PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Tenth Delegated Legislation Committee

DRAFT TAX CREDITS (INCOME THRESHOLDS AND DETERMINATION OF RATES) (AMENDMENT) REGULATIONS 2016

Thursday 3 March 2016

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STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chair: SIR ALAN MEALE

† Adams, Nigel *(Selby and Ainsty)* (Con)
† Argar, Edward *(Charnwood)* (Con)
† Atkins, Victoria *(Louth and Horncastle)* (Con)
† Burns, Conor *(Bournemouth West)* (Con)
† Butler, Dawn *(Brent Central)* (Lab)
† Costa, Alberto *(South Leicestershire)* (Con)
† Davies, Mims *(Eastleigh)* (Con)
† Hinds, Damian *(Exchequer Secretary to the Treasury)*
† James, Margot *(Stourbridge)* (Con)
† Long Bailey, Rebecca *(Salford and Eccles)* (Lab)
† Matheson, Christian *(City of Chester)* (Lab)
† Merriman, Huw *(Bexhill and Battle)* (Con)
† Quin, Jeremy *(Horsham)* (Con)
† Shah, Naz *(Bradford West)* (Lab)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Smyth, Karin *(Bristol South)* (Lab)
† Stephens, Chris *(Glasgow South West)* (SNP)
† Whiteford, Dr Eilidh *(Banff and Buchan)* (SNP)

Clementine Brown, *Committee Clerk*

† attended the Committee

The following also attended, pursuant to Standing Order No. 118(2):

Garnier, Mark *(Wyre Forest)* (Con)

Tenth Delegated Legislation Committee

Thursday 3 March 2016

[Sir Alan Meale *in the Chair*]

Draft Tax Credits (Income Thresholds and Determination of Rates) (Amendment) Regulations 2016

11.30 am

The Exchequer Secretary to the Treasury (Damian Hinds): I beg to move,

That the Committee has considered the draft Tax Credits (Income Thresholds and Determination of Rates)(Amendment) Regulations 2016.

It is a pleasure to have the opportunity to serve under your chairmanship for what I believe is the first time, Sir Alan. I confirm that the regulations are compatible with the European convention on human rights.

I will set out the purpose of the regulations. As hon. Members will recall, tax credits were introduced in 2003, at which point the income rise disregard was set at £2,500. At that time, the tax credits system was unable to cope and in 2006 the then Government increased the disregard to £25,000. Two families with significantly different incomes could therefore receive the same tax credit award. I will shortly give some examples of how that works in practice. Following the 2010 election, the coalition Government reduced the disregard to £10,000 and then to £5,000. Improvements to stabilise the tax credits system and the increased use of real-time information mean that the system is now able to be more responsive to claimants' changes of circumstances.

The regulations make a single change: they reduce the income rise disregard from £5,000 to £2,500, taking it back to the level it was set at when tax credits were introduced by Gordon Brown in 2003 and aligning it with the income fall disregard. That change was announced in the summer Budget on 8 July 2015.

The change brings forward some of the benefits of universal credit, which will replace tax credits. Universal credit does not have an income change disregard, so awards will more accurately reflect the claimant's most recent earnings and overpayments will be reduced. Tax credit claimants will see a change in their award within a tax year only if their income increases in year by more than £2,500, and there will be no cash losers.

The disregard provides a buffer zone in which a family's income can increase during a year without that affecting their tax credit entitlement. The disregard has been a feature of the tax credits system since its inception in 2003 and, as I said, was set originally at £2,500.

I will explain how the disregard works in practice. Following receipt of a claim, Her Majesty's Revenue and Customs makes an initial tax credit award based on the claimant's current circumstances and their income in the previous year. As the tax year progresses, claimants can notify HMRC of changes in their circumstances. Certain changes—for example, a partner moving in with a previously single claimant—must be reported within one month. Other changes, such as changes in income, do not need to be reported until the end of the year, but claimants are encouraged to keep HMRC up to date if their earnings change, otherwise they could end up with an overpayment, which they would need to pay back.

