

THE OECD TAX-BENEFIT MODEL FOR THE UNITED KINGDOM

Description of policy rules for 2019



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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, 2019**.
- **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.

The OECD tax-benefit model for the United Kingdom: Policy rules in 2019

1. Reference wages

Average wage [**AW**]: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#)).¹ If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.

The minimum wage [**MIN**] in 2019 is GBP 8.21 per hour for those age 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 2019) by 40 * 52, i.e. $GBP\ 8.21 * 40 * 52 = GBP\ 17,076.8$.

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 Claimant Commitment and must be capable of, available for and actively seeking work as an employee or as self-employed.

JSA (contribution-based) is paid to those who satisfy the national insurance contribution conditions (see Section 2.1).

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:

- The first condition requires the person to have paid Class 1 (employee) National Insurance contributions (or, in some exceptional circumstances, Class 2 (self-

¹ Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

² Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

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.³ 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:

- Fails to report a change without good reason; or
- 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
- declines a job offer without good reason; or

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

- fails to attend an interview without good reason.

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 test for Universal Credit.

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.

3. Social assistance and housing benefits

3.1. Universal Credit

Variable name: **[UC]**

The Universal Credit programme combines six previous benefits – Child Tax Credits, Housing Benefit, Income Support, Income-Based Jobseeker’s Allowance, Income-Related Employment and Support Allowance and Working Tax Credit – into one payment. The roll-out for this programme began in 2013 and is expected to be completed in 2024, in this transition period, the previous “legacy” benefits continue to be claimed. However, in 2019, all new benefit claimants are enrolled in Universal Credit across the UK, which is the situation modelled in the TaxBEN model. However, legacy benefits continue to be relevant for claimants who enrolled before 2019.

3.1.1. Eligibility Conditions

A claimant has to meet the following basic conditions of entitlement:

- To be 18 or over (with some exceptions),
- To be under state pension credit age,
- To be resident in Great Britain,
- To have a National Insurance Number,
- To not be in full-time education (with some exceptions), and
- To have accepted a claimant commitment.

3.1.2. Benefit Amount

Universal Credit payments are made up of a standard allowance and any extra amounts that apply if the claimant has children, a disability or health condition which prevents them from working or rental costs.

The standard allowance amounts are as follows:

Standard allowance

Variable name: [SA]

Family Type	Monthly standard allowance
Single and under 25	£251.77
Single and 25 or over	£317.82
Couple both aged under 25	£395.20
Couple at least one partner aged 25 or over	£498.89

Support for Children

If the claimant has 1 or 2 children, they will receive an extra amount for each child.

If the claimant has 3 or more children, they will receive an extra amount for at least 2 children. Claimants can only receive an extra amount for more children if any of the following are true:

- The children were all born before 6 April 2017,
- They were already claiming for 3 or more children before 6 April 2017, or
- Another exception applies (not simulated in the TaxBEN model).

The claimant can also receive an extra amount for any disabled or severely disabled child, irrespective of how many children they have or when they were born. Note that the situation of disabled children is not simulated in the TaxBEN model.

Extra monthly amount

For the first child	£277.08 (born before 6 April 2017) £231.67 (born on or after 6 April 2017)
For the second child and any other eligible children	£231.67 per child
For a disabled or severely disabled child (not modelled in TaxBEN)	£126.11 or currently £383.86, £392.08 in 2019
If the claimant is entitled to a childcare supplement (see Section 5.3.)	Up to 85% of childcare costs (up to £646.35 for one child and £1,108.04 for 2 or more children), see Section 5.3. for more details.

Support for those with disabilities (not modelled in 2019)

If the claimant has a disability or health condition, they may receive an additional amount as set out in the table below.⁴

	Extra monthly amount
If the claimant has limited capability for work and work-related activity	£336.20

⁴ For more details, see <https://www.gov.uk/health-conditions-disability-universal-credit>.

	Extra monthly amount
If the claimant has limited capability for work and started health-related Universal Credit or Employment and Support Allowance (ESA) claim before 3 April 2017	£126.11

Support for carers (not modelled)

If the claimant cares for a severely disabled person, they receive an additional monthly amount as follows. Note that this situation is not simulated in the TaxBEN model.

	Extra monthly amount
If the claimant provides care for at least 35 hours a week for a severely disabled person who receives a disability-related benefit	£160.20

This is on top of any extra amount the claimant will receive if they have a disabled child.

Support for housing costs

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

Claimants may receive support for housing costs. How much the claimant receives depends on their age and circumstances. The payment covers eligible rent. If the claimant is a homeowner, they may be able to get a loan to help with interest payments on their mortgage or other loans they have taken out for their home through the Support for Mortgage Interest scheme, see Annex). The TaxBEN model assumes that households rent on the private market, and pay a rent equivalent to 20% of the average wage of the relevant year. For the UK in 2019, this value is £157 per week (£ 8,174 per year).

