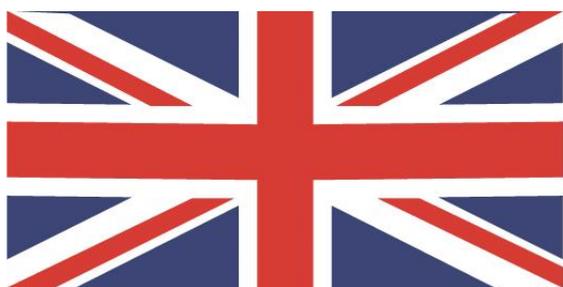


# THE OECD TAX-BENEFIT MODEL FOR THE UNITED KINGDOM

Description of policy rules for 2018



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## Description of policy rules for 2018

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## Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **April 6, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the **variable names** are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

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## The OECD tax-benefit model for the United Kingdom: Policy rules in 2018

### 1. Reference wages

The 2018 average wage [**AW**] is GBP 39,251.<sup>1</sup>

The minimum wage [**MIN**] in 2018 is GBP 7.83 per hour for those aged 25 and over (lower rates apply for other age groups). The annual earnings of a full-time minimum wage worker is computed by multiplying the hourly minimum wage (as of April 6 2018) by 40 \* 52, i.e. GBP 7.83 \* 40 \* 52 = GBP 16,286.40.

### 2. Unemployment benefits

Jobseeker's Allowance (JSA) can be paid to claimants who are unemployed and looking for full-time work. JSA is available for men and women aged 18 or older but below State Pension Age. There are some exceptions for individuals aged 16 and 17. They must have entered into a Jobseeker's Agreement and must be capable of, available for and actively seeking work as an employee or as self-employed.

There are two main types of JSA. JSA (contribution-based) is paid to those who satisfy the national insurance contribution conditions (see Section 2.1. JSA (income-based) is paid to those whose family income and capital is below a certain amount (Section 2.2).

#### 2.1. Jobseeker's Allowance (Contribution Based)

Variable names: [**UI\_p**; **UI\_s**]

This is an unemployment insurance benefit. It is contributory, not means-tested and is taxable. 

##### 2.1.1. Eligibility conditions

**Age:** 18 years old in most cases, though those aged 16 or 17 may also qualify in some circumstances.

**Contribution/employment history:** JSA (contribution-based) is a personal benefit paid to unemployed people who have paid or been credited with sufficient National Insurance contributions in the last two full tax years before the year in which they make their JSA claim. There are two conditions that must be fulfilled for an individual to have a sufficient contribution record:

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<sup>1</sup> AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

- The first condition requires the person to have paid Class 1 (employee) National Insurance contributions (or, in some exceptional circumstances, Class 2 (self-employed) contributions, or a combination of Class 1 and 2 contributions) in at least one of the two previous tax years on amounting to at least 26 times the minimum weekly contribution for that year. Since earnings above the minimum are disregarded, this effectively means that the claimant must have been employed (or, exceptionally, self-employed) for at least 26 weeks in one of these tax years, though not necessarily continuously. If, however, a claimant has multiple concurrent employments, it is possible for them to pay multiple contributions in respect of the same tax weeks, and therefore satisfy the condition in fewer than 26 separate weeks.
- The second contribution condition requires the person to have paid, or been credited with, Class 1 contributions (or, in some exceptional circumstances, Class 2 contributions) in both of the relevant income tax years amounting to a total of at least 50 times the minimum contribution for that year.

Payment of Class 1 and Class 2 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) GBP 116 in 2018–19. Note, however, that earnings above the LEL are disregarded when determining the first contribution condition.

**Behavioural requirements and related eligibility conditions:**  TaxBEN assumes that these conditions are satisfied when simulating unemployment benefits.<sup>2</sup> To qualify for JSA, jobseekers must be available for work: in most cases this means that they must be willing and able to take up work immediately. There are some exceptions to the requirement to be able to take up work immediately, e.g. carers, volunteers and persons providing a service.

In some situations jobseekers can restrict their availability. However, they must have reasonable prospects of getting work unless the restrictions are reasonable in view of their physical or mental condition, or if they are a lone parent whose availability is restricted to their child’s normal school hours.

Jobseekers must also be actively seeking work. To be actively seeking work jobseekers must take reasonable steps to have the best prospects of securing employment.

JSA may be sanctioned if the claimant:

- loses a job because of misconduct; or
- leaves a job voluntarily without good reason; or
- refuses to accept or fails to keep to their ‘claimant commitment’; or
- fails to apply for or accept a job without good reason; or

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<sup>2</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

- declines a job offer without good reason; or
- fails to attend an interview.

