

# Ringling the changes



**Tax credit income reporting in 2003-04 and 2004-05**

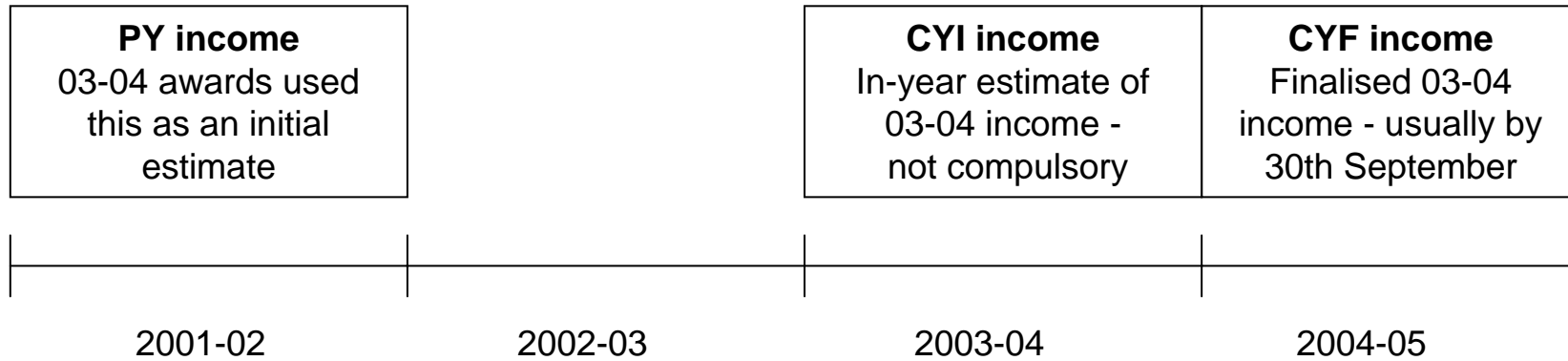
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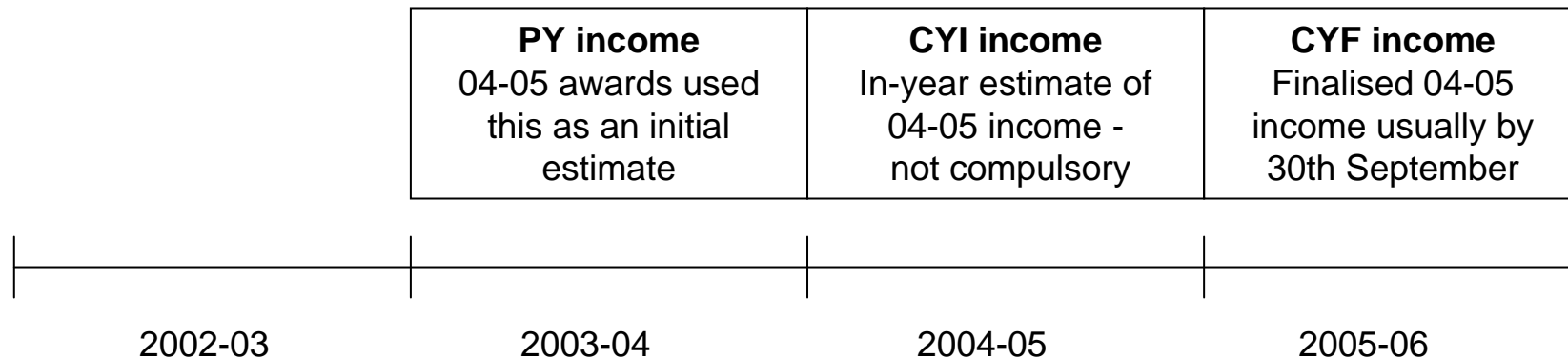
## Tax Credits - How's it worked out?

- Entitlement to tax credits - and amount received - depends on family income and characteristics
- Initially, awards are set using previous year (PY) income
- Families can make a current year income estimate in-year (CYI income) - usually by telephone
- By autumn the following tax year most families have 'finalised' their claim including their income for this tax year (CYF)

## 2003-04 awards



## 2004-05 awards



# Tax Credits - How's it worked out?

## Our questions

- Are previous year and in-year estimates accurate?
- Are in-year income estimates more accurate than PY income?
- Does the accuracy of in-year income reporting improve as the year progresses?
- How many families give multiple estimates of income during the year?  
Are these estimates an improvement on the previous figure?
- Does the propensity to report incomes vary by the position on the tax credits profile?
- What's the comparison between 2004-05 and 2003-04?

