



HM TREASURY

# Tax benefit reference manual:

## 2009-2010 edition

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All enquiries:

Analise Mercieca and Stefania Porcu  
Work Incentives and Poverty Analysis  
HM Treasury  
Tel 020 7270 6088/5045

**July 2009**



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## Section 1: Personal income tax

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**A. CURRENT SYSTEM**

**Table 1.1 Some key figures**

	Outturn			Provisional 2008-09	Forecast 2009-10
	2005-06	2006-07	2007-08		
			<i>Thousands</i>		
Number of taxpayers <sup>1</sup>	31,100	31,800	32,300	30,900	29,300
			<i>£ Millions</i>		
Income tax receipts <sup>2</sup>	130,481	143,327	147,324	147,664	134,357

(1) Figures after 2006-07 are projected estimates based upon the 2006-07 Survey of Personal Incomes, in line with the April 2009 Budget Report.

(2) Figures for income tax treat payment of the personal tax credits as negative tax to the extent that the credits are less than or equal to the tax liability of the family. Payments exceeding this liability are treated as public expenditure. This approach is consistent with the presentation adopted by the Office for National Statistics in National Accounts, HM Treasury and OECD. Personal tax credits are therefore being treated in line with international accounting conventions so as to distinguish between negative tax and public expenditure.

Source: HM Revenue and Customs.

**Introduction**

1.1 Income tax is a tax on individuals and is characterised by a system of allowances and deductions, with earned and investment income treated broadly in the same way.

1.2 The UK tax system is cumulative in the sense that total tax payable for a particular financial year depends upon total income in that year. Thus low income in one month can be used to offset high income in another (unlike National Insurance contributions (NICs), which are based on pay period and usually calculated on the basis of one week's or month's income alone). The PAYE system<sup>1</sup> achieves cumulation by crediting the taxpayer each week with  $\frac{1}{52}$  of his annual allowance, and  $\frac{1}{52}$  of the basic rate bands. His or her income in the tax year to date and the sum of these weekly allowances and bands are then used to calculate the tax he or she should have paid to date. Tax tables are issued to employers on request to make this task straightforward, although most employers now use software or agents/bureaux services. Tax payable is the difference between the result and tax already paid to date. So someone who has paid tax earlier in the financial year whose income in a week falls below his or her personal allowance for that week will be eligible for a tax refund (refunds for the unemployed are covered in paragraph 1.71).

1.3 The personal allowance is deducted from a taxpayer's income before his or her tax liability is calculated, and gives relief at the taxpayer's marginal rate of tax. The Married Couple's Allowance (MCA), however, reduces the taxpayer's tax bill by a set amount, irrespective of the taxpayer's marginal rate. (From 2000-2001, only people born before 6 April 1935 are entitled to the MCA.) For example, for 2009-10 the MCA for individuals aged 75 or over is set at £6,965 and gives relief at the 10% rate, so the taxpayer's tax bill is reduced by a maximum of £696.50. This is not repayable if the person does not have sufficient income to fully use it. However, surplus MCA can be transferred to the spouse to offset against their tax bill.

<sup>1</sup> The Pay As You Earn system is used to deduct income tax at source from the earnings of employees and occupational and personal pension schemes.

1.4 Current tax rates and allowances for 2009-10 are shown in the tables below.

**Table 1.2a: Income tax allowances and tax credits for 2009-10**

	£ 2009-10
Personal allowance	
age under 65	6,475
age 65-74 <sup>1</sup>	9,490
age 75 and over <sup>1</sup>	9,640
Married couple's allowance	
age 65 -74 on 5 April 2000 <sup>1 2</sup>	6,865
age 75 and over <sup>1 2</sup>	6,965
minimum amount	2,670
Income limit for age-related allowances	22,900
Blind person's allowance	1,890
<b>Working Tax Credit<sup>3, 4, 5</sup></b>	
Basic element	1,890
Couples and lone parent element	1,860
30 hour element	775
Disabled worker element	2,530
Enhanced disabled adult element	1,075
50 plus return to work payment, 16-29 hours	1,300
50 plus return to work payment, 30+ hours	1,935
Childcare element (weekly):	
- maximum eligible cost	300
- maximum eligible cost for 1 child	175
- per cent of eligible costs covered	80
<b>Child Tax Credit<sup>3, 6, 7</sup></b>	
Family element	545
Family element, baby addition	545
Child element	2,235
Disabled child additional element	2,670
Enhanced disabled child additional element	1,075
<b>Common Features<sup>3</sup></b>	
First income threshold	6,420
First withdrawal rate (per cent)	39
Second income threshold	50,000
Second withdrawal rate	1 in 15
First threshold for those entitled to Child Tax Credit only	16,040

<sup>1</sup> These allowances are reduced if the taxpayer's income exceeds the income limit for age-related allowances.

<sup>2</sup> Allowance available at a flat rate of 10 per cent.

<sup>3</sup> Working Tax Credit and Child Tax Credit were introduced in April 2003 and replace Working Families' Tax Credit, Disabled Person's Tax Credit and Children's Tax Credit.