There are also training scheme and employment programme-related sanctions. If attendance on a training scheme or employment programme is compulsory, jobseekers can be sanctioned if they:

- lose their place because of misconduct; or
- give up or fail to attend the scheme or programme without good reason; or
- are notified of a place on a scheme or programme and fail to apply for or accept it when offered to them without good reason; or
- fail to participate or undertake any activity mandated by the scheme provider; or
- decline a reasonable opportunity of a place without good reason.

If JSA is sanctioned:

- the length of time for which it is sanctioned is fixed up to a maximum of 156 weeks (approximately 3 years) depending on the reason for the sanction and the number of previous sanctions of the same level. During the sanction period JSA is not paid;
- special rules apply for 16 or 17 year olds;
- if a jobseeker disagrees that they should be sanctioned, or with the sanction period, they can challenge the decision;
- jobseekers may be able to get hardship payments.

### *2.1.2. Benefit amount*

JSA contribution-based is payable at the rate of GBP 73.10 per week for a single person aged 25 and over or GBP 57.90 per week for those aged 16-24. It is an individual benefit and does not include an amount for partners or children.

### *2.1.3. Benefit duration*

Jobseeker's Allowance is payable for as long as a jobseeker meets the conditions of entitlement. No benefit is received for the first 7 days of a benefit claim, which are known as 'waiting days'. Claimants are exempt from waiting days in certain cases, for example, if the claim is made within 12 weeks of the end of a previous award.

JSA contribution-based is payable for up to 182 days in any one job-seeking period, which may include more than one claim provided the break in entitlement is less than 12 weeks. The entitlement to 182 days of JSA contribution-based once exhausted cannot be re-used for a subsequent claim that relies on contributions made in the same tax years.

Once the period of entitlement to contribution-based JSA has been exhausted a jobseeker may continue to receive income-based JSA (section 2.2), providing they continue to meet the conditions of entitlement and their income and capital is low enough.

#### 2.1.4. Means test

Contribution-based JSA may be reduced on a one for one basis in respect of earnings over certain limits: normally GBP 5 a week, but GBP 20 for some special occupations. The benefit is also by the amount by which occupational or personal pension income exceeds GBP 50 per week.

#### 2.1.5. Tax treatment

The benefit is taxable.

#### 2.1.6. Interactions with other components of the tax-benefit system

It is possible to receive contribution-based JSA alongside any other benefits, but it is included in the income definition for the means tests for income-based JSA, Income Support, tax credits and housing benefit.

#### 2.1.7. Combining benefit receipt and employment/starting a new job

Benefit withdrawn if claimant works more than 16 hours per week. Earnings from work reduce benefit entitlement as described in Section 2.1.4.

### 2.2. Jobseeker's Allowance (Income-based)

Variable name: [\[UA\]](#)

This is an unemployment assistance benefit. It is not contributory, means-tested and taxable. 

#### 2.2.1. Eligibility conditions

**Age:** From 18 years to normal retirement age in most cases, though those aged 16 or 17 may also qualify in some circumstances.

**Behavioural requirements and related eligibility conditions:**  TaxBEN assumes that these conditions are satisfied when simulating unemployment benefits.<sup>3</sup> These are the same as for contribution-based JSA (see Section 2.1.1).

#### 2.2.2. Benefit amount

Income-based Jobseeker's Allowance is assessed as the difference between the claimant's 'applicable amount' and income. The applicable amount consists of personal allowances and specified premiums (these allowances and premiums are the same for income-based Jobseeker's allowance (JSA[IB]), Income support (IS) and Housing benefit (HB):

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<sup>3</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

Family type	Rates of applicable amount (in GBP per week)
<b>Personal allowance</b>	
Single	
16-24	57.90
25 and over	73.10
Lone parent	
16-17	57.90
18 or over	73.10
Couple (both 18 or over)	114.85

There are further premiums for other specific circumstances, e.g. disabilities and caring responsibilities, though these are not simulated in the TaxBEN model.

### 2.2.3. *Benefit duration*

Paid as long as the conditions are fulfilled, after a 7-day waiting period.

### 2.2.4. *Means test*

Most forms of income (net of income tax and social security contributions), including occupational pensions and most other social security benefits, reduce income-based JSA on a one-for-one basis. However, some benefits, such as Housing Benefit, Child Tax Credit and Disability Living Allowance are fully disregarded.