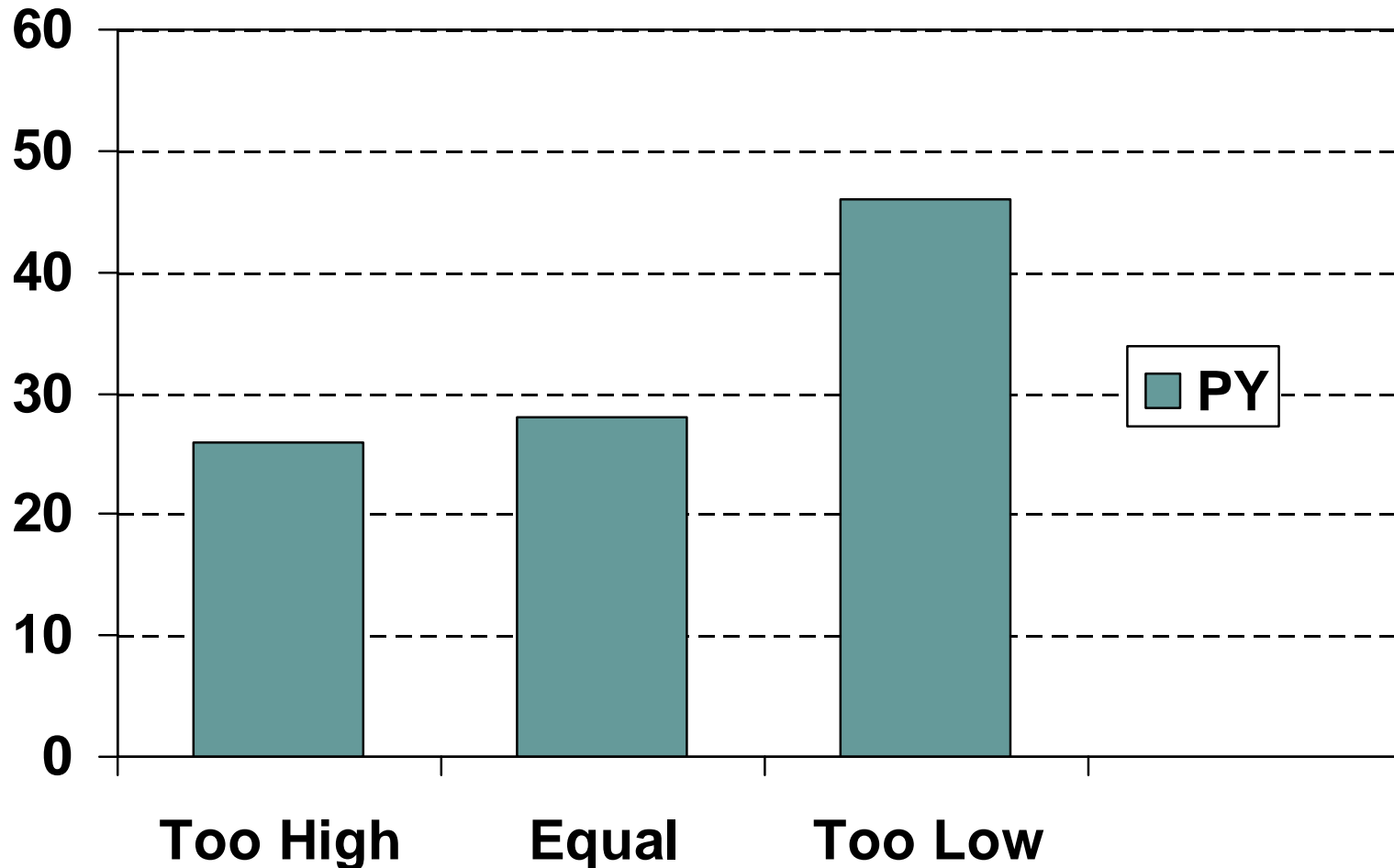
# The Data

- Linked monthly tax credit awards datasets
- 10% sample of singles and 20% sample of couples - around 800 thousand families in each month
- 2003-04 - nine in-year months (July and August 2003, October 2003 to April 2004) and a “finalised income” month of April 2005
- 2004-05 - eleven in-year months (May 2004 excluded) and a “finalised income” month of February 2006
- Missing months, and use of “snapshot” data, means we pick up all changes (eventually) but cannot be precise about timing and will underestimate total number of changes

## Are previous year and in-year estimates accurate?

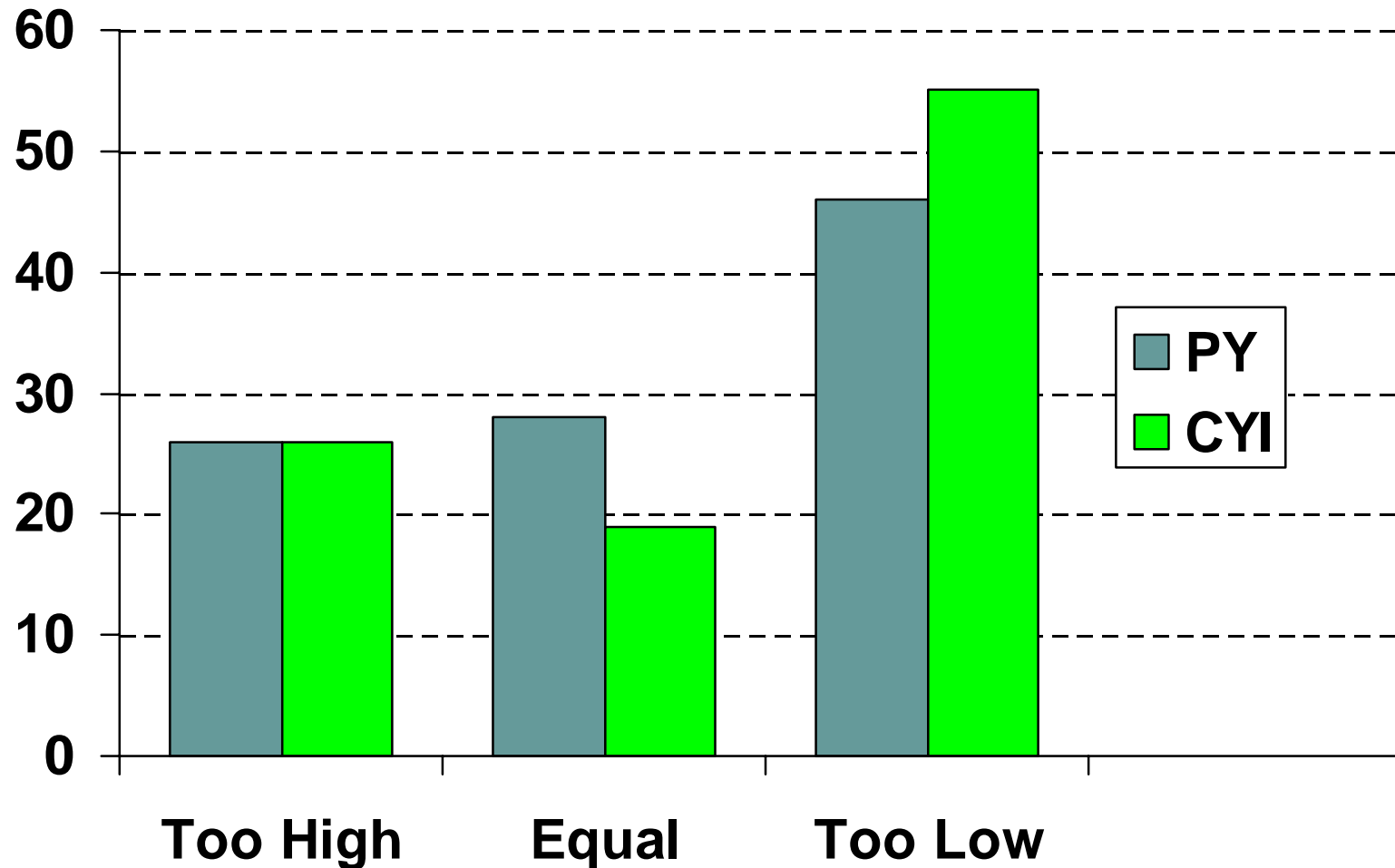
- 5.5 million tax credit awards in 2003-04
- All had a 2001-02 income estimate and a finalised 2003-04 income
- 1.4 million (26%) reported an in-year estimate of 2003-04 income

