

## **UNITED KINGDOM 2009**

### **1. Overview of the tax-benefit system**

Within the United Kingdom Jobseeker's Allowance is the main benefit for those out of work. Jobseeker's Allowance is made up of two parts, a contributory benefit based on insurance contribution payment and an income-based part which is not based on insurance payment. Employment and Support Allowance replaced Incapacity Benefit for new claims from 27 October 2008. There is also Income Support, a general means-tested benefit for those with low income who are unable to work. 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 2008 AW earnings were GBP 33382. The 2009 AW earnings were GBP 33920.

## 2. Unemployment insurance

### 2.1 Conditions for receipt

Jobseeker's Allowance (JSA) can be paid to a customer who is unemployed and looking for full-time work. JSA is available for men and women under pensionable age. They must have entered into a Jobseeker's Agreement. They must be capable of, available for and actively seeking work as an employee or as self employed.

To qualify for JSA jobseekers must be available for work, available is taken as meaning 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, voluntary workers and persons providing a service.

In some situations jobseekers can restrict their availability. However, they must have a reasonable prospect of getting work unless the restrictions are reasonable in view of their physical or mental condition.

Jobseekers must also be actively seeking work. To be actively seeking work jobseekers:

- must take, in each benefit week, such steps as they can reasonably be expected to have to take in order to have the best prospects of securing employment; and
- they are expected to take more than two steps during each week unless taking one or two steps is all that it is reasonable for them to do.

### Employment related sanctions

A jobseeker's JSA may be sanctioned if they:

- lose a job because of misconduct; or
- leave a job voluntarily without just cause; or
- refuse or fail to carry out a jobseeker's direction without good cause; or
- fail to apply for or accept a job without good cause; or
- neglect to avail themselves of a job without good cause.

### New Deal, 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 cause; 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 cause; or
- neglect to avail themselves of a reasonable opportunity of a place without good cause.

If JSA is sanctioned:

- the length of time for which it is sanctioned can be fixed or variable up to a maximum of 26 weeks. During the sanction period JSA is usually not paid or is paid at a reduced rate;
- 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.

### *2.1.1 Employment conditions*

Recipients must be out of work or working less than 16 hours a week, their partners must be out of work or working less than 24 hours per week.

### *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 benefit year in which they make their JSA claim.

Sufficient means: contributions paid in one of the 2 tax years on which the claim is based amounting to at least 25 times the minimum weekly 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 and, in some circumstances, 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) 95 GBP in 2009<sup>1</sup>. If 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 up to GBP 64.30 for a single person aged 25 and over or up to GBP 50.95 per week for those aged 16-24.

JSA contribution-based is a personal benefit and does not include an amount for partners. JSA income – based is payable to those with partners who work less than 24 hours per week on average at

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

Reference date for all information is **July 1<sup>st</sup> 2009**

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a rate of up to GBP94.95 per week. No amount of JSA is paid for children; payments for children are through the tax credits system.

### **2.2.2** *Income and earnings disregards for benefit recipients and those starting a new job*

The income-based benefit may be reduced by capital and savings over 60000 GBP, and penny for penny in respect of most forms of 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 may also be reduced by any earnings over the limits set out above and occupational or personal pensions, after the first 50 GBP of gross pension per week is ignored, whether the pension is in payment or is deemed to be, this can occur when it has been deferred beyond the schemes normal pension date.

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

JSA is taxable. Payment of the income-based benefit conveys entitlement to full housing and council tax benefit without the need to satisfy a separate means test.

### **2.4** *Benefit duration and waiting periods*

Jobseeker's Allowance is payable for as long as a jobseeker meets the conditions of entitlement, except for the first 3 days of benefit which are known as 'waiting days'.

JSA contribution-based is payable for up to 182 days in any one jobseeking period, which may be more than one award of JSA that is linked by a break in the claim of less than 12 weeks. The entitlement to 182 days of JSA contribution-based once exhausted cannot be re-used for a subsequent claim in a new jobseeking period.

In addition to JSA contribution-based a jobseeker may claim for a partner who is working for less than 24 hours per week. In order to do so they must complete the information necessary to assess JSA income-based, which is means tested.

