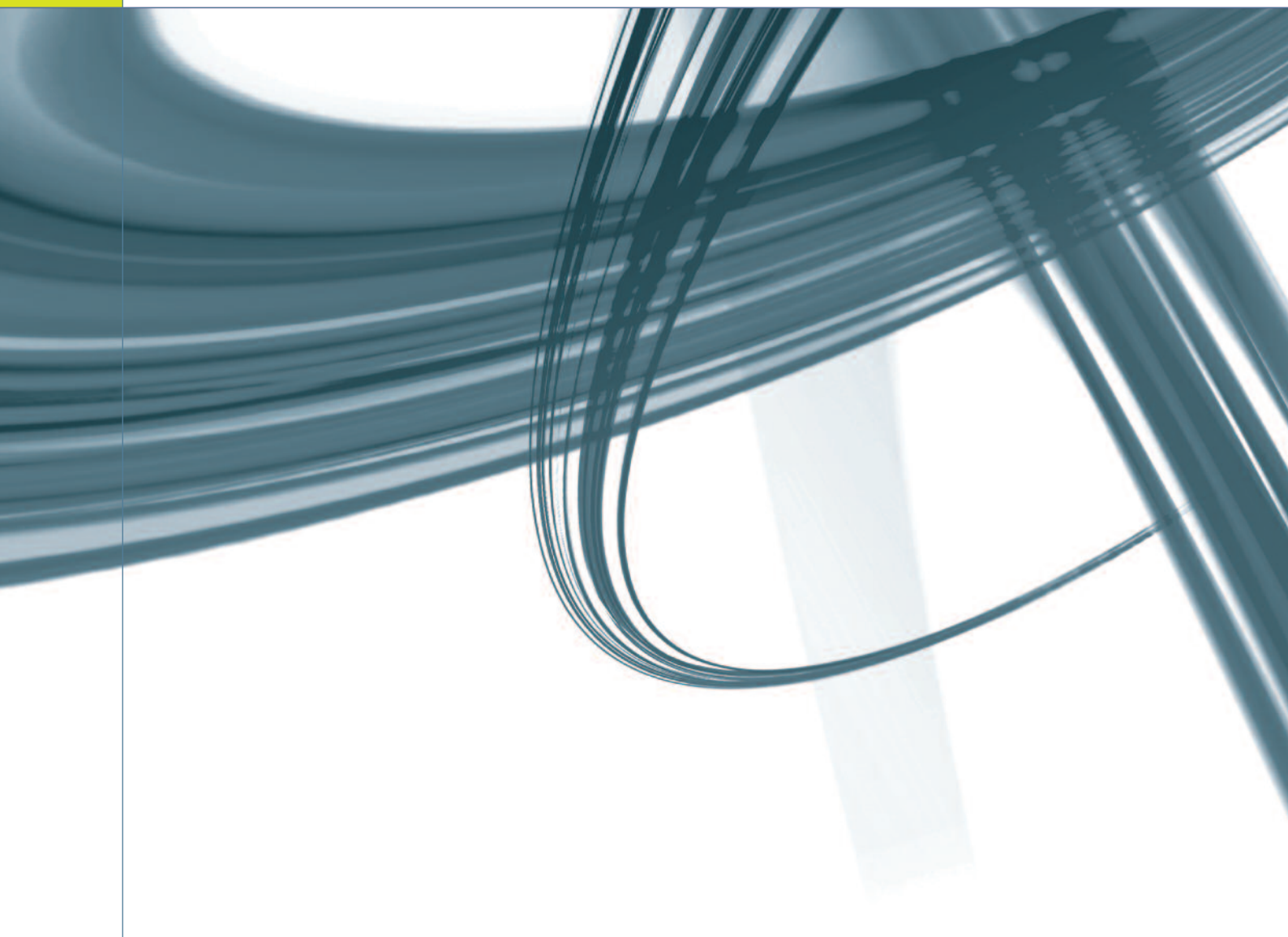




*Local Government Association*

# a benefit to eight million households

what CTB does and how to improve it



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# introduction and summary

## aim of the document

This document presents a concise account of possible changes to Council Tax Benefit (CTB), both to make it fairer and to increase the rate of take-up which is worse than that for any other means-tested benefit. It has been written to help the Local Government Association (LGA) and its members form a view about what could be done about these matters, as well as for circulation to a wider audience.

The significance of CTB – the part of council tax that households *do not* have to pay if their income is low enough – is that it may be the only part of the whole council tax system where there is still a chance of reform in the foreseeable future.