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 each couple or single person aged 16 or over, for any two children of the same sex aged under 16 and any two children under 10. The maximum entitlement 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 weekly LHA rates used in the TaxBEN model are those for Maidstone in Kent, which are as follows from April 2019:

Maidstone Broad Rental Market Area	
Shared Accommodation	£72.44
1 Bedroom	£131.11
2 Bedrooms	£162.29
3 Bedrooms	£185.86
4 Bedrooms	£235.41

There are also national caps on LHA rates, which are currently set at the following levels (as of April 2019):

- £276.51 for shared accommodation and one bedroom properties,
- £320.74 for a two bedroom property,
- £376.04 for a three bedroom property,
- £442.42 for a four bedroom property.

Other support the claimant could receive

If the claimant receives Universal Credit, the claimant may also be able to get other financial support depending on their circumstances.

3.1.3. Benefit duration

Universal Credit is paid as long as the conditions are fulfilled, after the assessment period.

3.1.4. Means test

Most forms of income, including occupational pensions, reduce the claimant's Universal Credit payment on a one-for-one basis. However, some benefits, such as Child Benefit are fully disregarded.

However, earnings net of income tax and employee's National Insurance Contributions are subject to a single taper rate of 63%. There is also a work allowance which disregards a certain amount of earnings for those with children or limited capability for work. The work allowance is £287 per month for those receiving the housing support in Universal Credit and £503 per month for those not receiving housing support.

For those who are self-employed, there is a Minimum Income Floor is calculated using the National Minimum Wage for their age group, multiplied by the number of hours they are expected to look for and be available for work. It also includes a notional deduction for tax and National Insurance. If self-employed earnings are below the Minimum Income Floor, the Minimum Income Floor is used to calculate Universal Credit entitlement rather than actual earnings.

The benefit cap may also limit the total amount of benefit received. The benefit cap restricts the amount that claimants may receive in benefits including Jobseeker's Allowance, Universal Credit and Child Benefit. The Benefit Cap rates are £20,000 per year for couples and lone parents (£23,000 in Greater London; this situation is not simulated in TaxBEN) and £13,400 per year for single people without children (£15,410 in Greater London). Certain groups are excluded from the benefit cap, including those claiming disability benefits and those earning at least 16 times the hourly minimum wage per week (£569 per month in 2019–20). There is a nine month grace period during which the cap does not apply for those

who were previously in work for at least a year earning at least 16 times hourly minimum wage per week (£569 per month in 2019–20).

3.1.5. Tax treatment

Universal Credit is not taxable.

3.1.6. Interactions with other components of the tax-benefit system

Contributions based benefits (new style JSA and ESA) can be received alongside Universal Credit but reduce Universal Credit entitlement on a one-for-one basis.

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

Universal Credit recipients can be unemployed or working, as there are no-cliff edges or maximum working hours to be entitled but the amount received is dependent on any earnings, and are taken into account in the means test as described above.

4. Family benefits

4.1. Child benefit

Variable name: **[FB, FAMBEN]**

This is a non-contributory benefit, not means-tested (though there is a tax charge applicable to claimants and their partners if they have an Adjusted Net Income (ANI) over a specified amount under certain conditions that is related to the amount of Child benefit payments received) and it is not taxable. The Tax Charge is known as the High Income Child Benefit Charge (HICBC).

4.1.1. Eligibility conditions

Child Benefit is paid in respect of each child in the family aged under 16 where specified eligibility conditions are met or in respect of a young person who has not attained the age of 20 if still in approved education or training and other related eligibility conditions are met.

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 claimants are subject to a tax charge for those with an ANI in excess of GBP 50,000 who claim child benefit or whose partner claims it (the partner with the higher income is liable to the tax charge). 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 the tax, 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 their Child Benefit payments.

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.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **April 6, 2019**.

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.

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

We aim to also include part-time childcare costs in future updates of the model. Please ensure that the information in this section is up-to-date and complete.

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 earn at least 16 times the minimum wage each week⁵, 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 from the term after their second or third birthday.

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.

In Wales, all children are entitled to a minimum of 10 hours of early education from the term after their third birthday until they start full time education, which is usually the September after they turn four. Access to early education is via local authorities, and in some areas children will receive more than the minimum number of hours available. Under the terms of the Childcare Offer for Wales working parents of 3 three and four year olds can access 30 hours of government-funded early-education and childcare for 48 weeks per year. This includes the universal early education provision. A working parent is one who earns at least 16 times the minimum wage each week, and neither parent has a taxable income of more than GBP 100,000.

Across Wales the Flying Start programme provides additional support to two and three year olds in more deprived communities. As well as a range of additional healthcare and developmental support this includes 12.4 hours of childcare per week across school terms.

