Unearned income

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Introduction

Universal Credit must not be paid to claimants with income available from other sources that provide the same support for living costs. This core principle is balanced by recognition of the additional costs (for example, costs for disability) and income paid to meet those additional costs is not taken into account in Universal credit.

What is unearned income

Regular income payments (including certain other benefits) other than earnings, which provide support for normal living costs are classed as unearned income and will usually be taken fully into account.

How it works in Universal Credit

The Universal Credit regulations list the unearned income which should be taken into account in the Universal Credit assessment.
Exceptions to the general rule are made for types of unearned income which are not taken into account in the Universal Credit assessment, these include:

- payments for additional costs/expenses the claimant has - for example, Personal Independence Payment (PIP)
- payments taken into account as earned income - for example, Statutory Sick Pay (SSP)

- payments which would constitute a disproportionate administrative burden to take into account - for example, charitable income payments

Adjusting the Universal Credit Maximum Amount – unearned income taken fully into account – other benefits

After the capital test has been applied, the Universal Credit maximum amount is then reduced by the full amount of other benefits received by the assessment unit that are listed as unearned income in the Regulations. The benefits which affect the Universal Credit award are:

- new style Jobseeker's Allowance (contribution-based)
- new style Employment and Support Allowance (contribution-based)
- Carer's Allowance (but not any Scottish Government Carer's Allowance Supplement paid twice yearly to recipients of Carer's Allowance in Scotland - which is disregarded)
- Industrial Injuries Benefits (but not any amount awarded for Constant Attendance Allowance or Exceptionally Severe Disablement Allowance - which is disregarded)
- Maternity Allowance
- Bereavement Allowance (**Note:** this is not the new Bereavement Support Payment introduced in April 2017 which is not taken into account in Universal Credit]
- State Retirement Pension
- Widowed Parents Allowance
- Widowed Mothers Allowance
- Widows Pension
- foreign benefits similar to those listed above

There are other existing benefits (although not listed in regulations because they are not usually paid at the same time as Universal Credit) which will affect the Universal Credit award. This will apply when there is an overlap of benefits because of the transition from that benefit onto Universal Credit.

If this happens, the Legacy benefit (for example, Income Support or Housing Benefit) can be offset against the relevant overlapping Universal Credit assessment periods that have yet to be assessed. If the assessment periods in question have been assessed - an overpayment of Universal Credit must be raised to recover the benefit overlap in the usual manner.

Claimants who migrate to Universal Credit may also get Incapacity Benefit or Severe Disablement Allowance if their claim has not been replaced by Employment and Support Allowance. These benefits are also treated as unearned income even though they are not listed as unearned income in The Universal Credit Regulations 2013.

Other unearned income

The following non-benefit payments are taken into account in full (the gross amount):

- spousal/non-child maintenance
- assumed yield income from capital
- capital treated as unearned income
- student income (covers living costs elements of student loans and grants) see Student income
- Income Protection Insurance payments - payable in respect of loss of income due to illness, accident or redundancy,
- Training Allowances (i.e. payments under the Employment and Training Act 1973 and Scottish equivalent) which are paid for ordinary living expenses or as a substitute for Universal Credit
- sports awards for ordinary daily living costs made by one of the Sports Councils named in section 23(2) of the National Lottery etc. Act 1993
- income from capital held in trust - with the exception of income from a trust established as a result of an agreement, court order in respect of a personal injury compensation or income from a special scheme for compensation
- any other income that is taxable under Part 5 of Income Tax (Trading and Other Income) Act 2005 (this includes income from patents, royalties and intellectual property, certain licensed telecommunications rights and other non-work income not taxed elsewhere)
- occupational and personal pensions - including income from an overseas arrangement, this includes an income drawn from a pension fund, any income payments from a pension fund and annuity payments (**note:** lump sum irregular draw-downs must be treated as capital)
- payments from an annuity - other than retirement pension income, or already disregarded as personal injury compensation (**note:** some people receive an annuity from their occupational or personal pension)
- foreign pension payments
- pension protection fund payments

Calculation

Income that is not paid monthly is to be averaged over a given period. This is to ensure an even distribution, for example - to avoid taking four payments of a contributory benefit paid weekly into account in one assessment period and five in another. This solution attributes a fixed amount in respect of income for each assessment period.

