REPORT

EU Migration, Welfare Benefits and EU Membership

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EU citizens' access to welfare benefits has been a major topic of discussion in the public debate leading up to the EU referendum in June 2016. This briefing explains the main policy issues and statistics on EU migrants' use of welfare benefits and examines who would be affected by proposed restrictions to in-work benefits.

Key Points

- EU citizens with jobs have similar access to the benefits as UK citizens. For jobseekers or people not working, the rules for determining eligibility can be complex and vary depending on the type of benefit in question.
- In February 2016 the UK and the EU agreed a set of proposals to restrict newly arriving EEA citizens' access to in-work benefits if the UK votes to remain in the EU. The proposals also include the ability to reduce child benefit payments in respect of children living in other EEA countries, who currently make up about 0.3% of child benefit claims.
- EU migrants are less likely to claim out-of-work benefits but more likely to claim in-work benefits like tax credits, compared to the UK born.
- Most EU tax credit recipients in the UK did not arrive within the past four years and thus would not have been affected by restrictions on access to in-work benefits if they had been in place in recent years.
- Available data suggest that roughly 10-20% of recently arrived EU adults were receiving tax credits in early 2014.
- The government's November 2015 estimate of 'about 40%' of recently arrived EEA migrants supported by benefits is higher than other available estimates for various reasons, including the fact that it counts children as benefits recipients.
- More than half of EEA born adults who reported receiving tax credits in 2015 were working full time, and around 90% had dependent children (despite less than half of EEA born adults overall having children).
- The impacts of proposed benefits restrictions are likely to vary widely and be concentrated on a small share of families with children - particularly minimum-wage workers with children and those in families without two-full time earners.
- If the National Living Wage increases families' incomes, this will reduce in-work benefits entitlements even without restrictions on welfare eligibility.
- Because the impacts of in-work benefits restrictions are concentrated on a small share of newly arriving families, it is unlikely that they would lead to a large reduction in EU migration to the UK.

Understanding the evidence

The UK benefits system is complex and includes many different kinds of support to individuals and families. Benefits entitlements vary depending on factors such as age, earnings, hours worked, family structure and rent and childcare costs.

This briefing distinguishes between 'in-work' and 'out-of-work' benefits. Out-of-work benefits are paid to people who are not working, either because they are looking for work (e.g. Jobseekers' Allowance) or because they cannot work (e.g. incapacity benefit). In-work benefits are paid to people who are working but have low incomes (e.g. tax credits). However, the distinction is not clear cut, as some benefits can be received either in or out of work (e.g. housing benefit and child tax credits). It is currently not clear how the distinction between in-work and out-of-work benefits will be made in any EU legislation resulting from the February 2016 agreement to restrict in-work benefits to recently arrived EU citizens. For example, it is possible that Child Tax Credit (which is only paid to families with children and is available to people who are not working) and Working Tax Credit (which is also available to working people without children) might be treated differently.

Housing benefit entitlements depend on both income and the amount of rent paid, which varies regionally. There is also exceptionally limited data on housing benefit receipt for migrants. As a result, the analysis in this briefing focuses on tax credits when discussing in-work benefits.

There is no single, authoritative source of information that is currently publicly available providing a comprehensive picture of the number of claims, benefits received, and groups affected by specific policy proposals on migrants' access to benefits. This briefing relies on the two main sources of information about benefits claims by national origin: (1) administrative data from HMRC and DWP; and (2) survey data from the Labour Force Survey (LFS). Both have significant weaknesses that affect the analysis.

HMRC and DWP data are taken from government databases that record actual payments made (sometimes the full databases and sometimes samples from the databases). They are therefore considered to provide relatively accurate information on the number of benefits claims. However, they have some important limitations. First, only limited and occasional snapshots of the data are publicly available, which means it is not possible to provide a full picture of claims and their distribution.

Second, the unit of analysis is often the family, rather than the individual, particularly in tax credit claims where entitlements are calculated jointly for couples and depend on the number of children in the household. As a result, the composition of the family is not always known—for example, whether a couple includes only EEA nationals vs. one EEA national and one UK or non-EEA national; or whether both or only one member of a couple has arrived recently.

Third, DWP and HMRC data measure not current nationality, but nationality at the time the person registered for a national insurance number. Some people will subsequently have become UK nationals. However, in observing the outcomes of migration, original nationality is a more reliable indication of whether someone has migrated than current nationality and, in any case, EEA nationals have low naturalisation rates. Policy proposals discussed in this briefing also target people resident for less than 4 years, which is less than the residence period usually required for naturalisation.

LFS data comes from samples of households interviewed by the Office for National Statistics (ONS). These data are more flexible than administrative data as they allow analysis of many different characteristics (such as age, gender, occupation, or detailed year of arrival) and thus permit analysis tailored to specific policy questions. The LFS has four main weaknesses for the purposes of this report. First, while it is designed to be representative of the population as a whole, it undercounts certain groups, such as people living in communal accommodation. Second, the benefits information is self-reported by interviewees and is thought to undercount the number of individuals included in tax-credit claims. Third, sample sizes mean that while it is possible to identify and examine the characteristics of benefits recipients among different migrant groups, there may be considerable margins of error when looking at small groups.

The LFS analysis in this report considers people from all European Economic Area (EEA) countries, which includes EU-28 countries plus Norway, Switzerland, Liechtenstein and Iceland. Administrative data sources sometimes refer to EU and sometimes to EEA citizens, depending on the source. However, the number of non-EU EEA citizens living in the UK is small, so these differences do not substantially affect the analysis. The LFS analysis in this report is based on country of birth, not nationality, in order to capture people who have naturalised as UK citizens. However, this will also include some people who were born abroad but have had UK citizenship since birth through their UK parent(s).