There are weekly earnings disregards are GBP 5 for a single person; GBP 10 for couples; and GBP 20 for certain special groups and occupations, including lone parents. Capital of more than GBP 6,000 also affects the benefit amount – a tariff income is assumed at a rate of £1 for every £250, or part £250, by which capital exceeds GBP 6,000. No benefit is payable if capital exceeds GBP 16,000.<sup>4</sup>

### 2.2.5. *Tax treatment*

Income-based JSA is taxable.

### 2.2.6. *Interactions with other components of the tax-benefit system*

Payment of income-based JSA generally conveys entitlement to full Housing Benefit without the need for a separate means test, although there are some exceptions.<sup>5</sup>

Income-based JSA can be received alongside all other benefits except Income Support and Employment and Support Allowance.

<sup>4</sup> Note that these provisions relating to capital are not simulated in the TaxBEN model: it is assumed that families have less than GBP 6,000 of capital.

<sup>5</sup> Some EU nationals may be entitled to JSA(IB), but not have any corresponding entitlement to HB. This situation is not simulated in the TaxBEN model.

### 2.2.7. Combining benefit receipt and employment/starting a new job

Income Support recipients must (with a few exceptions) be completely unemployed, or working less than 16 hours per week. The claimant's partner must work for less than 24 hours per week. Earnings from work (net of income tax and social security contributions) enter into the means test as described in Section 2.2.4.

## 3. Social assistance and housing benefits

### 3.1. Income support

Variable name: **[SA]**

This is a non-contributory benefit, means-tested and not taxable.

#### 3.1.1. Eligibility conditions

Income Support is a means-tested benefit payable to people of working age who are not expected to be available for work, for example, full-time carers and lone parents of children aged under 5.

#### 3.1.2. Benefit amount

Income Support entitlement is the difference between the claimant's 'applicable amount' and income.

Family type	Rates of applicable amount (in GBP per week)
<b>Personal allowance</b>	
Single	
18-24	57.90
25 and over	73.10
Lone parent	
18 or over	73.10
Couple (both 18 or over)	114.85

There are further premiums for other specific circumstances, e.g. disabilities, caring responsibilities. These are not included in the TaxBEN model.

#### 3.1.3. Benefit duration

No limit: the benefit is paid as long as the conditions are fulfilled.

#### 3.1.4. Means test

Income Support entitlement is the difference between the applicable amount and the claimant's income. The income consists of the net earnings (i.e. after deducting income tax and social security contributions) and other income of the claimant and their partner, subject to some disregards and deductions. 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, and certain special occupations. Income other than earnings,

including most other social security benefits, are normally taken fully into account and reduce benefit penny for penny. However, some benefits, such as Housing Benefit, Child Tax Credit and Disability Living Allowance are fully disregarded.

Capital of more than GBP 6,000 also affects the benefit amount – a tariff income is assumed at a rate of £1 for every £250, or part £250, by which capital exceeds GBP 6,000. No benefit is payable if capital exceeds GBP 16,000.<sup>6</sup>

### 3.1.5. Tax treatment

The benefit is not taxable.

### 3.1.6. Interaction with other components of the tax-benefit system

Receipt of Income Support conveys entitlement to full Housing Benefit without the need for a separate means test. Income Support can be received alongside all other benefits with the exception of Jobseeker's Allowance and Employment and Support Allowance.

### 3.1.7. Combining benefit receipt and employment/starting a new job

Income Support recipients must (with a few exceptions) be not working or working less than 16 hours per week. The recipient's partner must work for less than 24 hours per week. Earnings from work are also taken into account in the means test (see Section 3.1.4 above).

## 3.2. Housing benefit

Variable name: **[HB]**

This is a non-contributory benefit, means-tested and not taxable.

Housing Benefit is a means-tested benefit, which provides help with rental costs for private or social housing for families with low incomes.

### 3.2.1. Eligibility conditions

Families must have eligible rental costs and sufficiently low income and capital to qualify.

### 3.2.2. Benefit amount

For people not receiving Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or the guarantee element of State Pension Credit, Housing Benefit is the eligible rent minus 65 per cent of the difference between net resources and the applicable amount. For all other claimants, including those not receiving these benefits but whose income is below their applicable amount, Housing Benefit is the full amount of eligible rent. In both cases a deduction may be made in expectation of a contribution towards the rent from a non-dependent adult living in the

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<sup>6</sup> Note that these provisions relating to capital are not simulated in the TaxBEN model: it is assumed that families have less than GBP 6,000 of capital.

same household.<sup>7</sup> This contribution depends on the non-dependant's age, whether they are working and their gross income. Entitlements of less than GBP 0.50 per week are not paid.

