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## UNITED KINGDOM 2004

### 1. Overview of the system

The UK Financial year runs from April to April. The rates and rules below are for June 2004.

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

#### 1.1. *Average worker wage (AW)*

The 2004 AW earnings level was GBP 29 312.

### 2. Unemployment insurance

#### 2.1 *Conditions for receipt*

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

##### 2.1.1 *Employment conditions*

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

##### 2.1.2 *Contribution conditions*

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

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

Payment of Class 1, 2 and 3 National Insurance contributions gives rise to an 'earnings factor' which is used to calculate entitlement to contributory benefits. For Class 1 contributions the earnings factor is the amount of earnings, excluding those above the upper earnings limit (UEL) upon which contributions have been paid. The minimum rate at which an individual is deemed to have made a contribution is the lower earnings limit (LEL) 79 GBP in 2004<sup>1</sup>. If an individual earnings exceed the LEL in a given week then the earnings factor or contributions would be all earnings up to the UEL.

## **2.2 Calculation of benefit amount**

### **2.2.1 Calculation of gross benefit**

Payable on a weekly basis at the rate of GBP 55.65 for a single person aged 25 and over, GBP 44.05 per week for those aged 18-24 and GBP 33.50 for those aged 16-17 (where applicable – see 2.5.1).

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

### **2.2.2 Income and earnings disregards**

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

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

## **2.3 Tax treatment of benefit and interaction with other benefits**

JSA is taxable.

## **2.4 Benefit duration**

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

## **2.5 Treatment of particular groups**

### **2.5.1 Young persons aged 16 or 17**

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

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<sup>1</sup> The lower earnings limit was 75 GBP in 2002 and 72 GBP in 2001

2.5.2 *Older workers*

2.5.3 *Others if applicable*

**3. Unemployment assistance**

**3.1 Conditions for receipt**

3.1.1 *Employment conditions*

3.1.2 *Contribution conditions*

**3.2 Calculation of benefit amount**

3.2.1 *Calculation of gross benefit*

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

Family type	Rates of applicable amount (in GBP per week)
<b>Personal allowance</b>	
Single	
18-24	44.05
25 and over	55.65
Lone parent	
18 or over	55.65
Couple (both 18 or over)	87.30

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

3.2.2 *Income and earnings disregards*

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

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

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**3.3 Tax treatment of benefit and interaction with other benefits**

JSA is taxable.

**3.4 Benefit duration**

Paid as long as the conditions are fulfilled.

**3.5 Treatment of particular groups**

**3.5.1 Young persons**

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

**3.5.2 Couples**

Members of a couple where at least one of the couple was born after 28 October 1957; and, is aged 18 or over; and, neither member of the couple is responsible for a child, are required to make joint claims to Income-based JSA. Both members of the Joint Claim are required to satisfy the conditions for receipt of JSA unless one member fits into an exempt group. In certain circumstances a member of a couple may still be able to receive JSA even if their partner has not made a joint claim with them.

**3.5.2 Older workers**

**3.5.3 Others if applicable**

**4. Social assistance**

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

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

**4.1 Conditions for receipt**

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

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between GBP 3 000 and GBP 8 000. There are higher limits for people living in residential care or nursing homes.

#### 4.1.1 *Employment conditions*

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

#### 4.1.2 *Contribution conditions*

None.

### 4.2 *Calculation of benefit amount*

#### 4.2.1 *Calculation of gross benefit*

Family type	Rates of applicable amount (in GBP per week)
<b>Personal allowance</b>	
Single	
18-24	44.05
25 and over	55.65
Lone parent	
18 or over	55.65
Couple (both 18 or over)	87.30
Child	
Under 16	nil <sup>3</sup>
16-18	nil <sup>3</sup>
<b>Premiums</b>	
Family	15.75 <sup>3</sup>
Lone parent (in addition to family premium) <sup>1</sup>	0.15
Lone parent for CTB/HB (in addition to family premium) <sup>2</sup>	6.45

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

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

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

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

#### 4.2.2 *Income and earnings disregards*

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

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

#### 4.3 *Tax treatment of benefit and interaction with other benefits*

Income Support is not taxable.