Once the period of contribution-based JSA has exhausted a jobseeker may continue with their claim to JSA as long as they continue to meet the conditions of entitlement and requirements of income-based JSA. If they do not they may still be credited with class 1 national insurance as long as they are actively seeking and available for work, amongst other requirements.

### **2.5** *Treatment of particular groups*

Reference date for all information is **July 1<sup>st</sup> 2009**

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### 2.5.1 *Young persons*

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).

## 3. **Unemployment assistance**

### 3.1 *Conditions for receipt*

See section 2.1

#### 3.1.1 *Employment conditions*

Recipients must be out of work or working less than 16 hours a week, their partners must be out of work or working less than 24 hours per week.

### 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 6000 affects the amount of benefit paid, and benefit is not paid to people with capital over GBP 16000. 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	
16-24	50.95
25 and over	64.30
Lone parent	
16-17	50.95
18 or over	64.30
Couple (both 18 or over)	100.95

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

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

### 3.2.1.1 *Irregular additional payments* [NEW ITEM]

None

### 3.2.1.2 *Obligations of family members* [NEW ITEM]

Members of a couple where at least one of the couple was born after 28 October 1947; 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.

### 3.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

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

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

JSA is taxable. Housing Benefits (and Family Benefits since the introduction of CTC) are not considered for this income test. And payment of the income-based Jobseeker's Allowance or Income Support conveys entitlement to the full Housing Benefit and Council Tax Benefit without the need for a separate means test.

## 3.4 *Benefit duration and waiting periods*

Paid as long as the conditions are fulfilled, after a 3-day waiting period.

## 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 *Older workers*

Customers are required to participate in the mandatory New Deals when they are aged 25 or over and have had a continuous claim to JSA for 18 months or more **or** 18 out of the last 21 months

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

They are required to participate in an Intensive Activity Period (IAP) which may include one or more of the following:-

- **Basic Employability Training (BET);**
- **Self-employment support;**
- **Education and Training Opportunities (ETO);**
- **Work experience/placements,**
- **Work-focused training,**
- **Help with motivation and soft skills.**
- **Subsidised Employment**

3.5.3 *Others if applicable*

#### 4. Social assistance

The main out of work benefits are Jobseeker's Allowance, Employment and Support Allowance and Income Support (for those not required to be available for work). These 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.

[NEW: If payment rates, durations or aspects of means-testing depend on the ages of the claimant or his/her family members, please explain for each group.]

##### 4.1 Conditions for receipt

Income Support is a means-tested benefit. Persons with savings or capital above GBP 16000 are not eligible; the first GBP 6000 of savings are ignored and a weekly income is assumed from savings of between GBP 6000 and GBP 16 000. 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	50.95
25 and over	64.30
Lone parent	
18 or over	64.30

Couple (both 18 or over)	100.95
Child	
Under 16	nil <sup>3</sup>
16-18	nil <sup>3</sup>
<b>Premiums</b>	
Family	17.30 <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>	7.40

1. Lone parent premiums for income support, Jobseeker's Allowance (income based) and housing benefit are no longer available (since 6 April 1998). It was 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 no longer includes allowances for your children for new cases, instead you can claim CTC which will no longer count as income. **From April 2004, Customers making new claims to JSA or IS will not receive financial support for their children through JSA or IS.**

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

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

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

#### 4.2.1.1 *Irregular additional payments* [NEW ITEM]

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

Recipients of Income Support, income-based Jobseeker's Allowance or income-related Employment and Support Allowance may be eligible for a Cold Weather Payment for each qualifying week when the average temperature where they live is recorded as, or forecast to be, zero degrees Celsius or below over seven consecutive days during the period from 1 November to 31 March. In 2009, the Cold Weather Payment was £25 for each qualifying week.

#### **4.2.1.2**      *Obligations of family members [NEW ITEM]*

None.

#### **4.2.2**      *Income and earnings disregards for benefit recipients and those starting a new job*

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.

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

Income Support is not taxable. Housing Benefit and Council Tax Benefit (and Family Benefits since the introduction of CTC) is not considered for this income test. And payment of the income-based Jobseeker's Allowance or Income Support conveys entitlement to the full Housing Benefit and Council Tax Benefit without the need for a separate means test.

#### **4.4**      *Benefit duration and waiting periods*

Paid as long as the conditions are fulfilled.

