

## **Treatment of earnings**

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### **Earned income**

Earned income is payment or profits that come from:

- employment under a contract of service (including agency, casual and seasonal work)
- holding an office, including elective office (directors of limited companies, clergy, LA councilors, MPs, MSPs, Welsh Assembly members, sub-postmasters/mistresses)
- a trade, profession or vocation
- any other paid work; or
- income treated as earned income.

### **Employed earnings**

Employed earnings are income from employment and also any payment to reimburse expenses (except allowable expenses) that includes:

- bonus or commission
- pay in lieu of remuneration
- pay in lieu of notice and certain compensation payments made by the employer because the employment has ended
- holiday pay
- retainers
- payment made by the employer for expenses which are not wholly, exclusively and necessarily for the duties of that employment
- employment protection awards
- fees from service user activity but not any expenses

### **Benefits treated as earnings**

The following benefits are treated as earnings and subject to the work allowance and taper rate:

- statutory sick pay
- statutory maternity pay

- ordinary statutory paternity pay
- statutory adoption pay
- statutory shared parental pay (ShPP)

## **Income treated as earnings**

### **Advances of earnings**

An advance of the claimant's earnings is not taken into account when received. The deduction taken from earnings to pay back the advance is not an allowable deduction and is treated as earnings received.

### **Company Directors**

Company Directors may receive earnings and have income from shares, dividends, or capital in that company.

The way Company Directors are treated depends on whether or not they are considered similar to a sole trader or partnership.

Where a decision is made not to treat them as self-employed, their earnings are taken into account in the same way as for an employee. The shares they hold in the company are treated as capital and any profits or assets from the company are disregarded.

If they are treated as self-employed, the company's profits including assets are treated as their own and calculated in the same way as any other self-employed claimant.

For further information, see Companies and directors

### **Local Authority Councillors**

Councillors are provided with details of their official duties and the allowances paid for those duties by their local authority.

The allowances paid for official duties may include:

- basic allowance
- special responsibilities allowance
- childcare and dependent carers allowance
- travel and subsistence allowance

The allowances are treated as earnings with the exception of the travel and subsistence allowance that is treated as expenses and disregarded.

For further information, see ADM H3 Earned income – employed earnings

## **Managed Service Companies**

Self-employed claimants who would otherwise be regarded as employed (e.g. health workers, teachers) may receive pay as share dividends through a managed company. These share dividends are treated as earnings and these claimants may need to self-report.

## **Notional earnings**

Notional earnings are earnings which the claimant does not have but can be treated as having. This is when the claimant deprives themselves of earnings or their employer has arranged for them to be deprived, to qualify for Universal Credit or at a higher amount.

A decision is made to treat the claimant as receiving earnings that are reasonable for the job they have done.

## **Reservist pay**

Reservists pay will be taken into account as earnings including commitment bonuses, paid as a loyalty payment, which are subject to Tax and National Insurance.

Payments not treated as earnings include:

- travel, food and drink
- training allowances (bounty payments)

These are treated as capital.

## **Service users**

A service user is someone who is being asked by or on behalf of:

- a public body which has a legal duty to provide services in the field of health, social care, welfare or social housing; or
- an organisation which handles research or undertakes monitoring for the purpose of planning or improving services.

This is in the claimant's role as a user, potential user, carer of a user or person affected by the running of those services.

Fees made to service users are treated as earnings and taken into account. These may not be paid through the PAYE scheme and reported via the Real Time Information (RTI). All expenses are disregarded.

Claimants need to self-report these as earnings.

Where a fee is declined, notional income rules do not apply.

## **Tax repayments & National Insurance Contribution Repayments**

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.

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 do not need to include any offset against tax liability or an adjustment made through their tax code.

## **Third party deductions**

Deductions can be made from earnings and shown on RTI as third party deductions.

The claimant's pay/wage slip should show the amount taken and the reason why.

For an example of deductions taken, see Spotlight on earnings.

## **Tips and gratuities**

Claimants must self-report these earnings if they are not paid through the PAYE scheme and reported via the RTI.

## **Income not treated as earnings**

### **Benefits in kind**

Benefits in kind are usually received by an employee from an employer as part of a remuneration package. This can be company cars and fuel. At present these payments are disregarded.

Where a benefit in kind is reported via RTI it will be deducted from the gross taxable figure. This applies whether the benefit in kind is shown as a lower tax code figure or via the claimant's payment.

### **Boarders and Lodgers**

Income a claimant receives from a boarder or lodger is treated as unearned income and fully disregarded. This is to enable them to meet their housing costs.

The exception to this is where a self-employed claimant is renting out rooms in their house as part of running a business such as B&B. This income is taken into account in the same way as earnings.

### **Charitable donations/giving**

Certain charitable donations are disregarded. This applies to payroll giving but not gift aid.

**Pension contributions**

Pension contributions paid into a pension scheme via the claimant's employer and are deducted from earnings before tax are disregarded. This means the earnings figure used is gross taxable pay minus tax and National Insurance contributions.

Where contributions are taken after the earnings have been taxed, the pension contribution is to be deducted from the reported RTI figure.

This may also apply when the claimant pays into a personal pension scheme.

**Salary Sacrifice Schemes**

Earnings used for Salary Sacrifice Schemes such as childcare, purchase of Share Incentive Plans (SIP) are ignored when calculating Universal Credit.

This is because salary sacrifice information is not available through the RTI system as it is non-taxable.

**Termination of employment payments**

Redundancy payments are exempt from a deduction of tax and therefore not treated as earnings. These payments are treated as capital in the assessment period in which it is received.