**Unsurprisingly, for most families their 2001-02 income was too low compared to finalised 2003-04 income...**



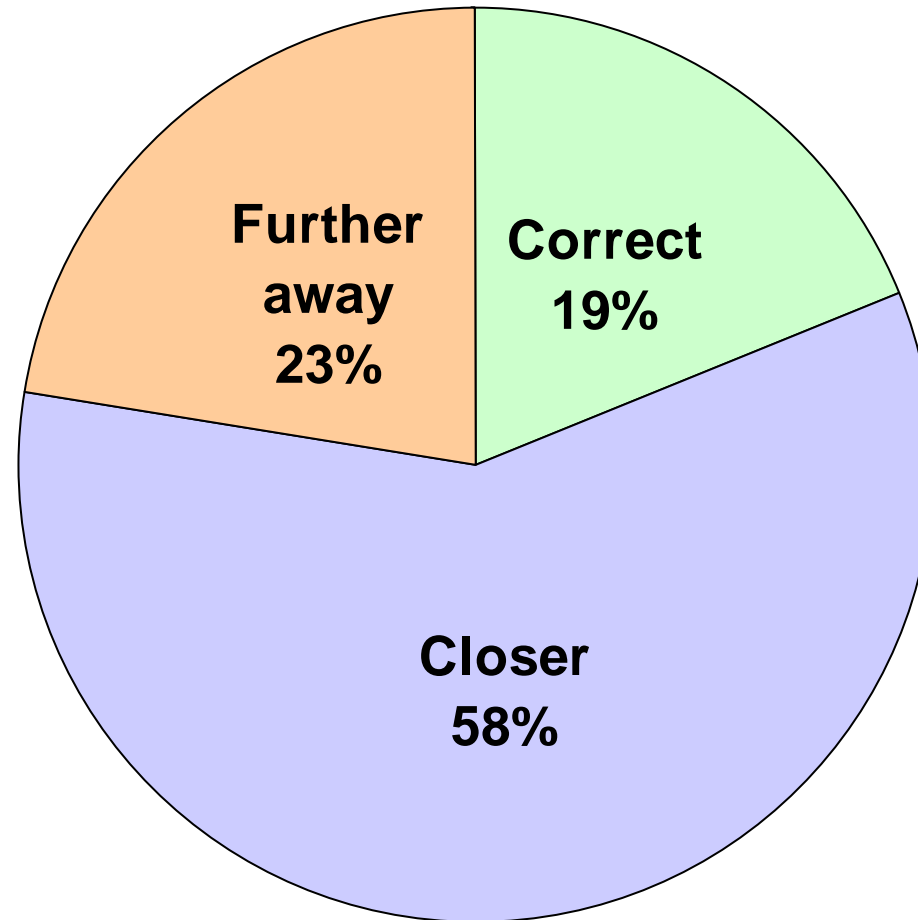
Base: PY 5.5 million, CYI 1.4 million

...and on the face of it, in-year income estimates were not much better....



Base: PY 5.5 million, CYI 1.4 million

**...but in fact giving an in-year 2003-04 income estimate tends to be better than sticking with 2001-02 income**



Base: 1.4 million

## There are some interesting subgroups...

- If their initial 2001-02 income estimate was correct, very few families altered it
- Some families “zig-zag”
  - ⇒ around 300 thousand had a 2001-02 income which was too high, then gave an in-year figure which was too low.
  - ⇒ 170 thousand had a 2001-02 income which was too low, then gave an in-year figure which was too high.