#### **4.5**      *Treatment of particular group*

##### **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 worker, carers, disabled/sick people*

Since October 2003 support to those over 60 has been 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 114.45
Couple (married or unmarried)	GBP 174.05

##### **4.5.3**      *Others if applicable*

## **5. Housing benefits for rented accommodation**

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

Council Tax Benefit is a means-tested benefit, which provides help towards the tax raised by local authorities. It is available both to people who rent their home and to people who own or who are buying their home.

### **5.1 Conditions for receipt**

Persons with capital above GBP 16 000 are not eligible. The first GBP 6 000 of capital is ignored. For capital between GBP 6 000 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, income-based Jobseeker's 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, Housing Benefit is the full amount of eligible rent (but a deduction can be made in expectation of a contribution towards the rent should a non-dependent adult be in the household). 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 claimant's needs. The Rent Service makes these rent determinations.

The Local Housing Allowance (LHA), which is part of Housing Benefit rather than a separate benefit in its own right, commenced national roll-out on 7 April 2008. LHA applies to customers in the deregulated Private Rented Sector who make a new claim for Housing Benefit, or to existing customers who change address.

LHA is a new way of calculating the rent element of Housing Benefit, based on the area in which a customer lives and household size.

LHA is paid (in most circumstances) to the tenant rather than to the landlord. Tenants are currently able to keep any excess benefit up to a maximum of GBP15 per week that is over and above their contractual rent. However, the Chancellor announced in Budget 2009 that from April 2010, regulations will remove the availability of GBP15 weekly excess. GBP

Under the LHA, the criteria used to determine the appropriate size of property for a household have been simplified and are based on the number of bedrooms, rather than bedrooms and living rooms. This is to ensure they are easier to apply and understand, and better reflect the way in which properties are advertised in the private market.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

LHA rates are set at the median market rent in an area, rather than (as previously) the midpoint between highest and lowest. This provides a more accurate system that reflects the distribution of rents in an area, and ensures that 50 per cent of the properties in the local area will be affordable for Housing Benefit customers.

The rate of LHA for which a claimant will qualify will depend on the number of occupiers and the area in which they live. The size criteria determine the appropriate number of rooms for which the occupiers qualify - for example, a single bedroom for a single person or a couple - rather than taking account of an individual's circumstances. From 6 April 2009, LHA rates are capped at the five-bedroom level for all new customers and those who move address.

There will be 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, 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. As this is a discretionary scheme it is for the authority to decide what should be awarded in any particular case and how long the award should last; neither Ministers nor officials of DWP can interfere in this process.

For people not receiving Income Support, income-based Jobseeker's Allowance, or the guarantee element of State Pension Credit, Council Tax Benefit is the Council Tax liability minus 20 per cent of the difference between net resources and the applicable amount. For all other claimants, Council Tax Benefit is the full amount of the Council Tax liability (but a deduction can be made in expectation of a contribution towards the rent should a non-dependent adult be in the household).

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 22.85 plus the lone parent applicable amount.

Dependent children rate, from birth day to 20<sup>th</sup> birthday, is **GBP 56.11**.

### 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.

A housing benefit disregard for tax credits was introduced from the 2001-02 tax year (initially equivalent to the 30 hour premium in WFTC). Levels up to this year are as per the table below.

#### HB disregard for tax credits

2001-02	11.45
2002-03	11.75
2003-04	11.90
2004-05	12.32
2005-06	14.50
2006-07	14.90
2007-08	15.45
2008-09	16.05
2009-10	16.85

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

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

### 5.2.3 *Costs eligible for housing benefits*

Example of LHA rates depending on the number of occupiers and the area in which they live (for 2009, <https://lha-direct.voa.gov.uk/Secure/CrystalReports/Default.aspx>):

<b>Central London</b>	<b>Median rents</b>
1 Bedroom	<b>350</b>
2 Bedrooms	<b>500</b>
3 Bedrooms	<b>768</b>
4 Bedrooms	<b>1050</b>
5 Bedrooms	<b>1800</b>

<b>Hull</b>	<b>Median rents (March 2010)</b>
1 Bedroom	<b>75.00</b>
2 Bedrooms	<b>91.15</b>
3 Bedrooms	<b>110.00</b>
4 Bedrooms	<b>160.38</b>
5 Bedrooms	<b>178.85</b>