#### 4.4 *Benefit duration*

Paid as long as the conditions are fulfilled.

#### 4.5 *Treatment of particular groups*

##### 4.5.1 *Young persons*

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

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

Pensioner premiums exist: the weekly rates are GBP 49.80 for a single person aged 60 or over, and GBP 73.65 for a couple where at least one partner is aged 60 or over. From October 2003 support to those over 60 will be paid through Pension Credit rather than Income Support. The Pension Credit combines an Income Guarantee for those 60+ with a Savings Credit payable to those 65+ to reward those who have saved. There are also additional premiums for disabled people and carers.

Standard Minimum Guarantee	
Single person	GBP 105.45
Couple (married or unmarried)	GBP 160.95

##### 4.5.3 *Others if applicable*

## 5. Housing benefits

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

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

### 5.1 Conditions for receipt

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

### 5.2 Calculation of benefit amount

#### 5.2.1 Calculation of gross benefit

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

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

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

The applicable amount is shown in Section 4; except lone parents, meeting the conditions also described in section 4, where the applicable amount is GBP 22.20 plus the lone parent applicable amount. Dependant children rate, from birth day to 19<sup>th</sup> birthday, is GBP 42.27.

#### 5.2.2 Income and earnings disregards

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

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

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

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**5.3 Tax treatment of benefit and interaction with other benefits**

Both non-taxable.

**5.4 Benefit duration**

Both paid as long as the conditions are fulfilled.

**5.5 Treatment of particular groups**

**5.5.1 Young persons**

For housing benefit, the same personal allowance of GBP 44.05 applies to a single person aged less than 25 or a lone parent aged less than 18, whilst the personal allowance for a couple with at least one aged over 18 is GBP 87.30. Council Tax Benefit is not normally payable to anyone under the age of 18 as there is no council tax liability.

**5.5.2 Older people, disabled, carers**

As for Income Support, pensioner premiums exist for both benefits: the weekly rates are GBP 49.80 for a single person aged over 60, and GBP 73.65 for a couple where at least one partner is aged 60 or over. There are also additional premiums for disabled people and carers.

**5.5.3 Home owners**

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

**6. Family benefits**

**6.1 Conditions for receipt**

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

**6.2 Calculation of benefit amount**

**6.2.1 Calculation of gross benefit**

It is payable at the weekly rate of GBP 16.5 for the eldest child from whom benefit is payable, and GBP 11.05 in respect of each other child. Lone-parents receive a supplement of GBP 1.05 per week.

**6.2.2 Income and earnings disregards**

Not subject to any means test.

**6.3 Tax treatment of benefit and interaction with other benefits**

Not taxable.

6.4 *Treatment of particular groups*

6.4.1 *Young people*

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

6.4.2 *Older workers*

6.4.3 *Others if applicable*

7. **Childcare for pre-school children**

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

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

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

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

The compulsory age for a child to start full time education in the UK is at the beginning of the school term after the child's fifth birthday.

7.1 *Out-of-pocket childcare fees paid by parents*

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

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The following figures are based on a survey conducted by the Daycare Trust (National UK charity) in 2004. The survey is based on responses from 137 (out of 200) Children's and childcare Information Services in Great Britain. The figures given are per week for a full-time place.