There is a different rule for any unearned income which begins or ends in an assessment period so that it is taken into account for the number of days it is in payment in that assessment period. The formula for calculating income in assessment periods where income begins or ends is:

Monthly amount of income x 12 divided by 365 x number of days in respect of which the income is paid that fall within the assessment period. This formula only applies to income that begins or ends in an assessment period. If an income changes in an assessment period, the normal rules apply - the amount of income in payment at the end of the assessment period (averaged for a monthly payment where necessary) is to be taken into account for the whole of the assessment period using the 'whole month approach'.

Wherever an income calculation results in a fraction of a penny, the amount must be rounded up to the nearest 1p if 0.5p or greater – otherwise it is rounded down.

Where more than one calculation is required to determine the monthly amount of income, this fraction rule will be applied to the total figure except where the income types are different, in which case the fraction rule will be applied to each calculation.

Example:

If a claimant's assessment period ends on the 5th of the month and they begin to receive unemployment insurance payments of £200 a month from 1 April, the income taken into account in the assessment period ending 5 April will be £32.88.

(5 days x [£200 x12 months = £2,400 ÷365 = £6.5753] = £32.8767 rounded to £32.88)

Adjusting the Universal Credit Maximum Amount – the main unearned income types not taken into account

The following is a list of regular unearned income types which are not taken into account in Universal Credit – this list isn't exhaustive as other types of income not listed in regulations may be available:

- income from boarders and lodgers (as claimants are not entitled to housing costs for spare rooms) unless the claimant is self-employed and renting out rooms in their house as part of conducting a trade (for example, running a bed and breakfast – income from bed and breakfast being conducted as a trade is to be treated as self- employed earnings)

- War Pension/Armed Forces Compensation Scheme
- income paid to meet the additional costs/expenses of disability, for example:
    - Disability Living Allowance/Personal Independence Payment/Armed Forces Independence Payment
    - Attendance Allowance/Constant Attendance Allowance/Access to Work payments
    - Local Authority Community Care
    - Independent Living Payment
    - reimbursements for hospital travel or prescription charges
    - compensation payments for personal injury (paid to an eligible adult as income in certain conditions)
- certain payments that are intended to meet additional costs of caring for child dependents, for example:
    - Child Benefit
    - Guardian's Allowance
    - Fostering Allowance and other Social Services payments
    - Scottish Kinship Care payments
    - continuing care payments
- payments to address the additional expenses associated with bereavement:
    - Bereavement Support Payment
- expenses for encouraged activities, for example:
    - payments to reimburse an eligible adult in work for expenses
    - expenses paid to claimants taking part in public enquiries
    - expenses paid to jurors or witnesses in court cases (excluding income replacement) and
    - expenses for unpaid charity or voluntary workers
- payments made in order to meet specific costs for training or development are fully disregarded, for example - Education Maintenance Allowance payments (in Scotland and Wales), elements of training allowances, Sports Awards or student loans which do not cover basic living costs (in Great Britain)

- Discretionary housing payments made by Local Authorities. See Discretionary Housing Payments

- local authority administered Council Tax Benefit

- payments deemed to carry a disproportionate administrative cost if taken into account - for example, charitable/voluntary payments for the claimant or their children

- some special schemes for compensation are also disregarded, for example:

  - compensation for variant Creutzfeldt Jacob disease (CJD)
  - charitable payments for those involved in the 2017 terrorist attacks on Westminster and London Bridge and the bombing of the Manchester Arena

- Scottish Government Carer’s Allowance Supplement (CAS) paid twice yearly to recipients of Carer’s Allowance in Scotland

Remember only income that is specifically prescribed in the regulations can be taken into account.

See also Capital disregards

Important notes

The value of a pension fund that the claimant and/or his employer have paid into is disregarded as capital. This protects investments for retirement.

However, if the claimant has reached the qualifying age for State Pension Credit and not purchased an annuity with their occupational or personal pension (or drawn an income from their pension, equivalent to the annuity that their pension pot would provide), a notional income equivalent to the amount of pension income their pension pot would provide will be taken into account when calculating their Universal Credit.

Deprivation of income

If a person has deprived themselves of unearned income in order to gain entitlement or increase entitlement to Universal Credit they are treated as having that income for the purpose of calculating a Universal Credit award. This is called notional unearned income.

Note: with the exception of State Retirement Pension, this does not apply to the benefits listed above.