After the end of the tax year, HMRC sends the claimant renewal papers. The purpose of the renewal papers is to determine the claimant's actual entitlement for the year that has just ended and, if appropriate, to initiate a claim for the year ahead; HMRC does that by asking the claimant to confirm their income and circumstances for the year that has just ended. Where the claimant's income has stayed the same as the year before or has risen by less than the disregard, the tax credit award for that tax year is not affected, as any such increases in income are disregarded from the final calculation of the award. However, if claimants' income has risen by more than the tax credit disregard, their award is decreased in year. Those individuals will, of course, still be taking home more money because of the increase in their income.

Either way, in the subsequent year, a claimant's tax credit award will be calculated in the usual way, with their full annual income used to determine their tax credit entitlement. After the change in the tax year, the disregard is irrelevant; regardless of whether the recipient's pay rise was above or below the disregard level, their tax credit award for the following year will be adjusted downwards to what it would have been had no disregard existed.

In practice, under the system that we inherited in 2010, where the then Government had set the income disregard at £25,000, somebody on tax credits could get a pay rise of £2,000 a month—which I am sure hon. Members will agree is a significant sum of money—and still be technically entitled to the same tax credit award until the end of the tax year, whereupon they would then see a big drop in their award and in their total income. We changed that, but even under the current, far more equitable system, a household can see its income rise by £400 a month and still be entitled to the same award as they were previously, until the end of the tax year. Claimants would subsequently see their tax credit entitlement reduced in the following year, having become accustomed to that quite large change in income.

Let us assume that that pay rise of £400 a month now means that the household is taking home as much money as their next-door neighbours, whose circumstances are exactly the same in other respects. The next-door neighbours are not entitled to the same level of tax credits, even though they have exactly the same income and circumstances. That is hardly fair; nor is it right. Under the system set out in the regulations, the household with an increased income of £4,800 a year would see its tax credit award adjusted sooner, to reflect its increased earnings. The household's total income would rise more than the decrease in the tax credit award, which would provide the buffer zone that the income rise disregard is designed for, as well as more closely aligning the award with the next tax year's entitlement, and making it the same as that of the next-door neighbours.

That example shows how reducing the income rise disregard reduces the unfairness in tax credit awards for families in similar circumstances. This is the right thing to do, to ensure fairness to all tax credit claimants.

The principle is already live in universal credit, where a claimant's award changes each month based on their earnings; this change brings forward some of those benefits. HMRC will communicate the change by providing information in tax credit renewals packs, which will highlight the change to the disregard, what it means when claimants have a rise in income and what they should report to HMRC.

With the introduction of real-time information, employers are now able to submit employee payroll information in real time. As 99% of employers are covered by the scheme, HMRC is now in a much better position to proactively check that it has the correct income details when claimants come to renew their awards at the end of the tax year; it also provides an opportunity to check awards within a tax year. From September 2016, HMRC will use the RTI to conduct automated checks of an individual claimant's monthly income. Therefore, HMRC will be better able to assess a claimant's tax credit entitlement in relation to their increased income. Should RTI find that a claimant's entitlement should be reduced by £500 or more, HMRC will send a letter, text message or automated voice message to the claimant, prompting them to make contact with HMRC within 14 days. If they do not make contact, their income on the system will be automatically amended.

Let me be clear. HMRC will not only tell all claimants up front when they must report changes in their income, but in the majority of cases prompt claimants to report significant increases in income that HMRC picks up through the RTI feed. If claimants do not respond to the prompt, the system will automatically make the change and reduce the claimant's tax credit award. That reduces the risk of overpayments, while making clear to the claimant their responsibilities.

The disregard reduction will affect only those claimants whose income increases in year by more than £2,500. There will be no cash losers. The change will make tax credits more responsive to income changes, reduce the over-inflated rise and subsequent fall that follows an income rise and reduce the inequality of very different awards to families in similar circumstances, with similar employment incomes. It returns the disregard to its original design and purpose. Now is the right time to do so, because the tax credits system is much more able to deal with income changes. I commend the regulations to the Committee.

11.39 am

Rebecca Long Bailey (Salford and Eccles) (Lab): It is a pleasure to serve under your chairmanship, Sir Alan, and to debate such an important issue with the Minister.

As all hon. Members here will be aware, the Chancellor deviated—shall we say?—from his original plan for sweeping cuts to tax credits after ferocious opposition from Opposition Members and from some Members of his own party and, of course, after defeat in the House of Lords. However, we are now discovering that the deviation is not quite what we had hoped for; arguably, most of the cuts have been delayed and others are still going ahead.