<sup>4</sup> Apart from those mentioned in footnote 5, the elements for which claimants are eligible can be added together to arrive at the maximum amount of tax credit available.

<sup>5</sup> These elements are mutually exclusive. Where an individual works enough hours to qualify for the 50-plus return to work payment (30+ hours), they cannot also qualify for the 50-plus return to work payment (16-29 hours).

<sup>6</sup> Only one family element is available per family. Families are entitled to the family element and the baby addition in the first year of a child's life.

<sup>7</sup> As well as one family element, a family will be entitled to a child element for each child for whom it has responsibility. For each child, the child elements that are appropriate may be added together to arrive at the maximum amount available for that child.



**Table 1.2b: Bands of taxable income and tax rates, 2009-10<sup>1</sup>**

Bands of taxable income (£)	Rates	Earnings	Per cent	
			Savings	Dividends
0-37,400	Basic	20.0	20.0	10.0
Over 37,400	Higher	40.0	40.0	32.5

(1)The starting rate is abolished for all non-savings income (e.g. employment, self-employed trading profits, pensions and property income), which is the first slice of income to be charged to income tax. For 2009-10 there is a 10% starting rate for savings with a limit of £2,440. Where taxable non-savings income does not fully occupy the starting rate limit the remainder of the starting rate limit is available for savings income.

Source: HM Revenue and Customs.

Using the allowances set out in Table 1.2b, the following example shows how tax payable is calculated.

<b>Example 1.1: How tax payable is calculated</b>	
	£
Single person: Annual earned income	45,000.00
Personal tax allowance	6,475.00
Taxable pay	38,525.00
<i>of which:</i>	
£37,400 taxed at 20 per cent	7,480.00
£1,125 taxed at 40 per cent	450.00
<b>Total tax payable</b>	<b>7,930.00</b>

1.5 Income tax is charged for a tax year. A tax year ends on 5 April. Income tax is charged under the Income Tax (Earnings and Pensions) Act 2003 (“ITEPA”) on the income received in the tax year:

- employment income: this includes salaries, wages and benefits.
- pension income: this includes the United Kingdom state pension and foreign pensions.
- social security income: but this does not include some non-taxable benefits, such as child benefit.

Income tax is charged under the Income Tax (Trading and Other Income) Act 2005 (“ITTOIA”) on:

- trading income: the charge is usually based on the profits shown in business accounts for a year that ends in the tax year (for example, the profits of the year ended 31 December 2009 are taxed in 2009-10).
- property income: this includes all income from property whether in the United Kingdom or abroad. The charge is on the profit of the tax year.
- savings and investment income: this includes interest (some of which may have income tax deducted at source) and dividends. The charge is on the income and dividends, received in the tax year.
- miscellaneous income: this includes royalties and income from trusts.

The Income Tax Act 2007 contains the basic provisions about income tax, including the charge to income tax, tax rates, how a person’s liability is calculated, personal reliefs and general definitions.

1.6 The income tax affairs of the majority of individuals are settled without the need for a Tax Return. For about eight million people, however, a Return is needed. These individuals make their own assessments of their total incomes from all sources ('self assessment'), and then either calculate their own tax or ask the HMRC to do it for them.

1.7 For the self-employed (people with earnings not paid for an office or employment), tax is payable on the income of the current tax year.

1.8 Mortgage interest relief for those aged 65 or over who took out loans to buy a life annuity (a home income plan) before 9 March 1999 will continue to get relief, but loans taken out after that date will not qualify, as tax relief on loans for house-purchase and home improvement loans were abolished from 6 April 2000.

1.9 The main income tax allowances for 2009-10 are shown in Table 1.2a.

### Treatment of dividend and savings income

1.10 Two examples of the treatment of dividend and savings income are shown below.

Example 1.2 Treatment of dividend and savings income		
Annual figures, 2009-10		
Income	£16,000	
	<i>of which:</i>	£8,000 earnings £6,000 building society interest £2,000 dividends
Personal allowance	£6,475	
Taxable income	£9,525	
	<i>of which:</i>	£1,525 earnings £6,000 building society interest £2,000 dividends
Tax Liability	$(1,525 \times 0.2) + (915 \times 0.1) + (5,085 \times 0.2) + (2,000 \times 0.1) = £1,613.5$	

*The £2,000\*0.1 from dividends is only notional tax. Tax directly payable is therefore equal to £1,413.5. The £2000\*0.2 from savings is collected at source. The tax on savings at 20% on £6,000 of interest in this example is collected at source but the taxpayer can claim a repayment for the amount liable at 10%.*

