How much money does this add up to?

This research, based on official survey data for 2010/11 and 2011/12, is the first attempt to quantify these amounts. Results are broken down both by industrial sector and organisation type. We found that

- The two employment sectors with the largest attribution of WTC were retail (£1.3bn) and human health and social work (£1.2bn). Together they represent 38% of the total attributed WTC spend (£6.5bn per year).
- The three sectors with the next largest attribution – each around half of that for the top two – were accommodation and food services (hospitality), education and administrative and support activities.
- Attributed amounts per recipient worker vary little by sector; high attributions therefore reflect large workforce sizes and/or a high proportion of the workforce benefitting.
- High recipient numbers in retail and health and social work reflect both high employment in those sectors and a high proportion benefitting. The sector with the highest proportion benefitting is accommodation and food services.
- 80% of WTC is attributable to workers who work in the private sector, 10% to those in the local government and 5% to those employed by a Health Authority or NHS Trust. Only 1% is attributable to those workers employed in central government. The rest is attributed to charitable organisations, universities, and other organisations such as the armed forces.

## Background

### About working tax credit

Working tax credit (WTC) is a benefit paid to workers with a low 'family' income. In this context, 'family' is to be understood as either a single worker or a worker and their partner. WTC can be paid to families with or without dependent children. While working a family can receive a range of other benefits, such as child tax credit, housing benefit and disability living allowance, they are not included here.

WTC is paid to the family directly by HMRC. It is not paid by the employer. To be entitled to WTC, a family must work a minimum number of hours and have a low income. It is family income and hours, not the pay or hours of the individual worker, which determines WTC. Several factors affect the qualifying hours and the maximum amount of WTC that can be paid including whether the family has to pay for childcare. In 2012-13, WTC recipient families without dependent children received an average of £48.40 per week; those with dependent children received an average of £66.30.

Given that WTC is paid to families not individual employees, there are important points to bear in mind when interpreting the findings.

- Two workers on the same pay and hours working for the same employer can benefit from different amounts of WTC if their family circumstances (partner, childcare etc.) differ.
- Since WTC is assessed on family income, if two adults in a family work in different sectors, their WTC needs to be attributed between these sectors. This report makes the simplest assumption; that half of the WTC is attributed to each sector.
- In the case where there is only one working adult in a couple, half the WTC is left unattributed.

How does this work in practice? We can demonstrate using examples taken directly from the dataset. A couple with one adult working in the transport and storage sector and another not working receiving £78 per week in WTC credit would have £39 allocated to transport and £39 not allocated. In another example, with one adult in a couple working in the transport sector and the other working in education, half of the weekly £27 they receive in WTC is allocated to each sector.

### Data and methodology

The dataset used for this analysis is the Family Resources Survey (FRS) for 2010-11 and 2011-12. 2010-11 is the first year that the relevant variables (SECTOR and SECTRNP) have become available. The analysis requires certain assumptions to be made, primarily as a result of WTC being a family benefit (i.e. takes the income of both adults into account) whilst organisation types and the standard industrial classification are at the level of the individual. The assumptions are as follows.

