

Universal Credit Policy Briefing Note 9

Treatment of income (other than earnings)

1. Core objectives

- a) Universal Credit is intended to provide a streamlined welfare system which makes the financial advantages of taking work or increasing working hours clear to claimants. As part of this clear system, we will define simple rules for the treatment of income other than earnings, which some claimants will have.
- b) The guiding principle of these rules will be that, in order to make the new system affordable, it is essential that claimants who have sufficient income from other sources are not paid Universal Credit to the same amount.
- c) Where claimants have income available to meet their everyday living costs, their entitlement to Universal Credit should be adjusted accordingly. The approach will be different where individuals have higher living costs, for example due to being disabled, and so receive additional income as a result.

2. History

- a) The principle that available income reduces entitlement to income-related benefits is long-established, for example in Income Based Jobseekers Allowance (JSA(IB)), income-related Employment and Support Allowance (ESA (IR)) or Income Support.
- b) However, when Housing Benefit and Tax Credits are also considered, there are currently varying rules on the treatment of income in the welfare system, which will be harmonised through the introduction of Universal Credit. For example, Statutory Maternity Pay is taken into account in JSA(IB), ESA(IR) and Income Support (less any Class 1 National Insurance contributions and tax as well as half of any pension contributions), but treated as earnings in Housing Benefit and employment income in Tax Credits (with differing treatment between the two). Aligning these rules will create a simpler system which is easier for claimants to understand.
- c) Current benefit claimants may also receive partial disregards for certain income types, which add complexity and blur work incentives.

3. Key policy proposals

- a) As the White Paper 'Universal Credit: Welfare that works' set out, Universal Credit claimants who enter work will not see any reduction in their Universal Credit award so long as their earnings are below the appropriate earnings disregard. If their earnings are above the disregard, the earnings taper will be applied to the remaining earnings and their Universal Credit award adjusted accordingly. This will ensure that work always pays and the advantage of taking work will always be clear.
- b) Following the core objectives set out above, if Universal Credit claimants have income other than earnings which is available to meet their living costs, the default treatment of such income will be to take it into account in full, so that the Universal Credit award is reduced pound for pound. However, where claimants' living costs are increased by their personal circumstances or there is a disproportionate administrative cost in taking a particular type of income into account, such income will be fully disregarded. In addition, a few income types will be treated as equivalent to earnings.

Income for additional costs/expenses – 0% deducted in Universal Credit

- c) Income received due to additional costs or expenses the claimant has will be fully disregarded. Some income may be received due to the claimants' personal circumstances, such as caring responsibilities for children (for example, Child Benefit), or due to their being disabled (Disability Living Allowance, Constant Attendance Allowance, etc). It may also be received due to extra expenses claimants have already met, such as paying for work expenses or to attend court as a juror. Such income will be fully disregarded.

Disproportionate administrative costs – 0% deducted in Universal Credit

- d) There is also a group of income types which it would be inappropriate to take into account due to the disproportionate administrative burden of doing so. Obvious examples would be the value of payments in kind or charitable payments. Such income will be fully disregarded. The current approach of fully disregarding payments of child maintenance received by a claimant who is a parent with care, in order to encourage such parents to apply for child maintenance, will continue under Universal Credit.

Income equivalent to earnings – 65% deducted in Universal Credit

- e) A small group of income types will be treated identically to earnings. These are Statutory Sick Pay and Statutory Maternity/Paternity/Adoption Pay. Treating these payments as earnings both reduces the risk of error where they are reported via Real-Time Earnings information and enhances the incentive to take and progress

in work. Claimants who have income from boarders or lodgers will have the earnings taper only applied to such income. This approach recognises the financial advantage that such claimants have whilst preserving the incentive to take a job, via the earnings disregard.

Universal Credit equivalents – 100% deducted in Universal Credit

- f) Where none of the above exceptions applies and claimants therefore have income available to meet their living costs, we will not pay Universal Credit to that amount. Universal Credit will be withdrawn pound for pound in respect of such income. Examples are retirement pensions and spousal maintenance.

4. In practice, how will this differ from now?

- a) The income rules for Universal Credit will be simpler, for example by eliminating partial disregards. However, the treatment of the majority of income types will be similar to the current treatment in the income-replacement benefits. The treatment of income in Tax Credits is typically more generous, reflecting the fact that Tax Credits are available to claimants higher up the income scale than income-replacement benefits.
- b) Transitional Protection arrangements will ensure that current claimants who would otherwise receive a lower amount of support under Universal Credit will not lose out at the point of change if their circumstances remain the same.

6. Further work

- a) We will define in regulations the full list of income types and benefits which must be declared under Universal Credit in order to be taken into account. The drafting of regulations will aim to provide a more accessible account of the system which claimants and their advisors will find easier to follow.
- b) We are considering how War Pension payments will be treated under Universal Credit. These payments receive particularly varied treatments under the different parts of the current system and it will be important to come to an appropriate position under Universal Credit, following discussions with other government departments and veterans' representatives.

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