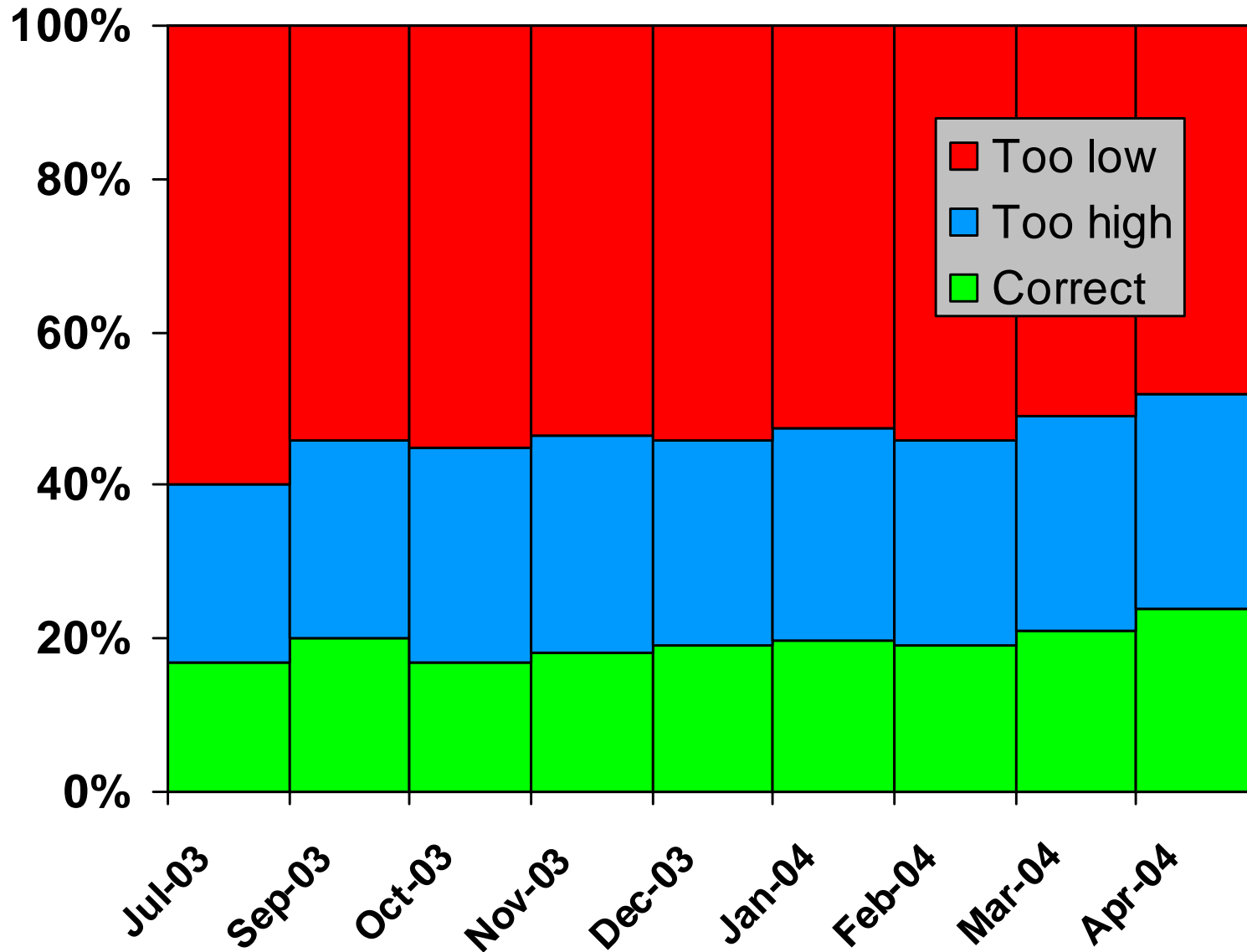
## There are some interesting subgroups...

- And some compounded their errors
  - ⇒ around 30 thousand had a 2001-02 income which was too high, then gave an in-year figure which was even higher
  - ⇒ 140 thousand had a 2001-02 income which was too low, then gave an in-year figure which was even lower

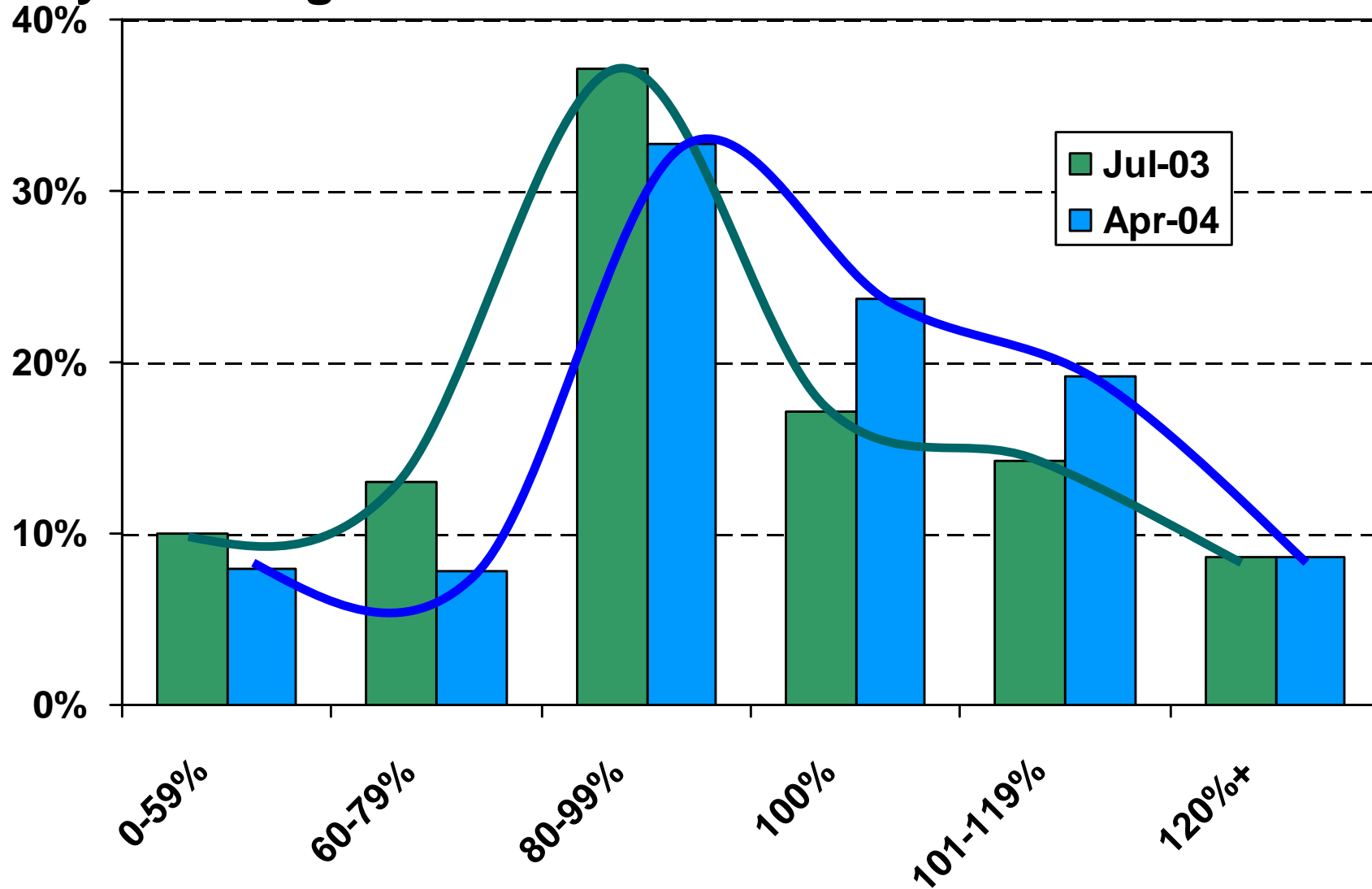
## Does the accuracy of in-year income reporting improve as the year progresses?