But is CTB important enough to be worth worrying about? If so, does the concern go beyond the low rate of take-up? And is it really something that local government rather than national government needs to take the lead on?

This document argues that the answer in all three cases is a clear “yes”. So why, then, *does* CTB matter?

## why CTB matters

On first acquaintance, it is hard to imagine a drier subject than ‘CTB reform’. Council tax reform may be technical too, but at least the fear and loathing it provokes means that any serious proposal gets a hearing. CTB reform, by contrast, basks in obscurity. While the recent Select Committee report<sup>1</sup> marks a welcome attempt to change that, anyone who watched the ministers in front of that committee will probably not be anticipating action any time soon.

Yet CTB should not be allowed to lurk in the shadows. For a start, it is not just some well-meaning scheme to help those on the lowest incomes. Rather, with five million recipients and an estimated further two and half million entitled non-recipients, *CTB determines the council tax liability of around a third of all households in England*. Even ignoring the huge non take-up problem, something on this scale deserves close scrutiny.

Nothing underlines the need for this scrutiny better than the fact that, though dressed up as a means-tested benefit for those on low incomes, half the households who receive CTB are *not* in poverty while 10 per cent actually have *above-average* incomes.

<sup>1</sup> *Local Government Finance: Council Tax Benefit*. Communities and Local Government Committee eighth report of session 2006/07.

At the same time, 40 per cent of the households in poverty in 2005/06 got no CTB at all. This means that 1.5 million children and 1 million pensioners in poverty were living in households paying full council tax.

This surely indefensible combination, of no help for many at the bottom yet offering help for some at least who are better off, is the result of inadequacies in the design of CTB for working-age households plus inadequacies in the administration of it for pensioners.

The importance of CTB goes further than this: not only does it alter the amount of council tax that someone has to pay but it also changes the basis on which council liability is calculated, turning the tax from a property-based one into something that can quite properly be called an income-based one. This is not a statement about what *ought* to happen but rather a description of what CTB does to the council tax system *now*.

One consequence of this is that when council tax goes up, any household getting CTB only pays extra if its income also goes up too, otherwise CTB takes the strain. Since such protection is exactly what some of the most vocal critics of council tax demand, the fact that the one third of households entitled to CTB already have it (even if they do not know it) is, to say the least, ironic.

So in summary, CTB matters because, while it does a lot and offers help to many, its design is inconsistent, it is poorly understood and many of those who are entitled to it do not receive it. Reform is badly needed.

The document is in two sections. The first examines how CTB might be reformed; the second delves into the statistics about non take-up to see what might be done to raise take-up. In total, the document suggests nine 'principles for action' to guide reform and promote take-up. They are set out opposite.

# nine principles to guide the reform of CTB and raise its take-up

- P1** That people should not start losing CTB on incomes that are too low to pay income tax.
- P2** That the principle of the single person discount should apply to CTB.
- P3** That Working Tax Credit and CTB should be realigned to support, rather than negate, one-another.
- P4** That savings should be treated no less favourably for CTB than they are for income tax.
- P5** That the levels of income up to which some entitlement to CTB remains, as well as the protection that CTB affords against future tax rises, should be widely publicised.
- P6** That the Pension Service should advise all telephone customers of their entitlement to CTB, whether or not they are entitled to Pension Credit.
- P7** That local authorities need to find ways of helping people to recognise themselves as potential beneficiaries of CTB.
- P8** That local authorities need to recognise, and respond to, the fact that three quarters of entitled non-recipients of CTB are owner occupiers.
- P9** That local authorities might offer a benefits check to all households when a household member first reaches the age of 60, as well as at other turning points in later life.

# section 1 reforming the design of CTB

CTB is the part of normal council tax which a household entitled to it does *not* have to pay. In order to decide whether CTB is designed properly and fairly, we think that it is better to look instead at the council tax that they still *do* have to pay, a liability that is related to their income.

## from CTB to 'income-related council tax'

CTB is usually looked at as the second element of a two part council tax system made up of:

- A property-related council tax. This is what everybody thinks of as normal council tax. It depends on (a) the council tax band the property belongs to; (b) the level of council tax set by the local authority; and (c) the 25 per cent reduction for single adult households if applicable.
- Council Tax Benefit. The amount of CTB that a household is entitled to depends on (a) its normal council tax and (b) its income. With a very low income, CTB is equal to normal council tax. As income rises, CTB falls by 20 pence for every extra £1 of income.

