



**HM REVENUE & CUSTOMS
Analysis Team**

**Child Tax Credit and Working
Tax Credit**

Take-up by Ethnic Group

2004-05

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Child and Working Tax Credits

Take-up by Ethnic Group 2004-05

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Introduction

This publication accompanies 'Child and Working Tax Credits: Take-up Rates: 2004-05'¹, and focuses on the take-up of families entitled to Child and Working Tax Credit awards, by ethnic group in 2004-05. It has been published separately from the main take-up rate statistics since it uses a different methodology.

The publication is divided into four sections. Section 1 presents tables based on ethnicity data that is derived from tax credit administrative systems. Section 2 presents some broad comparisons of ethnicity as measured by the administrative data compared to the ethnicity of tax credit recipients on the 2004-05 Family Resources Survey (FRS). Section 3 uses FRS data to calculate **take-up rate differentials**, which are based on a similar methodology to the FRS estimates used in the main publication. These differentials show the estimated differences in take-up rates of Minority Ethnic groups compared to 'White' families. Finally, the methodological section of the publication gives further details of the techniques used to produce all of these figures.

The data used

Two separate data sources have been used to produce the statistics in this publication. These are;

- Administrative data: statistics on in-work families benefiting from tax credits are based on data extracted from the tax credit computer system in April 2006. The extract contained data for each day of the year for most awards. Ethnicity data is based on responses received from the ethnicity questionnaire during the application and renewal processes.
- The Family Resources Survey (FRS): a household survey carried out by the Department for Work and Pensions, which collects a wide range of information relating to (amongst other things) family circumstances and income, which can be used to model families' entitlement to tax credits, and the ethnicity of each adult.

Ethnicity – Coverage

The Annual Declaration (TC603) includes an ethnicity questionnaire, which asks the applicant(s) to indicate which ethnic group they belong to. This section was also added to the tax credit application form (TC600) from April 2005. Applicants are not required to complete this section of the form.

Apart from those choosing not to declare their ethnicity when they return their Annual Declaration, there are other reasons for the incomplete coverage of the ethnicity information. Those renewing by telephone are not asked for their ethnic origin. In addition, there are fewer responses from families receiving the family element of Child Tax Credit only. This is because they do not receive an Annual Declaration, and will not have had the opportunity to complete the ethnicity section (unless they applied recently and gave the information on their TC600). The ethnic groups used in this publication and the categories that they cover are shown in the Methodology.

¹ Also available at <http://www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-take-up.htm>

Glossary of terms used in tables

CTC – Child Tax Credit

WTC – Working Tax Credit

Caseload – the number of tax credit recipients benefiting from a positive award

Classified - families where all applicants have been assigned an ethnic group.

Entitled Recipients (ERs) - families entitled to a positive tax credit award who have claimed

Entitled non-recipients (ENRs) – families entitled to a positive tax credit award who have not claimed

Income used to calculate entitlement – the income figure used to calculate how much families are entitled to, after taking into account the £2,500 annual income disregard

In-work families – families where at least one adult works 16 hours or more per week

Unclassified – families who have chosen not to disclose their ethnicity, or have not had opportunity to give information on their ethnic origin, or have given inconsistent responses either in a single year or in multiple years

Section 1: In-work Families benefiting from tax credits, by ethnic group

Table 1a: Average number of In-work families benefiting from tax credits

| | Total | Couples | Thousands |
|-----------------------------|-------|---------|-----------|
| | | | Single |
| All In-work families | 4,508 | 3,324 | 1,184 |
| Classified | 2,298 | 1,508 | 791 |
| Unclassified | 2,211 | 1,817 | 394 |
| Classified | | | |
| White | 2,097 | 1,366 | 731 |
| Mixed | 27 | 17 | 10 |
| Indian | 48 | 42 | 6 |
| Pakistani/ Bangladeshi | 73 | 68 | 5 |
| Black | 58 | 24 | 35 |
| Chinese or other | 30 | 26 | 4 |
| Any Minority Ethnic group | 233 | 173 | 59 |

Table 1b: Proportion of In-work classified families benefiting from tax credits

| | Total | Couples | Percentages |
|---------------------------|-------|---------|-------------|
| | | | Single |
| All Classified | 100 | 100 | 100 |
| White | 91 | 91 | 92 |
| Mixed | 1 | 1 | 1 |
| Indian | 2 | 3 | 1 |
| Pakistani/ Bangladeshi | 3 | 5 | 1 |
| Black | 3 | 2 | 4 |
| Chinese or other | 1 | 2 | 1 |
| Any Minority Ethnic group | 10 | 11 | 8 |

Notes:

The individual ethnic groups in these tables are not additive, since couple families with applicants from different ethnic groups will appear twice.