Section 1: Personal income tax

**Example 1.3 Treatment of dividend and savings income, higher earner**

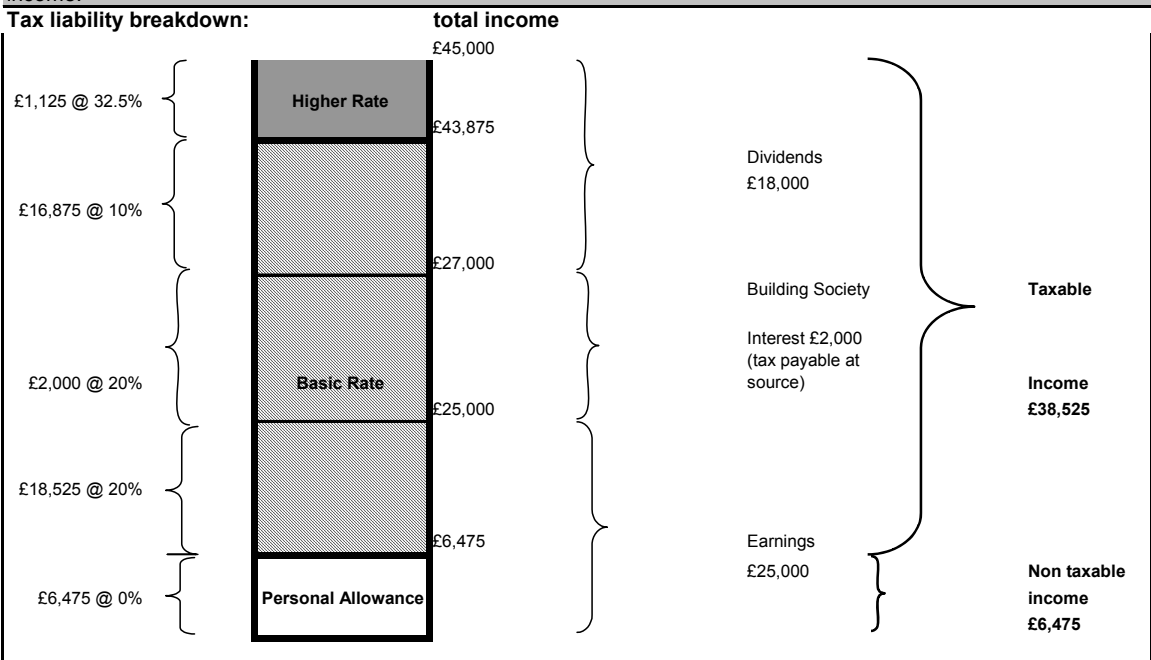
Annual figures, 2009-10	
<b>Income</b>	<b>£45,000</b>
of which:	£25,000 earnings £2,000 building society interest £18,000 dividends
Personal allowance	£6,475
Basic rate limit	£37,400
Taxable income	£38,525
of which:	£18,000 dividends £2,000 building society interest £18,525 earnings

Since dividend and savings income must always be regarded as the 'top slice' of income, (with dividends the highest) the taxable income is divided as follows:

£18,525	@ 20%	earnings less personal allowance	£6,475
£2,000	@ 20%	building society interest	£25,000
£16,875	@ 10%	dividends	£27,000
£1,125	@ 32.5%	dividends at higher rate of 32.5 per cent (comprising 10% notional tax credit + 22.5% SA charge)	£43,875
Calculated tax:		£6,158.13	£45,000

The £18,000\*0.1 from dividends is only notional tax. **Tax directly payable is therefore equal to £4,358.13.** The £2000\*0.2 from savings is collected at source.

Note this taxpayer's marginal rate on an extra pound of earned income is 42.5% (20% on the earnings + 22.5% on the extra pound of dividend income moved into higher rate). The marginal rate on an extra pound on savings income is 42.5% (20% on the savings and 22.5% on dividends moved into higher rate) and 32.5% for an extra pound on dividend income.



1.11 There is a 10 per cent rate of tax on dividends. Associated with UK dividends is a tax credit which meets the liability on dividends of all taxpayers whose incomes fall within the lower or basic rate bands. Those who pay tax at the higher rate have an additional liability of 22½ per cent of the gross dividend to cover the difference between the higher (32.5 per cent) and the ordinary rate (10 per cent). This 10 per cent rate is notional in the sense that it is met by an equal (notional) tax credit and is not payable to non-taxpayers. From 6 April 2008 the non-payable dividend tax credit was extended to dividends from non-UK companies providing the investor owns less a 10per cent shareholding. From 22 April 2009 this was extended to investors with a 10per cent or more shareholding except where the source country does not levy a tax on corporate profits similar to corporation tax.

1.12 From April 2008 there is a starting rate of 10 per cent on savings income only. For most taxpayers, tax at 20 per cent (the basic rate which applies to savings income in the basic rate band) is deducted at source and taxpayers continue to pay an extra 20 per cent on savings income in the higher rate band. Those taxpayers with some savings income covered by allowances or the 10 per cent band may claim a repayment. Dividends and savings income must always be regarded as the 'top slice' of income with dividends the highest.

### **Treatment of families with children**

1.13 Families with children receive Child Benefit to help with bringing up children. Child Benefit is not taxable and is payable in respect of each child under 17 and for 17-18 year olds in further education. Child Benefit is explained in more detail in Section 3. Support may also be available from the New Tax Credits (NTCs), which are composed of Working Tax Credit and Child Tax Credit. NTCs are explained in Section 2.