<b>Maidstone</b>	<b>Median rents</b>
1 Bedroom	<b>120.82</b>
2 Bedrooms	<b>149.59</b>
3 Bedrooms	<b>178.36</b>
4 Bedrooms	<b>228.99</b>
5 Bedrooms	<b>298.03</b>

The LHA rates of Maidstone are used in the OECD Tax-Benefit Model. If the actual rent is up to GBP15 lower than the Local Housing Allowance rate that applies, any benefit will still be based on this rate. For example, if the actual rent is GBP90 and the Local Housing Allowance is GBP100, the maximum amount of benefit the Local Authority could pay would be GBP100. If your rent is more than GBP15 less than the Local Housing Allowance rate, any benefit will be based on the amount of your rent plus GBP15. For example, if the actual rent is GBP60 and the Local Housing Allowance is GBP100 the maximum amount of benefit the Local Authority could pay would be GBP75.

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

Both non-taxable.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

## **5.4 Treatment of particular groups**

### *5.4.1 Young persons*

For housing benefit and council tax benefit, the same personal allowance of GBP 47.95 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 94.95. Council Tax Benefit is not normally payable to anyone under the age of 18 as there is no council tax liability.

### *5.4.2 Older workers*

There are higher applicable amounts for those who have reached the qualifying age for state pension credit: the weekly rates are GBP 124.05 for a single person aged 60 or over but less than 65 and GBP 143.80 if aged 65 or over, and GBP 189.35 for a couple where at least one partner is aged 60 or over but less than 65 and GBP 215.50 where one or both partners are aged 65 or over. As for income support, there are also additional premiums for disabled people and carers.

### *5.4.3 Homeowners*

Housing Benefit cannot be claimed by people who are homeowners. Help is provided towards mortgage interest payments (known as Support for Mortgage Interest) paid as part of Income Support, income-based Jobseeker's Allowance, ( and from 27 October 2008, income related Employment & Support Allowance) and State Pension 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 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). From December 2004, the SIR has been calculated using the Bank of England Base Rate plus 1.58%. Changes are implemented when the Bank of England amended its base rate. 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.

Waiting periods apply for those in receipt of Income Support, income-based Jobseeker's Allowance and income-related Employment & Support Allowance. Customers with a loan taken out prior to 2 October 1995 – receive no help for the first 8 weeks of their claim, 50% of eligible interest for a further 18 weeks and 100% of their eligible mortgage interest from week 27. A customer is deemed to have “existing housing costs” in this situation.

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

Customers with a mortgage taken out after 2 October 1995 receive no help for the first 39 weeks and 100% of their eligible mortgage interest from week 40.

### **Restrictions**

Help with interest payments is limited to the interest on the outstanding capital of GBP100,000 (or £200,000 for new working age claims from 5 January 2009). The only exception to the rule is where a home improvement loan is needed to make the existing property suitable for a disabled member of the household.

Generally no help can be provided where a loan has been taken out when a customer is in receipt of benefit. Help can only be provided when certain specific conditions are met.

### **Mortgage Interest Direct**

The Mortgage Interest Direct (MID) Scheme was set up in 1992 following consultation with the Council of Mortgage Lenders. It was decided that payments of mortgage interest would be made direct to the lender to reduce the threat of repossession for those on income related benefits.

Customers who receive help towards their housing costs through Income Support, income-based Jobseeker's Allowance, income-related Employment & Support Allowance or Guarantee element of State Pension Credit normally have their mortgage interest element paid direct to their lender.

Customers in receipt of Savings Credit element only of State Pension Credit can opt to have their payments made direct.

### Changes to the rules for Support for Mortgage Interest were made from January 2009.

As a response to the economic downturn, on 2 September 2008, the then Government announced a £1 billion package of measures to help vulnerable householders at risk of losing their property, first time buyers, and the house building industry. These included the Support for Mortgage Interest changes.

The SMI changes were brought forward from their original planned introduction date of April 2009 to 5 January 2009, to ensure that help reached people as soon as possible.

From 5 January 2009 regulations made the following changes to housing cost provisions in Income Support, income-based Jobseeker's Allowance and income-related Employment & Support Allowance customers.