The tables in this section show the average number of in-work families with particular characteristics, the average being taken over all the days of 2004-05. Figures are based on entitlements for each day in 2004-05 calculated from information reported by April 2006 (that is, in “finalised” awards), and are consistent with those published in ‘Child and Working Tax Credits Statistics: Finalised annual awards 2004-05’².

A family may appear in more than one ethnic group; this will only occur where tax credits are being received by a couple who are from different ethnic groups. Families that are not included in any ethnic groups due to missing or inconsistent data are shown as ‘Unclassified’. A more detailed breakdown of the unclassified group is given in the Methodology section.

Table 1a shows that almost 2.3 million (around 51%) of in-work families can be classified. Claimants who are single are more likely to be classified than couples. Table 1b shows that over 90% of classified families contain at least one white applicant. 5% of couples are classified as Pakistani/Bangladeshi, compared to just 1% of singles. Couples are also more likely to have Indian or Chinese/other applicants, whereas single adult families are more likely to have a Black applicant.

² Available at <http://www.hmrc.gov.uk/stats/personal-tax-credits/cwct-annual-0405.pdf>

Table 2a: Average number of In-work families benefiting from tax credits

| | <i>Thousands</i> | | | |
|---------------------------|------------------|----------------------------|----------------------|----------|
| | WTC and CTC | CTC only, > family element | CTC <=family element | WTC only |
| In-work families | | | | |
| Classified | 1,001 | 483 | 659 | 155 |
| Unclassified | 443 | 196 | 1,492 | 79 |
| Classified | | | | |
| White | 878 | 448 | 625 | 147 |
| Mixed | 14 | 5 | 7 | 1 |
| Indian | 20 | 11 | 15 | 2 |
| Pakistani/ Bangladeshi | 56 | 9 | 6 | 2 |
| Black | 32 | 13 | 12 | 2 |
| Chinese or other | 13 | 6 | 10 | 1 |
| Any Minority Ethnic group | 133 | 42 | 49 | 9 |

Table 2b: Proportion of In-work classified families benefiting from tax credits

| | <i>Percentages</i> | | | |
|---------------------------|--------------------|----------------------------|-----------------------|----------|
| | WTC and CTC | CTC only, > family element | CTC <= family element | WTC only |
| All Classified | 100 | 100 | 100 | 100 |
| White | 88 | 93 | 95 | 95 |
| Mixed | 1 | 1 | 1 | 1 |
| Indian | 2 | 2 | 2 | 1 |
| Pakistani/ Bangladeshi | 6 | 2 | 1 | 2 |
| Black | 3 | 3 | 2 | 1 |
| Chinese or other | 1 | 1 | 2 | 1 |
| Any Minority Ethnic group | 13 | 9 | 7 | 6 |

Notes:

The individual ethnic groups in these tables are not additive, since couple families with applicants from different ethnic groups will appear twice.

Table 2a shows that most families with children whose award is greater than the Family element, or families without children on 'WTC-only', are classified. However the majority of families receiving less than the Family Element are unclassified (this group do not receive the Annual Declaration form TC603).

Table 2b shows that 13% of families receiving 'WTC and CTC' contain applicants from Minority Ethnic groups. The proportion of families from Minority Ethnic groups falls as entitlement falls. The highest proportion of White or Chinese/other families occurs amongst those benefiting from the Family Element or less, and WTC-only. Mixed and Indian families are distributed fairly evenly across the four groups. The highest proportion of Pakistani/Bangladeshi families occurs amongst those benefiting from 'WTC and CTC' The highest proportion of Black families occurs amongst those benefiting from 'WTC and CTC' or 'CTC>Family Element'.