- Our initial belief was that people would get better at estimating their current income as the year progressed
- Looking at 2003-04 in-year income estimates by month (although there are a few gaps in the data) seems to confirm that...

...but the improvement is limited...



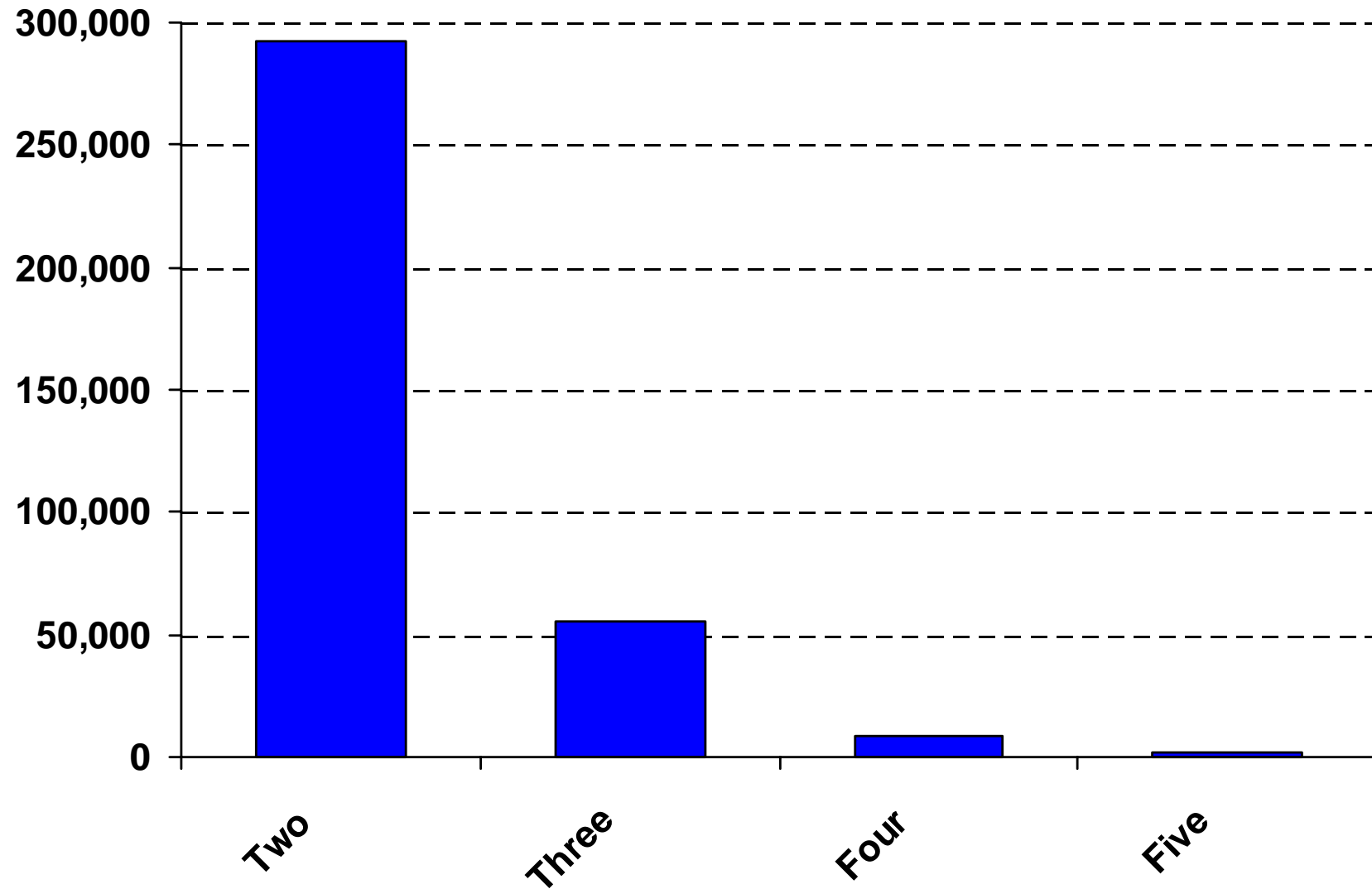
...with a gradual rise in the proportion of estimates later in the year being either correct or modest overestimates



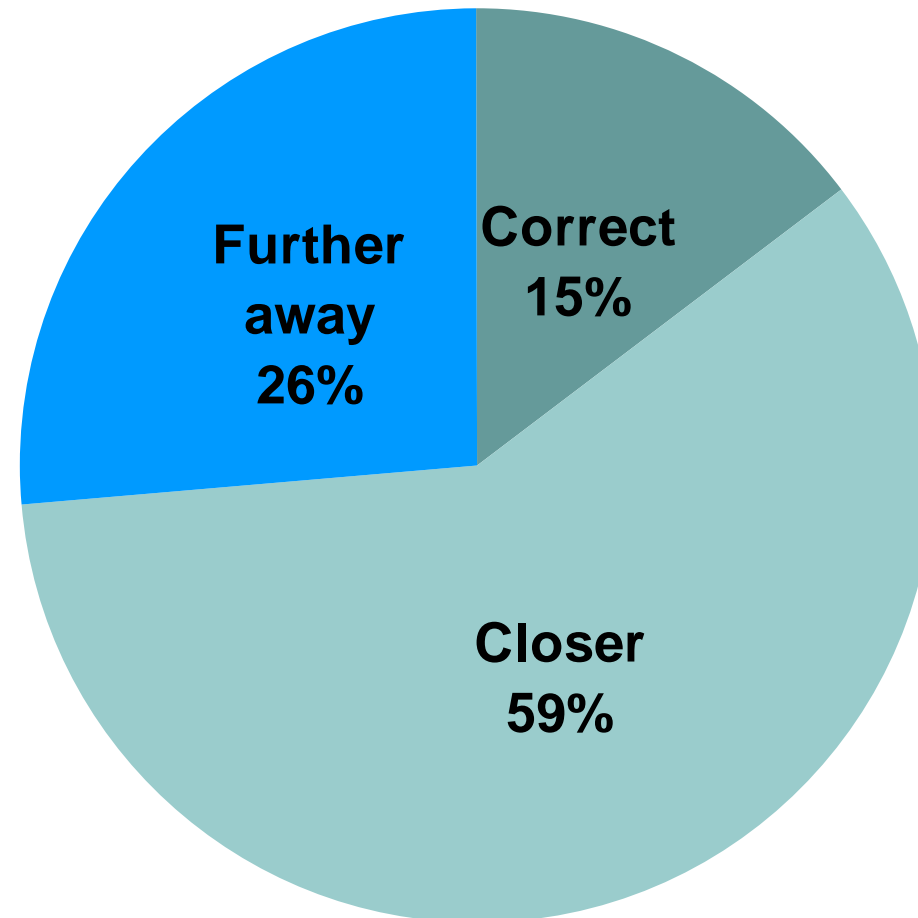
## How many give multiple estimates of income during the year? Are these an improvement on the previous figure?