- The capital limit for loans doubled to £200,000 for new working age customers in receipt of benefits listed above;
- The waiting period for new working age customers reduced from 26 or 39 weeks to 13 weeks from 5 January 2009;
- A 2 year time limit for SMI was introduced for income-based Jobseeker's Allowance (JSA) claims only;

Reference date for all information is **July 1<sup>st</sup> 2009**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

- The Support for Mortgage Interest (SMI) changes also helped existing customers in receipt of a relevant benefit (Income Support, Jobseekers Allowance and Employment & Support Allowance) at 4 January who were in a waiting period for housing costs;
- At the Pre-Budget Report on 24 November 2008, the then Chancellor announced the Standard Interest Rate (SIR) used to calculate SMI would be maintained at 6.08% for 6 months for all SMI customers, existing and new, including those claiming Pension Credit. At Budget on 22 April 2009, the then Chancellor announced the extension of the freeze of the SIR until the end of December 2009, to provide continued support for homeowners.
- The SMI changes are intended to help people over the potentially difficult labour market problems they face and help limit repossessions.

## **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 20.00 for the eldest child for whom benefit is payable and GBP 13.20 per week in respect of each other child. From April 2007, the protected rate for ChB was abolished, meaning new Lone Parents receive the same weekly amount (GBP 20.00) as ‘protected’ Lone Parents. The rate for any subsequent child is GBP 13.20 per week for all Lone Parents.

##### **6.2.1.1 Irregular additional payments [NEW ITEM]**

##### **6.2.2 Income and earnings disregards**

Child Benefit not subject to any means test.

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

Not taxable. From 2 November 2009 Child Benefit income is wholly disregarded in Housing Benefit and Council Tax Benefit.

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## **6.4 Treatment of particular groups**

### *6.4.1 Young persons*

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**

Information on the number of childcare places available is not collected centrally, however information on the number of part-time early education places filled is shown below (information relates to England only).

Children enter primary school from age five though many start in the reception class of primary school at age four.

### **Numbers of three and four year olds benefiting from some free early education**

In January 2009, the number of three and four year olds in England benefiting from some free early education at maintained schools or in the private, voluntary or independent sector was 1,178,800 or 97 per cent of the three and four year old population.

### **Eligibility for free early education places**

In England, all children are eligible for a free part-time funded place from 1 September, 1 January or 1 April following their third birthday for up to two years before they reach statutory school age (at age 5). Free places can be accessed in a variety of settings in the maintained and non-maintained sectors. Local authorities (LAs) make funding available to providers to enable them to provide free places. A funded place consists of a minimum of 12.5 hours of early education per week for thirty-eight weeks of the year. The government is committed to extending the free entitlement to 15 hours a week by 2010.

(Source: DCSF Provision for Children Under Five Years of Age in England: January 2009 (Statistical First Release SFR 11/2009))

### **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.

The following figures are based on a survey conducted by the Daycare Trust (national UK charity) in 2009. The survey is based on responses from 136 (out of 200) Family Information Services in Great Britain. The figures given are per week for a full-time place (based on 50 hours a week in a nursery or with a childminder and 15 hours a week at an out of school club).

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	<b>Nursery (under 2)</b>	<b>Nursery (2 and over)</b>	<b>Childminder (under 2)</b>	<b>Childminder (2 and over)</b>
<b>England average (GBP)</b>	167	156	156	152
<b>Scotland average (GBP)</b>	158	143	155	154
<b>Wales average (GBP)</b>	146	142	150	148
<b>GB average</b>	157	147	153	151

Source: Childcare Costs Survey 2009 (*Daycare Trust, January 2009*)

## **7.2** *Child-care benefits*

As part of the Working Tax Credit (see Section 8) parents can receive help with the cost of ‘registered’ or ‘approved’ childcare. This childcare element can help with up to 80 per cent of the actual childcare cost up to a maximum of GBP 175 per week for one child and GBP 300 per week for 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, 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 and for those workers who pay childcare costs to ‘registered’ or ‘approved’ childcare providers. (Child Tax Credit is the main way that families get money for their children. Child Tax Credit is payable in addition to Working Tax Credit and is payable regardless of whether the claimant is in work or not.)

### 8.1 Conditions for receipt

Generally, 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). (You do not need to be in work to receive the Child Tax Credit.)

