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Baroness Hollis
House of Lords
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8 February 2016

Dear Patricia,

I am writing following the second sitting of the Lords Report Stage of the Welfare Reform and Work Bill in order to clarify the changes of circumstances that would give rise to somebody moving from Working Tax Credit (WTC) to Universal Credit (UC).

WTC claimants will always have their WTC claim closed if they form a couple with a person already claiming UC. Claimants in receipt of WTC will also need to make a claim to UC where they have a change in their circumstances which would previously have triggered a new claim for Jobseeker's Allowance, Employment and Support Allowance, Income Support, Housing Benefit or Tax Credits. During the debate you mentioned a number of changes of circumstances which need to be reported. I am afraid it is not possible to give an exhaustive list of each time a claim to UC might be required because it will depend on the individual WTC claimant's circumstances and the specific nature of the change.

For example, in the debate you referred to the example of someone on WTC who has a change in the hours they work. Whilst such a change of circumstances would need to be notified to HMRC, it would only result in the WTC claim closing, and so potentially a new claim to UC, if the number of hours worked each week fell below the minimum required to be entitled to WTC. You also mentioned the circumstances when a claimant has another child or a child leaves school. In neither circumstance would a claimant, already in receipt of Tax Credits, need to make a new claim to UC.

As you will be aware, the requirement to make a new claim to benefit where there has been a significant change of circumstance is not new. It has always been the case that such major changes of circumstances can require claimants to make claims to a different benefit or additional benefit and have their entitlement recalculated based on a new set of rules. A claimant making a new claim due to changes in their circumstances will always receive a different

benefit entitlement, whether in the pre-UC system or in UC. Therefore comparing what a claimant was receiving before their change of circumstance to what they are receiving currently in UC is not a fair comparison.

It is also important to remember that one cannot look at the impacts of any move to UC in the sole context of the changes being made to work allowances. As you have often acknowledged, UC is fundamentally different from the benefits and Tax Credits systems it replaces. For example:

- childcare provision is more generous – moving to 85% of costs covered from April 2016;
- UC extends financial incentives to people working less than 16 hours a week, and removes the limit to the number of hours someone can work; and
- for the first time ever, claimants will receive in-work support to help them progress in work and increase their earnings.

And as I said during the debate:

- the single taper rate remains set at 65%, which is more generous to many, and ensures that the benefits of work are clear, and;
- claimants no longer need to move between different systems just because their hours and earnings change, removing the bureaucracy of having to change benefit claims.

In these ways UC continues to provide real support and therefore I do not think it is appropriate to compare a reformed Universal Credit world with an unreformed Tax Credits world.

We have of course made a commitment that transitional protection will apply where a claimant is moved to Universal Credit as part of a managed exercise, without a change of circumstances. Many of these claimants will be better off on Universal Credit, but those who are not will not suffer a cash loss.

I will ask for a copy of this letter to be placed in the House library.

Yours sincerely
David

LORD FREUD

MINISTER OF STATE FOR WELFARE REFORM