Eligible rent is the rent on which Housing Benefit entitlement is calculated. Eligible rent may differ from the contractual rent. This may happen, for example, if the contractual rent includes ineligible service charges or 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 claimant's needs. In the private sector (the situation simulated in the TaxBEN model), the maximum amount a family can claim is the Local Housing Allowance (LHA) rate, which varies by the number of occupiers in a household and the area in which they live. The household size criteria determine the appropriate number of bedrooms for which the occupiers qualify: a family is entitled to one bedroom for the adults (single or couple) plus one bedroom for each additional person aged 16 or over, any two children of the same sex aged under 16 and any two children under 10. The maximum level is four bedrooms. Single people without children aged under 35 can only claim the 'shared accommodation' rate. In most circumstances, benefits are paid directly to the tenant rather than to the landlord.

There are situations where an individual's circumstances might require larger accommodation than the size criteria would allow, and they may consequently face a shortfall in their ability to meet their rent as a result. In such cases (and in others), the local authority has a discretionary power to consider the award of Discretionary Housing Payments which can address an individual's specific accommodation needs where necessary. These discretionary payments are not simulated in the TaxBEN model.

The LHA rates used in the TaxBEN model are those for Maidstone in Kent, which are as follows for 2018:

**Maidstone Broad Rental Market Area**

Shared Accommodation	<b>68.28</b>
1 Bedroom	<b>123.58</b>
2 Bedrooms	<b>157.56</b>
3 Bedrooms	<b>180.45</b>
4 Bedrooms	<b>235.41</b>

There are also national caps on LHA rates, which are currently set at the following levels (as of April 2018):

- £260.64 for shared accommodation and one bedroom properties,
- £302.33 for a two bedroom property,
- £354.46 for a three bedroom property,
- £417.02 for a four bedroom property.

**3.2.3. Benefit duration**

No limit.

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<sup>7</sup> Note that as the TaxBEN model does not simulate the case of multi-family households, these provisions are not simulated in the model.

### 3.2.4. Means test

For those not ‘passported’ onto maximum benefit entitlement through claiming other benefits, the benefit amount is the eligible rent minus 65% of net income above the applicable amount. Applicable amounts for housing benefit are the same as for Income Support and Income-Based JSA (see Sections 2.2.2 and 3.1.2). There are additional earnings disregards of GBP 5 for a single person, GBP 10 for a couple, GBP 20 for some disabled people (not simulated in TaxBEN) and GBP 25 for a lone parent. Furthermore, there is an allowance for those working enough hours to receive Working Tax Credit (see Section 6). This disregard, known as the ‘additional earnings’ disregard, is GBP 17.10 per week. Finally, there is an additional income disregard of GBP 66.90 per week for each of the first two children in a family.

Net income is defined as gross earned income after tax and social security contributions less half of any sum paid by the claimant towards an occupational or personal pension scheme, plus most other unemployment/social security benefits (though not income-based JSA and Income Support) and Tax Credits, and other unearned income.

Housing benefit is also used to implement the benefit cap. The benefit cap restricts the amount that claimants may receive in benefits. The Benefit Cap rates are: GBP 20,000 per year for couples and lone parents (GBP 23,000 in Greater London; this situation is not simulated in TaxBEN) and GBP 13,400 per year for single people without children (GBP 15,410 in Greater London). Certain groups are excluded from the benefit cap, including those claiming disability benefits or working sufficient hours to be entitled to Working Tax Credit. Those with benefit entitlement higher than the level of the benefit cap applicable to them have their Housing Benefit reduced so that the overall amount of benefits received is at the level of the cap.

### 3.2.5. Tax treatment

Benefits are not taxable.

### 3.2.6. Interaction with other components of the tax-benefit system

It is possible to receive Housing Benefit alongside all other benefits. Receipt of income-based JSA or Income Support ‘passports’ a claimant to full Housing Benefit entitlement. Income from tax credits and contribution-based JSA is taken into account in the Housing Benefit means test.

### 3.2.7. Combining benefit receipt and employment/starting a new job

No restrictions.

## 4. Family benefits

### 4.1. Child benefit

Variable name: **[FAMBEN]**

This is a non-contributory benefit, not means-tested (though there is a tax charge that claws the benefit back from those with higher incomes) and it is not taxable.

#### *4.1.1. Eligibility conditions*

Child Benefit is paid in respect of each child in the family under 16, or 19 if still in approved education or training.