### 8.2 Calculation of benefit amount

#### 8.2.1 Calculation of entitlement

The amount you receive depends on your household income. It is calculated by adding together the elements you are entitled to and then by reducing those elements by 39 pence for every GBP1 by which your gross household income exceeds the first income threshold of GBP 6,420 per year. Generally, gross income is defined as earned income plus all relevant benefits but before the deduction of income tax and social security contributions.

Where there is no entitlement to Working Tax Credit, Child Tax Credit is not reduced until household income exceeds GBP 16,040 per year (GBP 308.46 per week). The family element of the child tax credits is not tapered away until income exceeds GBP 50000 and then only once the entire child element has been withdrawn. The family element is tapered away at a rate of GBP1 for every GBP15 of income above GBP 50,000.

*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)
<b>WTC Elements</b>	
Basic Element	1890
Second Adult Element	1860
Lone Parent Element	1860
30 Hour Element	775
Disability Element	2530
Severe Disability Element	1075
50 plus Element (16-30 hours)	1300
50 plus Element (30 hours)	1935

**CTC Elements**

Family Element (normal)	545
Family Element (baby addition)	
Child Element	545
Disabled Child Element	2235
Enhanced Disabled Child Element	2670
	1075

If Child Tax Credit is claimed without Working Tax Credit then Child Tax Credit is reduced by 39p for every GBP1 of take-home pay in excess of the first income threshold of 16,040 per year (GBP 308.46 per week).

In addition parents can receive 80 per cent of the actual childcare cost per week, up to a maximum childcare cost of GBP 175 per week if one child, GBP 300 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 benefits**

Lone parents not in work are eligible for Jobseekers Allowance (see section 3) or Income Support (see section 4). If working, they may be eligible for Working Tax Credit if their earnings are low (see section 8). Entitlement to these benefits may be affected by any alimony or “child support” payments received from the absent parent.

There are two child support schemes currently in operation in the UK. The first came into force in April 1993 and is known as the "old scheme". The second came into force on 3 April 2003 and is known as the "current scheme".

Under the old scheme, which is still in force for cases where the application for child maintenance was made before April 2003, where the applicant was in receipt of Income Support or income-based Jobseekers Allowance and the child maintenance was less than the level of benefit, any maintenance paid by the absent parent was retained by the state.

In 1997 the Child Maintenance Bonus was introduced. This meant that, for every week in which a lone parent was on benefit and for which child maintenance was paid, that parent could accrue a credit. The maximum total credit which could be accrued was GBP1,000. The parent would only receive this bonus when their benefit ended and they started work within 28 days (although there were some exceptions to this).

When the current scheme came into force in April 2003, a lone parent who claimed Income Support or income-based Jobseeker's Allowance was automatically deemed to have made an application for child maintenance. The Government still retained the bulk of any child maintenance paid by the absent parent but the Child Maintenance Bonus was replaced by the Child Maintenance Premium. The Child Maintenance Premium meant that up to GBP10 of any child maintenance paid in any week would be disregarded as income for the purposes of those benefits. The receipt of child maintenance payments also impacted Council Tax Benefit and Housing Benefit where up to GBP15 of any child maintenance payments made could be disregarded.

There was a fundamental change in the treatment of lone parents for child maintenance purposes when the Child Support Act 1991 was changed with effect from the 27th of October 2008. Where child maintenance is paid by the absent parent through the Child Maintenance and Enforcement Commission for any lone parent in receipt of Income Support or income-based Jobseeker's Allowance, all of the money received is passed on to the parent. Up to GBP20 of any child maintenance paid is disregarded for the purposes of Income Support and income-based Jobseeker's Allowance. Up to GBP20 is also disregarded for the purposes of income-related Employment and Support Allowance. Council Tax Benefit and Housing Benefit are no longer affected by child maintenance payments.

### **9.1 Conditions for receipt**

See sections 3 and 4

Reference date for all information is **July 1<sup>st</sup> 2009**

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**9.2**      *Calculation of benefit amount*

9.2.1      *Calculation of gross benefit*

9.2.1.1    *Irregular additional payments* **[NEW ITEM]**

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*

## 10. Tax system

### 10.1 Income tax

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

#### 10.1.1 Tax allowances and credits

- Basic Relief: a personal annual allowance of GBP 6475 is granted to each individual.
- Child Tax Credit: see Section 8 (Employment-conditional benefits).
- 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 tax schedule

From April 2008 the 10 per cent starting rate band for earnings was removed and the basic rate of income tax was lowered from 22 per cent to 20 per cent. There is a 10 per cent starting rate for savings income only. The starting rate limit for savings is GBP 2440 for 2009-10, but if an individual's non-savings income exceeds the starting rate limit, then the 10 per cent starting rate for savings is not available.

