

Appendix 3 – Two child allowance restriction assessment in LCTRS

Two Child Allowance restriction

The effect of the two child restriction is probably best described by first explaining that most the benefits assessment process involves comparison an applicant's income with national amounts prescribed by DWP to reflect a household needs (for ease of reference we will refer to these as a "needs allowance").

The needs allowance includes amounts for the claimant/partner and an amount for each dependant child known as a "Child Premium". **It is relevant to note the level of Child Premium(s) is approximately the same as the amount of Child Allowance included in Child Tax Credit or Universal Credit payments and as such the Child Premium applied in Housing Benefit and Council Tax Reduction effectively acts as a disregard to the amount of Child Allowance included in the applicant's CTC/UC award**

However, the Government withdrew the Child Allowance included in Child Tax Credit and Universal Credit for any third or subsequent child born on or after 4 April 2017 and consequently the Child Premium was removed for these children in the assessment of both Housing Benefit and pensioner LCTR.

Applicants whose income is equal to or below their needs allowance will get full Housing Benefit and LCTR (less any non-dependant deductions). This includes recipients of Income Support/Job Seekers Allowance and Employment Support Allowance because these benefits are assessed using the same needs allowances as Housing Benefit and LCTR; consequently an award of IS/JSA/ESA "passports" the recipient to full Housing Benefit /LCTR.

Where an applicant's income is above their needs allowance a taper is applied to the excess and this is deducted from full entitlement.

The taper is:

- 65% for Housing Benefit
- 20% for Council Tax Reduction

Case example

Couple with 2 children, weekly rent is £200 weekly council tax is £20.00.

Net earnings after Tax/NI and disregards	£200.00 per week
Working Tax Credit	£50.00 per week
Child Tax Credit	<u>£100.00</u> per week
Total weekly income	£350.00

Needs Allowance	
Couple	£114.85
Family Premium	£17.45
Child Premium	<u>£133.80</u>
(£66.90 for each child x 2)	
Total	£266.10

Total income	£350.00 less
Needs Allowance	<u>£266.10</u>
Excess Income	£83.90

Housing Benefit

Rent £200.00 per week

65% of excess income (£83.90) for Housing Benefit = £54.54

£200.00 rent less £54.54

= **£145.46 Housing Benefit** entitlement

LCTR

Council Tax £20.00 per week

20% of excess income (£83.90) for LCTR = £16.78

£20.00 less £16.78

= **£3.22 LCTR** entitlement

If the same couple had a third child born on or after 4 April 2017 their Child Tax Credit would not change as they would not qualify for a Child Allowance in respect of the third child. Similarly Housing Benefit would remain the same as a Child Premium would not be included in their needs allowance in respect of the third child; which appears logical because there is no Child Allowance paid for this child.

However, due to the fact that we did not apply the two child allowance restriction to our working age LCTRS, the assessment of CTR for affected families is more generous than for Housing Benefit because we are continuing to apply a Child Premium even though they do not get any Child Allowance for this child. Consequently the Child Allowance for the third child is instead offset from their other income as follows:

**The same couple but now with a third child born after 4 April 2017.
Weekly rent is £200 weekly council tax is £20.00.**

Net earnings after Tax/NI and disregards	£200.00 per week
Working Tax Credit	£50.00 per week
Child Tax Credit	<u>£100.00 per week</u>
Total weekly income	£350.00

Needs Allowance (CTR) - Child premium included for third child.	
Couple	£114.85
Family Premium	£17.45
Child Premium (£66.90 x 3 children)	<u>£200.70</u>
Total	£333.00

Total income	£350.00 less
Needs Allowance	<u>£333.00</u>
Excess Income	£17.00 (20% = £3.40).

LCTR (current scheme)

Council Tax £20.00 per week
 20% of excess income = £3.40
 £20.00 less £3.40
 = **£16.60 LCTR** entitlement.

However, if we changed LCTRS to apply the 2 Child Restriction from April 2019, the effect would be as follows (essentially although they have three children they would be restricted to two for the purposes of calculating LCTR):

Needs Allowance (CTR) - Child premium excluded for third child.	
Couple	£114.85
Family Premium	£17.45
Child Premium (£66.90 for 2 children - restricted)	<u>£133.80</u>
Total	£266.10

Total income	£350.00 less
Needs Allowance	<u>£266.10</u>
Excess Income	£83.90 (20% = £16.78).

LCTR (with two child allowance restriction)

Council Tax £20.00 per week
 20% of excess income = £16.78
 £20.00 less £16.78
 = **£3.22 LCTR** entitlement.

So, currently this resident is entitled to £13.38 CTR per week more than he/she would have got had we applied the two child allowance restriction for working age LCTRS cases from April 2017. This is due to the fact that our LCTRS continued to apply the Child Premium in respect of the third child from April 2017 to 31 March 2019 even though these families would not have had the Child allowance for the child included in their CTC or UC payments.

The effect of this is that the Child Premium which would normally apply as a disregard to the Child allowance in the assessment of CTR is instead disregarded against the residents other income thus increasing their CTR entitlement.

As CTR awards are not subsidised by the Government this effectively means that the council are using local funds to partially offset the effects of the Government's decision to withdraw financial support for the third child in CTC/UC.

However, the negative impact on families who have a third or subsequent child between April 2017 and April 2019 would be avoided if we only applied the 2 child restriction in respect of a families where a third or subsequent child is born from April 2019.

It is worth noting that:

1. The two child allowance restriction is applied within all pensioner LCTRS cases.
2. If we were to apply the two child allowance restriction in LCTRS only those residents with income above their needs allowance would be affected. Those on passported benefits (IS/JSA/ESA) would not be affected.
3. According to our records this would affect approximately 218 residents.