As we have heard, the regulations seek to cut the income rise disregard, which is the buffer zone that protects families from incurring financial hardship as a result of repaying tax credits in the event that they earn slightly more than anticipated in any given year. It is an element of leeway in the system that allows a household's income to rise a certain amount in a financial year without affecting the household's tax credit award for that year.

A household's tax credit award for the year ahead is based on income in the previous financial year. HMRC finalises the tax credits at the end of the year to reflect the actual income during the course of that year. If income was higher than predicted, the Government deem that to be an overpayment—effectively a debt that must be repaid—which will be automatically deducted from the claimant's tax credit award for the next year. If the debt is greater than the award the Government will seek to recover it, in some cases potentially using private debt collectors. It is not unreasonable to expect people to repay any tax credits if they earn more than anticipated. However, the Government's proposed approach to recover such sums appears to present a number of issues, which I hope that the Minister will carefully consider before reaching any conclusions on whether to recommend that the Committee pass the regulations.

Many families will see a change in income for various reasons over the course of a year. A member of the household may find a job or increase their working hours, exactly as the Government encourage them to do. The income rise disregard ensures that a small rise in income is not immediately clawed back, leaving low-paid families in sudden debt. It is important to make it clear that that does not mean that a household's tax credit award remains unchanged for the following financial year, but simply that they do not have to repay any overpayment that may have occurred as a result of income rising by a small amount during the financial year just ended. The coalition Government had already cut the disregard from £25,000 to £10,000, and then halved that to £5,000 as recently as 2013. Today's regulations will halve it again. The number of families breaching the limit has gone from 13,000, when the Tory-led coalition took office, to nearly 350,000 in 2013-14—the last year for which figures have been provided.

I ask the Minster to explain the rationale behind the £2,500 threshold. For example, has this figure been determined pursuant to an evidence-based review of all tax claimants' increases in earnings over a specified period, resulting in a median threshold? Sadly, I do not believe that is the case. I understand that the figure is simply a return to the figure used at the inception of the income disregard in 2003. Although this figure was deemed reasonable at the time, it became immediately obvious to HMRC and the Treasury that it was too sensitive to small fluctuations in hours worked and, as such, was difficult for HMRC to manage efficiently. It also caused disproportionate hardship to many families.

Leaving the management of the overpayments system to one side for a moment, the Opposition are seriously concerned about the impact of the reduced figure of £2,500 on low-income families. The Government have stated that they champion the strivers who want to work hard and get on, but cutting the income rise disregard to such a low level means that people on lower pay are particularly vulnerable to being hit with an overpayment debt should they get a new job, work more hours, or earn a small pay rise or promotion. We are therefore concerned that the change could create a

[Rebecca Long Bailey]

disincentive for people on low pay to take on more hours or move into full time work through fear of being hit with an overpayment debt.

The proposed reduction presents a real dilemma to families, especially those with members in jobs in which additional hours are less stable, such as zero-hours contracts, or where overtime might be offered from time to time. There might be a stark choice for these families: either work a few more hours from time to time and risk future repayments being imposed on the basis of a predicted salary, or simply decline the offer of extra work and ensure stability in long-term financial planning.

Dawn Butler (Brent Central) (Lab): Is my hon. Friend aware of the extent of the impact assessment that the Government have undertaken on these new limits?

Rebecca Long Bailey: My hon. Friend will hear throughout my speech that I consider that to be a significant issue, which I hope the Minister will address today.

I want to make the Minister aware that our concerns are exacerbated by what can only be described as the Government's continued silence on the potential impact of these cuts. To date, I am not aware of the publication of a specific impact assessment for these regulations or of an equality impact assessment. The fact that the Government have provided minimal information is reflected in an exchange between the Government and the Lords Secondary Legislation Scrutiny Committee on 28 January. The memorandum submitted by the Treasury stated:

"Next year there are expected to be 800,000 claimants with a reduced award as a result of their income increasing—none will be cash losers".

But that did not provide an answer to the question posed by the Committee:

"Can you…give an indication of how many people will be affected by the change…and what the financial impact on those people is likely to be?"