### **Taxation of the elderly**

1.14 The elderly receive a higher personal tax allowance unless their total income exceeds a ceiling (calculated from the aged income limit). For those with incomes above this limit, the difference between the age allowances and ordinary personal allowances is reduced by £1 per additional £2 of income. Thus at a certain point the difference between the age allowance and the ordinary personal allowance disappears (the 'run out' point). Married couples or civil partnerships where the eldest spouse or partner was born before 6 April 1935 are also eligible for the MCA (note that since age is assessed at the end of the tax year a person eligible for MCA would be, for tax purposes, at least 75 years old in 2009-10). For elderly people with the MCA the personal allowance is withdrawn first and then the MCA (as appropriate), but the MCA can only be withdrawn until it reaches the value of the non-aged MCA. With the abolition of the non-aged MCA from 2000-01, it is tapered until it reaches a minimum value of £2,670 in 2009-10. Pensioners with income above the ceiling but below the 'run out' point face a marginal tax rate of 1½ times the basic rate i.e. 30 per cent (or 25 per cent if MCA is being reduced).

1.15 See Table 1.2a for current age allowances. Two examples are given below:

<b>Example 1.4: A married man born between 6 April 1934 and 5 April 1935 with earned income of £30,000 per annum</b>	
<b>Annual figures, 2009-10</b>	
Taper	= $\frac{1}{2} (30,000 - 22,900) = 3,550$
Personal allowance	= £6,475 maximum reduction of £3,015 ( $\min((£9,490 - £6,475), £3,550)$ )
MCA	= £6,865 - (£3,550 - £3,015) = £6,330
Taxable income	= £30,000 - £6,475 = £23,525
Tax	= $((23,525) \times 0.2) - (6,330 \times 0.1) = £4,072$

<b>Example 1.5 A married man aged 75+ with earned income of £30,000 per annum <u>and</u> his wife aged 65-74 with earned income of £12,000 per annum</b>	
<b>Annual figures, 2009-10</b>	
<b>Husband</b>	
Taper	= $\frac{1}{2} (30,000 - 22,900) = 3,550$
Personal allowance	= £6,475 maximum reduction of £3,165 ( $\min((£9,640 - £6,475), £3,550)$ )
MCA	= £6,965 - (£3,550 - £3,165) = £6,580
Taxable income	= £30,000 - £6,475 = £23,525
Tax	= $((23,525) \times 0.2) - (6,580 \times 0.1) = \mathbf{£4,047}$
<b>Wife</b>	
Taper	£12,000 is less than £22,900 so no tapering required.
Allowance	= £9,490
Taxable income	= £12,000 - £9,490 = £2,510
Tax	= <b>£502</b>

### Statutory indexation

1.16 Since 1977 there is a statutory obligation to raise personal allowances and tax bands by at least the rate of inflation as measured by the Retail Prices Index (RPI) in the twelve months to the September preceding the start of the tax year Budget. This was implemented by the Rooker-Wise amendment to the 1977 Finance Act and prior to the November 1993 Budget operated by reference to percentage increase in RPI in the twelve months to the December preceding the Budget. If, as in 1982 and 1993, the government wants to introduce allowances of less than this amount it must introduce a measure to rescind its obligations (which happened to the aged personal allowance in 1999-00). In applying these obligations to index, certain rounding conventions and definitions are used. Increases in each parameter have an associated rounding amount (£10 or £100) set out in legislation so that they increase by:

Previous year's parameter \*  $(\text{RPI}(\text{year } 0)/\text{RPI}(\text{Year-1}))-1$ , ( rounded up to the next multiple of the rounding amount).

This is the increase in the parameter specified by the statutory rules which say that the increase is “by the same percentage as the percentage increase in the retail prices index”. Note that the starting and basic rate limits are indexed, and the bandwidths and thresholds<sup>2</sup> are then calculated by adding or subtracting the appropriate allowances and limits.

1.17 Statutory indexation rules apply to the range of allowances and thresholds shown in Table 1.3. The personal allowance for those aged under 65 increased by more than indexation in 2009-10. See Table 1.2a for current personal allowances over the course of the last parliament.

1.18 Table 1.3 shows the allowances for 2008-09 updated to 2009-10 based on the September 2007 RPI (208.0) movement to September 2008 (218.4) as published by ONS. The ONS also publishes a year-on-year movement rounded to a percentage with one decimal place (5.0 % in this case) but the legislation is framed in terms of the change in the index itself rather than this rounded increase. This can make a difference. For example in 1996-97 the increase in the age 65-74 personal allowance was  $4630 \times (150.6/145.0 - 1) = 178.8$  rounding up to 180 rather than  $4630 \times 0.039 = 180.57$  rounding up to 190. And the fact that it is the increase in the parameter that is rounded up rather than the absolute value ensures that the three allowances that end in a 5 will continue to do so.

