

Work Allowance

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Introduction

Some Universal Credit claimants are eligible for a Work Allowance (WA). This is the amount a claimant can earn before the single taper rate of 63% is applied to their earnings.

Claimants who don't have Limited Capability for Work, or don't have responsibility for one or more children or a qualifying young person(s), are not eligible for a WA. In any other case, one of two WAs will apply:

- £192 per month for those with housing costs included in their UC award
- £397 per month for those without housing costs included in their UC award*

(*Claimants in receipt of large amounts of housing support receive a higher award of Universal Credit than those with low or no housing support. In order to address this and target resources fairly, claimants who receive no support with their housing costs are allowed to keep more of their earnings without loss of benefits. This is done by setting higher work allowances in these circumstances.)

Rationale for Work Allowance

The Government wants to move from a low wage, high tax society to a high wage, low tax society. This means providing support to those in work through the tax system and wages, rather than topping up low wages through tax credits.

In order to help claimants increase their earnings and move off benefits, we want to ensure that those with the biggest barriers to work – families with children and those who have limited capability to work – are supported with greater incentives than those who can move into work more easily.

This measure protects claimants on the very lowest incomes, while ensuring that incentives to progress in work remain and are improved until they are taken off the benefits system altogether.

More information on helping claimants on low incomes or those who live in low income households to increase their earnings and move towards financial independence can be found in the In Work Progression Randomised Control Trial guidance. See In Work Progression Randomised Control Trial.

Impact of Work Allowance on Universal Credit award

When a claimant attends a Universal Credit outlet as part of their on-going regime, the financial impact of the WA on their household must be explained. The claimant should be advised that the taper rate of 63% will apply to any net earnings they earn above their WA or to all their net earnings if they do not have a WA. The taper rate ensures that claimants still benefit from any earnings they make as a claimant keeps in essence 37p for every £1 they have earned.

Example 1:

A single claimant who doesn't have limited capability for work, and does not have responsibility for a child or qualifying young person earns £500 per month. They are not eligible for a WA, therefore the taper rate is applied to all of their earnings:

- Work Allowance £0
- taper applied to £500
- taper rate = $£500 \times 0.63 = £315$

This is the amount that will be taken from the claimant's Universal Credit maximum amount when calculating their award.

Example 2:

A single claimant responsible for one or more children or a qualifying young person earns £600 per month. They do not have housing support, therefore their

WA is £397. This means they can earn up to £397 without the taper rate being applied. Earnings above £397 have the taper rate applied.

- Work Allowance £397
- taper applied to £600 - £397 = £203
- taper rate = £203 x 0.63 = £127.89

This is the amount that will be taken from the claimant's Universal Credit maximum amount when calculating their award.

Impact of Work Allowance on third party deduction

If the claimant currently has third party deductions taken from their Universal Credit claim, the WA may result in the deductions ceasing.

Deductions may cease if:

- the claimant is no longer entitled to Universal Credit
- the claimant's earnings exceed their WA for three consecutive assessment periods. If claimants with no WA report earnings for 3 consecutive months, any third party deductions will cease from assessment period 4
- the claimant does not have enough Universal Credit to pay the third party deductions

If some of the claimant's Universal Credit can no longer be paid to the third party creditor, they will receive a letter about this, so they can arrange to pay off the arrears in another way.

Claimants should be reminded of the support available to them. See 'Support for claimants experiencing financial difficulty' below.

Support for claimants experiencing financial difficulty

The offer of support is highlighted as part of a claimant's on-going regime. Any financial issues and consideration of Personal Budgeting Support is discussed and, if necessary, the claimant can be signposted to their Local Authority for further support.

However, if they have a query about their Universal Credit payment, they should contact the Service Centre.

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