The term 'recently arrived' is used throughout the briefing to refer to people who came to the UK within the previous four years. When analysing the LFS, the briefing includes the last four full years before the data were collected (e.g. 2011-2014 for data collected in 2015) in order to avoid undercounting very recently arrived people who have not yet entered the LFS.

EU citizens with jobs have similar access to the benefits as UK citizens. For jobseekers or people not working, the rules for determining eligibility can be complex and vary depending on the type of benefit in question

Eligibility criteria for EEA citizens' access to welfare benefits are quite complex and depend on a range of factors such as whether they are, or have recently been working, their hours and pay, and whether people who are looking for work have a 'genuine chance' of being hired (for an overview see House of Commons, 2015).

EEA citizens who are classified as 'workers' are eligible for in-work benefits like tax credits and housing benefit on the same basis as British citizens. Their work must be determined to be 'genuine and effective,' a condition that is automatically satisfied if the person earns at least £155 per week (in 2015-16), equivalent to about 23 hours of work at the 2015-16 minimum wage.

Under EU law, governments have some discretion to deny welfare benefits to EEA citizens who are not classified as 'workers,' such as recently arrived job seekers who are still looking for work. For example, new regulations that came into force during 2014 specify that EEA jobseekers cannot receive out-of-work benefits such as means-tested jobseekers' allowance, child tax credit or child benefit within the first three months after arrival (House of Commons, 2015).

In February 2016 the UK and the EU agreed a set of proposals to restrict newly arriving EEA citizens' access to in-work benefits if the UK votes to remain in the EU

In February 2016, the European Council agreed a series of measures to be implemented if the UK votes to remain in the EU on the 23rd of June. Among them were various measures related to migration, including new proposals on EU citizens' access to benefits (Council of the European Union, 2016).

The main proposal is a 'safeguard mechanism' allowing countries to impose restrictions on the payment of non-contributory in-work benefits for the first four years after an EU citizen arrives. The restriction would be 'graduated,' beginning with complete exclusion from these benefits and 'gradually increasing access' over the four year period, although it is not yet clear how quickly this access would be phased in. The measure would apply to new arrivals, and not to people who are already living in the UK. It is not expected to apply to couples that include one recently arrived EEA national and one person with no restrictions on their access to public funds.

Implementing this policy is expected to require EU legislation to be proposed by the Commission and approved by the Council and European Parliament (Peers 2016); it is difficult to know how long this would take and thus when the measures could come into force. The UK would then need to apply to use this safeguard mechanism, showing that it faced an 'exceptional situation' as a result of high inflows of EU citizens; however, the February 2016 agreement states that under current circumstances, the UK should fully expect to obtain approval. The right to impose restrictions would be in place for 7 years and it is not clear how easily it could be renewed after that period.

The February 2016 benefits proposals also include the ability to reduce child benefit payments in respect of children living in other EEA countries, who currently make up about 0.3% of child benefit claims

Under EU law, people living in the UK may claim child benefit in respect of children who are living in another EEA country. In December 2013, there were 20,400 families with child benefit claims in this category, or about 0.3% of all child benefit claims made in the UK (House of Commons 2016). The majority of these claims were for children in Poland (65%), followed by Ireland (6%) and Lithuania (6%).

The February 2016 deal includes a proposal to enable the government to reduce the amount of child benefit paid to workers living in the UK if their children are living abroad. The UK would be able to "index such benefits to the conditions of the Member State where the child resides." How this indexing should take place is not specified but the Council Decision notes that "these conditions include the standard of living and the level of child benefits applicable in that Member State." The restriction would apply initially only to newly arriving EU citizens, but could be extended to all EU citizens (including those already here) from 2020 onwards (Council of European Union, 2016).

The white paper accompanying the announcement of the EU renegotiation also proposed that rules on the allocation of social housing should be changed to extend the amount of time a person must live in a local authority to be eligible for social housing from 2 to 4 years (FCO, 2016). This would apply to all UK residents, regardless of their citizenship and how long they have lived in the UK.

EU migrants are less likely to claim out-of-work benefits but more likely to claim in-work benefits like tax credits, compared to the UK born

In 2015, there were an estimated 3.3 million people living in the UK who were born in EU countries, according to the Labour Force Survey.

In February 2015, DWP recorded 113,960 people who were EU nationals when they registered for a national insurance number (NiNo) and who were receiving out-of-work benefits such as Jobseekers' Allowance or incapacity benefit. This is down 16% from a peak of 134,980 in 2013. During this period total claims, including by UK NiNo holders, fell by 10% (DWP, 2015a).

EU claims made up 2.2% of the total DWP working-age benefits caseload in 2015, a slight reduction from 2.4% in 2013 and 2.5% in 2014 (DWP, 2015a). These shares are well below the share of the working-age population that was born in EEA countries, which had reached 5.6% by the first quarter of 2014 (rising to 6.5% by the last quarter of 2015), indicating that people from EEA countries are less likely to claim out-of-work benefits than the population as a whole.

The lower rate of out-of-work benefits claims among the EU born is driven primarily by lower use of incapacity benefits (1.7% of claims in February 2015), but also to some extent by lower use of job seeker benefits (4.8% of claims) (DWP 2015a).

The picture for in-work benefits such as tax credits and housing benefit is different. The EU born are overrepresented among recipients of these benefits, as discussed in the following sections.

Most EU tax credit recipients in the UK did not arrive within the past four years and thus would not have been affected by restrictions on access to in-work benefits if they had been in place in recent years.

The most recent available HMRC data are for March 2014 (Table 1). They identify 317,700 tax credit claims from family units where at least one adult was an EU national when they registered for their NiNo - making up 6.8% of all tax credit claims. Based on the reported number of single and couple claims, these families would have included 485,500 adults, most but not all of whom would be EU nationals. An HMRC freedom of information response indicated that 19,600 of the adults in these families were UK nationals at the time they registered for a national insurance number (HMRC 2015a). The remaining 465,900 will be mainly people who were EU nationals when they registered, but will also include some non-EU citizens living with EU nationals.