What the household pays is its normal, property-related council tax less any CTB it is entitled to. For example, take a 45 year-old, living alone, earning £90 a week working part-time. Suppose their property-related council tax is £20 a week. The lower income threshold below which there is a full entitlement to CTB is £64 a week. For every pound of income above that level, CTB is reduced by 20

pence. With an income of £90 a week, CTB is therefore £14.80 per week.

But without changing any of the arithmetic, this two-part system can be thought of differently, as:

- A property-related council tax, as before.
- An income-related council tax. With a very low income, income-related council tax is nil. Above the level of lower income threshold, income-related council tax rises by 20 pence for every extra £1 of income.

This time, *the household pays whichever is the smaller of the two amounts, namely the property-related council tax or the income-related one*. Using the same example as above, 'income related council tax' works out at 20 pence for every pound of income above the £64 threshold: an income of £90 means a tax of £5.20 a week. Since this is less than the property-related £20, £5.20 is what the person pays.

In theory, every household faces such a double assessment. In practice, only someone entitled to CTB is in the position where their income related liability is lower than their property related one.

### income levels at which council tax starts to be paid

Although it makes no difference to the arithmetic, there are some good reasons to look at the system from the alternative rather than the normal perspective.

The first and most compelling reason is simply that this is how it looks to the household paying the tax. As a low-income household moves into paid work, or starts to earn more, so it starts to pay council tax at the rate of 20 pence in the pound. This income-related tax that they pay is very visible; by contrast, CTB, which nobody actually really receives, is not.

There is something disturbing about the conventional view of CTB as a ‘benefit to offset a tax’. It may be convenient for government to levy a tax on one basis, leaving it to individuals to claim relief if they cannot afford it. But the principle is wrong: in effect, over-taxation that is only put right if the individual takes action. Although the arithmetic is the same, the alternative approach does not present the matter like this – and is the better for it.

‘Income-related council tax’ can also be compared directly with the income tax system proper. The key point of comparison is the level at which the different taxes start to be payable. Table 1 sets out the relevant information, for single and couple pensioners, single and couple working age adults and lone and two parent families with children. For each household type, three pieces of information are provided. They are:

- the minimum level of earnings or pension that the household has to have in order to start paying income tax;
- the minimum level of earnings or pension that the household has to have in order to start paying income-related council tax; and
- the tax and pension credits, and the Child Benefit, that the household would be entitled to *at the point when it first starts paying council tax*.

The first message from Table 1 is that all single-adult households and some two-adult households start paying council tax at levels of income that are below those at

**table 1: minimum levels of weekly household income at which income-related council tax and income tax first become payable**

	<i>minimum earnings/ pension for income tax</i>	<i>minimum earnings/ pension for income- related council tax</i>	<i>credits etc that could be received when council tax starts to be paid</i>
Single pensioner	£145	£119	Savings Credit
Pensioner couple	£145–£290	£186	
Working-age single	£100	£64	
Working-age couple	£100–£200	£103	
Lone parent, one child	£100	£84	Child Benefit
Two parents, one child	£100–£200	£86	Child Tax Credit Working Tax Credit

which they are liable for income tax: for example: single pensioners (£119 cf. £145), single working-age (£64 cf. £100) and lone parents (£84 cf. £100). It is also true for couple households if their earnings or pension is brought in more or less equally by both adults, though not if it is brought in mainly or solely by one. Working couples can also start paying council tax before income tax if their pay and hours are such as to entitle them to Working Tax Credit.

The levels of income at which council tax starts to be paid mainly reflect CTB's roots in the benefit system. From a Department of Work and Pensions (DWP) perspective that makes sense. *But for local government, the fact that households start paying council tax on the basis of their income before they start paying income tax to central government is something to be uncomfortable about.* To overcome that, CTB would need to be reformed, guided by the following principle:

**P1 That people should not start losing CTB on incomes that are too low to pay income tax.**

In practical terms, such a reform could be enacted by raising the 'income disregards' that apply when calculating entitlement to CTB. Requiring just a simple change to the small print of the CTB rules, this could be enacted quickly.

Such a reform would do away with another of the oddities of the current arrangements, namely that a single person can actually be paying *more* income-related council tax than the couple in an identical house next door even when their incomes are the same. But why stop there? For income-related council tax to treat singles consistently with the property-related council tax, requires:

**P2 That the principle of the single person discount should apply to CTB.**

In practice, all this requires is that the 'income taper' within CTB be reduced by a quarter for single adult households, from 20 to 15 per cent.

