

UNITED KINGDOM 2008

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. 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 2007 AW earnings were GBP 32955. The 2008 AW earnings were GBP 33 382.

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.

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.

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.

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 year of 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) 90 GBP in 2008¹. 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 GBP 60.50 for a single person aged 25 and over or GBP 47.95 per week for those aged 16-24.

¹ The lower earnings limit was 75 GBP in 2002 and 72 GBP in 2001

Reference date for all information is **July 1st 2008**

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JSA (Contributory) is a personal benefit and does not include an amount for partners. JSA (Income – based) is payable to those with partners who do not work at 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 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 any 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. 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*

Payable for up to 182 days after a 3-day waiting period. For a jobseeker to become re-entitled to a further 182 days of JSA (cont) they have to:

- Establish entitlement to JSA in general i.e. satisfy the labour market conditions; and
- Satisfy the contribution conditions

However, where the contribution conditions are satisfied, there is the proviso that a jobseeker cannot have another 182 days where the same two tax years are being used as for a previous award. In order to have a claim rated on new contribution years then the jobseeker needs to establish a new jobseeking period. Otherwise, they will always be within the same "relevant benefit year" for which previous entitlement of 182 days has already exhausted.

A jobseeker who has been entitled to JSA in the past and then reclaims will fall within the same jobseeking period as used for that previous award where there is a gap of 12 weeks or less. If there is a gap of over 12 weeks between previous entitlement to JSA ending and a new claim then the jobseeker will establish a new jobseeking period.

2.5 *Treatment of particular groups*

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*

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.

3.1.1 *Employment 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 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)
Personal allowance	
Single	
16-24	47.95
25 and over	60.50
Lone parent	
16-17	47.95
18 or over	60.50
Couple (both 18 or over)	94.95

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

3.2.1.1 *Irregular additional payments* [NEW ITEM]

None

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

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

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

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- **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)
Personal allowance	
Single	
18-24	47.95
25 and over	60.50
Lone parent	
18 or over	60.50

Couple (both 18 or over)	94.95
Child	
Under 16	nil ³
16-18	nil ³
Premiums	
Family	16.75 ³
Lone parent (in addition to family premium) ¹	0.15
Lone parent for CTB/HB (in addition to family premium) ²	6.10

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]

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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.²

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.

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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 20th birthday, is GBP **52.59**.

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 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:

Central London	Median rents
1 Bedroom	360
2 Bedrooms	495
3 Bedrooms	750
4 Bedrooms	1050
5 Bedrooms	1600

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Hull	Median rents
1 Bedroom	75.00
2 Bedrooms	91.15
3 Bedrooms	110.00
4 Bedrooms	160.38
5 Bedrooms	178.85

Maidstone	Median rents
1 Bedroom	121.15
2 Bedrooms	150.00
3 Bedrooms	178.85
4 Bedrooms	229.62
5 Bedrooms	300.00

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.

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

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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.

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. 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.

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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.

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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 18.80 for the eldest child from whom benefit is payable and GBP 12.55 in respect of each other child. From April 2007, the protected rate for ChB was abolished, meaning new Lone Parents receive the same amount (GBP18.80) as 'protected' Lone Parents. The rate for any subsequent child is GBP12.55pw for all Lone Parents.

6.2.1.1 Irregular additional payments [NEW ITEM]

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. From 2 November 2009 Child Benefit income is wholly disregarded in Housing Benefit and Council Tax Benefit.

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

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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 2008, 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 1,160,400 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 2008 (Statistical First Release SFR 12/2008))

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 2008. The survey is based on responses from 135 (out of 198) 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).

	Nursery (under 2)	Nursery (2 and over)	Childmin der (under 2)	Childmin der (2 and over)
England average (GBP)	159	149	144	142
Scotland average				

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(GBP)	141	128	139	141
Wales average (GBP)	142	141	153	151
GB average	147	139	145	144

7.2 *Child-care benefits*

As part of the Working Tax Credit (see Section 8) 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. (See additional information on childcare costs and benefits at end of document.)

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 39 per cent of the difference between gross income and GBP 6,420 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 GBP15,575 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)
WTC Elements	
Basic Element	1800
Second Adult Element	1770
Lone Parent Element	1770
30 Hour Element	735
Disability Element	2405
Severe Disability Element	1020
50 plus Element (16-30 hours)	1235
50 plus Element (30 hours)	1840
CTC Elements	
Family Element (normal)	545
Family Element (baby addition)	545

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Child Element	2085
Disabled Child Element	2540
Enhanced Disabled Child Element	1020

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 GBP15,575pa (GBP298.70pw).

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 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.

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 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 through the 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.