Taxable income (GBP)	Rate %
0 – 37 400	20
Over 37 400	40

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

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

## **10.2**      *Treatment of family income*

The tax unit is the individual.

## **10.3**      *Social security contributions and payroll taxes*

### **10.3.1**      *Contributions payable by employees and benefit recipients*

National Insurance contributions are payable by employees earning more than GBP 110 in any week. These are 11 per cent of earnings between GBP 110 and GBP 844 and 1 per cent of earnings above GBP 844 for employees not contracted out of the state second pension scheme (additional state pension which supplements the basic retirement pension). For employees who are contracted out, there is a rebate of 1.6 percent on earnings between GBP 95 and GBP 844. Depending on eligibility criteria members of the National Insurance scheme qualify for pensions, sickness, industrial injury, unemployment benefits, etc. All employees earning under GBP 110 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 95 and GBP 110 to protect benefit entitlement.

### **10.3.2**      *Contributions payable by employers*

Employer's contributions are not payable for employees earning less than GBP 110 per week. The rate of employers' contributions for employees not contracted out of the additional (earnings related) scheme is 12.8 per cent of earnings above GBP 110 per week. For employees who are contracted out, there is a rebate of 3.7 per cent on earnings between GBP 95 and GBP 844 per week.

### **10.3.3**      *Payroll taxes*

[This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. See Annex for details].

## **10.4**      *Treatment of particular group*

[for income taxes, social contributions and payroll taxes]

### **10.4.1**      *Young persons*

Reference date for all information is **July 1<sup>st</sup> 2009**

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10.4.2 *Older workers*

10.4.3 *Others if applicable*

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## **11. Part-time work**

### ***11.1 Special benefit rules for part-time work***

None

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

None

## **12. Policy developments**

### **12.1 Policy changes introduced during 2009**

#### ***Changes announced in Budget 2009***

The capital disregard in Pension Credit and pensioner related Housing and Council Tax benefit were increased from £6,000 to £10,000 in October 2009, aligning it with the disregard for someone in a care home.

The annual ISA limit for people aged 50 and over as increased 2009/10, allowing them to save £10,200, up to £5,100 of which can be saved in cash from October 2009.

A proactive tax back campaign was launched in Autumn 2009 to encourage pensioners who may have paid tax unnecessarily on savings income to reclaim overpaid tax.

A extension of the Stamp Duty Land Tax (SDLT) holiday was announced on purchases of residential property worth not more than £175,000 to 31 December 2009.

### **12.2 Future policy changes announced in 2009**

From April 2010, an additional rate of income tax of 50% will apply to income over GBP 150,000

Also from April 2010, the personal income tax allowance will be restricted for annual incomes over GBP 100,000

The Higher Rate income tax threshold (HRT) will be frozen at 2011-12 levels in 2012-13.

The personal income tax allowance will continue to be indexed from 2012/13.

From April 2011, employee, employer and self-employed income-related rates of National Insurance Contributions (NICs) will increase by 1% - the main employee rate will be 12%; the employer rate 13.8% and the main self-employed rate 9%; employee and self-employed additional rates will become 2%.

The annual level at which people start to pay NICs will be increased in April 2011 by £570

Pensions tax relief will be restricted for individuals on incomes of £150,000 and over – gradually tapered away so that for those on incomes over £180,000 it is worth 20%.

The Inheritance Tax allowance will be frozen at its current level of £325,000 for 2010-11 instead of rising to £350,000.

A one off, temporary, bank payroll charge of 50% will be applied to discretionary bonuses totaling more than £25,000 awarded to individuals in the banking sector engaged in regulated banking activities between 9 December 2009 and 5 April 2010.

## ANNEX

### DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD *Revenue Statistics*.

#### **Social security contributions to general government**

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

#### **Social security contributions paid to institutions outside general government**

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

#### **Payroll taxes**

This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.