

UNITED KINGDOM

1. Overview of the system

The United Kingdom has a contributory flat-rate unemployment insurance benefit for those out of work, parallel with Income Support -- a general means-tested benefit for those with low income. In addition there are a number of means-tested assistance benefits: Council Tax Benefit (a help towards local tax), Housing Benefit, and Family Credit -- an in-work benefit for persons with children. There are two family benefits: Child Benefit and One Parent Benefit. The tax system consists of a central government income tax and a council tax; the tax unit is the individual. The 1995 APW earnings level is £15 234.

2. Unemployment insurance

2.1 *Conditions for receipt*

Unemployment benefit can be paid to a claimant who is unemployed, available for and actively seeking work as an employee, and who is not disqualified for any reason.

2.1.1 *Employment conditions*

None.

2.1.2 *Contribution conditions*

A worker must have paid national insurance contributions to the value of at least 25 times the weekly lower earnings (£58) during one of two recent tax years (usually the two tax years ending in the calendar year before the year in which the claim is made); and a worker must also have paid or been credited with national insurance contributions to the value of at least 50 times the weekly lower earnings (£58) in each of the two recent tax years. During unemployment and training periods, contributions can be credited.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

Payable on a 6-day week basis at the weekly rate of £46.45 for one person, with an additional £28.65 per week for a partner earning less than £28.65 per week. Hence such a couple receives a benefit of £75.10 per week.

2.2.2 Income and earnings disregards

The benefit is reduced in proportion to the number of days or weeks worked; a beneficiary cannot receive unemployment benefit for a day on which £2 or more are earned, or for a week in which £58 or more are earned.

2.3 Tax treatment of benefit

Only the personal allowance of £46.45 per week (£2 415 yearly) is taxable, but the tax system is structured such that a year-long recipient will pay no tax.

2.4 Benefit duration

Payable for up to 52 weeks, after a 3-day waiting period.

2.5 Treatment of particular groups

2.5.1 Young persons

None.

2.5.2 Older workers

The benefit for claimants of, or over pensionable age (65 for a man, 60 for a woman), is £58.85 per week for one person, with an additional £35.25 for a dependent spouse and £11.05 per dependent child.

3. Unemployment assistance

None.

4. Social assistance

The main benefit is Income Support, designed to provide financial help to those whose net income falls below a set minimum level. In addition there are a number of other assistance linked, means-tested benefits, as follows:

- Council Tax Benefit: help towards the tax raised by local authorities (see Section 5);
- Housing Benefit (see Section 5);
- Family Credit (see Section 8);
- Others, Disability Working Allowance and the Social Fund: outside scope of this study.

4.1 *Conditions for receipt*

Income Support is a means-tested benefit. Persons with savings or capital above £8 000 are not eligible; the first £3 000 of savings are ignored and a weekly income is assumed from savings of between £3 000 and £8 000.

4.1.1 *Employment conditions*

Income Support is available to unemployed persons, or persons working less than 16 hours per week. Claimants who are required to be available for work must be actively seeking for work of at least 24 hours per week.

4.1.2 *Contribution conditions*

None.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

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).

Family type	Rates of applicable amount (in £ per week)
Personal allowance	
Single	
18-24	36.80
25 and over	46.50
Lone parent	
18 or over	46.50
Couple (one/both 18 or over)	73.00
Child	
Under 11	15.95
11-15	23.40
16-17	28.00
18	36.80
Premiums	
Family	10.25
Lone parent	5.20
Lone parent (CTB/HB purposes)	11.50

Note that the applicable amount is reduced if the claimant is voluntarily unemployed.

Also note that a lone parent receives both family and lone-parent premiums.

The resources consist of the net income of the claimant and partner (including family benefits), subject to some disregards.

4.2.2 *Income and earnings disregards*

Weekly disregards are: £5.00 for a single person; £5 per earner for a couple (£15 for a couple on Income Support for over two years); and £15.00 for a lone parent. Resources for income testing purposes are defined as gross earned income after tax and social security taxes, local taxes not included, plus unemployment benefits, Child Benefits, Lone Parent Benefits and Family Credit.

4.3 *Tax treatment of benefit*

Taxable up to £46.45 per week (£2 415 yearly) when it is paid alone for the unemployed. The tax system is structured such that a year-long recipient will pay no tax.

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, single aged 16-17 have a weekly rate of £28 or £36.80, and couples (both aged under 18) have a weekly rate of £55.55.

4.5.2 *Older workers*

Pensioner premiums exist: the weekly rates are £18.60 for a single person aged 60-74, and £28.05 for a couple where at least one partner is aged 60 or over and neither is 75 or over. Further pensioner premiums exist for other categories of pensioners. There are also additional premiums for disabled people.

5. **Housing benefits**

Housing benefit is a means-tested benefit, 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 £16 000 are not eligible; the first £3 000 of capital is ignored. For capital of between £3 000 and £16 000, a national income is taken into account to represent a person's contribution to their rent or council tax. Note that Council Tax Benefit is for Great Britain only.