#### *4.1.2. Benefit amount*

Child Benefit is payable at the weekly rate of GBP 20.70 for the eldest child for whom benefit is payable and GBP 13.70 per week in respect of each other child.

#### *4.1.3. Benefit duration*

As long as the eligibility conditions hold.

#### *4.1.4. Means test*

Child Benefit is not subject to any means test, but it is subject to a tax charge for those with incomes in excess of GBP 50,000. For those with income between GBP 50,000 and GBP 60,000, the amount of the charge is 1% of the Child Benefit received for every GBP 100 of taxable income over GBP 50,000. For those with income over GBP 60,000, charge is equal to the amount of Child Benefit. Claimants can keep receiving their Child Benefit payments and pay a tax charge, or alternatively stop receiving benefits.

#### *4.1.5. Tax treatment*

The benefit is not taxable.

#### *4.1.6. Interaction with other components of the tax-benefit system*

The benefit is universal and can be received together with any other benefit.

#### *4.1.7. Combining benefit receipt and employment/starting a new job*

No restrictions, but see Section 4.1.4 above for details of High-income Child Benefit Charge.

### ***4.2. Child Tax Credit***

Variable name: **[CTC]**

This is a non-contributory benefit, not means-tested and not taxable.

#### *4.2.1. Eligibility conditions*

Child Tax Credit is paid in respect of each child in the family under 16, or 19 if still in approved education or training.

#### *4.2.2. Benefit amount*

Child Tax Credit has maximum amount payable before income test applied as follows (note all amounts are annual):

- GBP 2,780: ‘child element’, payable for the first two children.<sup>8</sup>
- GBP 3,275: ‘disabled child element’ payable for each disabled child, in addition to the child element (note this is not included in the TaxBEN model).
- GBP 4,600: ‘severely disabled child element’ payable for each severely disabled child, in addition to the child element (note this is not included in the TaxBEN model).

#### 4.2.3. *Benefit duration*

#### 4.2.4. *As long as eligibility conditions hold. Means test*

Child Tax Credit is a means tested benefit. The income threshold for families entitled to both Working Tax Credit and Child Tax Credit is GBP 6,420.00 per year. If they are only entitled to Child Tax Credit, the income threshold is GBP 16,105. For those entitled to both Working Tax Credit and Child Tax Credit, there is a joint means test for these two benefits whereby if their taxable income is over GBP 6,420, the maximum award is reduced by 41 pence for every pound of income over the threshold. For those entitled to Child Tax Credit only, the benefit is similarly withdrawn by 41 pence for every pound by which their taxable incomes exceeds the GBP 16,105 income threshold.

#### 4.2.5. *Tax treatment*

Non-taxable.

#### 4.2.6. *Interaction with other components of the tax-benefit system*

Child Tax Credit can be received alongside all other benefits and the Working Tax Credit. However, it is included in the income definition for the Housing Benefit means test.

#### 4.2.7. *Combining benefit receipt and employment/starting a new job*

No restriction, but earnings from work are included in the income measure for the means test (see above).

## 5. **Childcare for pre-school children**

The **reference date** for the policy rules described in this section is **April 6, 2018**.<sup>9</sup>

Education is a devolved responsibility, and each of England, Scotland, Northern Ireland and Wales are responsible for setting the policy and monitoring participation in childcare for pre-school children in their respective countries. The TaxBEN model simulates the situation in England.

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<sup>8</sup> Since 6th April 2017 families are no longer able to claim additional support through Child Tax Credit for third and subsequent children, unless they are eligible for a prescribed exception. This only applies to third and subsequent children born after 6th April 2017. The Family Element has also been abolished for new births/claims after 6th April 2017. Note that the TaxBEN model considers the case of a new claimant.

<sup>9</sup> The childcare module of the tax-benefit model is updated every three year (next update: 2018).

In England and Wales, children enter primary school from age five (the compulsory school age) though many start in the reception class of primary school at age four.

In Scotland, children born between March and August start school in the August of, or following, their fifth birthday. Those born between September and February start school in the August prior to their fifth birthday. As such, children in Scotland usually start school between the ages of 4.5 and 5.5 years old.

In Northern Ireland, children enter primary school from age four.

Prior to starting school, children may participate in pre-school, but this is not compulsory.

### **5.1. Gross childcare fees**

Variable name: `[UKcc_cost]`

There are no official statistics available on the average fees paid by parents for childcare.

The TaxBEN model uses a figure for gross childcare costs of GBP 231.75 per week. This is taken from a survey conducted by the Family and Childcare Trust and reflects the average fee for a full time nursery place for a child aged 2 or over in England in 2018.