Table 1 - HMRC data on tax credit claims for individuals and family units, March 2014
(Sources in parentheses)

	Type of family	Total claims	Share of all claims
Family units	Total families claiming tax credits (1)	4,644,200	100%
	Families with an 'EU migrant' adult (1)	317,700	6.8%
	Families with a 'recent EU migrant' adult (2)	84,000	1.8%
	Families where adults are all recent EU migrants (3)	61,000	1.3%
Individuals	Total adults in households claiming tax credits (1)	6,731,700	100%
	Adults in households with an EU migrant claimant (4)	485,500	7.2%
	UK nationals in households with EU migrant claimant (5)	19,600	0.3%
	Adults in households with an EU migrant claimant, minus UK nationals in those households (6)	465,900	6.9%
	Recent EU adults in households claiming tax credits (2)	111,000	1.6%
	Individuals living in families where adults are all recent EU migrants (7)	88,000	1.3%

Sources and notes: (1) House of Commons (2016); (2) HMRC (2016a); (3) O'Connor (2016); (4) calculated from House of Commons (2016) by adding single claims to couple claims multiplied by 2; (5) HMRC 2015a; (6) calculated from (4) and (5); (7) calculated from (3) by adding single claims to couple claims multiplied by 2.

If restrictions on EU citizens' access to tax credits had been in place in 2014, a majority of EU claimants would not have been affected, since they have been in the country for longer than 4 years. In March 2014, 26% of families with an EU adult included someone who had been in the country for less than 4 years.

Of this 26%, some would not be affected because they comprise couples with one recent arrival and one person without any restriction on their access to public funds, such as a UK national or an EU national who has been in the country for at least 4 years. Based on the HMRC figures, Michael O'Connor (2016) calculated that 61,000 of the 84,000 family units included only recently arrived EU nationals (including 27,000 couples and 34,000 singles)—or about 19% of the EU families.[1] This is equivalent to about 88,000 individuals living alone or in families that include only recently arrived EU adults. This is lower than the 111,000 in Table 1 because it excludes recently arrived EU adults who are living with a non-recently arrived EU adult.

1. Of the 84,000 EEA couples with at least one recent EEA adult receiving tax credits as reported in HMRC (2016a), 50,000 were couples (i.e. 100,000 adults in these couples) and 34,000 were singles, for a total of 134,000 individuals. HMRC also reported that there were 111,000 recent EEA adults in these households, suggesting 134,000-111,000 = 23,000 non-recent EEA adults were also present. All of these must be in couples, rather than singles, suggesting 50,000-23,000 = 27,000 couples with only recent EEA adults. This means there were 27,000 + 34,000 = 61,000 families with only recently arrived EEA nationals.

Available data suggest that roughly 10-20% of recently arrived EU adults were receiving tax credits in early 2014

Calculating the share of recent arrivals who are receiving tax credits in the UK, and hence would potentially have been subject to the restrictions if such restrictions had been in place when they arrived, is more difficult. This is because HMRC data do not show the total number of recently arrived EU NiNo holders living in the UK with which to compare the numbers of benefits claims.

The LFS can provide some insight, albeit with the caveat that it appears to undercount the number of adults included in tax credit claims. If we assume that the extent of any undercounting is similar for different country-of-birth groups, however, the LFS can be used to compare benefits take-up across groups and calculate a 'lower bound' for the share of EU-born people claiming tax credits.

In 2015, about 12% of people born in EU countries reported receiving tax credits (Table 2). This is higher than the UK born share (10%). Recently arrived migrants were less likely to report receiving tax credits: 10% of the EU born.

Table 2 - LFS estimates of tax credit receipt by place of birth for 18-64 year olds, 2015

		Reports receiving tax credits?			
Period of arrival	Group	No	Yes	Total	Share receiving
All	All EEA	2,231,000	305,000	2,536,000	12%
	EU-14+	1,006,000	80,000	1,086,000	7%
	Accession	1,224,000	225,000	1,450,000	16%
	Non-EEA	3,523,000	680,000	4,203,000	16%
	UK	29,027,000	3,365,000	32,392,000	10%
Recent arrivals only (2011-2014)	All EEA	583,000	65,000	648,000	10%
	EU-14+	225,000	12,000	237,000	5%
	Accession	358,000	53,000	410,000	13%
	Non-EEA	586,000	56,000	642,000	9%
Non-recent arrivals (before 2011)	All EEA	1,576,000	238,000	1,814,000	13%
	EU-14+	744,000	67,000	811,000	8%
	Accession	832,000	171,000	1,003,000	17%
	Non-EEA	2,829,000	617,000	3,446,000	18%

Source: Migration Observatory analysis of LFS, average of four quarters. Foreign-born people who arrived in 2015 are excluded from the analysis by year of arrival (but not from the total for all years). EU-14+ refers to EU countries plus non-EU EEA members; NMS refers to people from new Member States that joined the EU in 2004 or later.

The absolute number of adults reporting receiving tax credits in the LFS is lower than the number in the HMRC data (Table 3). One reason for this is likely to be that the LFS asks people whether they are claiming benefits in their 'own right,' which respondents may interpret in different ways. For example, people who are part of couples might view the person who actually submits the application as the claimant, even though entitlements are calculated for the family as a whole.