Table 3a: Average number of In-work benefiting families in each band of income used to calculate entitlement

| | <i>Thousands</i> | | | | | | |
|------------------------------|------------------|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------|
| | Up to £5,060 | £5,060 To £9,999 | £10,000 To £19,999 | £20,000 To £29,999 | £30,000 to £39,999 | £40,000 to £49,999 | Over £50,000 |
| All In-work families | 448 | 624 | 956 | 1,116 | 840 | 392 | 133 |
| Classified | 294 | 440 | 671 | 498 | 211 | 105 | 79 |
| Unclassified | 154 | 184 | 284 | 618 | 629 | 287 | 54 |
| Classified | | | | | | | |
| White | 253 | 390 | 612 | 467 | 199 | 100 | 76 |
| Mixed | 4 | 5 | 8 | 5 | 2 | 1 | 1 |
| Indian | 5 | 8 | 15 | 11 | 5 | 2 | 2 |
| Pakistani/ Bangladeshi | 23 | 24 | 17 | 6 | 2 | 1 | 0 |
| Black | 7 | 11 | 21 | 12 | 4 | 2 | 1 |
| Chinese or other | 4 | 5 | 9 | 6 | 3 | 2 | 1 |
| Any Minority Ethnic group | 43 | 53 | 68 | 40 | 16 | 8 | 5 |

Table 3b: Average number of In-work benefiting families in each band of income used to calculate entitlement

| | <i>Percentages</i> | | | | | | |
|------------------------------|--------------------|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------|
| | Up to £5,060 | £5,060 To £9,999 | £10,000 To £19,999 | £20,000 To £29,999 | £30,000 to £39,999 | £40,000 to £49,999 | Over £50,000 |
| All Classified | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| White | 86 | 89 | 91 | 94 | 95 | 95 | 96 |
| Mixed | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Indian | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Pakistani/ Bangladeshi | 8 | 5 | 2 | 1 | 1 | 1 | 0 |
| Black | 2 | 3 | 3 | 2 | 2 | 2 | 1 |
| Chinese or other | 1 | 1 | 1 | 1 | 2 | 2 | 1 |
| Any Minority Ethnic group | 15 | 12 | 10 | 8 | 8 | 7 | 6 |

Notes:

The individual ethnic groups in these tables are not additive, since couple families with applicants from different ethnic groups will appear twice.

Table 3a shows that the majority of families with incomes under £20,000 can be classified. Families with higher incomes are less likely to be classified, with the exception of those with incomes over £50,000.

Table 3b shows that families with lower incomes have a higher proportion of families containing applicants from Minority Ethnic groups. 8% of classified families with incomes up to £5,060 are of Pakistani/Bangladeshi origin, compared to less than 1% of families with incomes over £50,000. Families classified as Mixed, Indian and Chinese/other are spread much more evenly across the income distribution.

Section 2: Comparison of administrative and FRS ethnicity data

Table 4: Proportion of classified in-work families with children

| | Administrative | Percentages |
|---------------------------|----------------|-------------|
| | | FRS |
| All Classified | 100 | 100 |
| White | 91 | 91 |
| Mixed | 1 | 1 |
| Indian | 2 | 2 |
| Pakistani/ Bangladeshi | 3 | 3 |
| Black | 3 | 3 |
| Chinese or other | 1 | 2 |
| Any Minority Ethnic group | 10 | 11 |

Table 5: Proportion of classified in-work families with children receiving more than family element

| | Administrative | Percentages |
|---------------------------|----------------|-------------|
| | | FRS |
| All Classified | 100 | 100 |
| White | 89 | 88 |
| Mixed | 1 | 1 |
| Indian | 2 | 3 |
| Pakistani/ Bangladeshi | 4 | 5 |
| Black | 3 | 3 |
| Chinese or other | 1 | 2 |
| Any Minority Ethnic group | 12 | 13 |

Notes:

The individual ethnic groups in these tables are not additive, since couple families with applicants from different ethnic groups will appear twice.

The 'Any Minority Ethnic Group' category covers families where the at least one applicant is Mixed, Indian, Pakistani/ Bangladeshi, Black, Chinese or other.

This section shows ethnicity as measured by the administrative data compared to the ethnicity of tax credit recipients on the Family Resources Survey (FRS). The purpose of this comparison is to verify that the FRS data is representative, and that there is no ethnic bias in the FRS recipients data relative to administrative data on benefiting families. This will allow for estimates of take-up differentials to be produced using FRS data, and gives greater confidence that these are accurate.

Each of the two datasets has certain shortcomings. The 2004-05 administrative data covers all tax credit recipients; however the ethnicity data is incomplete. The 2004-05 FRS has more complete ethnicity data, but tends to underestimate the number of tax credit recipients.