I feel equally starved of information in the light of the responses I have received to my own written parliamentary questions. Since the autumn statement in which this cut was first outlined, I have tabled numerous written questions to ask for the details of its impact. I requested the modelling or case studies the Treasury undertook when formulating the policy; the impact on some example claimants; the total numbers likely to be affected; the estimated average change in tax credit award as a result of the change; and the evidential basis for the statement in the memorandum submitted to the other place that there would be no cash losers from this reduction.

I am saddened to inform the Minister that I have not received any satisfactory answers to my questions or to my requests for the case studies used to formulate this policy. I would have expected such case studies to have been undertaken as a matter of course, in the interests of acting prudently, before even drafting the regulations. It should simply have been a case of passing on the information used by the Government as their evidential base for making the suggested changes to the income disregard in the first instance. The Minister may be able to provide such evidence today—I would wholeheartedly welcome that—but from the information I have been able to glean so far, the only example provided was someone who earned £1 over the new disregard. I must flag up to the Minister that the Government have yet to confirm whether they have conducted an equality impact assessment.

I have no doubt that the Minister will understand my feelings of exasperation. Will he confirm today that a proper impact analysis and an equality impact assessment have been carried out in formulating the policy, or are the Government unaware of what the impact may be? The Minister will be pleased to know that from time to time I endeavour to be helpful to him in solving such conundrums. I have commissioned a bit of evidence-based research into the matter from the Library, and it is indeed illuminating. Its analysis of a household with one working adult on the current national minimum wage, over the age of 25 and with two children, demonstrates that, if that adult's working hours were increased from 16 to 30 and then to 35 over successive tax years, the new disregard would be triggered and an overpayment incurred. That would then lead to their net income actually going down in at least one year, despite working more hours and earning more pay. Indeed, they would have lost £1,000 of income in at least one year, compared with the same situation under the current disregard. The Government's claim that there are no cash losers would not be of much comfort to that family. Indeed, it would be interesting if the Minister expanded on what the Government mean by no cash losers, because that case study seems to demonstrate that there will be circumstances in which claimants who are increasing their pay could actually end up with a lower income for at least the year in question. That is just one example, of course, but an entirely plausible one.

Unfortunately, we still do not know the Government's estimate of the maximum amount a family could lose. It would be helpful if the Minister provided that figure today; if not, perhaps he will say why it cannot be provided. He will no doubt appreciate that my hon. Friends and I are not prepared to allow legislation to be enacted that will affect 800,000 working people, without first knowing the potential impact on those people and without evidence that the Government have carried out due analysis.

To return to the management of the overpayments system, the Government have claimed that the updated real-time information system for pay-as-you-earn will make HMRC more sensitive to changes in income throughout the financial year, so that tax credit payments can be adjusted quickly, avoiding a build-up of debt. However, evidence suggests that the system is no more sensitive than it was in 2003-05, when the overpayments were recognised by all sides as excessive, peaking at £1.9 billion. The then Conservative Opposition were highly critical, and for our part, we recognise that there were problems with the initial introduction of the system. Unfortunately, it seems that while we have learnt the lessons, this Government want to make their own mistakes. Perhaps the Minister can reassure me that those fears are unfounded.

Since the coalition Government slashed the disregard to £5,000, the total value of overpayments has rocketed and again exceeded the £1.9 billion that caused the initial crisis. That does not suggest to me that HMRC is any more efficient at adjusting tax credit awards now than it was then. Cutting the disregard by half again adds further administrative burden for HMRC at a time when the Government are closing HMRC offices and reducing staffing levels across the country.

Campaigns such as Child Poverty Action Group have highlighted that people on lower pay tend to see fluctuations in their income from month to month. If the RTI does in fact prove to be effective, that could create huge administrative issues on its own, as people have their tax credit awards stopped, cut and restarted from month to month. Indeed, Mark Willis from Child Poverty Action Group has said:

> "It doesn't really matter what someone's monthly income is... You always need an accurate estimate of annual income when you're making these in-year changes. And no-one can really accurately predict the future, especially as we're often talking here about people with fluctuating earnings".

The impact on low-paid workers is particularly stark when compared with the money spent on the Chancellor's tax cuts for the extremely wealthy. For instance, those selling a stake in a business of up to £10 million now pay only 10% capital gains tax on their profits—a tax relief worth £3 billion a year, around three times the estimated amount estimated and dwarfing the savings made by the cut to tax credits. The bulk of this money goes to a very different group of people. The latest analysis suggests that the full £1.8 billion went to just 3,000 individuals who enjoyed a multimillion pound bonanza from selling shares—an incredible £600,000 each.