## Working Tax Credit

A second message to emerge from Table 1 is the different treatment of working age adults at the point when they first pay council tax, depending on whether they have children or not. The issue here is not the child benefit and credits which only households with children get but rather Working Tax Credit (WTC) which is open to those with and without children.

There are two things about WTC that are important as far as CTB is concerned. The first is that, unlike the child benefits and credits, WTC counts as income for the purposes of calculating CTB. This means that a household that qualifies for WTC will find its CTB suddenly reduced as a result. The second important thing about WTC is that, because of differences in the rules about the number of hours that must be worked in order to qualify for it, households with children can get WTC at much lower levels of incomes than households without.

The result of this is a mess. WTC is designed as an incentive to work. Those with children can benefit from it at about the point when the first have to pay council tax – but a part of the income boost that WTC provides is immediately gobbled up by the resulting higher amount of income-related council tax that has to be paid.

For those without children, the situation is even worse. For them, the WTC work incentive does not kick in until long *after* the work dis-incentive that is income-related council tax. This does nothing for low income households' view of council tax – and neither does it do anything for the government's efforts to encourage households into work. Hence the next proposal:

**P3 That WTC and CTB should be realigned to support, rather than negate, one-another.**

Reform to align CTB and the tax credit system is more complicated, and would take longer to achieve, than mere changes to the details of CTB. While that makes it less likely, it would also open more radical possibilities, for example, including using an enhanced WTC in place of



CTB to support low-income working households with council tax.

### the treatment of savings

The reasonableness of the rules governing the treatment of savings also depends on whether they are judged from the standpoint of what is normal in the benefits system or what is normal in the income tax system.

In summary, those rules are as follows. Except for those over 60 and in receipt of the 'Guarantee' element of Pension Credit, savings over £16,000 usually preclude any entitlement to CTB. Savings over £6,000 affect how much CTB is actually paid, with every £1,000 of savings between £6,000 and £16,000 being assumed to yield an income of £4 a week for a working-age household or £2 a week for a pensioner one. This notional income is then added to actual income for the purposes of calculating CTB.

What stands out here are the extra-ordinarily high implied rates of interest on savings (20 per cent for working-age adults and 10 per cent for pensioners), the use of notional rather than actual income from savings, and the presence of upper limits above which entitlement to CTB disappears.

By contrast, within the income tax system, it is actual income from savings that are taxed, administrative inconvenience notwithstanding. Viewed as an income-related council tax, the required principle for reform is therefore:

P4 That savings should be treated no less favourably for CTB than they are for income tax.

Unlike the changes to the income thresholds, this proposal has administrative implications. In our view, the idea that taxation should be principled and fair takes priority over ease of administration. If the administrative burden of a 'pure' approach is too heavy, any simplifications should be in the taxpayer's favour. This would include a low notional rate of interest and much higher thresholds both before savings are first taken into account, and above which all CTB entitlement was lost. If that is still too much, savings below a very high level could just be ignored altogether.

### 'partial' CTB

The next two suggestions start to project the idea of an income-related council tax into the public domain. The aim of this is to alter the public's perception of what CTB, and 'partial CTB' in particular, offers and who it is for.

'Full' CTB makes immediate sense: "get it and you will have to pay nothing" is easy to grasp and sounds worthwhile. 'Partial' CTB by contrast is less clear: whether someone is entitled and whether, even if they are, there is much to be gained, are not immediately obvious.

We suspect that the first problem here is that people simply do not realise how high their incomes can be and still be entitled to some CTB. Table 2 shows what those levels are for a pensioner couple living in a local authority area where the band D council tax is £1,188. For example,

**table 2: weekly net income of pensioner couples below which entitlement to CTB remains**

	<i>Band A</i>	<i>Band B</i>	<i>Band C</i>	<i>Band D</i>	<i>Band E</i>	<i>Band F</i>	<i>Band G</i>
(Normal) council tax pw	£15	£18	£20	£23	£28	£33	£38
Net income pw	£285	£295	£310	£320	£345	£370	£395

in band A, such a couple can have an income up to £285 a week and still get some CTB; in band D, the income can be up to £320; and in band G, up to almost £400. These levels of income for bands E, F and G are average and above-average for pensioner couples. For pensioners, unlike working age, 'partial CTB' is definitely not just for those on low income.