Table 3 - Estimates of tax credit recipients from HMRC and LFS data, Q1 2014

Category	Definition and data source	Number
All EU migrants (any year of arrival)	HMRC: estimated number of adults in EU tax-credit recipient families, excluding UK nationals (but not excluding non-EU nationals), March 2014	465,000
	LFS: estimated number of EU born reporting receiving tax credits, Q1 2014	316,000
	LFS: estimated number of EU born living in the UK, Q1 2014	2,280,000
Recent arrivals only (past 4 years)	HMRC: estimated number of recently arrived EU adults in families claiming tax credits, March 2014	111,000
	LFS: estimated number of recently arrived (2010-2013) EU adults reporting receiving tax credits, Q1 2014	62,000
	LFS: estimated number of recently arrived (2010-2013) EU born living in the UK, Q1 2014	599,000

Source: Table 1 (above) and Migration Observatory analysis of LFS, Q1 2014; includes working age adults (16-64). Note: Number of individual recipients in HMRC data calculated by adding two people from each 'couple family' and one person from each 'single family.' LFS calculations for recently arrived include those arriving in 2010-2013 inclusive.

In theory, the LFS could be used to provide an estimate of the EU-born population living in the UK to compare to the HMRC figure for benefits claims. This approach may be expected to produce an overestimate, because the LFS undercounts certain groups of migrants, such as those living in communal accommodation. It can therefore be considered an 'upper bound' for the share of EU-born people claiming tax credits.

Comparing the HMRC figure for EU tax-credit recipients with the LFS population estimates in Table 3 produces an estimate of 20% of the EU born and 19% of recently arrived EU born receiving tax credits. If we only look at the estimated 88,000 individuals living alone or with other recent EU migrants (and who would thus be affected by the proposed changes), the share falls to 15%.

Based on these available data sources, it is therefore reasonable to assume that share of recent arrivals from EU countries receiving tax credits in early 2014 was between 10% and 20%. If the proposed restrictions on in-work benefits had been in place when they arrived, this is the approximate share of working-age people who might have been affected.

The share of newly arriving EU citizen adults who would be affected in the future by restrictions on tax credits is also likely to be in this range but could be higher or lower depending on the overall levels and characteristics of future migration.

Many people who are eligible for tax credits are also eligible for housing benefit based on their incomes. However, people in high-rent areas may earn enough to be ineligible for tax credits but eligible for housing benefit, while the reverse would apply in low-rent areas. The number of EEA born who reported receiving housing benefit in 2015 was lower than the number reporting receiving tax credits (198,000 and 305,000 respectively), and of the people who received either housing benefit or tax credits a minority (24%) were receiving housing benefit but not tax credits. Administrative data on housing benefit recipients are extremely limited, which means that it is not possible to replicate all the tax-credit calculations in this briefing for housing benefit. (DWP estimates of expenditure on housing benefit for claims led by EEA nationals are available, however, and are discussed below.)

The government's November 2015 estimate of 'about 40%' of recently arrived EEA migrants supported by benefits is higher than other available estimates for various reasons, including the fact that it counts children as benefits recipients

In November 2015, the government published a note stating that, in March 2013, "between 37 per cent and 45 per cent of the EEA nationals (excluding students) who were resident in the UK having arrived in the preceding 4 years were in households claiming either an in-work or out of-work benefit or tax credit" (DWP 2015b). This analysis looked at both in-work and out-of-work benefits together (excluding child benefit), and thus is not directly comparable to the calculations above.

The government's analysis suggested a higher share of EEA migrants were claiming benefits than other available statistics (e.g. IES, 2014; Drinkwater and Robinson, 2011; Barrett and McCarthy, 2008). Table 4 shows the numbers and shares of working-age adults who reported claiming any kind of state benefit in the first quarter of 2013 and in 2015, based on the LFS (which is thought to undercount the number of adults included in benefits claims). Approximately 22% of recently arrived EEA adults reported receiving any form of state benefit, including child benefit, in early 2013; 17% reported receiving a benefit other than child benefit. By 2015, this had fallen to 18% and 13%. In other words, the DWP analysis suggested a rate of benefit receipt (excluding child benefit) for recent EEA migrants of about double the share found in the LFS.

Table 4 - Claimants of child benefit and other benefits, Q1 2013 and 2015, by country of birth

Q1 2013	Only child benefit	Other benefits	No benefits	Total	Share excluding CB	Share including CB
EEA	206,000	459,000	1,413,000	2,078,000	22%	32%
Recent EEA	24,000	81,000	374,000	479,000	17%	22%
Non-EEA	392,000	1,051,000	2,664,000	4,107,000	26%	35%
UK	2,952,000	8,559,000	21,218,000	32,729,000	26%	35%
Full year 2015	**Only child benefit**	**Other benefits**	**No benefits**	**Total**	**Share excluding CB**	**Share including CB**
EEA	262,000	469,000	1,804,000	2,536,000	18%	29%
Recent EEA	37,000	87,000	523,000	648,000	13%	19%
Non-EEA	395,000	1,071,000	2,737,000	4,203,000	25%	35%
UK	2,856,000	7,156,000	22,381,000	32,392,000	22%	31%

Source: Migration Observatory analysis of LFS, Q1 2013 and average of four quarters of 2015 2015. Note: Working age (18-64).

Why was the government's estimate so much higher? Without more detailed methodological information is it difficult to explain precisely what drives the difference between the LFS and DWP estimates. However, it is clear that only part of the difference is likely to result from any LFS undercounting of benefits receipt.

There are also other factors that are likely to make the DWP estimate larger, such as (1) the fact that it includes among benefits recipients children and partners of people who are claiming benefits; and (2) the fact that it combines HMRC and LFS data which – as explained earlier – may be expected to produce an overestimate of the share receiving benefits. The share is also likely to have fallen since 2013 due to higher levels of EU immigration since then.

First, while the LFS analysis above considers only working-age adults—the people who are eligible to make claims—the DWP analysis also counts as benefits recipients children living in households where at least one adult is receiving benefits, as well as the partners of both in- and out-of-work benefits recipients. Table 5 shows the figures on which the DWP calculation was based. Conducting the same analysis for adults only reduces the share to 31-36% of the recently arrived. The estimates suggest a surprisingly high share (56%-70%) of children classified as benefits recipients—that is, living in households where one or more adults are receiving benefits. The reasons for this are not immediately apparent, but may include the fact that a 'small proportion' of the children in families receiving benefits were born in the UK (DWP 2016b).