In conclusion, the Opposition are not sufficiently satisfied that the Government have considered, or indeed carried out adequate analysis of, the impact of the regulations. If indeed they have, I would ask that the information is shared and the passage of the regulations through this House paused until such time as Members have had the opportunity to review such information.

We are further concerned that setting the income rise disregard at such a low level makes people on low pay more vulnerable to accruing an overpayment debt simply by doing what the Government are asking of them. That is a disincentive for those in low-paid jobs to work harder and earn more, and is a punishment for doing so. Quite simply, working people have already suffered enough under this Government, and we will therefore oppose the regulations.

11.53 am

Dr Eilidh Whiteford (Banff and Buchan) (SNP): I want to put a few brief points to the Government about the reduction of the income rise disregard in the regulations.

As a constituency MP, I know—I am sure all of us know—just how distressing it is for parents in low-paid jobs to find out they have had an overpayment of tax credits, and the hardship and real anxiety that the recovery of those overpayments causes. These changes will make it harder for some families to budget and will create particular uncertainty for those in seasonal, temporary or otherwise insecure employment. As the hon. Member for Salford and Eccles pointed out, that is very likely to push some of those families into debt.

In 2013-14, there were 138,900 overpayments of tax credits in Scotland alone, which is more than 30% of the total number of awards. I take on board what the Government have said today about real-time information improving that situation for some families, but the new arrangements really will not help people with fluctuating or unpredictable incomes. Increasingly, so many people in low-paid jobs are not salaried; they are working on zero-hours contracts, on hourly rates, and their incomes can vary enormously from week to week. Even real-time information cannot predict the future; in areas such as mine, where many work in seasonal jobs, those people could be particularly vulnerable to the impact of these changes, which cannot predict the future and exaggerate the impact of very minimal changes on people's incomes.

The reduction of the income rise disregard will make the existing problems more acute for people whose wages are variable. That brings us to what is, in my view, the biggest flaw in this measure: low-paid parents especially will be financially worse off if they take a better paid job, get a promotion, or work overtime. Once their income has increased by more than the disregard, a claimant will lose tax credits of 41p in the pound. That is a colossal rate of marginal taxation. It could also affect a claimant's level of housing benefit or council tax reduction, leading to perverse incentives and anxiety and uncertainty for low-income families.

The impact assessment process and the inadequacy thereof has already been debated this morning, so I will not reiterate those arguments, but we are indebted to CPAG, which has modelled the impact of the changes on low-paid working families. It contends that a couple with one child, both working full time on minimum wage and with the mother returning from maternity leave, and £100 a week childcare costs—which is probably at the low end of realistic—will be more than £1,000 worse off next year than they would have been under the current arrangements. A lone parent with one child, but no childcare costs, who moves into work next month, doing 30 hours a week at minimum wage, will be nearly £950 worse off over the coming year. I do not think that the Government want to disincentivise work, but that will be the unintended consequence of what the Ministers proposes today. For all those reasons, my colleague and I intend to oppose the regulations today.

11.56 am

Karin Smyth (Bristol South) (Lab): I wish to take issue with the rationale for why the change is happening and why it is happening now. I am a fairly new member of the Public Accounts Committee, to which HMRC officials are regular visitors, and I do not share the confidence in HMRC's ability to react suitably in real time. Office closures have caused issues, but its ability to respond to customers through its various helplines and to manage that process is well documented in our reports.

HMRC officials are not the only regular visitors that cause the Public Accounts Committee concern about the adequacy of data collected across Government Departments to manage such changes. Every Department seems to have a problem with data and systems and there is no evidence that real-time information is efficient. Concerns have also been raised about the impact assessment and how the change will affect real people.

Government Members like to report that what we introduced in 2003 did not go well. We hold our hands up. It did not go well. We put in place measures to

[Karin Smyth]

ensure that things were better, so it is a shame that the Conservatives do not want to learn the lessons of that previous system.

The Public Accounts Committee has also been looking at the roll-out of universal credit. It is thought that some of the changes here will be picked up in how universal credit is rolled out, but the PAC has concerns about how that is going and about the Department's ability to inform Members of Parliament about when and how the change will reach their constituencies. I have no confidence in the Government's ability to make this work in practice and urge that an impact assessment be reconsidered.