1.19 As part of the Tax Law Rewrite project Income Tax Act 2007 includes provisions to increase allowances and thresholds by indexation which work in exactly the same way as previous legislation. The value of the increase is determined by following these steps (the steps are identical for increases which are rounded up to the nearest £100):

*Step 1*

Multiply the allowance, amount or (as the case may be) the minimum amount for the previous tax year by the same percentage as the percentage increase in the retail prices index.

*Step 2*

If the result of Step 1 is a multiple of £10, it is the increase for the tax year.

If the result of Step 1 is not a multiple of £10, round it up to the nearest amount which is a multiple of £10.

That amount is the increase for the tax year.

*Step 3*

Add the increase for the tax year to the allowance, amount or (as the case may be) the minimum amount for the previous tax year.

The result is the allowance, amount or (as the case may be) the minimum amount for the tax year.

---

<sup>2</sup> These are non-statutory concepts.

**Table 1.3: Statutory indexation**

		£	
Income tax	Rounding amount	2008-09	2009-10
Personal allowance			
age under 65	10	6,035	6,475
age 65-74	10	9,030	9,490
age 75 and over	10	9,180	9,640
Married couple's allowance <sup>1</sup>			
age 65 -74 on 5 April 2000	10	6,535	6,865
age 75 and over on 5 April 2000	10	6,625	6,965
minimum amount	10	2,540	2,670
Income limit for age-related allowances	100	21,800	22,900
Blind person's allowance	10	1,800	1,890
Lower rate band (for savings only)	10	2,320	2,440
Basic rate limit	100	34,800	37,400

<sup>1</sup> Tax relief for these allowances is restricted to 10 per cent.

**Taxation of social security benefits**

1.20 A full list of taxable and non-taxable benefits is shown in the table below (see ITEPA 2003 Section 660 Table A for taxable benefits and Section 677 Table B for non-taxable benefits).

<b><u>Taxable benefits</u></b>	
Bereavement Allowance	Statutory Adoption Pay
Incapacity Benefit, higher rate and long term (except increases for children)	Statutory Sick Pay
Income Support (strikers or people interested in a trade dispute)	Statutory Maternity Pay
Industrial death benefit, whose entitlement arose before 11 April 1988	Statutory Paternity Pay
Carer's allowance (except increases for children)	Supplementary allowance (for students)
Jobseeker's Allowance	Widowed Mother's Allowance (except increases for children)
Retirement Pension (except increases for children)	Widowed Parent's Allowance, replaced Widowed Mother's Allowance from 9 April 2001 although WMA is still paid whose entitlement arose before 9 April 2001 (except increases for children)
	Widow's Pension, whose entitlement arose before 9 April 2001
<b><u>Non-taxable benefits</u></b>	
<u>1. Income Support and Social Fund</u>	<u>4. Benefit in respect of children</u>
Income Support (except strikers or people interested in a trade dispute)	Child Benefit
Community care grants, e.g. clothing, furniture, Travelling expenses	Guardian's allowance
Cold weather payments	Incapacity Benefit, higher rate and long term, increases for children
Funeral expenses payments	Carer's allowance increases for children
Maternity expenses	Retirement Pension increases for children
Interest free loans	Severe Disablement Allowance
Winter fuel payments	Widowed Mother's Allowance increases for children
Back to work bonus	Widowed Parent's Allowance increases for children
In work credit	
In work emergency discretion fund payment	<u>5. Other benefits</u>
In work emergency fund payment	Attendance Allowance
Return to work credit	Christmas bonus
<u>2. Short-term benefits</u>	Council Tax Benefit
Bereavement Payment, replaced Widows Payment from 9 April 2001	Discretionary housing payments
Incapacity Benefit lower rate	Disability Living Allowance
Invalidity Benefit, replaced by Incapacity Benefit by April 1995 but still payable where invalidity commenced before April 1995	Educational maintenance allowance
Maternity Allowance	Fares to hospital
Widow's Payment	Health benefit refunds
	Housing Benefit
	War disablement benefits
	War widow's pension
<u>3. Industrial injury benefits</u>	
Constant Attendance Allowance	
Exceptionally Severe Disablement Allowance	
Industrial Injuries Disablement Benefit	
Injury benefit (ceased after 5 April 1983)	
Reduced earnings allowance	
Retirement allowance	
Unemployability supplement	
Workmens Compensation (Supplementation) Scheme	
Pneumoconiosis, Byssinosis and Miscellaneous Diseases Benefit Scheme [both these apply to pre 5 July 1948 schemes still in payment]	



### **Taxation of benefits-in-kind**

1.21 Benefits-in-kind and expense payments cover a wide range of types of remuneration which an employee receives from his employer. For example, company cars, low interest loans and entertainment expenses are all types of benefit-in-kind. Most of them are liable to tax, but there are a few specific exemptions like accommodation provided for certain occupational groups, the value of goodwill entertainment provided for employees by third parties, and in house sports and recreational facilities. Table 1.4 details the taxable amounts, tax liability, NICs liability and number of recipients of various types of benefit and expenses payments in 2006-07. (Enquiries on Taxation of benefits-in-kind should be addressed to [Dawn Kelly, Analysis, HMRC, Room 2/64, 100 Parliament Street, Westminster, London SW1A 2BQ, 020 7147 2936]).