- So far we have looked at first in-year estimates only
- We have nine months of data for 2003-04 - so can have up to nine different in-year estimates of income
- We compare these income estimates to their finalised 2003-04 income

# At least three hundred thousand families reported an in-year income two or more times...



**...and again, these multiple revisions mostly improve on the previous estimate**

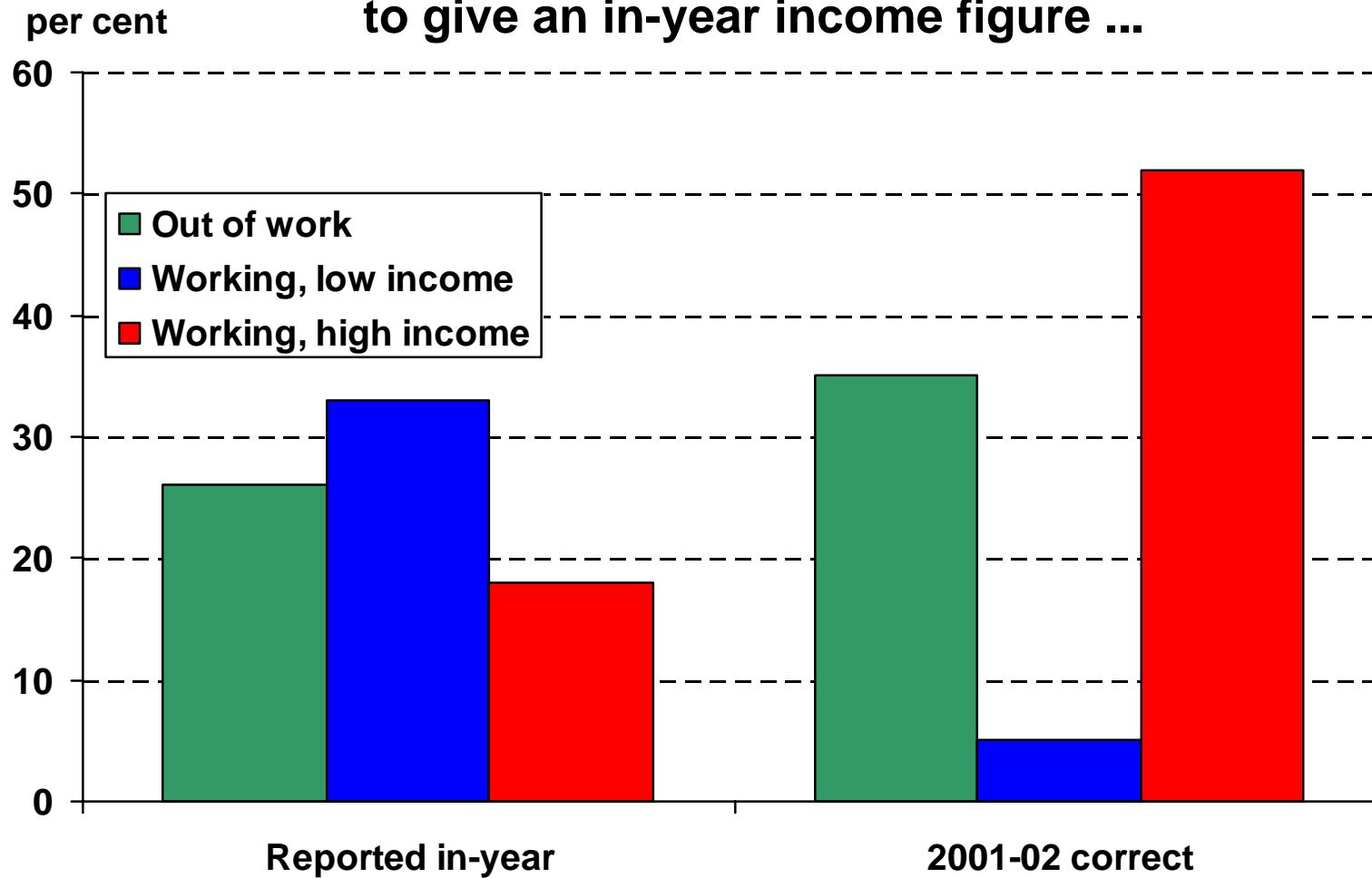


Base: 0.3 million

## Does the propensity to report incomes vary by the position on the tax credits profile?

- Subdivide population into three groups:
  - ⇒ Out of work families with children
  - ⇒ Low income working families with/without children (those on maximum awards/first taper)
  - ⇒ High income working families with children (family element or less)
- Would expect most “action” in the middle group

