
UNITED KINGDOM 2003

The UK Financial year runs from April to April. The rates and rules below are for June 2003.

1. Overview of the system

The United Kingdom has a contributory flat-rate unemployment insurance benefit for those out of work, parallel with general means-tested benefit for those with low income. In addition there are a number of specific means-tested benefits: Council Tax Benefit (a help towards local tax), Housing Benefit, the Working Tax Credit which is an in-work benefit, and for people with children Child Tax Credit (CTC). There is also a universal Child Benefit for people with children. The direct tax system consists of a central government income tax and a council tax; the tax unit for income tax is the individual. Council tax is levied on dwellings. The 2003 AW earnings level was GBP 28 019.

2. Unemployment insurance

2.1 *Conditions for receipt*

Contribution-based Jobseeker's Allowance (JSA) can be paid to a customer who is unemployed or working less than 16 hours per week and not disqualified for any reason. JSA is available for men under age 65 and women under age 60. They must have entered into a Jobseeker's Agreement.

2.1.1 *Employment conditions*

Recipients must be out of work or working less than 16 hours a week. They must be capable of; available for and actively seeking work as an employee or as self employed.

2.1.2 *Contribution conditions*

JSA (Contribution based) is a personal benefit paid to unemployed people who have paid sufficient National Insurance contributions in the last two full tax years before the year of their JSA claim.

Sufficient means: contributions paid in one of the 2 tax years on which the claim is based amounting to at least 25 times the minimum contribution for that year, and contributions paid or credited in both the appropriate tax years amounting to a total of at least 50 times the minimum contribution for that year. The minimum contribution is set annually by the government.

Payment of Class 1, 2 and 3 National Insurance contributions gives rise to an 'earnings factor' which is used to calculate entitlement to contributory benefits. For Class 1 contributions the earnings factor is the amount of earnings, excluding those above the upper earnings limit (UEL) upon which contributions have been paid. The minimum rate at which an individual is deemed to have made a contribution is the lower

earnings limit (LEL) 77 GBP in 2003¹. If an individual earnings exceed the LEL in a given week then the earnings factor or contributions would be all earnings up to the UEL.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

Payable on a weekly basis at the rate of GBP 54.65 for a single person aged 25 and over, GBP 43.25 per week for those aged 18-24 and GBP 32.90 for those aged 16-17 (where applicable – see 2.5.1).

There is no increase in the amount of JSA (Contributory) for families or children but jobseekers are often entitled to other benefits as well, for example JSA (Income Based) which does have additions for children, partners, etc.

2.2.2 Income and earnings disregards

The income-based benefit is reduced penny for penny in respect of most forms of adult income and of earnings over certain limits - normally GBP 5 a week for singles, GBP 10 for couples and GBP 20 in special cases (such as lone parents, disabled people, carers and special occupations).

JSA contribution based is also reduced by earnings over the limits set out above and occupational or personal pensions where they exceed GBP 50 a week is received.

2.3 Tax treatment of benefit

JSA is taxable.

2.4 Benefit duration

Payable for up to 182 days, after a 3-day waiting period.

2.5 Treatment of particular groups

2.5.1 Young persons aged 16 or 17

People aged 16 or 17 are eligible to claim JSA (Contribution based) but are unlikely to have paid enough contributions to qualify. They may be able to claim JSA (Income based) under Severe Hardship rules.

3.5.2 Couples

Members of a couple where at least one of the couple was born after 28 October 1957; and, is aged 18 or over; and, neither member of the couple is responsible for a child, are required to make joint claims to Income-based JSA. Both members of the Joint Claim are required to satisfy the conditions for

¹ The lower earnings limit was 75 GBP in 2002 and 72 GBP in 2001

receipt of JSA unless one member fits into an exempt group. In certain circumstances a member of a couple may still be able to receive JSA even if their partner has not made a joint claim with them.