#### *5.1.1. Discounts for part-time usage (not modelled)*

The same survey suggests that the average cost for a part time (25 hours per week) nursery place in England for a child aged 2 or over in 2015 was GBP 120.66.

### **5.2. Fee discounts and free provision**

Variable name: `[cc_susbsidy]`

Some free provision is available in England, Scotland and Northern Ireland.

#### *5.2.1. Eligibility*

All three and four year olds in England are entitled to free provision of 30 hours per week for 38 weeks per year if both parents and earn at least 16 times the minimum wage each week, and neither parent has a taxable income of more than GBP 100,000. All other three and four year olds are entitled to 15 hours of free childcare per week for 38 weeks per year. Disadvantaged two year olds who meet the eligibility criteria (broadly speaking, that their family is receiving an out-of-work benefit) are also entitled to a free place (though this provision is not simulated in the TaxBEN model as workless families are assumed not to require childcare). Children become eligible for a free place on after their second or third birthday and can start on 1 September, 1 January, or 1 April, whichever is soonest.

Free early education places are available at nursery schools, nurseries on school sites, nursery classes in schools and academies, children's centres, day nurseries, playgroups and pre-schools and with child-minders.

In Scotland, all 3 and 4 year olds are entitled to part-time free provision from the term beginning after their 3rd birthday (starting in August, January or April). Around a quarter of 2 year olds are also eligible, based on entitlement to certain benefits and also 2 year olds who are looked after, under a kinship care order, or with a parent appointed guardian. The local authority may offer places at nurseries, nursery classes in schools,

playgroups, or child-minders either through their own services or through partners in the private or third sector.

In Northern Ireland the Pre-school Education Programme (PSEP) is a universal service which offers funded pre-school education places for children in their immediate pre-school year. Pre-school education places are available in nursery schools, primary schools with nursery units and voluntary and private settings.

### *5.2.2. Amount of discount or free provision*

In England, free provision for 3 and 4 year-olds amounts to 1,140 or 570 hours a year depending on whether parents are working or not (see Section 5.2.1 above). This is spread over no fewer than 38 weeks of the year (so generally 30 or 15 hours a week for 38 weeks).

In Scotland, 3 and 4 year-olds are entitled to 600 hours of free early learning and childcare per year. This must be over a minimum of 38 weeks a year and need not be confined to term time.

In the PESP scheme in Northern Ireland, nursery schools and primary schools with nursery units can offer either full-time (minimum of 4.5 hours per day) or part-time (minimum of 2.5 hours per day) sessions. All voluntary and private pre-school education providers offer part-time sessions only. Places in the PSEP are funded for 38 weeks of the year.

### *5.2.3. Variation by income*

In England, disadvantaged 2 year-olds from families claiming an out of work benefit<sup>10</sup> are also entitled to a free part-time early education place, but otherwise there is no variation in entitlement by income.

Similarly, in Scotland 2 year-olds in families entitled certain benefits and those who are looked after, under a kinship care order, or with a parent appointed guardian are entitled to a free part-time early education place, but otherwise there is no variation by income.

## *5.3. Child-care benefits for formal centre-based care*

Variable name: `[cc_benefit]`

There are two types of childcare benefit in the UK. First, there is an additional element of the Working Tax Credit (see Section 6) to support parents with childcare costs. Second, there is a 'Tax-Free Childcare' scheme, which is available more widely. Families must choose which of these benefits they wish to receive. In the TaxBEN model it is assumed that they choose whichever is most advantageous.

### *5.3.1. Eligibility*

To claim the childcare element of Working Tax Credit, the claimant must be aged 16 or over. If the claimant is a lone parent, he or she must work 16 hours a week or more.

For couples, both members must work 16 hours a week or more. However, only one partner needs to work 16 hours a week or more if the other partner is receiving a

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<sup>10</sup> Including Income Support and Income-Based JSA.

disability benefit, is an in-patient in hospital, is in prison or is entitled to Carer's Allowance.

To qualify for the Tax-Free Childcare Scheme, the claimant and their partner, if they have one, must both be in work and earning at least 16 times the minimum wage (that is, GBP 125.28 per week for those aged 25 and over), but not earning more than GBP 100,000 per year.

### *5.3.2. Benefit amount*

The childcare element of Working Tax Credit is payable for the cost of "registered" or "approved" childcare. It can help with up to 70% of a family's childcare cost subject to a maximum cost of £175 per week for one child and £300 per week for two or more children. This means that the maximum a family can receive is £122.50 a week for one child and £210.00 for two or more children.