⁵ The lower minimum wage for workers under 25 is not currently modelled in TaxBEN (i.e. the 25 and over threshold applies if the age of the principal adult is specified to be under 25).

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.

In Wales 2-3 year olds are able to access 12.5 hours of free childcare across school terms. All 3-4 year olds are able to access a minimum of 10 hours of early-education, though the exact amount of provision varies across local authorities. The 3-4 year olds of working parents are then entitled to up to a further 20 hours of government-funded childcare, making an overall entitlement of 30 hours of combined provision, which is available for 48 weeks per year.

5.2.3. Variation by income

In England, disadvantaged 2 year-olds from families claiming an out of work benefit⁶ 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 support in the UK. First, there is an additional element of Universal Credit (see Section 3.1.) to support parents with childcare costs. This is a benefit. Second, there is a 'Tax-Free Childcare' scheme, which is available more widely. This is a workers right for workers with associated childcare costs. Families must choose which of these schemes they wish to take advantage of. In the TaxBEN model it is assumed that they choose whichever is most advantageous.

5.3.1. Eligibility

To claim the childcare element of Universal Credit, the claimant must be aged 16 or over. If the claimant is a lone parent, he or she must be in paid work. For couples, both members must be in paid work. However, only one partner needs to work if the other partner is receiving a disability benefit, is an in-patient in hospital, or is entitled to Carer's Allowance.

To qualify for the Tax-Free Childcare Scheme, the claimant (and their partner of applicable) must be in work and earning at least 16 times the minimum wage (that is, GBP

⁶ Including Income Support and Income-Based JSA.

131.36 per week for those aged 25 and over), but their adjusted net income must be below GBP 100,000 per year.

5.3.2. Benefit or subsidy amount

The childcare element of Universal Credit is payable for the cost of “registered” or “approved” childcare. It can cover up to 85% of a family’s childcare cost subject to a maximum cost of £646.35 per month for one child and £1,108.04 per month for two or more children. This means that the maximum a family can receive is £549.40 per month for one child and £941.83 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 3.1.4. for details of the means test for Universal Credit.

For Tax-Free Childcare, both parents must have earnings have an adjusted net income under GBP 100,000 as 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 is not compatible with receipt of Universal Credit or other monetary forms of government childcare support such as bursaries or tax exemptions.

5.3.7. Combining benefit receipt or subsidy and employment/starting a new job

For both Universal Credit and Tax-Free Childcare, claimants must be in work to qualify; see Section 5.3.1 above. However, parents with work agreed to start in the future can apply a month in advance.

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

Tax-Free Childcare can be used for any regulated childcare whether or not at the providers’ premises; for instance, nannies.

5.5. Tax concessions for childcare expenditures

Tax-Free Childcare is replacing previous tax exemptions for work related childcare. This scheme is now in run off.

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

Universal Credit can be claimed while in work, see Section 3.1.4.

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 166 in any week. These amount to 12 per cent of earnings between GBP 166 and GBP 962 per week, and 2 per cent of earnings above GBP 962 per week. All employees earning under GBP 166 per week do not have to make National Insurance Contributions, but those earnings between GBP 118 and GBP 166 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 166 per week. The rate of employers' contributions is 13.8 per cent of earnings above GBP 166 per week.

For those aged under 21, employer National Insurance contributions are zero on earnings less than GBP 962 per week. Contributions are still payable on earnings above GBP 962 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. As not all employers pay the apprenticeship levy, 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 12,500 is available to individuals. The personal allowance is gradually withdrawn if the Adjusted Net Income is incomes above GBP 100,000 at a rate of 50% of all Adjusted Net Income above GBP 100,000 and reaches zero if income is £123,700 or above.

Marriage Allowance: A member of a married couple or civil partnership may transfer 10% of their personal allowance to their spouse or civil partner (i.e. GBP 1,250 in 2019–20) if they are not using their full allowance, providing they are not a higher or additional rate taxpayer.

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 2019–20, 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 37,500, a higher rate of 40 per cent over the basic rate limit of GBP 37,500 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 – 37 500	20
37 500 – 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 37,500, 32.5 per cent above GBP 37,500 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 37,500 and GDP 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.

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 usually paid direct to the mortgage lender when a claimant is in receipt of one of the following qualifying benefits; Income Support, Income-based Jobseeker's Allowance, Income related Employment & Support Allowance, State Pension Credit and Universal Credit.

A loan can also be offered 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.

Support for Mortgage Interest help is in the form of an interest bearing loan secured against the property and is given towards the interest on a mortgage or other 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. An SMI loan is only recoverable upon sale or transfer of the property.

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 income-related Employment & Support Allowance and Universal Credit. There is a waiting period of 39 weeks (or 9 consecutive assessment periods for Universal Credit) 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.