

Universal Credit Policy Briefing Note 3

Treatment of Capital

1. Policy Rationale

- a) It is essential that the support offered by Universal Credit is focused on those with insufficient resources to meet their needs.
- b) People with substantial savings or other capital clearly have sufficient capital to meet their needs – it is right that they should draw on these resources before looking to the taxpayer for support, particularly as many taxpayers themselves have savings well below these limits. While nearly one in three pensioner households have savings in excess of £16,000, only 13% of households with a working age adult in them have this much savings. A typical working age household has only £300 in savings.
- c) A £16,000 cut-off with assumed tariff income from savings above £6,000 strikes the right balance between protecting people with modest savings and placing responsibility for their own support on those with substantial capital. We believe that £16,000 is an appropriate level, particularly since fewer than one in five families have higher savings¹.

2. History

- a) Capital rules have formed part of the means test for benefits in Great Britain for many years:
 - earlier means tested benefits including National Assistance required applicants to exhaust all or most of their savings (and to sell personal possessions regarded as unnecessary) before receiving support;
 - capital rules in Income Support have increased gradually: the last increase was in April 2006, when the upper limit increased from £8,000 to £16,000 and the lower limit, from £3,000 to £6,000.

3. Policy Considerations

- a) **Savings intended for mortgage deposits** – We have been asked whether provision can be made for people saving for a home but there are no ring-fenced deposit accounts for savings intended for a mortgage and there is no satisfactory way of confirming future intentions, which would make it impossible to frame an exemption to capital rules on this basis. The prospects for Universal Credit claimants seeking a mortgage will also be influenced by wider circumstances such as their expected income and

¹ 18 per cent of all benefit units, including pensioners, have savings of £16,000 or above using the latest Family Resources Survey 2008-09.

the amount they want to borrow. For most Universal Credit claimants, following changes in lending policies subsequent to the problems caused by sub-prime practices, their income levels would not support a mortgage application.

- b) Capital rules are often criticised as **penalising people who save**. However, any changes in this area carry significant costs – for example, the difference in Universal Credit between setting the cut-off at £16,000 and at £25,000 would be around £60 million per annum². Additionally, removing the capital rules from the whole of Universal Credit will create substantial costs of around £500 million per year in 2010/11 prices. This would mean diverting resources which could otherwise be used to improve work incentives.
- c) **Tax Credits** – Tax Credits will be phased out when Universal Credit is introduced. While there are currently many people on Tax Credits with substantial savings, this reflects the fact that these credits are currently available to people high up the income scale³: planned changes, which began in April 2011, to make Tax Credits fairer and more affordable will reduce these numbers substantially.
- d) There are no capital cut-offs or tariff income rules in Tax Credits, although taxable income from savings and other assets is taken into account subject to a disregard of £300 a year. This is therefore an area where the Tax Credits system is more generous than benefits and in some cases (such as where a person has substantial savings in an ISA or other tax-free product) much more generous. The impact of the alignment of capital rules is part of the reason we will provide transitional protection for existing claimants.

4. Our Proposals

- a) We will set a capital cut-off in Universal Credit at £16,000 (both for single claimants and couples making a joint claim). Capital in excess of £6,000 will be treated as yielding an income (known as “tariff income”) of £1 per week for each complete £250 over this £6,000 floor. Capital under £6,000 will be disregarded. These rules will apply to all elements of Universal Credit.
- b) For the purpose of this rule, “capital” will include savings, stocks and shares, property and trusts. It will not include: the property occupied by the claimant as his or her main home; personal injury payments placed in trust funds; certain other compensation payments; personal pension schemes

² The previous version of this note had an estimate of £105m. Our estimate has now been improved to include more recent data from the Family Resources Survey. There have also been modelling improvements including accounting for take up and people’s behaviour in reporting capital.

³ Of those with savings over 16k receiving tax credits, 52% earn over £40,000 per annum (and 30% earn over £50,000). [Source: FRS 2008/09].

and retirement annuity contracts; or business assets. We will also disregard 50% of pension contribution in assessing net earnings.

- c) The powers in the Bill permit us to make regulations to treat unearned income in the same way as earnings. These powers may be used, for example, in the case of Statutory Sick Pay.
- d) The rules exempt the proceeds of a sale of a former home and some other assets clearly identified and earmarked for the purchase of (or repairs to) a home, but usually for a maximum of 26 weeks.
- e) People with capital of £16,000 or more who are entitled to Tax Credits before migrating to Universal Credit will receive transitional protection to protect their cash income. Capital limits are not changing for claimants of out of work benefits or Housing Benefit.

5. Who would be affected in practice?

- a) Once Universal Credit is in steady state, we estimate that between 100,000 and 200,000 households in Great Britain would be eligible for Universal Credit if their savings fell below £16,000 and all of their other circumstances remained the same.
- b) There will be 200,000 to 300,000 households with savings of between £6,000 and £16,000 who will have reduced eligibility for Universal Credit compared to their eligibility if they had capital below £6,000. These households may or may not be entitled to less Universal Credit than the sum of the relevant benefits in the current system – this is therefore not an estimate of the losers from capital rules in Universal Credit.
- c) For current Tax Credit recipients, our estimates take account of the changes to Tax Credit caseloads ahead of the introduction of Universal Credit. We believe that in 2014/15 the Tax Credits population will include up to 100,000 households with capital over £16,000 and around 100,000 with capital between £6,000 and £16,000.
- d) As stated above, transitional protection will ensure that none of these Tax Credit claimants will lose in cash terms at the point of transfer because of the introduction of Universal Credit where their circumstances have not changed.

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