3. Unemployment assistance

3.1 Conditions for receipt and benefit amount

Income-based Jobseeker's Allowance is assessed at the difference between the applicable amounts (the needs) and the claimant's resources. There are capital limits – broadly capital over GBP 3 000 affects the amount of benefit paid, and benefit is not paid to people with capital over GBP 8 000. The applicable amount consists of personal allowances and specified premiums (these allowances and premiums are the same for all the income related benefits, which are: income-based Jobseeker's allowance (JSA[IB]), income support (IS), housing benefit (HB), and Council Tax Benefit (CTB) (see table).

| Family type | Rates of applicable amount (in GBP per week) |
|--|---|
| Personal allowance | |
| Single | |
| 18-24 | 43.25 |
| 25 and over | 54.65 |
| Lone parent | |
| 18 or over | 54.65 |
| Couple (both 18 or over) | 85.75 |
| Child | |
| Under 16 | nil ¹ |
| 16-18 | nil ¹ |
| Premiums | |
| Family | 15.75 ² |
| Lone parents (in addition to family premium) | nil ¹ |

1. For new applicants as replaced by the new tax credits, some residual cases get £0.15 per week.

2. From April 2003 Income-based JSA will no longer include allowances for your children for new claims, instead you can claim CTC which will no longer count as income. From April 2004, no-one will have financial support for their children paid through JSA or IS.

There are further premiums for other specific circumstances, e.g. disabilities, caring responsibilities, for people over 60.

3.2 Income and earnings disregards

Weekly earnings disregards are GBP 5 for a single person; GBP 10 for couples; and GBP 20 for certain special groups. Other forms of income, including unearned income and most other social security benefits, normally reduce benefits on a penny-for-penny basis

Note: Housing Benefits (and Family Benefits since the introduction of CTC) are not considered for this income test.

3.3 Tax treatment of benefit

JSA is taxable.

3.4 Benefit duration

Paid as long as the conditions are fulfilled.

3.5 Treatment of particular groups

3.5.1 Young persons

New Deal for 18-24 year olds is a mandatory programme for those claiming JSA for at least 6 months with: a Gateway; a choice of four options, each of which includes an element of training; and follow-through help for those who return to benefit after the programme.

4. Social assistance

The main out of work benefits are Jobseeker's Allowance and Income Support (for those not required to be available for work). Both benefits are designed to provide financial help to those whose net income falls below a set minimum level. In addition there are a number of other means-tested benefits/tax credits, as follows:

- Council Tax Benefit: help towards the tax raised by local authorities (see Section 5).
- Housing Benefit (see Section 5).
- Working Tax Credit and Child Tax Credit (see Section 8).
- Various benefits for the sick and disabled and the Social Fund which are outside the scope of this study.

4.1 Conditions for receipt

Income Support is a means-tested benefit. Persons with savings or capital above GBP 8 000 are not eligible; the first GBP 3 000 of savings are ignored and a weekly income is assumed from savings of between GBP 3 000 and GBP 8 000. There are higher limits for people living in residential care or nursing homes.

4.1.1 Employment conditions

Income Support is available to some persons who are not working or working less than 16 hours per week (24 for partners). Receipt of Income Support is not dependent on availability for employment.

4.1.2 Contribution conditions

None.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

| Family type | Rates of applicable amount (in GBP per week) |
|---|---|
| Personal allowance | |
| Single | |
| 18-24 | 43.25 |
| 25 and over | 54.65 |
| Lone parent | |
| 18 or over | 54.65 |
| Couple (one or both 18 or over) | 87.30 |
| Child | |
| Under 16 | nil ³ |
| 16-18 | nil ³ |
| Premiums | |
| Family | 15.75 ³ |
| Lone parent (in addition to family premium) ¹ | 0.15 |
| Lone parent for CTB/HB (in addition to family premium) ² | 6.45 |