The Tax-Free Childcare scheme pays for 20% of parents' childcare costs up to a maximum of GBP 10,000 per year for each child up to 11 years old (GBP 20,000 per year for disabled children, though this situation is not simulated in the TaxBEN model). The maximum benefit is thus GBP 2,000 per child per year (or GBP 4,000 per year for disabled children).

### *5.3.3. Benefit duration*

No limit.

### *5.3.4. Means test*

See Section 6.1.4 for details of the means test for the Working Tax Credit.

For Tax-Free Childcare, both parents must have earnings between the lower and upper limits stated in Section 5.5.1 above in order to qualify, but other than this there is no variation by income.

### *5.3.5. Tax treatment*

Both Working Tax Credit and Tax-Free Childcare are not taxable.

### *5.3.6. Interaction with other benefits*

See Section 6.1.6 for details of how the Working Tax Credit interacts with other benefits.

Receipt of Tax-Free Childcare does not affect entitlement to other benefits.

### *5.3.7. Combining benefit receipt and employment/starting a new job*

For both benefits, claimants must be in work to qualify; see Section 5.3.1 above.

## ***5.4. Child care allowance for children not using child care centers***

None.

## ***5.5. Tax concessions for childcare expenditures***

None.

### 5.5.1. Eligibility

### 5.5.2. Maximum amount

### 5.5.3. Variation by income

### 5.5.4. Impact on overall income tax calculation

## 6. In-work benefits

### 6.1. Working Tax Credit

Variable name: **[IW]**

Working Tax Credit (WTC) is an in-work means-tested benefit to top up the earnings of people on low-incomes, whether employed or self-employed, including those who do not have children. It also contains additional elements for those working with a disability or severe disability (though these are not simulated in the TaxBEN model) and for those workers who pay childcare costs to ‘registered’ or ‘approved’ childcare providers.

#### 6.1.1. Eligibility conditions

Claimants must be working at least 16 hours per week if they are a lone parent, or 30 hours if they do not have children or a disability. Couples with children have to work for 24 hours a week between them, with one partner working at least 16 hours a week. Claimants aged 60 or over and those with a disability have a lower minimum number of hours they have to work to be eligible at 16 hours a week.

Claimants without children must be at least 25 years old.

#### 6.1.2. Benefit amount

The maximum WTC award for a particular claimant is calculated by adding together their entitlements to different elements, which are worth the following amounts in 2016:

Family type	Rates of credits (in GBP per year)
<b>WTC Elements</b>	
Basic Element	1,960
Couple Element	2,010
Lone Parent Element	2,010
30 Hour Element	810
Disability Element	3,090
Severe Disability Element	1,330

Note that the disability elements are not included in the TaxBEN model as the model does not simulate the case of individuals with disabilities.

In addition parents can receive 70 per cent of the actual childcare cost per week, up to a maximum childcare cost of GBP 175 per week if they have one child or GBP 300 per week if two or more children (see Section 5.3 for more details).

### 6.1.3. *Benefit duration*

Paid as long as the conditions are fulfilled.

### 6.1.4. *Means test*

The benefit amount is reduced by 41 pence for every pound by which family income exceeds the GBP 6,420 per year. The income measure used is gross taxable income, which includes gross earnings (before income tax and social security contributions are deducted) and Jobseeker's Allowance. Benefit entitlements of less than GBP 0.50 a week are not paid.

### 6.1.5. *Tax treatment*

Not taxable.

### 6.1.6. *Interaction with other components of the tax-benefit system*

Working Tax Credit cannot be received alongside income-based JSA or Income Support as the eligibility conditions are mutually exclusive. One member of a couple can receive contribution-based JSA while the other claims WTC, though income from contribution-based JSA is included in the means test for WTC. WTC is included in the income definition for the means test for Housing Benefit.

## 7. Social security contributions and payroll taxes

### 7.1. *National Insurance Contributions*

Variable names: `[SOCSEC_p; SOCSEC_s; SSCR_p; SSCR_s]`

National Insurance Contributions are payable by employees earning more than GBP 162 in any week. These amount to 12 per cent of earnings between GBP 162 and GBP 892 per week, and 2 per cent of earnings above GBP 892 per week. All employees earning under GBP 162 per week do not have to make National Insurance Contributions, but those earnings between GBP 116 and GBP 162 per week are deemed to have made a notional contribution, which gives them entitlement to benefits.

Employer's contributions are not payable for employees earning less than GBP 162 per week. The rate of employers' contributions is 13.8 per cent of earnings above GBP 162 per week.