5.2 *Calculation of benefit amount*

5.2.1 *Calculation of gross benefit*

For people not receiving Income Support, housing benefit is the 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 rent. If the housing benefit formula gives a value below 50 pence/week, no payment is made.

For people not receiving Income Support, Council Tax Benefit is the amount of council tax minus 20 per cent of the difference between net resources and the applicable amount. For all other claimants, Council Tax Benefit is the full amount of council tax.

The applicable amount is shown in Section 4; the higher rate lone parent premiums apply to the calculation of the applicable amount for housing benefits (HB) and Council Tax Benefits (CTB).

5.2.2 *Income and earnings disregards*

Disregards are: £5.00 for a single person; £10 for a couple; £15 for some disabled; and £25.00 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 resources for calculation purposes are defined as gross earned income after tax and social security taxes, local taxes not included, plus unemployment benefits, child benefits, Lone Parent Benefits and Family Credit.

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*

In housing benefit, the same personal allowance of £36.80 applies to a single person aged less than 25 or a lone parent aged less than 18, whilst the personal allowance for a couple both aged under 18 is £55.55. 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 workers*

As for Income Support, pensioner premiums exist for both benefits: the weekly rates are £18.60 for a single person aged between 60 and 74, and £28.05 for a couple where at least one partner is aged 60 or over and neither is aged 75 or over. Further pensioner premiums exist for other categories of pensioners. There are also additional premiums for disabled people.

6. Family benefits

6.1 *Conditions for receipt*

Child benefit is paid in respect of each child in the family under 15, or 19 if still in full-time non-advanced education.

6.2 *Calculation of benefit amount*

6.2.1 *Calculation of gross benefit*

It is payable at the weekly rate of £10.40 for the eldest child from whom benefit is payable, and £8.45 in respect of each other child.

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 *Lone parents*

One Parent Benefit (see Section 9).

6.4.2 *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, but only for up to 12 weeks.

7. Child-care benefits

The Family Credit means-test (see Section 8) includes an extra disregard of £40.00 per week per child in registered paid day-care.

8. Employment-conditional benefits

Family Credit is an in-work means-tested benefit for working parents with low income.

8.1 Conditions for receipt

The employee must be working at least 16 hours per week. As for Income Support, persons with savings or capital above £8 000 are not eligible; the first £3 000 of savings are ignored and a weekly income is assumed from savings of between £3 000 and £8 000.

8.2 Calculation of benefit amount

8.2.1 Calculation of gross benefit

It is calculated by adding credits for adults and children, and then deleting 70 per cent of the difference between net income and £73 per week. Net income is defined as gross earned income minus taxes and social security contributions, excluding council tax. No payment is made if the formula gives a value below 50 pence/week.

Family type	Rates of credits (in £ per week)
Adult	45.10
Supplement for working 30 hours per week or more	10.00
Child	
Under 11	11.40
11-15	18.90
16-17	23.45
18	32.80

8.2.2 Income and earnings disregards

Up to £40 per week of the cost of registered child-care can be offset against net income. An amount of £15 per week of maintenance payed by the ex-partner is disregarded.

8.3 Tax treatment of benefit

Not taxable.

8.4 Benefit duration

Paid for a period of 6 months regardless of whether circumstances change. It is renewable as long as the conditions are fulfilled.

9. Lone-parent benefits

9.1 *Conditions for receipt*

One Parent Benefit is payable as an addition to Child Benefit, in respect of the eldest child who qualifies.

9.2 *Calculation of benefit amount*

9.2.1 *Calculation of gross benefit*

Payable at the weekly rate of £6.30.

9.2.2 *Income and earnings disregards*

Not subject to any means-test.

9.3 *Tax treatment of benefit*

Not taxable.

10. 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*

For the central government tax, there is a basic allowance of £3 525 for all workers, and a wastable credit of 15 per cent of £1 720 for married couples or lone parents. The credit is granted to both partners in a couple.

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 1995 tax schedule*

Central government income tax:

Taxable income (in £)	Tax rate (%)
0 - 3 200	20
3 200 - 24 300	25
Over 24 300	40

Local tax: council tax is determined by local governments. For this study, it is assumed to be a fixed amount of £ 11.4 per week (£ 592.8 per year) per household.

10.2 *Treatment of family income*

The tax unit is the individual. Couples are taxed separately.

10.3 *Social security contribution schedule*

National Insurance contributions are payable by employees whose earnings are more than £58.00 per week. They are 2 per cent of the first £58.00 per week, plus 10 per cent of earnings between £58.00 and £440.00 per week. No contributions are paid on unemployment benefits or Income Support.

11. *Part-time work*

11.1 *Special benefit rules for part-time work*

Income Support is only available for those working less than 16 hours.

11.2 *Special tax and social security contribution rules for part-time work*

National Insurance contributions are payable by employees whose earnings are more than £58.00 per week.

12. *Policy developments*

12.1 *Policy changes introduced in the last year*

None.

12.2 *Policy changes announced*

From April 1996, the 30 hours Family Credit, introduced in July 1995, increases from £10.00 to £10.30 per week.