Tables 4 and 5 show the proportion of in-work families with children in each ethnic group, using data from the FRS and the tax credit system. The tables cover in-work families with children and exclude out of work families and those benefiting from WTC-only. Table 5 also excludes families with children benefiting from the family element or less, as they were less likely to be classified.

Table 4 shows that the vast majority of families are classified as White. At least 90% of in-work families with children have at least one white applicant, while around at least 10% of families with children contained an applicant who belonged to a Minority Ethnic group. The proportion of Mixed, Indian, Pakistani/Bangladeshi and Black families is the same in each data source. The proportion of Chinese/Other families is

1 percentage point higher in the FRS, while the proportion of White families is 1 percentage point lower.

The proportion of 'white' families falls slightly to 88/89% if family element or less cases are excluded (Table 5), and 'any Minority Ethnic' families increase to 12/13%. The FRS figures tend to show slightly higher proportions of families classified as Indian, Pakistani/Bangladeshi, and Chinese/other and less families classified as White.

The fact that the proportions derived from the administrative and FRS datasets are very similar gives us some confidence that the FRS data on ethnicity of tax credit recipients can be used to produce reasonably reliable analysis of take-up by ethnicity. This is the subject of the next section.

Section 3: Take-up differentials

Table 6: Take-up differentials by ethnic group

| | Caseload take-up differential | | | Expenditure take-up differential | | |
|---------------------------|-------------------------------|------------------|-------------|----------------------------------|------------------|-------------|
| | Lower bound | Central estimate | Upper bound | Lower bound | Central estimate | Upper bound |
| White | - | - | - | - | - | - |
| Mixed | -11 | -5 | 1 | -12 | -4 | 5 |
| Indian | -24 | -18 | -13 | -30 | -19 | -7 |
| Pakistani/ Bangladeshi | -6 | -2 | 3 | -11 | -5 | 2 |
| Black | -10 | -6 | -2 | -11 | -5 | 1 |
| Chinese or other | -25 | -20 | -15 | -33 | -23 | -13 |
| Any Minority Ethnic group | -12 | -10 | -8 | -14 | -10 | -6 |

Notes:

FRS figures are based on data from 2003-04 and 2004-05. Lower and upper bounds represent 95% confidence intervals.

Table 6 shows take-up differentials for caseload and expenditure take-up rates for families with children. The differential is the difference in percentage points between the take-up rate of families containing applicants from Minority Ethnic groups, compared to families with white applicants. The upper and lower bounds represent 95% confidence intervals around the central estimates.

The take-up rate differentials are produced entirely using the FRS and include all families with children benefiting from tax credits. Data from 2003-04 and 2004-05 has been combined to improve the robustness of the statistics.

Take-up figures in the main publication are presented as rates and are based on both administrative and FRS data. However, as only 51% of families on the administrative data report their ethnic origin, table 6 is based on FRS data only. Differentials in FRS take-up rates are shown rather than the rates themselves because FRS-based take-up rates tend to under-estimate “true” take-up rates. By presenting differentials, we make the implicit assumption that this under-estimation applies proportionately across different ethnic groups. The analysis in section 2, comparing the ethnicity of tax credit recipients in both FRS and administrative datasets, suggests that this assumption is a reasonable one to make, at least for recipients.

Table 6 shows that, for each group, our central estimates of both caseload and expenditure take-up rates are lower than those for the White group. Based on this data, families containing an applicant who belonged to a Minority Ethnic group were estimated to be 10 percentage points less likely to claim their tax credit entitlement than families with White applicants. The expenditure take-up rate is also estimated to be 10 percentage points lower for Minority Ethnic families.

Families with Chinese or other applicants were estimated to have the highest take-up differential. They were 20 percentage points less likely to claim their entitlement than White families, while the expenditure take-up rate was 23 percentage points lower. Indian families’ take-up rates were also estimated to be lower than those of White families. They were 18 percentage points less likely to claim their entitlement, while expenditure take-up was 19 percentage points lower.

For other ethnic groups, the differentials are rather smaller. Black families were estimated to be 6 percentage points less likely to claim their entitlement, while expenditure take-up was 5 percentage points lower.

The upper bounds of the confidence intervals shows that for Mixed and Pakistani/Bangladeshi families, FRS sample sizes prevents us from concluding, with 97.5 per cent confidence, that the rate is lower than that of White families. Estimated take-up rates for Mixed families were close to those of White families – such families were 5 percentage points less likely to claim their entitlement, and expenditure take-up was 4 percentage points lower. Similarly, Pakistani/Bangladeshi families had take-up rates that are quite close to those of White families. They were estimated to be 2 percentage points less likely to claim their entitlement, while expenditure take-up was 5 percentage points lower.