Table 5 - DWP's November 2015 analysis of benefits claims by recently arrived EEA nationals for the tax year 2012-13

	Estimate of number of in-work OR out-of work benefit recipients		EWP's LFS estimate of size of underlying population, excluding students	Share	
	Min	Max		Min	Max
Adults	120,000	140,000	390,000	31%	36%
Children	75,000	95,000	135,000	56%	70%
Total	**195,000**	**235,000**	**525,000**	**37%**	**45%**

Source: DWP (2015b).

Second, the LFS is thought to undercount migrants, for various reasons including the fact that it does not survey people living in communal establishments, such as hostels. As noted earlier, this means that the 525,000 'denominator' will be smaller than the actual population of recently arrived EEA migrants and therefore may be expected to produce an overcount of the percentage of this population receiving benefits. The exclusion of full-time university or college students from the estimate of the total population of EU migrants may also account for part of the higher share of benefits recipients in the DWP analysis.

Finally, the DWP estimate was for March 2013, which followed a period of relatively lower migration to the UK during the economic crisis. The estimated number of EU nationals working in the UK has increased considerably, from 1,589,000 in Q1 2013 to 1,949,000 in Q1 2015 (ONS 2016b). This means that the share receiving benefits will almost certainly have fallen, due to a larger share of very recent arrivals, a group that is less likely to have children and thus less likely to be entitled to in-work benefits. As noted earlier, more recent data from 2015 suggests that the number of out-of-work benefits claims by EU NiNo holders has fallen by 16% since 2013, while Table 4 shows a decline in the share of LFS respondents reporting benefits receipt from early 2013 to 2015. It is therefore likely that if the same DWP methodology was applied to 2015 data it would produce a lower estimate of the share of benefits recipients among recent EEA migrants.

More than half of EEA born adults who reported receiving tax credits in 2015 were working full time, with the largest numbers employed in wholesale/retail trade, manufacturing and hospitality. About 90% of EEA born adults who reported receiving tax credits in 2015 had dependent children

LFS data can be used to examine the characteristics of EU tax-credit recipients. These figures are based on the assumption that the LFS undercounts benefits receipt similarly for different groups, and therefore that descriptive statistics on the characteristics of people who do or do not claim tax credits are informative even if the overall number of tax credit recipients is undercounted.

Overall, a large majority - more than 90% - of people from EEA countries who reported receiving tax credits in 2015 had dependent children (Table 6). This is despite the fact that less than half of the overall EEA-born population had dependent children. Most of the EEA parents receiving tax credits were in couples. While only a small share (6%) of the EEA born were single parents, single parents were more likely to report receiving tax credits than other family types.

A majority of EEA born employees who reported receiving tax credits were working full time (with median earnings of £15,600), although tax credit recipients are more likely to work part time than people not receiving tax credits.

A majority of EEA born people reporting receiving tax credits recipients were women (Table 6). One reason for this is that women make up a large majority (91%) of people making claims as singles, earn less than men on average and are more likely to be single parents (see Browne, 2011). However, women also make up just over 60% of people in couples who reported claiming tax credits, suggesting some under-reporting of couple claims among men (since for heterosexual couples, any couple claim by definition includes both genders). This does not necessarily mean that women in couples would be more affected by changes to tax credit eligibility, since changes to family income from benefits are also likely to affect men in these couples even if they do not report being a recipient in their own right.

Table 6 - Characteristics of EEA-born adults receiving and not receiving tax credits, LFS, 2015

	Receiving tax credits	Not receiving tax credits	All
Single, no dependent children	5%	26%	23%
Couple, no dependent children	3%	37%	33%
Single, with dependent children	28%	3%	6%
Couple, with dependent children	64%	35%	38%
Age 25+	96%	86%	88%
Working 30+ hours per week	56%	84%	81%
Median earnings (full-time employees)	£15,600	£21,600	£21,000
Median earnings (part-time employees)	£7,800	£10,000	£9,000
Living in London	26%	32%	31%
Female	71%	50%	52%

Source: ONS – Labour Force Survey 2015. Age 18-64 only. Statistics of median earnings and working hours refer to those adults aged 18-64 who are employees. Note: differences may not be statistically significant.

People living in London, where earnings tend to be higher, were less likely to report claiming tax credits, although it should be noted that London is disproportionately the home of the relatively small share of people who are receiving housing benefit without tax credits (see discussion above).

As noted earlier, most people receiving tax credits are in work. Table 7 shows the main industries in which EEA born people who reported claiming tax credits in 2015 were working. The industries with the largest numbers of low-income workers claiming tax credits were wholesale and retail trade, manufacturing and accommodation and food services.

Table 7 - Top 5 industries of work for EEA born people reporting receiving tax credits, LFS 2015

Industry	Number	Share of total
Wholesale & retail trade, e.g. sales assistants	35,000	15%
Manufacturing, e.g. production line workers	34,000	15%
Accommodation & food services, e.g. restaurant & bar staff	29,000	12%
Admin & support services, e.g. cleaning services to businesses	27,000	12%
Health & social work, e.g. social care assistants	25,000	11%
Other industries	81,000	35%
Total	230,000	100%

Source: Migration Observatory analysis of LFS, quarterly averages. Sample includes 18-64 year old employees.

The impacts of proposed benefits restrictions are likely to vary widely and be concentrated on a small share of families with children - particularly minimum-wage workers with children and those in families without two-full time earners

Available data provide very little information on the distribution of the amounts of tax credits received, and thus how much new EEA migrants who are subject to the benefits restriction might lose as a result. In practice, the impacts for some people will be small because their entitlements are already limited, while some could lose a substantial share of their household income.