1.22 The calculation of the taxable value of a benefit-in-kind benefit depends on the type of benefit received. In most cases the benefit derived is valued as the cost to the employer of providing that benefit. Notable exceptions are:

#### Company cars available for private use.

- Since 2002-03 the taxable value of company cars has been based on a percentage of the list price (plus accessories) of the car that varies with the carbon dioxide (CO<sub>2</sub>) emissions of the vehicle. The price of the car for tax purposes is restricted to an upper limit of £80,000. For 2008/09, cars with up to 135g/km emissions are charged at 15 per cent, with a one per cent increase for each 5g/km increase in emissions to a maximum of 35 per cent.
- Diesel powered cars are subject to a three per cent supplement to reflect that, although they have lower CO<sub>2</sub> emissions than comparable petrol cars, they have higher particulate emissions. This supplement is waived if the car meets Euro IV emissions standards and was registered before 1 January 2006.
- Battery electric cars, which do not emit CO<sub>2</sub>, are charged at nine per cent.
- Alternatively fuelled vehicles such as hybrid electric cars or bi-fuel cars qualify for a reduction. The current reductions are: three per cent for hybrid petrol/electric cars; two per cent for cars manufactured to run on road fuel gas (liquid petroleum gas or compressed natural gas), whether alone or with petrol.
- Since 6 April 2008 a 10 per cent band also applies to cars that have emissions of exactly 120g/km or less. The three per cent supplement still applies to diesels, but there is no further reduction for alternatively fuelled cars within this band. Finally, there a reduction of two per cent applies to cars capable of running on E85 fuel.

#### Fuel for private use

- Since 2003-04 the company car fuel benefit charge has been based on a percentage of a set figure, which from April 2008 is set at £16,900, and from April 2009 onwards will increase at least in line with

inflation. The percentage is calculated by reference to the car's carbon dioxide emissions and is the same percentage used to calculate the taxable value of a company car based on its list price, and reflects any diesel supplement or discounts for alternative fuels. See above.

#### Vans available for private use

- The private use of an employer provided van (including any fuel provided for private use) incurred a scale charge of £500 from 1993-94 to 2006-07 (£350 if the van is over four years old). In other words, the taxpayer paid a tax charge equivalent to that he would have paid if he/she had received an additional £500 from his/her employer.
- Since 2005-06 a nil charge has applied to employees who have to take their van home and are not allowed other private use. From 2007-08 the discount for older vans was removed and the scale charge for unrestricted private use increased to £3,000 and if the employer provides fuel for unrestricted private use an additional fuel charge of £500 also applies.

#### Beneficial loans

- If an employee receives a loan, or enjoys any form of credit by reason of his employment, the benefit chargeable is the difference between the amount of interest payable using the official rate of interest and the actual interest paid. Certain exemptions can apply and loans totalling up to £5,000 are exempted, but for other loans the benefit chargeable is added to the employee's other income and taxed at his or her marginal rate of tax.

#### Mobile telephones

- From April 2006 the number of phones an employer can provide tax-free to their employees for private use is restricted to one.

#### Accommodation

- The taxable value of accommodation provided by an employer (where this is taxable) is determined by reference to the 'annual value' of the accommodation. There is a long standing concessionary practice of using the value from the 1973 domestic rating lists, the gross rateable value (GRV) for the value of benefit. In some circumstances there will be an additional charge based on the original cost (or sometimes the current market value) of the accommodation. Most employees with accommodation provided by their employer are in exempt categories such as agricultural workers, clergymen, members of HM forces, police officers etc.

Employer supported childcare

- Where an employee receives the provision of childcare or childcare vouchers as a benefit-in-kind the following exemptions apply from 2005-06.
- Where a childcare place or service is obtained and provided to the employee by the employer (employer-contracted childcare) the first £55 a week from April 2006 is exempt from tax and Class 1A NICs.
- Employer provided childcare vouchers are also exempt from tax and Class 1 NICs on the first £55 a week from April 2006.
- Where an employer provides a place in a nursery on the employer's premises or that they wholly or partially fund and manage (a "workplace nursery") the benefit to the employee is fully exempt from tax and Class 1A NICs.
- The exemptions outlined above are each subject to certain qualifying conditions. These are broadly that the childcare used is either registered or approved childcare, that the child is a qualifying child for the purpose of the exemption and that the childcare benefit or vouchers is offered under a scheme that is open to all of the employer's employees or all of the employer's employees at a particular location.

1.23 A benefit-in-kind provided for an employee whose earnings are at a rate of less than £8,500 per year (including benefits) is taxable as his/her income only in certain circumstances. These are:

- if the benefit consists of the provision of living accommodation;
- if the benefit can be converted into cash;
- if a debt is settled on the employee's behalf; or
- if the benefit is provided by means of a voucher or credit card.