The other problem with 'partial CTB' is that it does not naturally convey a sense of the protection that it provides against *future* rises in normal council in excess of rises in income. Even if CTB is worth just a pound a week at the moment, when council tax next goes up, *CTB will take the strain* limiting the extra that has to be paid to 20 pence for every extra pound of income. By contrast, this protection is inherent to the notion of an income-related council tax. Hence the suggestion:

P5 That the levels of income up to which some entitlement to CTB remains, as well as the protection that CTB affords against future tax rises, should be widely publicised.

#### **the suggestion of calling it a rebate**

It is not known how much difference re-branding CTB as a rebate rather than a benefit would make to the way CTB is perceived. However, if it helped reduce the stigma that is said to be attached to claiming a benefit, thereby raising the number of people claiming what they are entitled to, then it is to be welcomed.

It is also possible that this linguistic shift is the key to changing the way that central government views CTB. Nearly all the problems discussed in this section arise from the way that CTB has always been treated by DWP as part of the benefits system. If calling it a rebate allows central government to see it instead in relation to the tax system, that would be very worthwhile.

But while it is a step in the right direction, the whole thrust of the argument so far implies that calling it a rebate instead of a benefit is not that radical a step. In particular, 'rebate', no less than 'benefit' utterly fails to convey the

point about the protection that is afforded against future rises in council tax. Finding a way to communicate the idea that CTB 'takes the strain' would be addressing a big problem – as the next section, on non take-up of the benefit shows.

## section 2 increasing the take-up of CTB

### official statistics on take-up

The problem of non take-up of CTB is well known. Though somewhat out of date, the latest official mid-range estimate is that 35 per cent of those entitled to

claim CTB do not do so. Table 3 shows the mid-range estimates for these 'entitled non-recipients' (ENRs) by family type and, separately, tenure.

It should also be noted that non take-up has been

**table 3: non take-up rates and entitled non-recipients of CTB, 2004/05 (Great Britain)<sup>2</sup>**

	<i>Non take-up rate</i>	<i>ENRs (000s)</i>	<i>Share of total ENRs</i>
All	35%	2,600	100%
Pensioners	44%	2,000	77%
Couples with children	34%	110	4%
Lone parents	9%	80	3%
Other working age	23%	400	15%
Local authority tenants	10%	200	7%
Private rented tenants	18%	400	15%
Owner occupiers	61%	2,000	77%

<sup>2</sup> Source, *Income Related Benefits Estimates of Take Up in 2004/05*, tables 4.1 and 4.3, DWP.

**table 4: comparison of characteristics of pensioner CTB recipients and ENRs (England)**

	Current pensioner CTB recipients	Pensioner ENRs
Low income or not?	Mainly below average with a minority in poverty	Mainly below average with a minority in poverty
Full CTB or partial CTB?	Half and half	Many more partial
Council tax band?	Mainly A and B	Spread evenly between A, B, C, D and E and above
Single or couples?	Many more singles	Nearer half and half
Owner occupiers or tenants?	Many more tenants	Mainly owner occupiers

increasing. For example, the estimated 35 per cent rate in 2004/05 compares with 26 per cent in 1994/95.

Attention normally focuses on the non take-up rate (the first column), with the overall average of 35 per cent being bracketed at one end by rates of nine per cent and 10 per cent for lone parent and local authority tenants respectively and, at the other, by the rate of 61 per cent for owner occupiers.

But when the interest lies in raising take-up, as it does here, the column to focus on is the last one which shows which groups most ENRs belong to. The striking point here is that three quarters of ENRs are pensioners and (coincidentally) that three quarters too are owner occupiers. How much more can be said about them?

<sup>3</sup> Technical note: the income used is disposable household income (not adjusted for household size) before deducting housing costs plus net Council Tax liability, less four disability benefits (DLA, AA, SDA, ICA), Housing Benefit, Child Tax Credits and Child Benefit (these last two being largely irrelevant here). The analysis has been restricted to single benefit unit, pensioner households.

### characteristics of pensioner entitled non-recipients

The official ENR analysis whose results are shown above cannot be easily replicated. But by drawing on data from the same source (the Family Resources Survey), it is possible to delve more deeply into the characteristics of pensioner ENRs via an assessment of likely CTB entitlement based on income only.<sup>3</sup> The results are presented in Table 4 in qualitative terms, comparing the characteristics of those pensioners we estimate to be ENRs with those pensioners receiving CTB.

In terms of their income, ENRs and recipients have fairly similar characteristics. In both cases, while most (but not all) have below-average incomes, only about a third have incomes below the poverty line.