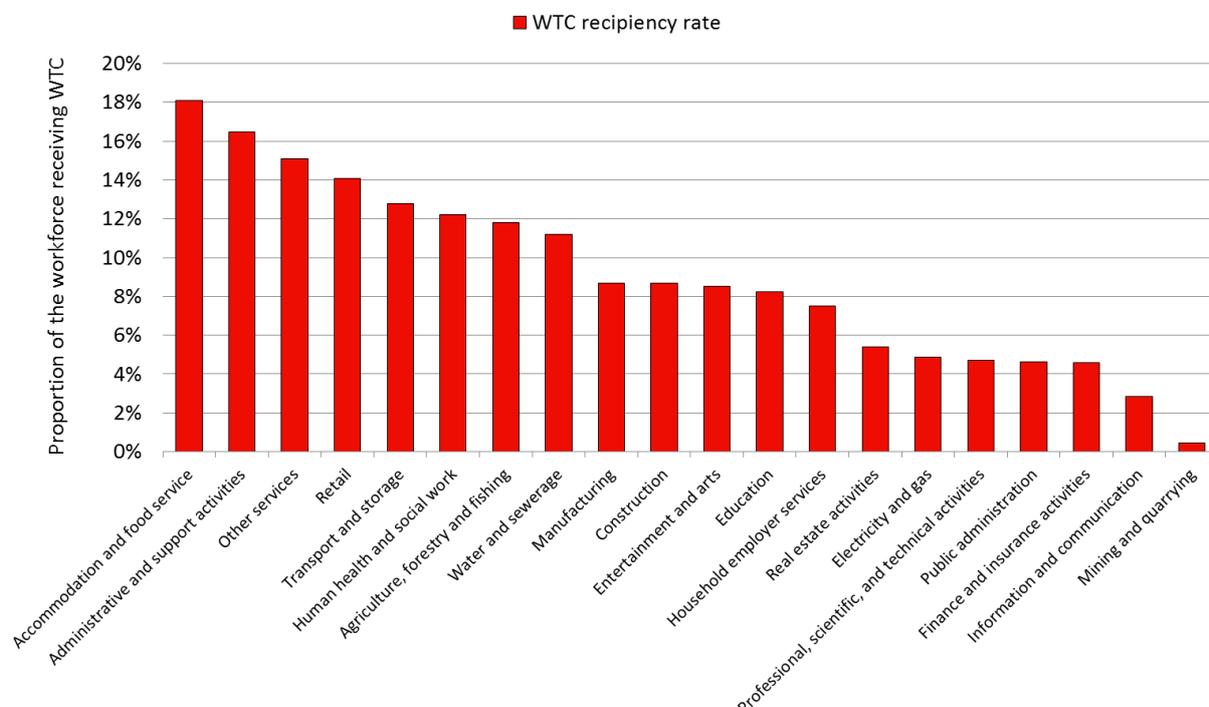
1. Allocation of WTC between working partners. In a family receiving WTC with two adults in employment, with one working in (for example) the civil service and the other in a private limited company, the tax credit amount has been divided into two. Thus half their WTC amount will be recorded for the civil service and the other half for private limited companies. There are other ways to this (for instance, some ratio of their earnings), but this offers the greatest ease.
2. Allocation of WTC between working and non-working partners. In a family with one working and one non-working partner who are in receipt of WTC, this analysis allocates half the WTC to the sector the employed adults works in, and does not allocate the other half. Whether this is correct or not depends on whether conceptually this is a 'subsidy' to the unemployed partner who reduces household income or the employer who does not pay enough to allow family income to exceed WTC eligibility.
3. The FRS is known to understate benefit recipiency compared with more reliable administrative data. This analysis uprates expenditure figures by sector and organisation types by an overall aggregate figure to reflect that the FRS figure is only around 60% of the administrative figure for 2010-12. The number of recipients is similarly uprated. This is similar to how the Institute for Fiscal Studies estimates the survey data to capture only 64% of the administrative data in 2011-12. (Institute for Fiscal Studies, *Living Standards, Poverty, and Inequality in the UK: 2013*. Appendix B, p.141.)

## Results

### By Standard Industrial Classification (SIC) Sector

The first breakdown presented is by Standard Industrial Classification (SIC 2007). This indicates which of 20 sectors an individual works in, for example, retail, education or construction. Figure 1 shows the proportion of adults in a sector receiving WTC. The sectors with the highest proportions of workers receiving WTC are hospitality (18%) and administrative and support activities (16%). The latter sector includes types of work such as private security and secretarial work. Also high are sectors such as other services (including activities such as consumer electronics repair and hairdressing) at 15% and retail at 14%. Industries which tend to have higher average levels of pay such as financial services or professional activities have much lower rates of receipt (below 5%).