1. Lone parent premiums for income support and housing benefit are no longer available to new claimants (since 6 April 1998). It is payable if:
 - You were both a lone parent and entitled to IS or income-based JSA on 5 April 1998, or, if you were not, you were on any day within 12 weeks before or after that date and you have not ceased to be, both a lone parent and entitled to IS or income-based JSA for more than 12 weeks in this time; and
 - You do not subsequently cease to be both a lone parent and entitled to IS or income-based JSA, although any periods of less than 12 weeks during which you may cease to be either a lone parent or entitled to IS or income-based JSA, or both, are ignored.
2. It is payable if:
 - You were entitled or treated as entitled to HB/CTB and the lone parent increase on 5 April 1998 (which is the case in our study); and
 - You do not cease to be a lone parent; and
 - You do not cease to be entitled or treated as entitled to HB/CTB; and
 - You do not become or cease to be entitled to IS or income-based JSA; and
 - The disability premium or one of the pensioner premiums does not become payable instead.
3. For new applicants this support is provided through Child Tax Credit. From April 2003 Income-based JSA will no longer include allowances for your children for new cases, instead you can claim CTC which will no longer count as income. From April 2004, no-one will have financial support for their children paid through JSA or IS.

There are further premiums for other specific circumstances, *e.g.* disabilities, caring responsibilities, for people over 60.

The resources consist of the net income of the claimant and partner, subject to some disregards.

Income Support is the difference between the applicable amount (the needs) and the claimant's resources. The applicable amount consists of personal allowances and premiums, that only slightly differ for the calculation of Income Support (IS), Housing Benefit (HB), and Council Tax Benefit (CTB) (see table).

4.2.2 *Income and earnings disregards*

Weekly earnings disregards are GBP 5 for a single person, GBP 10 for couples and GBP 20 for certain other groups, such as lone parents and disabled people. Income other than earnings, including most other social security benefits and tax credits, are normally taken fully into account and reduce benefit penny for penny.

Note: Housing Benefit and Council Tax Benefit (and Family Benefits since the introduction of CTC) is not considered for this income test.

4.3 *Tax treatment of benefit*

Income Support is not taxable.

4.4 *Benefit duration*

Paid as long as the conditions are fulfilled.

4.5 *Treatment of particular groups*

4.5.1 *Young persons*

Income Support is not normally payable to persons aged 16-17. Under certain circumstances an amount is calculated based on their age and their partner's age (if they have one).

4.5.2 *Older people, carers, disabled/sick people*

Pensioner premiums exist: the weekly rates are GBP 47.45 for a single person aged 60 or over, and GBP 70.05 for a couple where at least one partner is aged 60 or over. There are also additional premiums for disabled people and carers. From October 2003 support to those over 60 will be paid through Pension Credit rather than Income Support. The Pension Credit combines an Income Guarantee for those 60+ with a Savings Credit payable to those 65+ to reward those who have saved.

5. Housing benefits

Housing Benefit is income-related, which provides help with paying the rent for private or public housing for people on low income.

Council Tax Benefit is a means-tested benefit, which provides help towards the tax raised by local authorities.

5.1 *Conditions for receipt*

Persons with capital above GBP 16 000 are not eligible; the first GBP 3 000 of capital is ignored. For capital of between GBP 3 000 and GBP 16 000, a notional income is taken into account. Note that Council Tax Benefit is for Great Britain only.²

² A 6000 GBP lower limit applies in Income support and Housing Benefit for benefit units with a member 60 or over.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

For people not receiving Income Support, Housing Benefit is the eligible rent minus 65 per cent of the difference between net resources and the applicable amount. For all other claimants, housing benefit is the full amount of eligible rent. If the Housing Benefit formula gives a value below 50 pence/week, no payment is made.

Eligible rent is the rent on which Housing Benefit is payable. Eligible rent may differ from the contractual rent for cases in the deregulated Private Rented Sector (and some Registered Social Landlord cases). This may happen if the contractual rent is deemed to be excessive (either for the property in question or relative to other rents in the area) or if the size of the property is excessive relative to the claimants needs. The Rent Service makes these rent determinations. Those who live with non-dependents will have deductions made to their eligible rent.