	<b>Nursery (under 2)</b>	<b>Nursery (2 and over)</b>	<b>Childmin der (under 2)</b>	<b>Childmin der (2 and over)</b>
England average (£)	141	132	127	126
Scotland average (£)	122	117	126	124
Wales average (£)	120	115	120	119
GB average	138	129	126	125

## **7.2 Child-care benefits**

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

### *7.2.1 Conditions for receipt*

### *7.2.2 Calculation of benefit amount*

#### *7.2.2.1 Calculation of gross benefit*

#### *7.2.2.2 Income and earnings disregards*

### *7.2.3 Tax treatment of benefit and interaction with other benefits*

### *7.2.4 Treatment of particular groups*

## 8. Employment-conditional benefits

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

### 8.1 Conditions for receipt

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

### 8.2 Calculation of benefit amount

#### 8.2.1 Calculation of gross benefit

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

In the absence of Working Tax Credit entitlement Child Tax Credit is not reduced until earnings are over GBP13,480 per year. The taper point for the family element is GBP 50000 per year. The family element of the tax credits is not tapered away till income exceeds GBP 50000 and then only once the entire child element has been. Then when the family element is tapered away it is done so at a rate of GBP1 for every GBP15 of income.

*Note:* Housing Benefit and Family Benefit are not considered for this income test. No payment is made if the formula gives a value below 50 pence/week.

Family type	Rates of credits (in GBP per year, unless stated) <sup>1</sup>
<b>WTC Elements</b>	
Basic Element	1,570
Second Adult Element	1,545
Lone Parent Element	1,545
30 Hour Element	640
Disability Element	2,100
Severe Disability Element	890
50 plus Element (16-30 hours)	1,075
50 plus Element (30 hours)	1,610
<b>CTC Elements</b>	
Family Element (normal)	545
Family Element (baby addition)	545
Child Element	1,625
Disabled Child Element	2,215
Enhanced Disabled Child Element	890

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

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

### **8.3 Tax treatment of benefit and interaction with other benefits**

Not taxable.

### **8.4 Benefit duration**

Paid as long as the conditions are fulfilled.

### **8.5 Treatment of particular group**

#### **8.5.1 Young persons**

#### **8.5.2 Older workers**

#### **8.5.3 Others if applicable**

## **9. Lone-parent benefit**

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

### **9.1 Conditions for receipt**

### **9.2 Calculation of benefit amount**

#### **9.2.1 Calculation of gross benefit**

#### **9.2.2 Income and earnings disregards**

### **9.3 Tax treatment of benefit and interaction with other benefits**

### **9.4 Benefit duration**

### **9.5 Treatment of particular group**

#### **9.5.1 Young persons**

#### **9.5.2 Older workers**

#### **9.5.3 Others if applicable**

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**10. Direct Tax system**

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

**10.1 Income tax rate schedule**

**10.1.1 Tax allowances and credits**

- Basic Relief: a personal annual allowance of GBP 4 745 is granted to each individual.
- Children's Tax Credit. [This is superseded by the introduction of Child Tax Credit see section 8]
- Working Tax Credit: see Section 8 (Employment-conditional benefits).
- Relief for social security contributions and other taxes: none.

**10.1.2 The definition of taxable income**

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

**10.1.3 The 2004 tax schedule**

Central government income tax	
Taxable income (in GBP)	Tax rate (%)
0 – 2 020	10
2 020 – 31 400	22
Over 31 400	40

**10.2 Treatment of family income**

The tax unit is the individual.

**10.3 Social security contribution schedule**

**10.3.1 Employees' contributions**

National Insurance contributions are payable by employees earning more than GBP 91 in any week. These are 11 per cent of earnings between GBP 91 and GBP 610 and 1 per cent of earnings above GBP 610 for employees not contracted out of the state additional (earnings related) pension' scheme (a supplement to the basic retirement pension). For employees who are contracted out, there is a rebate of 1.6 per cent on earnings between GBP 79 and GBP 610. Depending on eligibility criteria members of the National Insurance scheme qualify for pensions, sickness, industrial injury, unemployment benefits, etc. All employees earning under GBP 91 per week have no National Insurance contribution liability but a notional contribution will be deemed to have been paid in respect of earnings between GBP 79 and GBP 91 to protect benefit entitlement.

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**11. Part-time work**

See above.

**11.1 Benefit rules for part-time work**

**12. Policy developments**

**12.1 Policy changes introduced in the last year**

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

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

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

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

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

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

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

**12.2 Policy changes announced**

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