An HMRC freedom of information response (HMRC 2016b) stated that the average tax credit entitlement for a family that included at least one recently arrived EEA national adult was £5,900 in 2013-14 (families with an EEA adult with any year of arrival received an average of £6,100). Of the 84,000 families in that year's data with at least one recently arrived EEA adult, 8,000 or just over 10% were reported to have received more than £10,000 in tax credits (HMRC 2016a). This is broadly similar to the average claim for families of any origin; in 2013-14, the total tax credits bill was £28.691bn with 4.528m families claiming, or an average of just over £6,300 per family (HMRC 2015b).

How would different family types be affected? Some hypothetical scenarios for minimum-wage earners

Entitlements to tax credits are lowest for single people with no children, who must generally be working at least 30 hours per week and be age 25 or over to be eligible. In the 2015-16 tax year, a person aged at least 25 earning the minimum wage for exactly 30 hours per week would have earned £10,450 and be eligible for £1,120 in tax credits. This entitlement falls to zero once they are earning about £13,190, equivalent to approximately 38 hours per week at the £6.70 minimum wage.

For couples with no children, entitlement to tax credits falls to zero when the combined family income is just over £18,000. This means that they are not entitled to any tax credits if both are working full-time at the minimum wage (and thus bringing in an annual income of at least £20,900 per year, assuming a work week of at least 30 hours). If only one member of a childless couple is working at the minimum wage and the other is not working, the couple is likely to be entitled to tax credits. For example, a couple with one person working 35 hours per week at the minimum wage and a non-working partner with no children would be eligible for £2,420 in tax credits.

By contrast, people with children can be eligible for significant amounts if they are on low wages, even if they are working full time. For example, a couple with one child where both people work 35 hours per week at the minimum wage would earn £24,390; if they paid childcare costs of £90 per week, they would be eligible for £4,020 in tax credits. If the same couple had two children and paid £150 per week in childcare costs, they would be eligible for £8,990 per year in tax credits.

Source: Appendix Table 2, below.

In other words, while most recently arrived EEA nationals are not receiving tax credits, the average amounts received by those who do can be quite significant. This suggests that the impacts of proposed benefits restrictions are likely to be concentrated on a small share of families with children - particularly minimum-wage workers with children and those in families without two-full time earners. The overall impact on family income would also depend on how EEA nationals respond. The effect on family income would be lower if they increase their working hours or if non-working partners entered employment.

If the National Living Wage increases families' incomes, this will reduce in-work benefits entitlements even without restrictions on welfare eligibility

By 2020, the minimum wage that employers must pay to workers age 25 and above is expected to rise from £6.70 in 2015-16 to around £9 as a result of the introduction of the 'National Living Wage' (NLW).

The effects of higher required wages on the UK labour market in general and on migration and migrants in particular cannot be easily predicted, because they will depend on how employers and workers respond. There is an ongoing debate about the extent to which the NLW is likely to reduce employment or employment growth in low-wage industries. We cannot therefore assume that the NLW is guaranteed to increase earnings for all families with minimum wage earners.

For individuals receiving the NLW, assuming they remain employed at the same number of hours, the increase is expected to raise take-home pay and therefore also reduce their entitlement to in-work benefits. This affects the expected impact of the proposed EU benefits restrictions, since many minimum-wage workers would already be receiving lower benefits due to wage increases.

Appendix 1 shows estimates of the share of 25-64 year olds earning £9 or less in 2015, indicating that recently arrived EEA born migrants are particularly likely to be affected by the NLW. It also shows how increased earnings affect tax-credit entitlements for different family types.

For childless single people working full time, an increase from £6.70 to £9 would be sufficient to eliminate any eligibility for tax credits, making the benefits restriction irrelevant. For couples with one child where both adults are working on the minimum wage, most but not all of the tax credit entitlement is eliminated as a result of a wage increase, making the potential loss due to the benefits restriction relatively small.

For some households, however, the impact of the benefits restriction would be significant as entitlements remain considerable even after a wage increase. As a share of household income, the impacts are largest for single parents and couples where only one person works. These impacts might be mitigated if people respond by entering employment or increasing working hours, however (for details, see Appendix Table 2).

The government has estimated that claims involving EEA nationals made up approximately 10% of expenditure on in-work tax credits and housing benefit 2013-14 and 3% of expenditure on out-of-work benefits.

HMRC (2016b) estimates that in 2013-14 tax year, £1.745bn was spent on tax credit claims for families with at least one EEA-national adult, equivalent to 8.7% of total tax credit expenditure.

DWP (2016) estimates that benefits claims where an EEA national was the main claimant made up 5% of DWP working-age expenditure, or £1.7bn. This included housing benefit, Jobseekers' Allowance, Employment and Support Allowance, Income Support and Incapacity Benefit. DWP estimated that £814m was spent on in-work housing benefit claims led by EEA nationals, or 16% of the in-work housing benefit bill in 2013-14 (DWP, 2016).

Combining the costs of in-work housing benefit from the DWP analysis and of in-work tax credits from the HMRC analysis, the government's February 2016 white paper (FCO 2016) estimated that approximately £2.5bn or 10% of in-work tax credit and housing benefit expenditure was on claims involving EEA nationals (either as the main claimant, in the DWP data, or as one of the claimants, in the HMRC data).

Out of work expenditure on claims led by EEA nationals, by contrast, made up £886m, or 3% of the total DWP out-of-work benefits bill.

Because the impacts of in-work benefits restrictions are concentrated on a small share of newly arriving families, it is unlikely that they would lead to a large reduction in EU migration to the UK

There is no direct evidence on whether welfare has acted as a 'magnet' encouraging migrants to come to the UK, and such evidence would be hard to gather. The availability of jobs and relatively high wages in the UK are thought to be the prime factor in migrants' decision to move (Czaika and de Haas, 2014). In the year ending September 2015, a majority (71%) of EU citizens coming to the UK for at least one year reported that they were coming for work and 58% of people coming for work already had a specific job lined up (ONS 2016a, table 3a).