11.58 am

Christian Matheson (City of Chester) (Lab): I intend to speak only briefly to seek reassurance from the Minister on one particular matter. My hon. Friend the Member for Salford and Eccles and the hon. Member for Banff and Buchan both spoke eloquently about the problems that this measure may cause to people in insecure, low-paid work or on zero-hours contracts—some of the most vulnerable members of society. We hear a lot from Government about helping such people, but we are seeing less and less practical assistance. My hon. Friend the Member for Bristol South mentioned the problems with HMRC, and anybody who has tried to phone HMRC over the past few years will know of the difficulties there.

It could be that I need to apologise to the Minister as I have may have misunderstood this, but something that has not yet been mentioned is the effect that the requirement for real-time reporting will have on businesses, and small businesses in particular. They may have to report from week to week or month to month on fluctuations or changes in their employees' pay. I am not talking about large corporations with big payroll departments and good IT infrastructure that can perhaps report automatically. Real-time reporting will be an additional strain on small and medium-sized businesses that are already doing monthly VAT returns and other returns for HMRC. Is not there a danger that, in addition to a burden on the lowest paid, there will be a burden on small and medium-sized businesses, in having to keep up with payment week to week and month to month? I should be grateful if the Minister could clarify that.

12 noon

Damian Hinds: I thank everyone who has taken part in the debate, which was constructive and useful. I particularly thank the hon. Member for Salford and Eccles, who speaks for the Opposition, for a measured and constructive speech in which she put some reasonable points and questions.

Alongside the broader steps that the Government are taking on long-term reform to welfare, the creation of jobs, and making work pay, the regulations will reduce the unfairness in the tax credits system. The reduction to the income rise disregard will decrease the instances where one family receives a higher tax credit award than another family with precisely the same income and the same circumstances. That is a clear point of fairness, and I hope that hon. Members can agree that on principle it is the right thing to do.

As I have already set out, the provision returns the income rise disregard to the original level; but there is a key difference, compared with 2003. This time the Government are making sure that the system is able to cope with fluctuations in family incomes. The answer to one of the parliamentary questions tabled by the hon. Member for Salford and Eccles would be that we estimate that the income of about 800,000 claimants will increase by more than £2,500 in year, and that therefore they will have an adjustment to their tax credit payments. Those people are doing the right thing, as a number of Opposition Members have said. They are working hard to increase their income. No one will have a cash loss, because their pay rise will always exceed any change to their tax credit award in year; so there will still be a clear incentive for working claimants to increase their earnings, as they will take home more money.

Dawn Butler: As there is no impact assessment, does the Minister agree that the measure will probably affect women and children more than any other group?

Damian Hinds: The 800,000 recipients are households, and the majority of them will be couples. The majority of those couples will be male and female couples. However, let us be clear, come the end of the tax year, whatever the income rise disregard and with or without today's statutory instrument, their tax credit award will be adjusted downwards to take account of their higher income—by which time they may, of course, have become accustomed to what was to be a temporarily higher award.

The measure ensures fairness to the taxpayer, because a system of large income disregards unnecessarily increases costs. The Exchequer—hon. Members' constituents—bears the cost of paying tax credit recipients a much higher award than they would get if their increased income were taken into account. Rather than continuing with that, the Government are taking action to make tax credits more responsive to income changes, which ensures that more claimants receive the entitlement that more closely reflects their actual income.

Real-time information will ensure that the changes to income can be identified earlier. From September 2016, the majority of claimants will be prompted to report increases of income to HMRC through a text message, voice message or letter, with the default action, in the event of non-response, that the award will be adjusted to reflect the income change. That will mitigate the likelihood of overpayments, and will make clear to claimants, in a fair way, their responsibility to report an increase in their income.

HMRC will provide information to those affected by the change, in tax credits renewals packs and updated guidance and notes to claimants, as well as in briefing lines for the tax credit helpline, to ensure that claimants are aware of the change and what it means for their tax credit award. The Government are committed to seeing the change implemented correctly, and are taking a considered approach to both the operational IT delivery and engagement with claimants, to ensure there will be a reduction in tax credit overpayments and the number of claimants falling into debt.