From April 1996, the amount of child-care costs that can be disregarded for net income is increased from £40 to £60 per week.

From April 1996, the extended payment of housing benefit/Council Tax Benefit provides an extra four weeks of help with housing costs for unemployed people, lone parents and carers who leave benefit for a job which is expected to last for five weeks or more and who have received Income Support or income-based Job-Seeker's Allowance for six months or more. People who have claimed an extended payment will have any in-work housing benefit and Council Tax Benefit paid more quickly.

From April 1996, an exemption from National Insurance contribution of up to 12 months is introduced for employers taking on someone who has been out of work for two years or more, providing the job lasts for 13 weeks or more.

From July 1996, new ways of processing Family Credit claims were fully introduced and 90 per cent of all new claims to Family Credit from employed people will now be cleared within five working days.

From October 1996, Job-Seeker's Allowance (JSA) replaces unemployment benefit/Income Support for the unemployed. It is a unified benefit designed to meet the needs of the unemployed until they return to work, and provides more help in their search for work. It will encourage partners to stay in work, as they will now be able to work up to 24 hours per week before the claimant loses benefit entitlement (previously 16 hours). The rules on earnings disregards are changed, so that one member of a couple is now able to earn £10 per week before it affects their benefit; this is a further incentive to take up part-time work.

From October 1996, the Back-to-Work Bonus will let people who work part-time and who have been entitled to Job-seeker's Allowance or Income Support for at least 91 days, to build up a bonus equal to half of their part-time earnings above the appropriate disregard and will give a tax free lump sum of up to £1 000 which is paid when they leave benefit because they have increased their earnings or the number of hours they work.

From October 1996, Earnings Top-Up pilot begins. This is an in-work benefit similar to Family Credit, but for people without dependent children. Pilot covers 20 000 people in eight geographical areas and lasts for three years. Two benefit rates are being tested. National replication will take place only if the pilot proves its worth.

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**The annual tax/benefit position of an unemployed single person, 1995
(Pounds)**

	Unemployment benefit: 52 weeks	Income Support: from the 53rd week
A. Taxable benefits		
Means-tested benefits		
Income Support		2 415
Non-means tested benefits		
Unemployment benefits	2 415	0
Total taxable benefits	2 415	2 415
B. Income tax and social security contributions		
Income tax allowances	3 525	3 525
Taxable income	0	0
Income tax	0	0
Tax credits	0	0
Local tax	593	593
Social security contributions	0	0
Total income tax and social security contributions	593	593
C. Non-taxable benefits		
Means-tested benefits		
Income Support	0	0
Council Tax Benefit	593	593
Housing benefits	3 047	3 047
Non-means tested benefits		
Unemployment benefits	0	0
Total non-taxable benefits	3 640	3 640
D. Net income out of work (A-B+C)	5 465	5 465
E. Net income in work	10 592	10 592
F. Net replacement rate (D/E) (per cent)	52	52

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**The annual tax/benefit position of an unemployed married couple with two children, 1995
(Pounds)**

	Unemployment benefit: 52 weeks	Income Support: from the 53rd week
A. Taxable benefits		
Means-tested benefits		
Income Support		2 415
Non-means tested benefits		
Unemployment benefits	2 415	0
Total taxable benefits	2 415	2 415
B. Income tax and social security contributions		
Income tax allowances	3 525	3 525
Taxable income	0	0
Income tax	0	0
Tax credits	258	258
Local tax	593	593
Social security contributions	0	0
Total income tax and social security contributions	593	593
C. Non-taxable benefits		
Means-tested benefits		
Income Support	0	2 592
Council Tax Benefit	593	593
Housing benefits	3 047	3 047
Non-means tested benefits		
Unemployment benefits	1 490	
Family benefits	980	980
Total non-taxable benefits	6 110	7 212
D. Net income out of work (A-B+C)	7 933	9 035
E. Net income in work	11 830	11 830
F. Net replacement rate (D/E) (per cent)	67	76

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**The annual tax/benefit position of a lone parent with two children, 1995
(Pounds)**

	Unemployment benefit: 52 weeks	Income Support: from the 53rd week
A. Taxable benefits		
Means-tested benefits		
Income Support		2 415
Non-means tested benefits		
Unemployment benefits	2 415	
Total taxable benefits	2 415	2 415
B. Income tax and social security contributions		
Income tax allowances	3 525	3 525
Taxable income	0	0
Income tax	0	0
Tax credits	258	258
Local tax	593	593
Social security contributions	0	0
Total income tax and social security contributions	593	593
C. Non-taxable benefits		
Means-tested benefits		
Income Support	0	1 157
Council Tax Benefit	593	593
Housing benefits	3 047	3 047
Non-means tested benefits		
Unemployment benefits	0	0
Family benefits	1 308	1 308
Total non-taxable benefits	4 945	6 102
D. Net income out of work (A-B+C)	6 770	7 927
E. Net income in work	12 158	12 158
F. Net replacement rate (D/E) (per cent)	56	65