For those aged under 21, employer National Insurance contributions are zero on earnings less than GBP 892 per week. Contributions are still payable on earnings above GBP 892 per week at the standard 13.8 per cent rate.

The apprenticeship levy was introduced in April 2017. The apprenticeship levy is charged at a rate of 0.5% on the gross pay bill of employers. Employers will receive an allowance of GBP 15 000 per year to offset against the levy meaning that only employers with a gross pay bill of over GBP 3m will end up paying the levy. Due to the fact that the apprenticeship levy does not apply to all employers, it is not included in the TaxBEN model.

## 8. Taxes

Taxation in the UK is on the individual level. The tax year begins on 6 April. Note that the devolved administration in Scotland has powers to alter income tax rates and thresholds, and that these were used for the first time in the 2017–18 tax year. The TaxBEN model does not simulate these differences, and the information in this section does not apply to Scotland.

### 8.1. Income tax

Variable names: [`INCTAX_p`; `INCTAX_s`]

#### 8.1.1. Tax allowances

**Basic tax allowance:** a personal annual allowance of GBP 11,850 is granted to individuals with incomes below GBP 100,000. The personal allowance is gradually withdrawn for those incomes above GBP 100,000 at a rate of 50% of all income above GBP 100,000.

**Marriage Allowance:** A member of a married couple or civil partnership may transfer 10% of their personal allowance to their spouse (i.e. GBP 1,190 in 2018) if they are not using their full allowance, providing their spouse's income is less than GBP 46,350 (the threshold at which the 40% income tax rate starts to be applied).

#### **Allowances for specific types of income (not simulated in the TaxBEN model):**

- Dividend Allowance of GBP 2,000 for income from dividends.
- Personal Savings Allowance of GBP 1,000 for taxpayers with total income below the basic rate limit, or GBP 500 for those with total income below the higher rate limit, for income from savings.

#### 8.1.2. Tax base

In the TaxBEN model, the tax base is gross earnings plus contribution-based JSA minus the personal allowance.

#### 8.1.3. Income tax schedule

In 2018–19, all taxpayers are liable on taxable income other than savings and dividend income at the basic rate of 20 per cent for the first GBP 34,500, a higher rate of 40 per cent over the basic rate limit of GBP 34,500 up to GBP 150,000, and an additional rate of 45 per cent over GBP 150,000. (Taxable Income is defined as gross income for income tax purposes less allowances and reliefs available at the marginal rate.)

Taxable income (GBP)	Rate %
0 – 34 500	20
34 500 – 150 000	40
Over 150 000	45

Special rates apply to some forms of income (not included in the TaxBEN model). Dividend income is charged at 7.5 per cent up to the basic rate limit of GBP 34,500, 32.5 per cent above GBP 34,500 to GBP 150,000 and 38.1 per cent above GBP 150,000.

Savings income is charged at 0 per cent on the first GBP 5,000 of total income, at 20 per cent up to GBP 34,500, 40 per cent between GBP 34,500 and GBP 150,000 and 45 per cent above GBP 150,000.

#### *8.1.4. Tax credits*

There are no tax credits in the UK income tax system: see Section 6 for details of the Working Tax Credit (an in-work benefit) and Section 4.2 for details of the Child Tax Credit (a means-tested family benefit).

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in the United Kingdom that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### *Support for Mortgage Interest*

Housing Benefit cannot be claimed by people who are owner occupiers (unless they part own and part rent). Help is provided towards mortgage interest payments (known as Support for Mortgage Interest). It is paid as part of Income Support, income-based Jobseeker's Allowance, income related Employment & Support Allowance, State Pension Credit and Universal Credit.

Help is provided for loans taken out to purchase the property and specific loans for repairs and improvements to maintain the property as fit for habitation. Help is also available towards certain other housing costs such as ground rent paid under a long tenancy and certain service charges.

Benefit help is given towards the interest on a mortgage/loan for repairs and improvements and is calculated using a standard interest rate (SIR). No help is provided towards arrears, endowment policies or capital repayments.

Help is provided from the outset of a claim for customers in receipt of State Pension Credit., but waiting periods apply for those in receipt of Income Support, income-based Jobseeker's Allowance and income-related Employment & Support Allowance. There is a waiting period of 39 weeks when no support is provided. Subsequently, help with interest payments is limited to the interest on the outstanding capital of up to £200,000 for working age claimants. Exceptions to these limits may apply where a home improvement loan is needed to make the existing property suitable for a disabled member of the household.