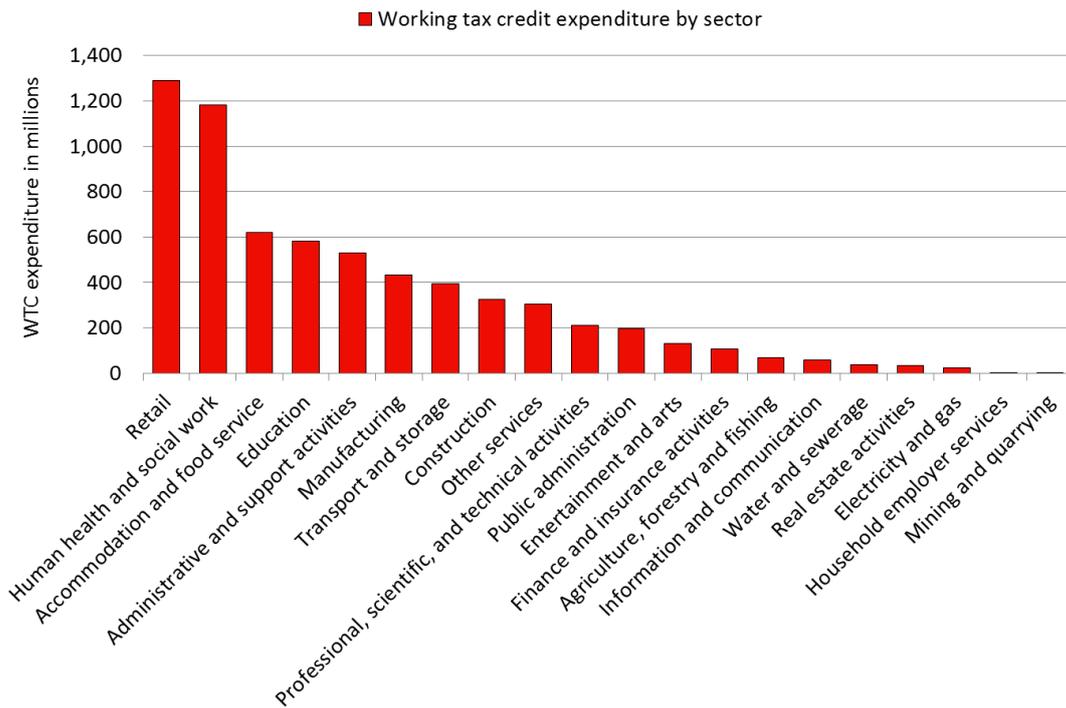
**Figure 1: Proportion of adults in each sector benefitting from working tax credit**



Source: Family Resources Survey. The data is an average for 2010-11 and 2011-12.

Figure 2 shows the average annual expenditure on WTC on workers in these industries for 2010-11 to 2011-12. The two sectors which account for the largest shares of WTC expenditure overall are retail and human health and social work, at £1.3bn and £1.2bn a year respectively. This is equivalent to 20% and 18% of the total annual spend. The next three sectors vary from £620m a year (accommodation and support activities or hospitality) to £530m a year (administrative and support activities). The sectors towards the bottom of this distribution tend to be those that employ few people and/or are generally well remunerated.

