Treatment of earnings

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Introduction

To keep the financial advantage of working clear, claimants must understand how their earnings affect their Universal Credit award. Creating a single benefit for people who are out of work or on low incomes reduces the risks associated with moves into employment that exist in the current system.

Universal Credit is worked out using details of earnings notified to DWP via RTI within the Assessment Period (AP) If a claimant is part of a couple and they have a joint award, both their earnings will be used to calculate the payment.

Claimants may be able to earn a certain amount of money before it affects their Universal Credit. This is called a Work Allowance and is calculated depending on circumstances. See Work Allowance guidance.

Once a claimant earns more than their Work Allowance (if applicable), their Universal Credit payments will reduce.

The Universal Credit payment does not reduce pound for pound. Instead it will reduce by 63 pence for each extra pound they earn above their work allowance (if applicable) after deductions. See Earnings taper guidance.

When a claimant's earnings reach a certain level where they can support themselves, they will no longer be eligible to claim Universal Credit
Payments are calculated based earnings notified to DWP via RTI within the Assessment Period (AP). This may be from multiple jobs and or employers in the AP.

What are earnings?

For Universal Credit, earnings are any wages, salary, payment or fee. This could be from: work or employment under a contract of service, agency work, casual or seasonal work

What are employed earnings?

Employed earnings: any pay or profit derived from employment and any payment to reimburse expenses (excepted allowable expenses) and includes:

- bonuses
- commission
- holiday pay
- employment protection awards
- Payment in Lieu of Notice

This is not a complete list

Certain statutory benefits will also be treated as earnings, these include:

- statutory sick pay
- statutory maternity pay
- ordinary statutory paternity pay
- statutory adoption pay
- Statutory Shared Parental Pay (ShPP)

What are classed as earnings?

The following are classed as earning for Universal Credit:

Tax repayments & National Insurance Contribution Repayments
From November 2014 all repayments of Income Tax and National Insurance contribution repayments will be treated as earnings if the claimant was in any paid work during the tax year the repayment relates to. This applies to both Full and Live Service.

If the claimant was not in any paid work or self-employment in the tax year in question then any repayment should be taken into account as capital.

Claimants only need to report the repayment they actually receive as employed earnings – they do not need to include any offset against tax liability or an adjustment made through their tax code.

Tips and gratuities

Gratuities that are paid through a Pay As You Earn scheme (known as a ‘Tronc’ scheme) will automatically be picked up through the Real Time Information data feed and treated as earnings.

Where tips are paid "cash in hand", the claimant will need to self-report these as earnings.

Service Users

Fees received for participating as a Service User are considered earnings, however:

All expenses relating to participation in a Service User Group will be disregarded – these are not to be treated as earnings.

If the expenses are included in RTI then they should be deducted in these cases.

Reservist pay

Reservists pay will be taken into account as earnings unless exempt for tax purposes.

Also included as earnings are, commitment bonuses, paid as a loyalty payment, which are subject to Tax and National Insurance.

Exceptions to this are Payment for Armed Forces which are not treated as earnings include travel, food and drink, and training allowances (e.g. bounty payments) which are paid to compensate for mandatory training (can be found in ITEPA sections 296-298). These are not treated as earnings and gross taxable pay/Real Time Information should automatically allow for this.

Company Directors

Company Directors may receive earnings and also have income from shares/dividends/capital in that company. These will need to be taken into account as earned income.

Managed Service Companies

Claimants paid via a Managed Service Company receive share dividends which need to be treated as earnings for UC purposes.

Notional earnings

Where a claimant deprives themselves of earned income, or their employer has arranged for them to be deprived for the purpose of securing or increasing the amount of UC, then the claimant is to be treated as possessing the earned income as notional earnings.

Advances of earnings

A claimant may receive an advance on their earnings. This may be for a season ticket or other large outgoing.
The policy intention is that such advances are not taken into account as earnings when they are received, and neither is a deduction from earnings allowed in the assessment period(s) in which the advance is paid back. This aligns with the treatment of such payments for tax purposes.

What are generally not used in the calculation of earnings?

The following are not treated as earnings for Universal Credit purposes:

Redundancy payments/compensatory payments

These payments are made on termination of employment and are treated as capital in the assessment period in which it is paid.

Boarders/lodgers

Income from boarders or lodgers is treated as unearned income in UC and fully disregarded.

Pension contributions

Pension contributions are not used in the calculation of earnings. The earnings figure used in the calculation of Universal Credit entitlement will be gross earnings: gross taxable pay, minus tax and National Insurance contributions, and ignoring 100% of contributions made to an occupational or personal pension.

When calculating earned income in Universal Credit the Universal Credit calculation disregards any money already invested or that a claimant will invest in a personal or occupational pension.

Savings or property that the claimants states are for their retirement also do not reduce earnings. This remains until a person reaches the qualifying age for State Pension Credit. This enables everyone of working age to invest in a pension to support themselves in retirement.

Only contributions to a pension scheme that are “relievable pension contributions” (section 188 of the Finance Act 2004) can reduce the level of earnings.

Salary Sacrifice Schemes

Currently earnings used for Salary Sacrifice Schemes; e.g. childcare, to purchase shares under the Share Incentive Plans (SIP) etc. are ignored when calculating UC and are not captured specifically in regulations.
This is because salary sacrifice information is not available through the Real Time Information system as it is non-taxable.

Charitable donations/giving

Certain charitable giving should not be taken into account as income and it is disregarded. This applies to payroll giving schemes but not gift aid.

Benefits in Kind

Benefits in Kind are usually received by an employee from an employer as part of a remuneration package. There are different types including company cars and fuel.

At present there is no way of gathering information on Benefits in Kind apart from self-reporting but Universal Credit are working with HMRC to find a longer term solution to enable us to take these payments into account in UC.

Caring responsibilities

The additional expenses associated with caring responsibilities will not be deducted from earnings when calculating the net amount to be taken into account.

This does not apply in the case of Service User activity for which all expenses are disregarded.

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