**Oh dear! Council Tax Benefit doesn’t fit**

By Trevor Newman

The Spending Review on 20th October contained the unexpected announcement that Council Tax Benefit was to be cut by 10%. We should not have been too surprised by that: in this cash-strapped climate, Housing Benefit’s little brother was always likely to get its own special cut. But it is the *way* that the cut is to be delivered that was unexpected.

*Local Authorities* were to decide exactly how to achieve the 10% saving. **Not central Government**. In other words, Council Tax Benefit had just been downgraded from a national welfare benefit to a local scheme.

A special plan, then, for Council Tax Benefit. But why go to the trouble of making a special plan, when Universal Credit is just around the corner? Why agonise over more new rules when Council Tax Benefit will soon be subsumed by the Universal Credit? Well, because Council Tax Benefit is **not** going to be subsumed by the Universal Credit. This was the conclusion I drew when I first read about the 10% plan. Indeed, my suspicions were correct: shortly afterwards the DWP confirmed that Council Tax Benefit is to be left-out of the Universal Credit, and become a local scheme from April 2013.

**Is this a good thing?**

For Universal Credit to work well, it needs subsume as many of the current means-tested benefits as possible. This, it could be argued, is the whole point of it. Just one benefit, eroded by just one income taper as the customer’s wages increase. This way, the customer needs make just one calculation to see how much better-off he or she will be by taking-on that new job, or doing those extra hours.

Most people have to pay Council Tax. So by leaving Council Tax Benefit out of the Universal Credit, the customer is condemned to making two calculations. But surely that’s not too bad, just two calculations? Still better than the several a customer might have at present?

Of course, its not as simple as that. The working customer may still be subject to income tax and national insurance. So really, there will be **four** calculations that he or she will have to do:

1. Universal Credit
2. Council Tax Benefit
3. income tax
4. national insurance

The integrity of Universal Credit is at stake here: leave out Council Tax Benefit, and you are starting to erode the principle a universal benefit, whereby customers can easily work-out how much they will get. It begs the question: is a compromised Universal Credit worth the massive cost of introducing it?

**So why was Council Tax Benefit left out?**

Two main reasons:

1. Currently, Council Tax Benefit is paid straight into the customer’s Council Tax account. In other words, its an offset. No real cash changes hands, and local authorities don’t have to worry about collecting that amount from the customer (collecting tax is expensive). If Council Tax Benefit was rolled into the Universal Credit, then either:

* a clever way of extracting the correct proportion of the customer’s Universal Credit and paying straight to the Council Tax department would have to be devised, or
* the customer would have to be trusted to pay his/her own Council Tax out of his/her Universal Credit.

Neither option is especially attractive.

1. The obvious way to solve the problem of Council Tax Benefit would have been to do-away with Council Tax itself. Just collect a tiny bit more income tax, and we’re done [for further discussion of this concept, see <http://www.bbc.co.uk/news/business-11733896>]. Or if councils could not bear this dent to their fiscal pride, why not turn Council Tax into a notional tax: send the Council Tax bill off to HMRC instead of the customer, and the HMRC reduces the customer’s tax code accordingly. But this was a radical bridge too far, even for this radical Government.

So, we are left with Council Tax. And therefore a Council Tax Benefit that does not fit in to the Universal Credit. Universal Credit has been compromised from the very start, and that’s a pity.

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