## Low income working families are most likely to give an in-year income figure ...



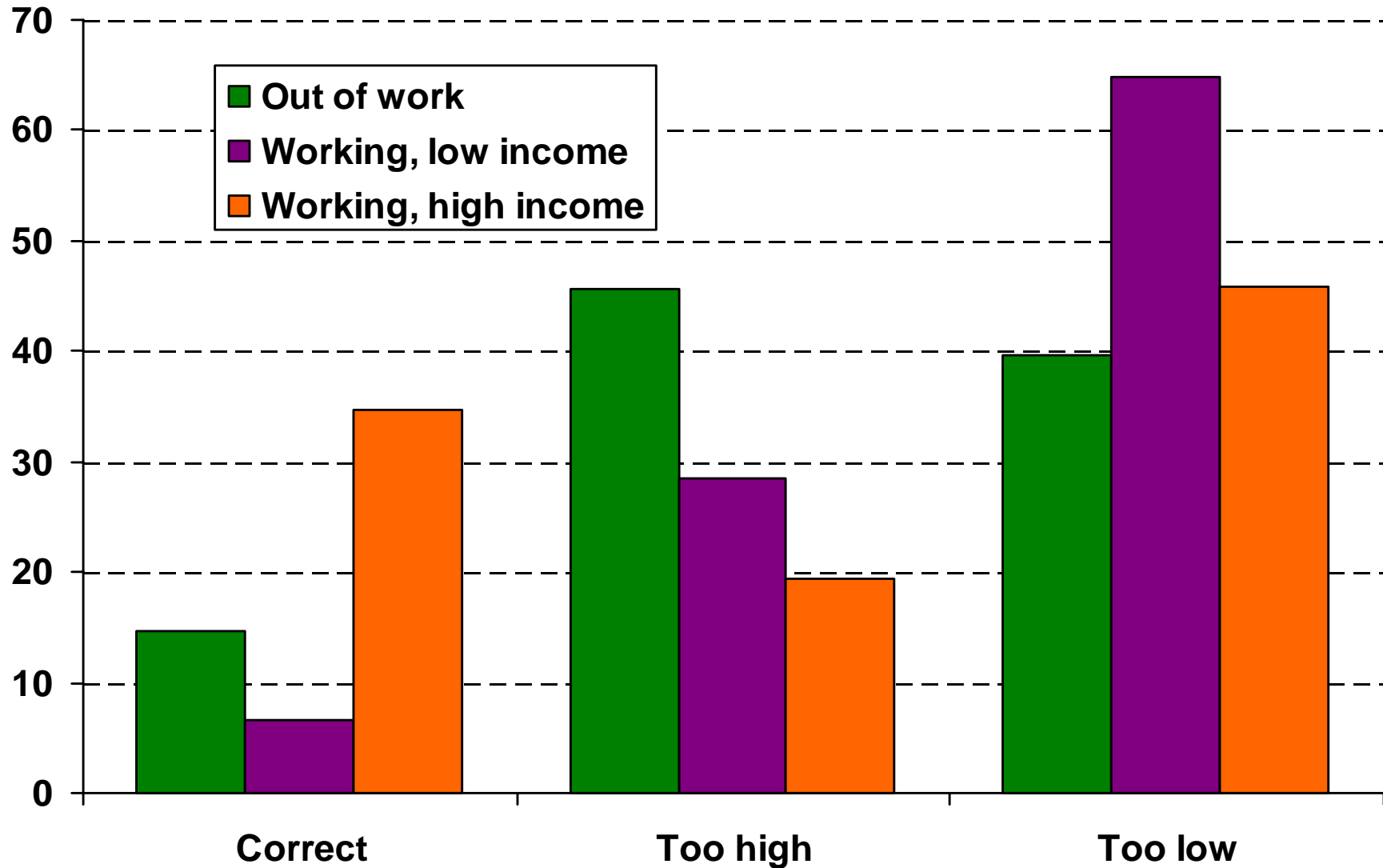
...and least likely to have 2001-02 income matching finalised 2003-04 income...

**...workless families were most likely to have incomes which were too high...**



**...and low income working families were most likely to have incomes which were too low....**

...with broadly similar patterns seen for in-year income reporting



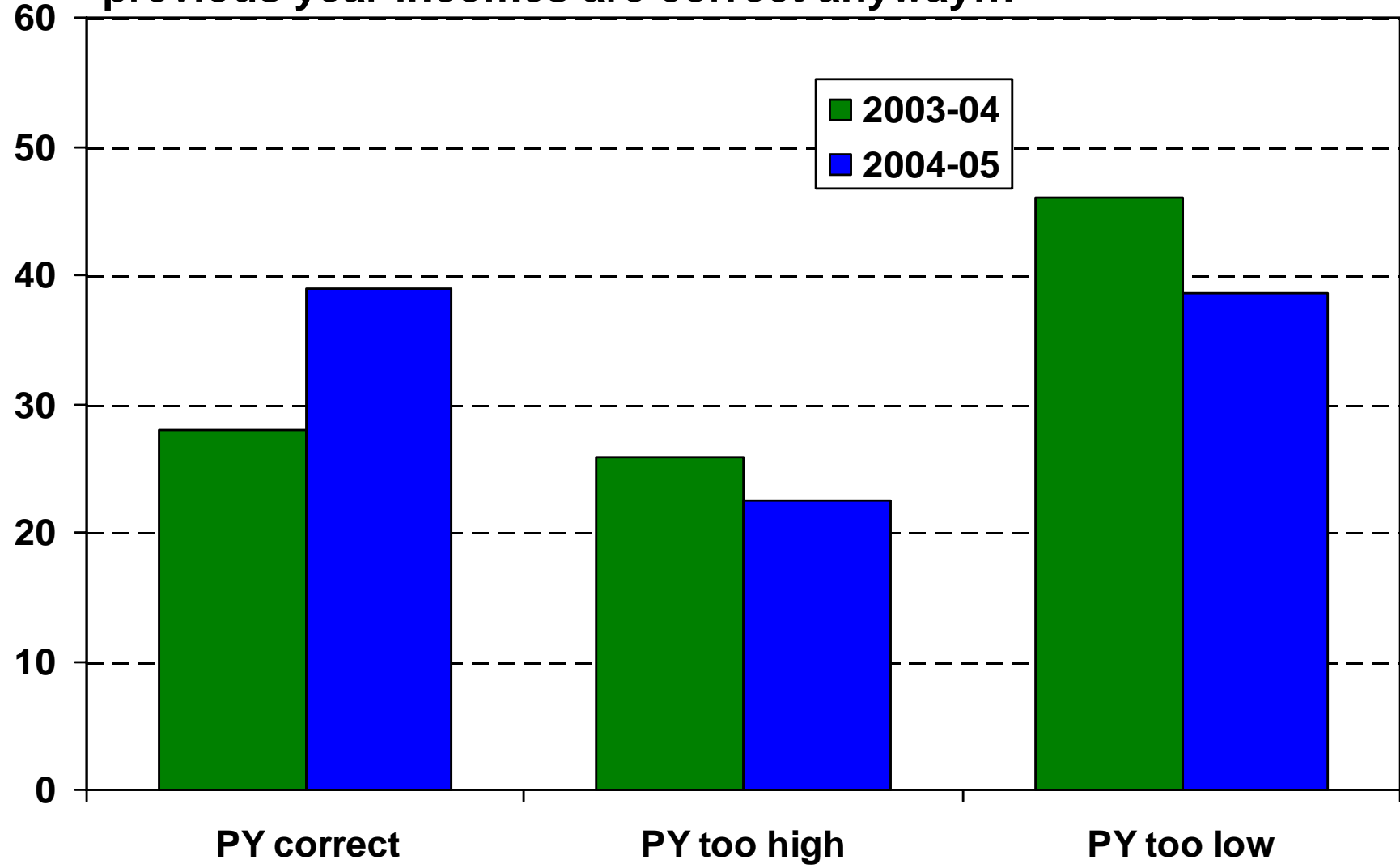
## Are things better or worse in 2004?

