

Universal Credit Policy Briefing Note 14

Earnings disregards and tapers

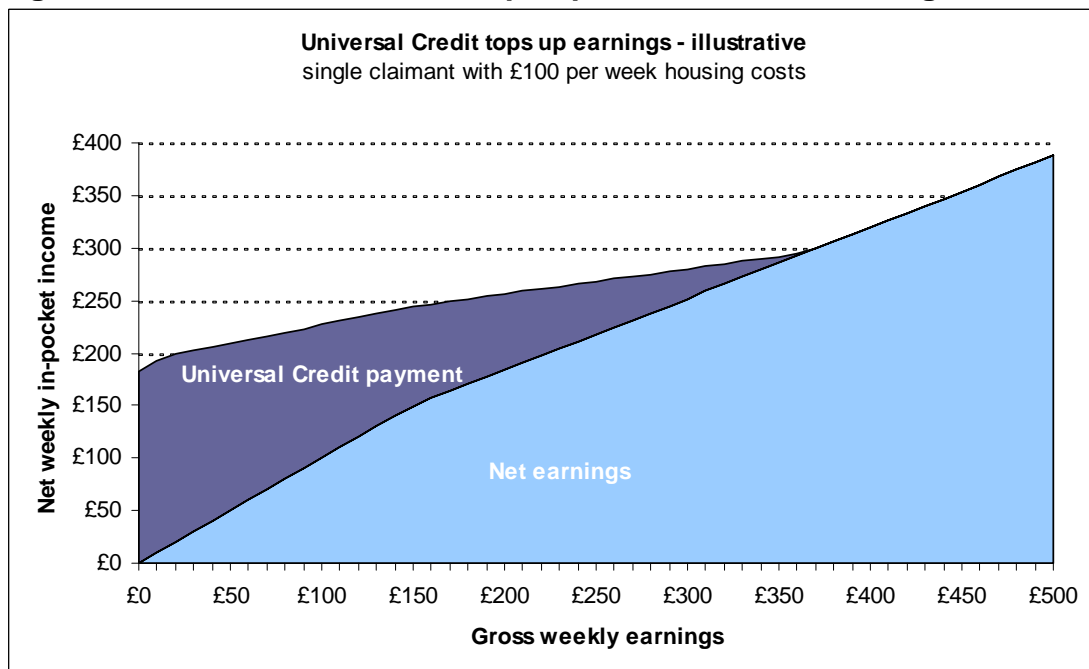
1. Core Objectives

- a) Supporting people into work is the key objective of Universal Credit. Universal Credit intends to top up earnings in a way that will make sure that there is a clear financial gain from working.
- b) A single taper rate and a simple system of earnings disregards will allow people in work to see clearly how much support they can get while making sure that people considering a job will understand the advantages of work.
- c) By removing the distinction between in-work and out-of-work support, Universal Credit will reduce the risks associated with moves into employment that exist in the current system.

2. Key Policy Proposals

- a) Within Universal Credit, the key elements for making work pay will be a single taper to withdraw support as earnings rise and new more generous earnings disregards.

Figure 1: How Universal Credit tops up a household's earnings



3. Earnings disregards

- a) In Universal Credit some money can be earned by members of the household before it has any impact on the amount of Universal Credit received – this amount is called the earnings disregard. Different amounts will be disregarded from earnings in order to reflect the needs of different types of household and to support the aim that work pays.
- b) The White Paper proposed what the level of the earnings disregards would be. We have since adjusted the level of the earnings disregards to take account of the localisation of council tax support and in doing so, ensure that the positive impacts of Universal Credit on poverty, income redistribution and work incentives remain. These higher disregards would also allow for a reduction in the risk of dual tapering (council tax support and Universal Credit being withdrawn simultaneously).

Design of the disregards

- c) The system of disregards in Universal Credit takes a new approach which includes varying the value of the disregard according to the amount provided for housing costs.
- d) Universal Credit will include an element for housing costs to help meet the cost of rent or mortgage interest. Therefore claimants in receipt of large amounts of housing support will have a higher award of Universal Credit than those with low or no housing costs.
- e) In order to address this and target resources fairly, we intend to allow those claimants who receive little or no support with their housing costs to keep more of their earnings. We intend to do this by setting higher earnings disregards in these circumstances.

How will the reduction for housing support work?

- f) There will be maximum and minimum disregards within Universal Credit. The maximum earnings disregard will only apply where there are no additions for housing costs included in the Universal Credit gross award.
- g) If the claimant is receiving some support for housing costs, the value of this support reduces the maximum level of their earnings disregard by, on current assumptions, 1½ times the amount of the housing element.
- h) A household receiving some support for housing costs will be entitled to an earnings disregard equal to the value of the larger of their reduced earnings disregard and the minimum disregard.

Minimum levels

- i) The recently published Impact Assessment for Universal Credit assumes the following proposed minimum annual levels for the earnings disregards:
 - for a single person without children: £700

- for a couple: £1920 plus £520 for the first child and £260 for the second and third children;
- for a lone parent: £2,260 plus £520 for the first child and £260 for the second and third children; and
- for single disabled people or a couple where at least one person is disabled: £2,080.

Only one earnings disregard, whichever is highest, will be available in each household.

The exact amount of these minimum earnings disregards has not yet been set and will be set closer to implementation of Universal Credit.

- j) These minimum or 'floor' disregards are more generous than were originally proposed in the White Paper; they give an extra £700 per adult to the level of the disregard. Furthermore they are in many cases considerably higher than the earnings disregards in the existing out-of-work benefits. Taken together with the taper, they would leave couples, singles, lone parents and disabled people significantly better off in low-paying jobs. For example, a lone parent with two children would be able to have net earnings of at least £3,040 (= £2,260 + £520 + £260) per year before these earnings affected their Universal Credit award.