There are no actual maximum rates set, excessive rent is determined by a rent officer by comparing the level of rent with other private tenancies in the neighbourhood. As also mentioned the rent may be limited if the number of rooms in the accommodation is deemed too great for the households needs.

The applicable amount is shown in Section 4; except lone parents, meeting the conditions also described in section 4, where the applicable amount is GBP 22.20 plus the lone parent applicable amount.

5.2.2 Income and earnings disregards

Earnings Disregards are GBP 5 for a single person; GBP 10 for a couple; GBP 20 for some disabled and GBP 25 for a lone parent. Certain incomes other than earnings, paid for a special reason (*e.g.* to meet the cost of disability) may be disregarded in part or in full. Net income for calculation purposes are defined as gross earned income after tax and social security contributions, plus most other unemployment/social security benefits and Tax Credits, and other unearned income.

Note: Housing benefits and Family benefits are not considered for this income test.

5.3 Tax treatment of benefit

Both non-taxable.

5.4 Benefit duration

Both paid as long as the conditions are fulfilled.

5.5 Treatment of particular groups

5.5.1 Young persons

For housing benefit, the same personal allowance of GBP 43.25 applies to a single person aged less than 25 or a lone parent aged less than 18, whilst the personal allowance for a couple with at least one aged over 18 is GBP 85.75. Council Tax Benefit is not normally payable to anyone under the age of 18 as there is no council tax liability.

5.5.2 Older people, disabled, carers

As for Income Support, pensioner premiums exist for both benefits: the weekly rates are GBP 47.45 for a single person aged over 60, and GBP 70.05 for a couple where at least one partner is aged 60 or over. There are also additional premiums for disabled people and carers.

5.5.3 Home owners

Housing Benefit cannot be claimed by people who pay mortgage repayments, rather than rent. A component of Income Support, which helps with mortgage interest payments, is available to eligible people.

6. Family benefits

6.1 Conditions for receipt

Child benefit is paid in respect of each child in the family under 16, or 19 if still in full-time non-advanced education. An additional family benefit, the Child Tax Credit, is detailed in section 8.

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

It is payable at the weekly rate of GBP 16.05 for the eldest child from whom benefit is payable, and GBP 10.75 in respect of each other child. Lone-parents receive a supplement of GBP 1.50 per week.

6.2.2 Income and earnings disregards

Not subject to any means test.

6.3 Tax treatment of benefit

Not taxable.

6.4 Treatment of particular groups

6.4.1 Young people

Parents of 16 and 17 year olds who have just left school and who are registered for work or on youth training schemes are also eligible for Child Benefits, length of time eligible depends on the time of year left education.

7. Childcare benefits

As part of the Working Tax Credit (see Section 8) parents can receive 70 per cent of the actual childcare cost per week. Up to a maximum childcare cost of GBP 135 per week if one child, GBP 200 per

week if two or more children. (See additional information on childcare costs and benefits at end of document.)

8. Employment-conditional benefits

Working Tax Credit is an in-work means-tested benefit to top up the earnings of people on low-incomes that are responsible for children, disabled and/or are aged 25 or over. In addition, workers looking after children are eligible for Child Tax Credit as well as Working Tax Credit, and Child Tax Credit is payable regardless of whether the claimant is in work or not.

8.1 Conditions for receipt

The employee must be working at least 16 hours per week (30 hours if aged 25 and over and does not have a child or a disability). There are no employment conditions for the receipt of the Child Tax Credit.

8.2 Calculation of benefit amount

8.2.1 Calculation of gross benefit

It is calculated by adding up all the elements for adults and children you are entitled to and then deleting 37 per cent of the difference between gross income and GBP 5060 per year. Gross income is defined as earned income plus all relevant benefits before the deduction of taxes and social security contributions. This is a test of the income of the benefit unit and not each person in isolation.

In the absence of Working Tax Credit entitlement Child Tax Credit is not reduced until earnings are over GBP13,320 per year. The taper point for the family element is GBP 50000 per year. The family element of the tax credits is not tapered away till income exceeds GBP 50000 and then only once the entire child element has been. Then when the family element is tapered away it is done so at a rate of GBP1 for every GBP15 of income.