It seems plausible that just as potential migrants take into account wage levels, they may also take account of the possibility of in-work benefits which boost take-home earnings (particularly for people with children). The government has argued that the UK benefits system creates an 'unnatural draw' for EU migrants (Prime Minister's Office, 2016) and some analysts have argued that the financial incentive to migrate could be decreased if these benefits were restricted (Open Europe, 2014).

In practice, however, it is unclear how significant the effects of such a policy would be on the number of people choosing to migrate. Most recent arrivals are not receiving any form of benefits, as noted above. Among those who do receive benefits, it is not known whether the availability of benefits was an important factor. Some would presumably have moved to the UK for higher wages or better job opportunities even if these benefits had not been available. It is also possible that some individuals or couples would increase their working hours in order to make up for lost benefits income.

As a result, the number of people whose initial migration decision might be affected by the immediate availability of tax credits is likely to be a small share of the total suggesting that the proposed benefits restriction is unlikely to lead to a dramatic reduction in EU immigration to the UK.

The National Living Wage, by contrast, is expected to affect a larger share of newly arriving EU citizens. However, the effect of the NLW on the incentive for EU citizens to come to the UK for work is not clear cut, since it could also reduce the availability of low-wage employment. This would make it harder for EU nationals to find jobs.

While differences in wages are an important driver of migration, they are not the only factor. Two of the top five EU countries that have driven increases in the EU-born population in the UK since 2011 were relatively high-income countries, Italy and Spain, that are currently experiencing high unemployment following the global economic crisis (Eurostat, 2015; Migration Observatory, 2016). For more discussion on the factors that are thought to drive migration from EU countries to the UK, see the Migration Observatory commentary, 'Pulling power: Why are EU citizens migrating to the UK?'.

Evidence gaps and limitations

The analysis in this briefing is based on past migration data and flows. Migration levels and characteristics change over time and are very difficult to forecast. As a result, assessments about how benefits restrictions would have affected past cohorts of EEA citizens if they had been in place at the time provide only an illustration of what the impacts might be on future cohorts who would actually be subject to the restrictions.

The analysis above suggests that a complete restriction could have a significant impact on the amounts lost in tax credits and housing benefit for some families with children. 'Graduated' access to benefits, however, could significantly reduce any impact even on these families, but further analysis will have to wait until details of the mechanism and amount of 'graduation' are known.

The definition of in-work benefits will also influence the numbers of people affected and the amounts at stake. For example, it is also possible that Working Tax Credit and Child Tax Credit might be treated differently, since CTC is a 'family benefit' as well as an 'in-work benefit.' If this is the case, the findings related to differential impacts on people with and without children may no longer hold.

Finally, there is very little evidence on the relationship between access to the welfare system and integration or poverty among migrants in the UK, migrants' choices about labour market activity, or the long-term outcomes of migrants and their children.

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Appendix: The National Living Wage and the impact of in-work benefits restrictions

Calculating the impact of higher wages on benefits entitlement is complicated by the fact that the criteria for benefits entitlements in 2020, when the NLW is expected to have reached approximately £9 per hour, are not yet set in stone. Data on the number EEA citizens who would be affected by the NLW are also imperfect, due to error in the measurement of wages in the LFS. However, some general observations are possible.

First, most working-age EEA-born wage earners are at least 25 years old and thus would be subject to the NLW. Among people reporting wages as employees in 2015, 89% of EEA born were age 25 or above, similar to the share of UK born (86%). EEA born people who had arrived recently were, as one would expect, younger than those with more than 4 years of residence although a majority (74%) were still age 25 or above (Appendix Table 1).

Among those old enough to be affected by the NLW, people born in EEA countries were more likely to be earning £9 or less in 2015 compared to the UK born, and this is particularly the case for the recently arrived. Just under half of 25-64 year old EEA-born employees in 2015 were estimated to be receiving £9 or less, including 59% of those who arrived in the previous 4 years. This compares to 29% of the UK born.

Appendix Table 1 - Age and estimated hourly earnings by region of birth, 2015

	18-24	25-64	Total	Share of 25-64 y/o earning £9 or less
EEA				
Up to £9	158,000	698,000	856,000	46%
More than £9	38,000	828,000	866,000	
Total	196,000	1,526,000	1,722,000	
Recent EEA (2011-2014)				
Up to £9	94,000	195,000	289,000	59%
More than £9	*	137,000	160,000	
Total	117,000	332,000	449,000	
Non-EEA				
Up to £9	96,000	774,000	870,000	37%
More than £9	42,000	1,326,000	1,368,000	
Total	138,000	2,100,000	2,238,000	
UK born				
Up to £9	2,191,000	5,350,000	7,540,000	29%
More than £9	803,000	12,996,000	13,799,000	
Total	2,994,000	18,346,000	21,340,000	

Source: Migration Observatory analysis of LFS, 2015 quarterly average. Sample includes wage earners aged 18-64 only (excludes self-employed). Data marked * not reliable (based on fewer than 30 observations). Differences between categories may not be statistically significant due to small sample sizes, particularly for the 18-24 category. Note that these figures include people who are currently estimated to earn less than the existing minimum wage, either because their employers are non-compliant or because of measurement error in the LFS wage data.

Appendix Table 2 and Figure 1 illustrate how higher earnings would affect entitlement to tax credits based on the current (2015-16) tax credits schedule, for hypothetical family types. Note that this is not the schedule that will be in place by 2020 when the minimum wage is set to rise to £9 per hour. These examples aim only to illustrate the extent to which higher wages have the potential to reduce tax credit entitlements in a system of means-tested in-work benefits and hence the amounts that newly arriving EU migrants might stand to lose as a result of benefits restrictions. We do this by examining the effects of higher wages and/or benefits restrictions in 2015, rather than attempting to project forward to future years.