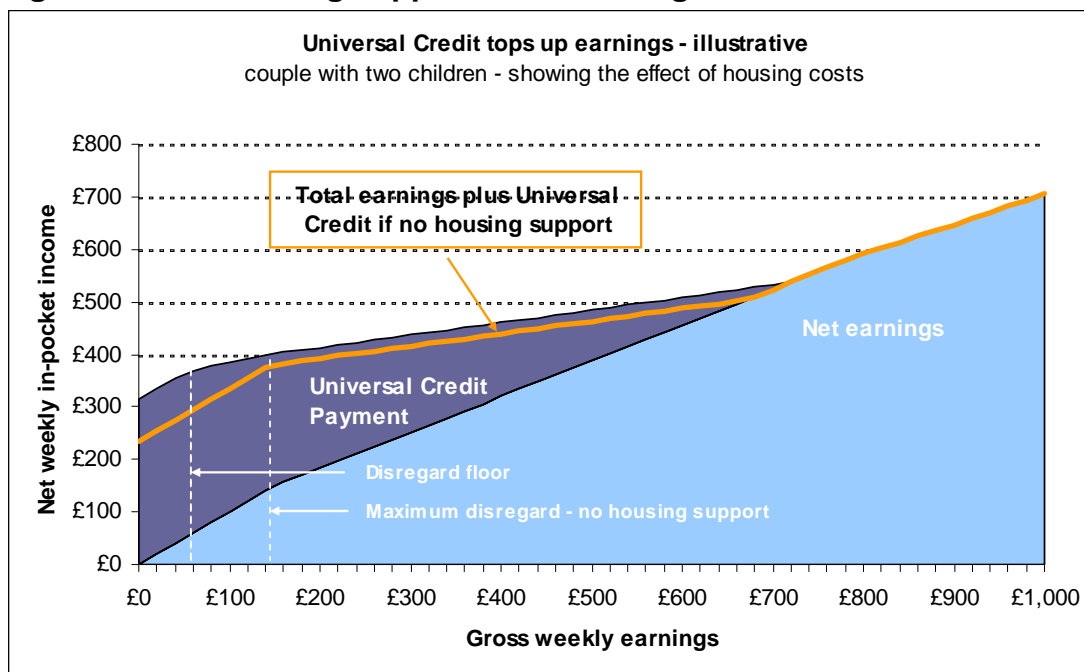
Maximum levels

- k) As with the minimum floor levels, the exact amount of these higher disregards has not been set yet. The latest Universal Credit Impact Assessment assumed disregards in the order of:
- for a single person without children: £700
 - couple: £3,000 plus £4,250 per household for a child (regardless of the number of children);
 - lone parent: £9,000 (regardless of the number of children); and
 - disabled people: £7,000 per household if a recipient or either partner in a couple is disabled.

Only one earnings disregard - whichever is highest - will be available in each household.

- l) Again, these disregards are more generous than were originally proposed in the White Paper; they increase the disregard for households with children by £1,300 and by a further £250 for couples with children. For example, a couple with two children, not in receipt of housing support, would be able to have net earnings of at least £7,250 (£3,000 plus £4,250 for the children) per year before these earnings affected their Universal Credit award.

Figure 2: How housing support affects disregards in Universal Credit



Example – a couple with two children

A couple with two children has rent of £100 a week. Their maximum earnings disregard, as assumed in the impact assessment, is £7,250 per year (this is made up of £3,000 plus £4,250 as shown above). The earnings disregard floor for these claimants is £2,700 (this is made up of £1,920 for the couple + £520 + £260 for the children). The housing costs are £5,200 annually.

The earnings disregard is reduced by 1.5 times the help with housing costs: £7,800; but in this case that would bring the remaining earnings disregard below the minimum floor level. Therefore, the earnings disregard that applies in this example is the floor of £2,700 – approximately £52 a week. As a result of the 65 per cent taper the couple also keep 35p for each £1 of net earnings over the level of the disregard.

Example – a lone parent with one child

A lone parent with one child has rent of £75 a week, making their housing costs £3,900 annually. Their maximum earnings disregard, as assumed in the impact assessment, is £9,000 per year. The earnings disregard is reduced by 1.5 times the help with housing costs: £5,850; therefore their earnings disregard would be £3,150 (= £9,000 - £5,850). £3,150 is greater than the earnings disregard floor which would be £2,780 (this is made up of £2,260 for the couple + £520 for the child). Therefore this lone parent could earn £3,150 per year or around £60 per week before those earnings affected their Universal Credit award.

4. Earnings Taper

- a) A taper is the rate at which benefit is reduced to take account of earnings. A simplified single taper is at the heart of the design of Universal Credit.
- b) Currently there are different taper rates operating throughout the benefit and Tax Credit system. The interaction between these tapers can mean that people have very little incentive to work more hours or to aspire towards a pay rise as they see only a few pence more in their pockets as a result. They also mean that very few people are confidently able to predict the effect on their household income of taking up a job, with the result that many do not bother.
- c) Final decisions on the actual taper rate in Universal Credit will be taken closer to its introduction in 2013. However, the White Paper suggested that the taper or withdrawal rate would be around 65 per cent. In simple terms, that would mean that 35 pence in every pound earned would be kept¹, meaning that claimants would be £35 better off for every extra £100 of net earnings. This means that many people in work would receive substantially more support than under the current benefits system. The taper will be applied to earnings net of tax, National Insurance and 50 per cent of pension contributions.

5. Further work

- a) The rates of the taper and disregards will be set in line with Government spending commitments as the plans for the transition to Universal Credit are developed.

ISBN 978-1-84947-857-1

¹ If earning below the National Insurance threshold.