Note: Housing Benefit and Family Benefit are not considered for this income test.

No payment is made if the formula gives a value below 50 pence/week.

| Family type | Rates of credits (in GBP per week) ¹ |
|---------------------------------|--|
| WTC Elements | |
| Basic Element | 30.17 |
| Second Adult Element | 29.68 |
| Lone Parent Element | 29.68 |
| 30 Hour Element | 12.32 |
| Disability Element | 40.32 |
| Severe Disability Element | 17.08 |
| 50 plus Element (16-30 hours) | 20.65 |
| 50 plus Element (30 hours) | 30.94 |
| CTC Elements | |
| Family Element (normal) | 10.43 |
| Family Element (baby addition) | 10.43 |
| Child Element | 27.65 |
| Disabled Child Element | 41.23 |
| Enhanced Disabled Child Element | 16.59 |

¹ The above are derived weekly CTC and WTC entitlements as both are based on annual calculations

In addition parents can receive 70 per cent of the actual childcare cost per week, up to a maximum childcare cost of GBP 135 per week if one child, GBP 200 per week if two or more children.

8.3 *Tax treatment of benefit*

Not taxable.

8.4 *Benefit duration*

Paid as long as the conditions are fulfilled.

9. **Lone-parent benefit**

Lone parents are eligible for an additional allowance under the Working Tax Credit (section 8).

10. **Direct Tax system**

It consists of a central government income tax, and a council tax. Social security contributions are also paid.

10.1 *Income tax rate schedule*

10.1.1 *Tax allowances and credits*

- Basic Relief: a personal annual allowance of GBP 4 615 (88.75 per week) is granted to each individual.
- Children's Tax Credit. [This is superseded by the introduction of Child Tax Credit see section 8]
- Working Tax Credit: see Section 8 (Employment-conditional benefits).
- Relief for social security contributions and other taxes: none.

10.1.2 *The definition of taxable income*

For the central government tax, it is simply the gross earnings minus the basic allowance.

10.1.3 *The 2003 tax schedule*

Central government income tax

| Taxable income (in GBP) | Tax rate (%) |
|----------------------------|-----------------|
| 0 – 1 960 | 10 |
| 1 960 – 30 500 | 22 |
| Over 30 500 | 40 |

There are no regional or local income taxes. Instead, a council tax is paid to local authorities. Rates are based upon the property value as of 1 April 1991, and set into eight bands. Rates are set by local authorities based on Band D, the ratio between each band fixed as follows:

| Property band | Value (GBP, as of 1 April 1991) | Tax rate relative to Band D |
|---------------|---------------------------------|-----------------------------|
| Band A | 0-40000 | 2/3 |
| Band B | 40001-52000 | 7/9 |
| Band C | 52001-68000 | 8/9 |
| Band D | 68001-88000 | 1 |
| Band E | 88001-120000 | 1 2/9 |
| Band F | 120001-160000 | 1 4/9 |
| Band G | 160001-320000 | 1 2/3 |
| Band H | Over 320000 | 2 |

10.2 *Treatment of family income*

The tax unit is the individual.

10.3 Social security contribution schedule

10.3.1 Employees' contributions

National Insurance contributions are payable by employees earning more than GBP 89 in any week. These are 11 per cent of earnings between GBP 89 and GBP 595 and 1 per cent of earnings above GBP 595 for employees not contracted out of the state additional (earnings related) pension' scheme (a supplement to the basic retirement pension). For employees who are contracted out, there is a rebate of 1.6 per cent on earnings between GBP 77 and GBP 595. Depending on eligibility criteria members of the National Insurance scheme qualify for pensions, sickness, industrial injury, unemployment benefits, etc. All employees earning under GBP 89 per week have no National Insurance contribution liability but a notional contribution will be deemed to have been paid in respect of earnings between GBP 77 and GBP 89 to protect benefit entitlement.

11. Part-time work

See above.