- Similar data for 2004-05 as for 2003-04
- Reporting a finalised income figure for 2003-04 automatically updates 2004-05 income - so have to “net off” the impact of finalisation.
- 11 months of in-year data - only May 2004 is missing

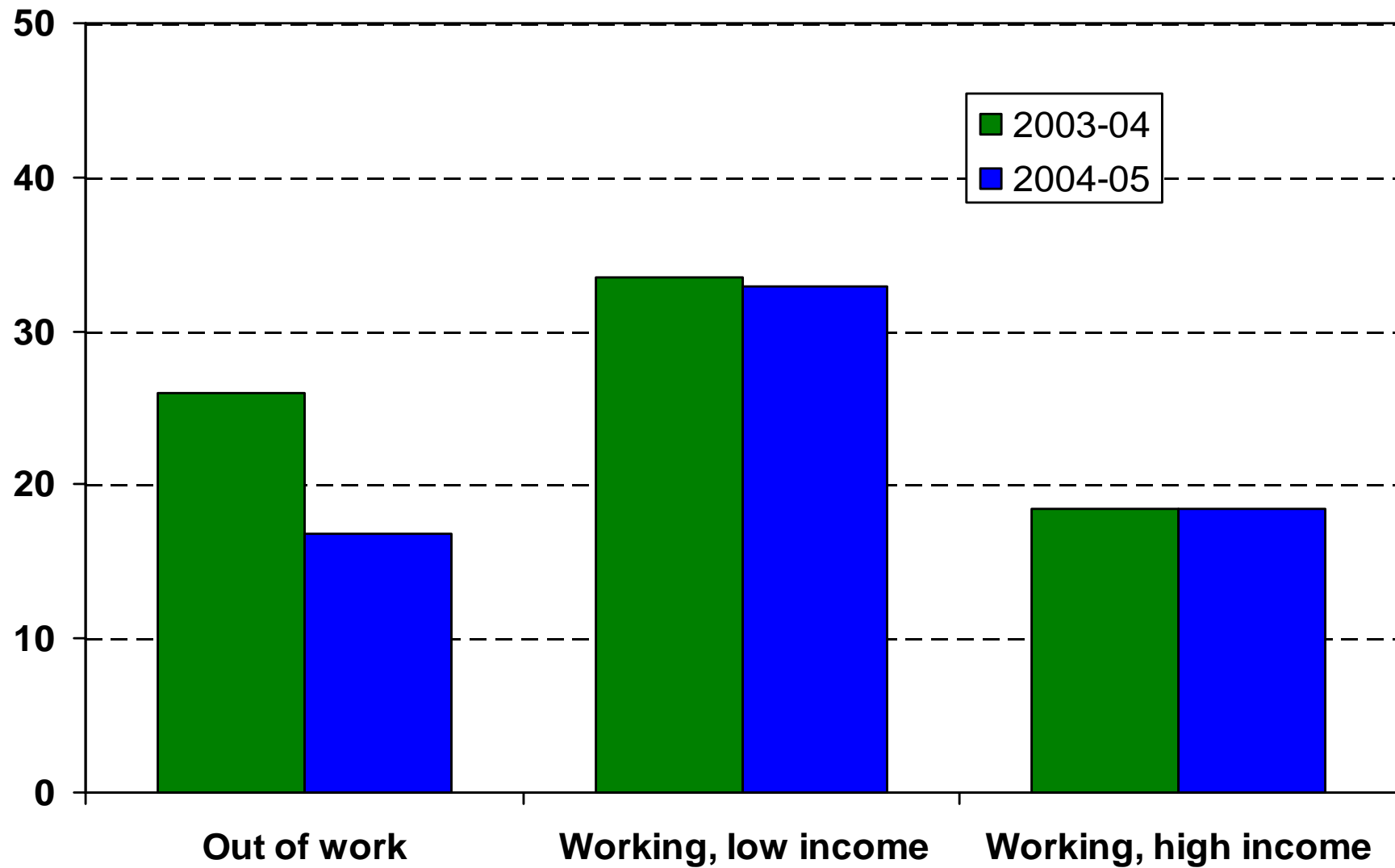
**There has been a decline in the proportion of families reporting in-year...**



...but this is due to a rise in non-reporting amongst those whose previous year incomes are correct anyway...



...which is itself driven by a rise in out-of-work families



## The future...

- Data improvements

- ⇒ 100% data is continuous over time, not a snapshot so can look at “true” number of changes

- Policy changes

- ⇒ £25,000 disregard may lead to decline in in-year reporting

- ⇒ Maybe countered by proactive contact in January of each year

- Do these policy changes ultimately reduce overpayments?  
Need for ongoing monitoring/evaluation