1.24 Directors are liable to pay tax on all benefits-in-kind received, regardless of whether their income is at a rate of less than the £8,500. Most expenses payments are taxable irrespective of the level of an employee's earnings. Broadly, a taxpayer may claim a deduction only where it can be shown that the expenditure was incurred purely for the purposes of her/ his employment.

1.25 Until April 2000, NICs were not liable on the majority of benefits-in-kind. The exceptions to this were company cars and fuel provided for private use, on which employer Class 1A NICs were liable. As from April 2000, all taxable benefits not subject to Class 1 NICs are subject to Class 1A NICs, with the exception of nursery provision.

## Section 1: Personal income tax

**Table 1.4: Taxable benefits in kind and expenses payments**

Recipients, taxable value and income tax and NICs liability, by each main category of benefit, 2006-07

Numbers: thousands; Amounts: £ million

Category	Recipients		Taxable value			Tax liability		NICs liability	
	Number	% of total	Amount	Average £	% of total	Amount	Average £	Amount	Average £
Car	1,160	28	4,030	3,490	48	1,340	1,160	520	450
Fuel	360	9	970	2,700	11	330	910	120	350
Private medical and dental	2,260	54	1,330	590	16	440	200	180	80
Beneficial loans	100	2	120	1,200	1	40	420	20	160
General expenses	160	4	230	1,470	3	70	420	30	200
Travelling and subsistence	220	5	580	2,640	7	180	810	80	370
Entertainment	100	2	130	1,330	2	50	480	20	190
Home telephone	80	2	30	390	-	10	130	5	60
Mileage allowance	580	14	200	350	2	50	90	40	60
Subscriptions	100	2	50	540	1	20	190	5	70
Vans	130	3	50	390	1	10	100	5	50
Services rendered	50	1	40	680	-	10	230	5	90
Vouchers/credit cards	60	1	150	2,480	2	40	650	20	290
Transferred assets	10	-	40	2,960	-	10	1,120	5	380
Provided accommodation	30	1	120	4,340	1	40	1,590	20	560
Payments on behalf of employee	20	1	60	2,480	1	20	890	10	360
Other expenses	10	-	20	1,800	-	5	620	5	250
Other benefits <sup>1</sup>	380	9	350	900	4	120	310	50	120
<b>Total</b>	<b>4,170</b>		<b>8,490</b>	<b>2,040</b>		<b>2,790</b>	<b>670</b>	<b>1,120</b>	<b>270</b>

(1) Includes Funded Unapproved Retirement Benefit Schemes

### NOTES

1. This table provides estimates of the number of recipients of each of the main categories of benefit in kind and expenses payments, along with the total taxable values and the estimated income tax and NICs liability for each category.
2. The total number of recipients is the number receiving at least one benefit and so is not the sum of the individual components. Similarly, as recipients may receive more than one type of benefit, the percentages for the number of recipients are not additive.
3. Numbers and amounts less than 10 are rounded to the nearest 5, greater than 10 rounded to the nearest 10.
4. The column totals may not equal the sum of individual components due to rounding.

Source: HM Revenue and Customs.

## B. HISTORY

### Overview of the pre-April 1973 income tax system

1.26 Before April 1973, personal income taxation consisted of two separate taxes: regular income tax and surtax. The former was based mainly on a single standard rate of tax whilst the latter imposed higher rates of tax on higher tranches of income.

1.27 Regular income tax (pre-April 1973) and surtax were applied to different definitions of taxable income - the differences are shown in rows 1 and 2 of Table 1.8, while the actual rates of the reliefs and allowances are shown in Table 1.13. Most of the reliefs are discussed in more detail in the relevant subsections (below). One exception is a relief for NICs. This was intended to prevent the taxation of the part of NICs that go towards pensions. The relief was not available on unearned income (on which NICs are not paid).

1.28 Regular income tax was essentially a linear tax with a positive personal allowance and a single marginal rate of tax known as the 'standard rate'. The size of the personal allowance depended upon marital status, number of children and other responsibilities (such as dependent relatives) or disabilities (such as blindness). Elements of non-linearity were introduced by some relatively small reduced-rate bands in force before April 1970 and by some aspects of earned income relief. In particular, in years when there was more than one rate of earned income relief, the effective marginal rate of tax on earned income increased as earned income relief dropped. For example in 1972-73 when taxable earned income increased above £4,005 the effective marginal tax rate increased from  $(38.75 \times 7/9) = 30.14$  per cent to  $(38.75 \times 0.85) = 32.94$  per cent. Surtax by contrast had a rising scale of rates applied to successive slices of income above an exemption limit (see Table 1.13)<sup>3</sup>.

1.29 Surtax was charged by one assessment for the year. It was payable in one sum on or before the 1 January following the year of assessment (e.g. 1 January 1974 in the case of the year 1972-73).