I will now answer some of the points raised by the Opposition during the debate. The hon. Member for Salford and Eccles asked about the rationale for the precise number, and we have had a similar discussion in previous debates. There is never one single magic number that can be applied to such a threshold.

As the hon. Lady said, the figure of £2,500 brings the design of the income rise disregard back to Gordon Brown's original figure. It is a balance between on the one hand making sure that the system adjusts as quickly and smoothly as possible to someone's rise in income—to reduce the fall they would otherwise experience at the end of the tax year—and on the other not having to make an administrative change, and change the tax credit award, when there is a very small increase, such as from an annual pay award or a small increase in hours. The big change compared with 2003 is real-time information. To answer the hon. Member for City of Chester, real-time information is already operational and has been since 2013. A lot of the debates he mentioned have happened, but it is an important part of the continuing development of our taxation system.

The hon. Members for Salford and Eccles and for Banff and Buchan mentioned people on zero-hours contracts. I think it is always worth repeating this point because sometimes one could get the impression from listening to the Opposition that people on zero-hours contracts are the overwhelming majority when they are not; something like 2.5% rely on a zero-hours contract. Some of those are coming back into the workplace, and some of them are students. On average, zero-hours contracts deliver 25 hours of work a week.

The important point, which also applies to later in the debate, is that tax credits are still based on an annualised estimate of income. It is not necessarily the case that every single time there is a change in someone's hours in a particular month they will have to say that this year's permanence level of annualised income has changed. Through the RTI system there is an opportunity for those on PAYE to be prompted to do so, and others still can do so. The point is what they expect their total annual income to be. That is what the tax credit architecture of the system is based on today. It has always been based on an annual view of income.

The hon. Member for Salford and Eccles also asked how we define no cash losers. It is very simple. People's pay is going up, which is a good thing. Because the tax credits award cannot go down by more than the pay has gone up, therefore these people will be better off.

Chris Stephens (Glasgow South West) (SNP): I have listened attentively to what everyone has said. We know that a large number of the Government's employees are on tax credits. For example, the Department for Work and Pensions has 40% of its employees on tax credits. I ask the Minister whether any assessment has been done on what this proposed change would mean for the Government's workforce.

Damian Hinds: I do not want to repeat myself as though I have nothing new to say. Those are people whose income is going up. This is good news for those people. The change is responding more quickly than would have happened anyway. That is a really important point. It is responding further and more quickly to that change in income, but their income has gone up.

There were quite rightly questions about the equalities impact. In response to the hon. Member for Brent Central, I have already talked about the proportion who are women. We have provided information to the Secondary Legislation Scrutiny Committee. As with all secondary legislation, the Government take into account the equalities impact, as we are legally obliged to do.

I think I have dealt with the questions around fluctuating incomes in relation to zero-hours contracts and the introduction of real-time information. I also want to respond to the point about HMRC and operational efficiency. The hon. Member for Bristol South is right to raise those important points. HMRC's performance has improved significantly this year, answering more than 90% of calls with wait times averaging under six minutes. Of course, we still want those numbers to improve; do not misunderstand me. It brought in additional staff to cover some of the busiest times, recruited some 3,000 more staff and put on additional training.

In conclusion, this change to reduce the income disregard to £2,500 is fair to claimants, reducing inequalities in the tax credit system, and it is fair to the taxpayer, reducing unnecessary cost. There are no cash losers because these are people whose pay is going up quite substantially. It will reduce the incidence of temporarily inflated awards because the system will respond sooner and further to people's change in income. I commend the regulations to the Committee.

Question put.

The Committee divided: Ayes 10, Noes 8.

Division No. 1]

AYES

Adams, Nigel	Davies, Mims
Argar, Edward	Hinds, Damian
Atkins, Victoria	James, Margot
Burns, Conor	Merriman, Huw
Costa, Alberto	Quin, Jeremy

NOES

Butler, Dawn	Smith, Jeff
Long Bailey, Rebecca	Smyth, Karin
Matheson, Christian	Stephens, Chris
Shah, Naz	Whiteford, Dr Eilidh

Question accordingly agreed to.

Resolved,

That the Committee has considered the draft Tax Credits (Income Thresholds and Determination of Rates)(Amendment) Regulations 2016.

12.11 pm

Committee rose.