12. Policy developments

12.1 Policy changes introduced in the last year

Child Tax Credit and Working Tax Credit were introduced in April 2003.

Child Tax Credit (CTC) replaced support for children previously provided by Working Families Tax Credit, Disabled Person's Tax Credit and the Children's Tax Credit. From April 2004 it also replaced the child-related elements of Income Support and income-based Jobseeker's Allowance. Families on these benefits that have not already claimed CTC will be migrated to CTC from October 2004.

Child Tax Credit will replace the child elements of Income Support, Minimum Income Guarantee, and income-based Jobseeker's Allowance and the support for children that had previously been provided in other benefits. Those families on Income Support or income-based Jobseeker's Allowance will be migrated to Child Tax Credit from April 2004.

During the transition period the rates of the child elements in income related benefits are adjusted so that a family will receive the same in respect of their children as they would receiving Child Tax Credit.

During the transition any family falling onto IS/JSA with Child Tax Credit already in payment will be awarded IS/JSA child allowances and have the Child Tax Credit taken into account as income.

Once steady state is achieved IS/JSA child allowances will be removed and Child Tax Credit and Child Benefit will no longer be taken into account as income. The structure and rates of Child Tax Credit will be replicated in HB/CTB and both Child Tax Credit and Working Tax Credit will be taken into account as income. In 2004 an extra earnings disregard of 12.32 GBP applies for HB/CTB for those working over 30 hours a week or over 16 hours if they have children, are over 50 or have a disability related premium.

Working Tax Credit (WTC) replaced support previously provided by Working Families Tax Credit, Disabled Person's Tax Credit and the New Deal 50plus Employment Credit.

12.2 *Policy changes announced*

From October 2003 the Minimum Income Guarantee, support for those benefit units with a member over 60, will be replaced by the Pension Credit. The income guarantee, or applicable amount, will be 102.10 GBP for singles and 150.80 for couples. In addition those over 65 receive a savings credit to reward those that have saved. These applicable amounts will also be used for Housing Benefit and Council Tax Benefit calculations, higher rates of 116.90 GBP and 175.00 GBP will apply for those over 65.

Childcare Costs and Childcare Benefits

1. The facts below are taken from a survey of 5 416 households for a Department for Education and Skills report “Repeat Study of Parents’ Demand for Childcare”:
 - Couples where both parents were in full-time work were paying GBP 44 a week.
 - Lone parents working full-time pay weekly childcare costs of GBP 37.
 - The median weekly cost of childcare among parents that used childcare was GBP 21.
 - Two fifths of parents paid less than GBP 20 per week and one in ten parents paid more than GBP 100.
 - High-income families and those with children not yet attending school had the highest childcare costs.
 - Weekly cost of childcare for a family with children not yet attending school is GBP 35.

Percentage of families using fee-paying and free childcare by family status

| Family Status | Percentage using: | |
|-------------------------|----------------------|----------------|
| | Fee-paying childcare | Free childcare |
| Couples | 51 | 49 |
| Lone parents | 49 | 51 |
| Unemployed couples | 18 | 82 |
| Unemployed lone parents | 13 | 87 |

Percentage of households using fee-paying and free childcare by annual income

| Annual income (GBP) | Percentage using: | |
|---------------------|----------------------|----------------|
| | Fee-paying childcare | Free childcare |
| Above 31 200 | 58 | 42 |
| 20 800 to 31 199 | 41 | 59 |
| 10 400 to 20 799 | 34 | 66 |
| 10 399 or less | 18 | 82 |

2. The following information is taken from a report “Fifth Survey of Parents of 3 and 4 year old children and their use of early year services” commissioned by the Department for Education and Skills and carried out by the National Centre for Social Research.
 - 44 per cent of parents paid less than GBP 25 per term to nursery education providers.
 - 31 per cent of parents paid GBP 250 or more per term.
 - On average parents paid GBP 224 per term for the provision of services and items.
 - 26 per cent of parents said that cost restricted the amount of nursery education their children received.