Column 2 of Appendix table 2 shows the 2015-16 tax credit eligibility for households with minimum wage earners receiving £6.70 per hour. Column 4 shows the tax credit entitlement that would remain if wages increased from £6.70 to £9.00. Column 5 shows how much would be lost simply due to the wage increase.

The relative importance of restrictions on benefits varies enormously depending on the family type. For childless single people working full time, an increase from £6.70 to £9 would be sufficient to eliminate any eligibility for tax credits, making the benefits restriction irrelevant. For couples with one child where both adults are working, most of the tax credit entitlement is eliminated as a result of the wage increase, making the potential loss due to the benefits restriction relatively small.

For some households, however, the impact of the benefits restriction would be significant as entitlements remain considerable even after a wage increase. As a share of household income, the impacts are largest for single parents and couples where only one person works. These impacts might be mitigated if people respond by entering employment or increasing working hours.

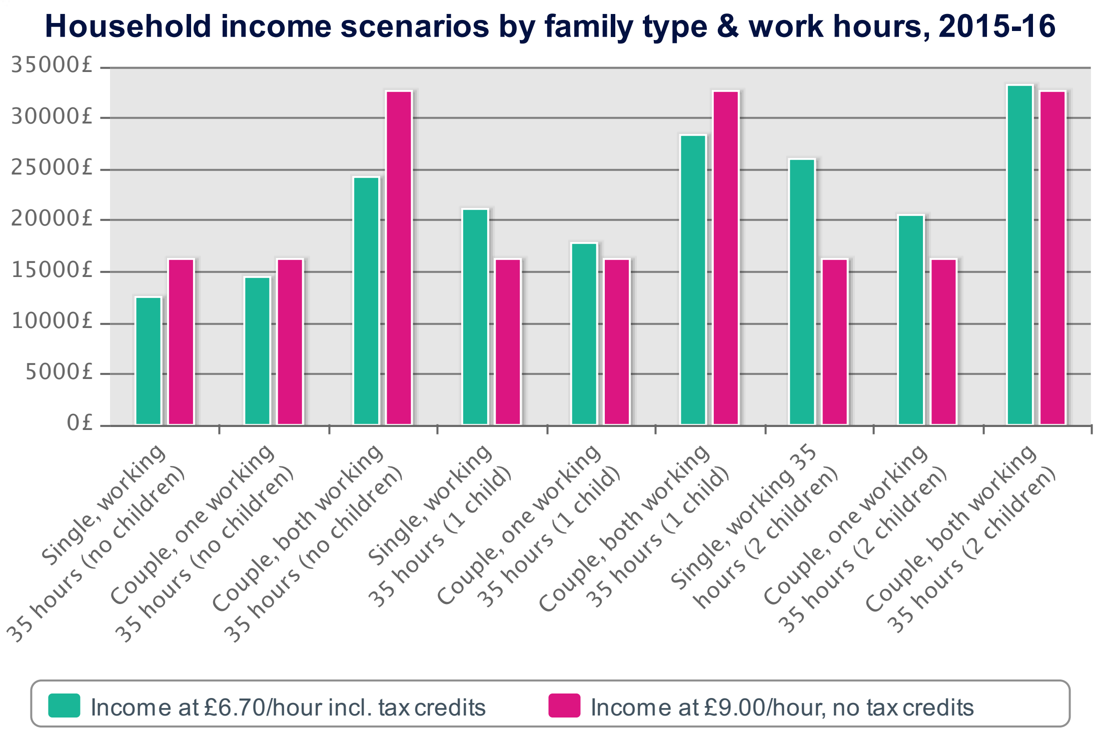
Appendix Table 2 - Earnings and tax credit entitlements in 2015 for illustrative family types earning at £6.70 vs. £9

Family type & hours	Earnings at £6.70/hour (1)	Tax credits at £6.70/hour (2)	Earnings at £9/hour (3)	Tax credits at £9/hour (4)	Reduction in tax credits due to higher wage (5)
No children					
Single person, working 35 hours	£12,194	£407	£16,380	£0	£407
Couple, one working 35 hours	£12,194	£2,420	£16,380	£704	£1,716
Couple, both working 35 hours	£24,388	£0	£32,760	£0	£0
1 child					
Single, working 35 hours	£12,194	£9,023	£16,380	£7,307	£1,716
Couple, one working 35 hours	£12,194	£5,747	£16,380	£4,031	£1,716
Couple, both working 35 hours	£24,388	£4,023	£32,760	£591	£3,433
2 children					
Single, working 35 hours	£12,194	£13,988	£16,380	£12,272	£1,716
Couple, one working 35 hours	£12,194	£8,528	£16,380	£6,812	£1,716
Couple, both working 35 hours	£24,388	£8,989	£32,760	£5,556	

Note: assumes: (1) no childcare costs for couples where one person is not working; for households with no non-working adult, childcare cost of £90 for one child and £150 for two children (following HMRC 2014); all adults age 25 or above; (3) no other benefits received.
Source: www.entitledto.co.uk benefits calculator, an independent benefits calculator recommended by the government for calculating individual and family entitlements.

How would a combination of higher wages and the removal of benefits affect the illustrative family types taken as examples here? Appendix Figure 1 shows combined earnings and tax-credit income in both scenarios. All three childless couples are better off despite restrictions on benefits, due to the wage increase. Couples who are both working full time are better off despite the restrictions if they have one child. The largest losses are among single parents.

Appendix Figure 1



Source : www.entitledto.co.uk, an independent tool for calculating individual & family entitlements.

The level of benefits entitlement changes somewhat if one also includes housing benefit, and to a lesser extent if one examines current Universal Credit entitlements rather than tax credits. However, the basic structure of benefits entitlements (with higher entitlements for couples and people with children remains the same regardless of these differences. For more detailed analysis of Universal Credit entitlements, see Migration Watch (2016).

The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.

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