

Two-child limit briefing

The 'two-child limit' for child tax credit and universal credit comes into force on 6 April 2017

Families who claim tax credits or universal credits, which have a third or subsequent child born after 6 April 2017, will no longer be able to claim a child element for this child or any future children. The child element is worth up to £2,780 per year (£232 per month) and until now has been payable for all children in low- income families to help protect them from poverty.

Families who make a new claim for universal credit¹ will only receive the child element for two children per family, even if the children were born before April 2017.

Limited exceptions are available: if third or subsequent children are part of multiple births, adopted, being looked after by families and friends, or conceived through rape or in a coercive relationship.

What sort of families will be affected?

The largest group affected will be working families with three children.

Latest available statistics² show that 872,000 families with more than two children claimed tax credits in 2014/15. 65% were working families and 68% had only three children. A similar number of families can be expected to be affected by the two-child limit in the future (not immediately, as most children born before April 2017 will be protected as long as their family remains on tax credits or universal credit).

The policy is not targeted at large out-of-work families; their total award is already limited by the benefit cap.

The policy will mean 200,000 additional children in poverty

New analysis by CPAG and IPPR has found that once universal credit is fully rolled out, the two- child limit will result in up to 200,000 additional children in poverty.³

	Poverty impact of two child limit (After Housing Costs)
Adults	+100,000
Children	+200,000

Source: analysis of 2014/15 family resources survey using the IPPR tax-benefit model

This assumes all households have moved to universal credit, ignoring temporary transitional protection. It was carried out using the IPPR tax-benefit model, which uses latest available data from the UK Family Resources Survey to assess the fiscal and distributional impact of changes to the tax and benefit system.

Families with three or more children are already at a higher risk of poverty. 39% of children in these families already live in poverty after housing costs, compared with 26% of those in families with two children.⁴

A family with two children, where both parents work full time for the minimum wage, already falls 12% short of the income that the general public regards as necessary for a minimum acceptable standard of living.⁵

Families with three or more children, if not entitled to any additional tax credit or universal credit payments, will clearly fall much further behind than this.

CPAG's view on the two-child limit: unfair and illogical

The two-child limit breaks the link between the assessment of children's needs and the support they receive. Under this policy, some children are held to be less deserving of a decent standard of living than others, simply because they have more siblings – a circumstance which they cannot control.

The policy risks creating incentives for larger families to separate, and could discourage single parents from forming new ‘blended’ families. It could also penalise children in separated families who switch the parent they live with – for example to be with siblings, or to remain in their school if one parent moves away.

It may also leave women who become pregnant with a third child, for example through contraception failure, with a difficult choice between moving into poverty and having an abortion.

The logic on which the policy is based is also fundamentally flawed. The government has stated that the policy is intended to encourage families to ‘think carefully about whether they are financially prepared to support a new child without relying on the tax credits or means-tested benefit systems’.⁶

But this ignores the fact that any form of contraception can fail, even if used correctly, meaning that there will always be a certain number of unplanned pregnancies. It also assumes that families can guarantee to be financially secure for 18 years when they have a child. But only the very wealthy are in this position, as any family can be hit by redundancy, illness, separation or widowhood, leading to a significant loss of income.

A case from CPAG’s early warning system

The client and his wife have three children. Recently the client’s wife suffered a serious injury. She is in hospital and he has had to reduce his working hours to look after the children. This has left the family with less income, and the children’s mother may not be able to work again. Their father hopes to increase his working hours again in the future but in the meantime tax credits are vital for the family to manage.

Under universal credit, the limit will apply retrospectively to children born before the policy was announced, if their family makes a new claim. There is clearly no way these families could have been expected to alter their decision to have a child based on this policy – they will simply now not be entitled to support if they need it.

Serious implementation concerns

The implementation of the policy will be controversial and in our view preparation has not been adequate. If the policy is intended to inform parents’ choices about having children, it ought to have been publicised a minimum of ten months before coming into effect. Instead, the rules on which children will be eligible for an exception are still before Parliament and there has been very little attempt to communicate the policy to the public. For example, there is no information on the change on the government’s main webpage about Universal Credit, where families are likely to look for information about their entitlements.⁷

The exception for children conceived through rape or coercion risks causing women trauma and humiliation, as they have to obtain a third party statement that their circumstances are consistent with conceiving in this way. There is also a risk of serious privacy breaches, as both family members and authorities which require proof of income could easily deduce the circumstances. The government has done little to address these concerns, and details of the assessment process had not been made available, with less than two weeks until the policy comes into effect, at the time of writing.

¹ Universal Credit is currently being rolled out and is expected to fully replace tax credits in 2022.

² Child and Working tax Credit Statistics, UK: Finalised Annual Awards in 2014-15. HMRC, 2016. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525464/cwct_awards.pdf

³ ‘Broken promises: what has happened to support for low income working families under universal credit’. CPAG, 2017.

<http://www.cpag.org.uk/content/broken-promises-what-has-happened-support-low-income-working-families-under-universal-credit>

⁴ Households below average income (HBAI) statistics 2015/16, Table 4.5db. DWP, 2017. <https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

⁵ Hirsch, D. ‘The cost of a child in 2016’. CPAG, 2016. <http://www.cpag.org.uk/cost-of-a-child-2016>

⁶ ‘Exceptions to the limiting of the individual Child Element of Child Tax Credit and the Child Element of Universal Credit to a maximum of two children.’ Public consultation. DWP. 2016. <https://www.gov.uk/government/consultations/universal-credit-and-child-tax-credit-exceptions-to-the-2-child-limit>

⁷ <https://www.gov.uk/universal-credit>