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9.1 *Conditions for receipt*

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 6 035 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 2 320 for 2008-09, 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 – 34 800	20
Over 34 800	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 105 in any week. These are 11 per cent of earnings between GBP 105 and GBP 770 and 1 per cent of earnings above GBP 770 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 90 and GBP 770. Depending on eligibility criteria members of the National Insurance scheme qualify for pensions, sickness, industrial injury, unemployment benefits, etc. All employees earning under GBP 105 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 90 and GBP 105 to protect benefit entitlement.

10.3.2 *Contributions payable by employers*

Employer's contributions are not payable for employees earning less than GBP 105 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 105 per week. For employees who are contracted out, there is a rebate of 3.7 per cent on earnings between GBP 90 and GBP 770 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*

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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

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

12. Policy developments

12.1 Policy changes introduced during 2008

New work-focussed obligations for lone parents with older children were introduced on 24 November 2008. The new measures require lone parents who are claiming Income Support solely on the grounds of being a lone parent, and who are capable of work, to claim Jobseeker's Allowance when their youngest child is:

- 12 or over from November 2008
- 10 or over from October 2009
- 7 or over from October 2010.

These changes will only apply to lone parents who are able to work. Lone parents who also have other reasons for claiming Income Support will continue to be eligible to claim Income Support or another appropriate benefit such as Employment and Support Allowance. They remain eligible for Income Support if, for example:

- they have children for whom the middle of highest rate care component of Disability Living Allowance is payable
- they claim Carers Allowance
- they are fostering.

The Upper Earnings Limit, the point beyond which employee National Insurance Contributions are payable at the additional rate of 1%, was changed to align it with the point at which the higher rate of income tax applies to earnings.

In May 2008, The Government increased personal allowances by GBP600 above indexation for the tax year 2008/09, worth GBP120 to a basic rate taxpayer.

Stamp Duty Land Tax holiday: from September 2008, SDLT did not apply on residential property of GBP175,000 or less for a period of one year. The SDLT holiday was then extended to 31 December 2009.

Support for Mortgage Interest: from December 2008 the Standard Interest Rates used to calculate SMI was maintained at 6.08%, until 31 December 2009. In addition there was a further increasing the capital limit to GBP200,000 for new working age claims.

12.2 Future policy changes announced in 2008

A White Paper "Raising expectations and increasing support: reforming welfare for the future" outlines the UK Government's proposals to take account of a new personalised conditionality vision for lone parents with younger children.

The Government intends to test measures requiring parents with children aged 3–6 to work closely with their personal adviser and design their own routeway back to work. Underpinning that will be a set of requirements to:

- attend Work Focused Interviews

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- agree their action plan
- undertake work related activity, including training which takes that plan forward
- undertake specific work related activity as directed by an adviser, in limited circumstances.

All of these steps are designed to prepare these lone parents for work.

From 2011-12, rates of employee and employer National Insurance Contributions will change as follows:

- the employer rate will rise from 12.8% to 13.3%;
- the main employee rate will rise from 11% to 11.5%
- the additional employee rate (payable on earnings above the Upper Earnings Limit) will rise from 1% to 1.5%.

At the November 2008 Pre Budget Report the Government announced that the GBP600 increase in personal allowances for 2008/09 announced in May would be made permanent from April 2009, and there would be a further GBP130 increase to allowances for 2009/10 and 2010/11.

[The 2009 Budget introduced measures to consolidate the public finances through increased income taxes for those on high incomes. From April 2010, A 50% income tax rate will apply to those with incomes above GBP150,000 and the personal allowance will gradually withdrawn for those with incomes above GBP100,000. Budget 2009 also announced that from April 2011, the tax relief on pensions contributions will be restricted for those with incomes of GBP150,000 and over. Relief will be tapered away so that for those with incomes of GBP180,000 and over it is worth 20 per cent, the same as to a basic rate taxpayer]

Pensioner Christmas payment - A GBP60 payment was paid to each pensioner, and other recipients of the Christmas Bonus, between January and March 2009. An additional GBP100 will be paid to households with someone aged over 80 and an additional GBP50 to households with someone aged over 60 alongside the Winter Fuel Payment in winter 2009-10.

Support for Mortgage Interest (SMI): the waiting period for SMI was temporarily reduced for new working age claimants from 39 to 13 weeks from 5 January 2009. A two-year time limit to SMI support for Jobseeker's Allowance claimants was also introduced.

SMI: From 5 January 2009, the eligibility for SMI was increased by raising the Capital Limit to GBP200,000 for new claimants of working age.

Homeowner mortgage support - defers some of borrowers' interest payments for up to two years, where this is appropriate to their individual circumstances and subject to suitable independent debt advice, with the Government guaranteeing a proportion of the deferred interest.

Child benefit: From 5 January 2009 the Child Benefit increased to GBP20 per week for the first child and to GBP13.20 per week for subsequent children.

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.