In all four other respects, however, pensioner ENRs differ markedly from pensioners already receiving CTB. In particular, it is much more likely that ENRs are entitled to partial rather than full CTB, are spread across at least the bottom four council tax bands, are about as likely to be couples as singles, and are overwhelmingly likely to be owner occupiers.

## the link with Pension Credit

What about Pension Credit? Unless their savings are too high, our analysis suggests that almost all Pension Credit recipients should be getting CTB too. Entitlement to Pension Credit is therefore an excellent indicator of likely CTB entitlement.

Among those already receiving Pension Credit, the Family Resources Survey suggests that most Pension Credit recipients *already* receive CTB. Since those that do not account for less than 10 per cent of all pensioner CTB ENRs, efforts focused on those already getting Pension Credit will not make much of an impact on the overall level of CTB take-up.

But the take-up of Pension Credit itself is low (a mid-point estimate of around 65 per cent in both 2004/05 and 2005/06). Across Great Britain, the official estimate is of about 1.35 million *Pension Credit* ENRs, about two thirds the number of *CTB* ENRs. Since most of the former will be entitled to the latter, efforts by the Pension Service to raise Pension Credit take-up have the potential to raise CTB take-up too, provided of course that there is the necessary follow through.

However, the two ENR figures together also imply that at least a third of CTB ENRs are not entitled to Pension Credit. The Select Committee report picked up on this point, arguing that the Pension Service should be prepared to advise callers on whether they were entitled to CTB even when it had turned out that they were not entitled to Pension Credit. The select committee's conclusion here is surely right, namely<sup>4</sup>:

**P6 That the Pension Service should advise all telephone customers of their entitlement to CTB, whether or not they are entitled to Pension Credit.**

## what local authorities could do

If the Pension Service could raise Pension Credit take-up levels that should also help a lot to raise CTB take-up. But what could local authorities could do?

In our view, a crucial requirement is to free people of the misconception that CTB is just meant for those in greatest need. As a means-tested benefit, such a misconception is understandable. But at least as far as pensioners are concerned, some of whom with net incomes of nearly £400 a week are eligible for CTB, it is very unhelpful. Hence this proposal:

**P7 That local authorities need to find ways of helping people to recognise themselves as potential beneficiaries of CTB.**

One way of doing that would for individual local authorities to create their own versions of Table 2 (extended to include others besides pensioner couples) to show how high the income levels can be in each council tax band before eligibility disappears.

It is also worth remembering that local authorities themselves may be labouring under a misapprehension about who among their residents is entitled to CTB. In past work, it has been our experience that local authorities are very conscious of people who are tenants, partly because many are already Housing Benefit clients, but also because they tend to live in the more deprived parts of the local area. Yet the message from Table 3 is that three quarters of all ENRs are owner occupiers. So although it may be a statement of the obvious, it is still worth saying:

**P8 That local authorities need to recognise and respond to the fact that three quarters of ENRs of CTB are owner occupiers.**

Finally, one specific suggestion which reflects the fact that eligibility for CTB can change sharply at certain points in a person's life. One such point is when someone in a household first reaches the age of 60, thereby entitling the household to the more generous levels of CTB available to pensioners. Another might be when one member of a couple dies. This could be part of a wider advice package (eg telling people about the 'older people'

<sup>4</sup> *Local Government Finance: Council Tax Benefit*, para.56. Communities and Local Government Committee eighth report of session 2006/07.

services available in the local authority area). With something like half a million households having their eldest member pass the age of 60 in each of the next few years (implying about 20 or 30 a week for the average English authority), the scale is hardly onerous.

One shortcoming with this idea is that, if council tax rises faster than pensioner incomes, some who were not eligible at 60 will become so at a later date. A repeat check, perhaps at 70 or 75, would pick that up. So the final suggestion:

P9 That local authorities might offer a benefits check to all households when a household member first reaches the age of 60, as well as at other turning points in later life.





*Local Government Association*

The LGA welcomes comments on  
the ideas in this document

For further information, please contact the Local Government Association at:  
Local Government House, Smith Square, London SW1P 3HZ  
or telephone LGconnect, for all your LGA queries on 020 7664 3131  
Fax 020 7664 3030  
Email [info@lga.gov.uk](mailto:info@lga.gov.uk)  
[www.lga.gov.uk](http://www.lga.gov.uk)

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**promoting better local government**

Code no: F/CA259  
ISBN 978 1 84049 585 0  
Published by the LGA  
Design by Tattersall Hammarling & Silk Ltd  
© LGA September 2007