Methodology

Section 1:

In order to determine the ethnic group(s) in which a family should be placed, applicants are first assigned an ethnic group. If all the applicants in a family have been assigned then the family will be classified. If one or more applicants have not been assigned an ethnic group the family will not be classified. A more detailed explanation of this process follows.

The tax credit application form (TC600) and the Annual Declaration (TC603) include an ethnicity questionnaire. Most families receive an Annual Declaration each year; therefore, based on the data collected by December 2006, applicants can have up to 3 years of ethnicity data available (relating to 2003-04, 2004-05 and 2005-06).

| Applicant Ethnic Group | Categories on form TC600 & TC603 |
|--------------------------------|-----------------------------------------------------------------------------------------|
| White | White |
| Mixed: | White and Black Caribbean White and Black African White and Asian Mixed: Other |
| Indian | Asian: Indian |
| Pakistani/ Bangladeshi | Asian: Pakistani Asian: Bangladeshi |
| Black: | Black Caribbean Black African Black: Other |
| Chinese or other ethnic group: | Chinese Asian: Other Other (not elsewhere specified) |

The table above shows the ethnic categories listed on the forms, and how they fit into the broader ethnic groups that are used in this publication. This data has been used to ensure that each applicant is placed in the correct ethnic group. Applicant's who give a consistent response, in all years for which they responded, are grouped as such. If an applicant gave inconsistent responses, refused to answer, or did not have any data then they were not assigned an ethnic group.

The ethnicity of a family is dependent on the ethnic group(s) of its applicants. Families, specifically couples, may be included in all the ethnic groups to which the applicants have been assigned. For example a family will appear in the tables twice if one applicant is 'White' and their partner is 'Black'.

Only '**classified**' families are broken down into ethnic groups. A 'classified' family is one where **all** applicants have been assigned an ethnic group. Families are not classified if one or more of its applicants have not been assigned an ethnic group.

Just over half of in-work families benefiting from tax credits are 'classified' in 2004-05. A breakdown of unclassified families is provided below:

| | <i>thousands</i> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Total Unclassified | 2,211 |
| <i>Insufficient response data:</i> | |
| No response data for any applicant | 2,011 |
| One partner within a couple does not have any response data | 75 |
| <i>Refusals or Inconsistent responses</i> | |
| All applicants refused to state ethnicity | 64 |
| One partner within a couple has refused to state ethnicity | 13 |
| One or more applicants have given inconsistent responses when comparing questionnaires from different years, or multiple (and inconsistent) responses on a single year's questionnaire. | 47 |

Section 2:

The figures in this section are derived using administrative data (see above) and FRS data from 2004-05. They include an adjustment for backdating, i.e. families that had applied but were not receiving an award at the time they were surveyed³. Further details about the FRS can be found in the main take-up publication.

The survey includes a question on the ethnic group of each adult in a family. The majority of families provide this information, and most can be classified. The classification process is the same as that used on the tax credit administrative data.

Section 3:

The take-up rate differentials are produced entirely using 2003-04 and 2004-05 FRS data.

The take-up calculation is similar in form to that in the main publication, however no adjustment has been made to reflect the impact of the disregard. This adjustment is normally calculated using the BHPS, however the sample size of this survey is too small to give reliable adjustments by ethnic group. The calculation also takes no account of cases whose payments are reduced to zero, which is carried out using administrative data.

The formula used in this publication is:

$$\frac{C_{FRS}}{C_{FRS} + (ENR_{FRS} - BA_{FRS})}$$

Where:

C_{FRS} is the number of families receiving tax credits based on the FRS

ENR_{FRS} is the estimated number of those entitled, but not receiving tax credits based on the FRS

BA_{FRS} is an adjustment for backdating, since some ENRs who applied after the FRS interview date, or were waiting for an award for which they had already applied, would subsequently receive tax credits which covered that date.

The caseload take-up rate differentials are then calculated as the difference between the take-up rate for White families and those of each of the Minority Ethnic groups. A similar calculation is carried out to derive expenditure-based take-up rate differentials.

³ Unlike the main publication, the backdating adjustment is not derived from administrative data. It is based on the number of entitled families in the FRS who are not receiving a tax credit but report that they are waiting for the outcome of a tax credit claim.