



Bow Briefing

“Credit where it’s due?”

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Tax Credit cuts could damage Britain’s entrepreneurial economy and the Conservative Party’s claim to be the “workers party”.

Cutting ‘in-work benefits’ such as tax credits will not only be costly politically for George Osborne and the Conservative Party, but also damaging for the UK economy.

According to Institute for Fiscal Studies the cuts to tax credits, currently set to come in by April 2016, mean that 3.2 million working families will be losing, on average £1,300 from their annual budget.¹

This is part of the Government’s commitment to reduce welfare spending by £12bn by 2018. Osborne’s plan is to reduce the threshold per person for tax credits from £6,420 to £3,850.

As a Conservative Party activist I was pleased that whilst knocking on doors during the General Election I was able to look potential voters in the eye and tell them that during a period of cuts to government spending the economy was recovering whilst having record amount of people in work.

This ‘jobs miracle’ I was so eager to tell people about was key to the Tories election success. When people went to the voting booth to cast their vote the message that during the five years of Conservative led Government employment was up by 1.7 million was broadcast loud and clear. A job was being created every 10 minutes in the Midlands. Yorkshire created more

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<http://webcache.googleusercontent.com/search?q=cache:jxeAFweHVY0J:researchbriefings.files.parliament.uk/documents/CBP-7300/CBP-7300.pdf+%&cd=1&hl=en&ct=clnk&gl=uk>

jobs than whole of France and the number on Jobseekers Allowance fell by 30 per cent in 2014.

The 'jobs miracle' did not stem from government swinging in to save us with public sector jobs or a public-private agreement with large corporations. The 'jobs miracle' was down to people doing it for themselves. A Royal Society of Arts research paper shows that 90% of all new jobs created during the recession was from self-employment.²

As is common in all post-recession recoveries, the 'jobs miracle' is fueled by a growing feeling that self-employment was a viable alternative to working for a large corporation or the state. If the growth of self-employment carries on at the same rate by 2017-2018 it will be larger than the public sector. This self-employment boom is transforming our nation into an entrepreneurial world-leader, and turning the UK back into a nation of shopkeepers.

The tax credits reforms level a significant threat to this change in worker attitudes. Of the 5.2 million registered business in the UK 62% are registered as sole traders and approximately 60% are recipients of tax credits.³

Until very recently I worked for a social enterprise who helped the unemployed start small businesses, the scheme I worked on was the government's own flagship jobcentre employment scheme: The New Enterprise Allowance (NEA). The NEA took people from unemployment benefits such as Jobseeker's Allowance and helped them start a business. Many of the people who become self-employed on NEA, income for at least the first year would have been financially unviable as entrepreneurs without financial assistance from tax credits.

More than half of new sole-traders turned to self-employment when they couldn't find employment elsewhere. The largest group of people I helped to start a business were single mothers who needed flexibility in their working life to carry out their maternal duties.

Prior to working on the NEA scheme I worked for "The Big Issue", the magazine the homeless buy for £1.25 to sell to the public for £2.50. Big Issue vendors were proud to tell me they did not claim unemployment benefits, they were working their way off the streets by earning a small income from selling magazine, but that income was almost never enough to survive on alone, without working tax credits.

The highest selling Big Issue vendor working at the time sold about 60 times more magazines than the average Big Issue vendor. Even with that his annual income from selling The Big Issue was approximately £11000, working below minimum wage (less than £12194

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<http://www.economist.com/news/finance-and-economics/21600735-what-explains-surge-self-employment-their-own>

³ <http://www.fsb.org.uk/stats>

annually on a full time basis⁴) makes it impossible to live independently without tax credits or alternative sources of support.

The tax credit cut will see low earning self-employed people like Big Issue vendors, leave their money making enterprises and sign onto unemployment benefits. It will also discourage others to join programs like NEA to sign off unemployment benefits and become self-employed. People will again be better off not working than being self-employed.

George Osborne announced the cut in tax credits alongside his National Living Wage pledge. The idea being people won't need tax credits as they will be better paid. However 15% of the UK workforce is currently self-employed. Those self-employed people that are not being paid won't be able to invest the same time they would under tax credits to grow their business. Removing tax credits would remove a crucial component of the self-employment boom.

If tax credit cuts are to go ahead, they need to be implemented at a slower pace, in line with the introduction of the National Living Wage and the raising of the tax threshold.

Key Points:

- Cuts to Tax Credits to be introduced by April 2016
- Those earning up to £6420 without children are currently eligible for full tax credit benefits. The government proposes to reduce this to £3850
- 90% of new jobs created since the recession was from self-employment
- 15% of the UK workforce is currently self-employed
- 62% of registered businesses in the UK are sole traders, over 60% would qualify for tax credits if this is their sole source of earning
- Those earning up to £6420 without children are currently eligible for full tax credit benefits. The government proposes to reduce this to £3850
- Institute of Fiscal Studies predicts 3.2 million working families will lose an average of £1300 from their annual budget under current cuts proposals
- Current plans are projected to save £4.4bn

Proposals:

The Bow Group proposes the following three measures to reduce the negative impact of tax credit cuts to the UK workforce:

1. Ensure that cuts to tax credits are implemented gradually, alongside and proportional to the increase in the national living wage and the minimum tax threshold up to 2020.
2. Introduce an exemption for tax credit cuts for the self employed up to 2020.
3. Lift the ring-fence of 0.7% GDP spending on foreign aid to demonstrate the Conservative Party's commitment to the domestic UK workforce and ensure any shortfall to the government's plans to reduce welfare spending by £12bn by 2018 is met elsewhere.

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⁴ <https://www.gov.uk/part-time-worker-rights>