Figure 2: Total working tax credit expenditure attributed to each sector

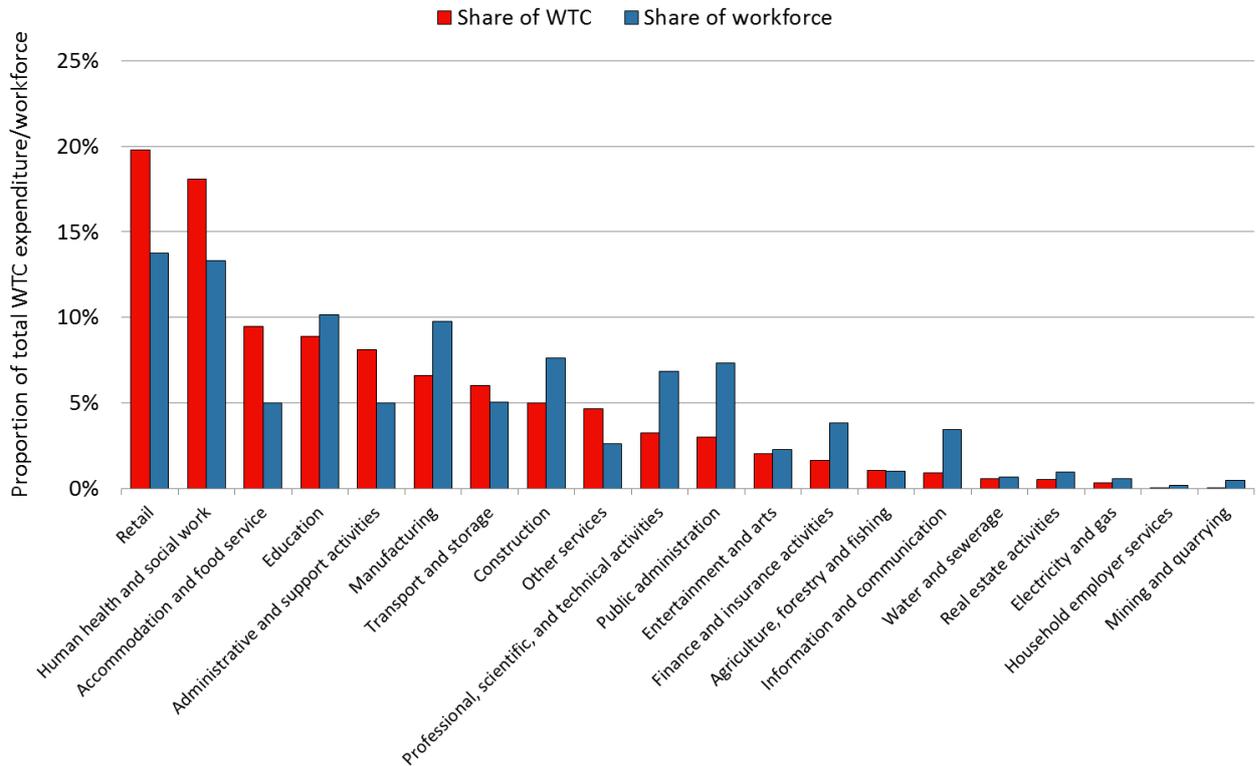


Source: Family Resources Survey. The data is an average for 2010-11 and 2011-12.

Despite having the highest proportions of workers receiving WTC, as they have fewer workers than retail and human health and social work, total expenditure in accommodation and food services and administrative and support activities is lower. The two largest expenditure sectors both still have relatively high WTC recipiency rates, however (14% and 12% respectively for retail and human health and social work).

Figure 3 contrasts the share of workers each industry contains as well as the share of WTC expenditure to emphasise this point. Retail and health and social work, are the largest sectors and have the largest shares of WTC expenditure. Their share of WTC expenditure is still in excess of their workforce share, however. Other sectors that are overrepresented in this regard include hospitality (accommodation and food services), administrative and support activities, transport and storage, and other services.

**Figure 3: Share of total attributed working tax credit expenditure and share of total workforce by sector**



Source: Family Resources Survey. The data is an average for 2010-11 and 2011-12.

### By organisation type

In terms of the type of organisation employees work for, four-fifths (80%) of WTC expenditure is attributed to the private sector. This is larger than one would expect if WTC expenditure matched the distribution of workers between the public and private sectors: as the private limited sector has 73% of workers but 80% of WTC expenditure, according to the FRS. Some of those workers in private organisations work in sectors traditionally associated with the public sector – between a quarter and a third of those working in human health and social work and education work in the private sector.

The next largest component of WTC expenditure is the local government sector at 10%, followed by health authorities and NHS trusts at 5%. An alternative way to think about this is that, when excluding the private sector and charities, more than half of WTC expenditure in the public sector is attributed to local government, with a further quarter to health authorities and NHS trusts.