#### Example 1.6: 1972-73 Single man (no deductions)

Earning £150 pw	= £7,800 per annum (pa)
Earned income relief	= £1,459
Regular tax bill	= $(£7,800 - 1,459 - 460) \times 38.75$ per cent = £2279
Further relief for surtax	= £2,000 (but only personal allowances above single man's are allowed)
Income liable to surtax	= $(£7,800 - 1,459 - 2,000) = £4,341$
Surtax	= $(£500 \times 11\%) + (£500 \times 13.75\%) + (£1,000 \times 19.25\%) + (£341 \times 24.75\%)$ = 55 + 68.75 + 192.5 + 84.4 = £400.65
Total tax bill	= £2,679.65pa = £51.53 per week (pw)

<sup>1</sup> One complication occurred in the period 1969-70 to 1972-73 when incomes below £2,500 (£3,000 in 1971-72 and 1972-73) were exempt from surtax but, for income above this limit, surtax was payable on all income above £2000. Since this would have implied a very high marginal rate of surtax at the exemption limit a marginal rate of 40 per cent (44 per cent in

**Overview of the system since 1973**

1.30 In April 1973 surtax and regular income tax were effectively combined into one system with a single set of allowances and deductions. One feature of the previous system that was retained was the long range of incomes over which the basic rate of tax applies; 93 per cent of taxpayers had the basic rate as their marginal tax rate in 1989-90. The basic rate is shown in Table 1.12; higher rates of tax are shown in Table 1.16. Examples of tax payments under different tax bands are given below:

**Example 1.7: 1978-79 Married couple, husband earning £20,000 pa**

Personal tax allowance		£1,535
Taxable pay		£18,465
of which:		
£ 750	taxed at 25 per cent	£ 187.50
£7,250	taxed at 33 per cent	£2,392.50
£1,000	taxed at 40 per cent	£ 400.00
£1,000	taxed at 45 per cent	£ 450.00
£1,000	taxed at 50 per cent	£ 500.00
£1,500	taxed at 55 per cent	£ 825.00
£1,500	taxed at 60 per cent	£ 900.00
£2,000	taxed at 65 per cent	£1,300.00
£2,465	taxed at 70 per cent	£1,725.50
Total tax payable	=	£8,680.50

**Example 1.8: 1987-88 Married couple, husband earning £44,000 pa**

Personal tax allowance		£3,795
Taxable pay		£40,205
of which		
£17,900	taxed at 27 per cent	£4,833.00
£ 2,500	taxed at 40 per cent	£1,000.00
£ 5,000	taxed at 45 per cent	£2,250.00
£ 7,900	taxed at 50 per cent	£3,950.00
£ 6,905	taxed at 55 per cent	£3,797.75
Total tax payable	=	£15,830.75

**Example 1.9: 1989-90 Married couple, husband earning £44,000 pa**

Personal tax allowance		£4,375
Taxable pay		£39,625
of which		
£20,700	taxed at 25 per cent	£5,175
£18,925	taxed at 40 per cent	£7,570
Total tax payable	=	£12,745

1972-73) was applied to income immediately above the exemption limit as a form of marginal relief. This relief was available up to the income level where the schedule without marginal relief implied less tax.

## **Tax Returns**

1.31 Tax Returns are needed for about nine million people. For years up to 1995-96, tax inspectors issued tax bills to these people (or their partnerships) based on assessments of their incomes, using data reported on these returns and on business accounts for the self-employed. These assessments have often been initially estimated, and separate assessments have often been made for different income sources. Since 1996-97, individuals have made their own assessments of their total incomes from all sources ('self assessment'), and then either calculate their own tax or ask the HMRC to do it for them.

1.32 For the self-employed (people with earnings not paid for an office or employment), up to 1995-96, tax was normally assessable on the income of the previous tax year. However, since 1997-98, tax is payable on the income of the current tax year. In 1996-97, tax was payable on the average of 1995-96 and 1996-97 incomes.

## **Additional Personal Allowance and Widow's Bereavement Allowance**

1.33 The Additional Personal Allowance and the Widow's Bereavement Allowance were (like the MCA for the non-aged) abolished from 6 April 2000 for those born after 6 April 1935. However those widowed in 1999-2000 were able to claim their Widow's Bereavement Allowance of £2,000 at 10 per cent for 2000-01 as long as they did not remarry before 6 April 2000. This is the only circumstance where Widow's Bereavement Allowance was due for the tax year 2000-01. Widow's Bereavement Allowance has not been available since 2001-02.

## **Treatment of dividend and savings income**

1.34 Since 1999-2000 there has been a starting rate of 10 per cent on savings income. For most taxpayers, tax at 20 per cent (the lower rate which applies to savings income in the basic rate band) is deducted at source and taxpayers continue to pay an extra 20 per cent on savings income in the higher rate band. Those taxpayers with some savings income covered by allowances or the 10 per cent band may claim a repayment.

1.35 A 10 per cent rate of tax on dividends was introduced in 1999-2000. This meets the liability on dividends of all taxpayers whose incomes fall within the lower or basic rate bands. Those who pay tax at the higher rate pay an additional 22½ per cent of the gross dividend to cover the difference between the higher and the ordinary rate. This 10 per cent rate is notional in the sense that it is met by an equal (notional) tax credit. Tax is not payable at the 10 per cent rate.

### Treatment of earned and investment income

1.36 In most of the post-war period investment income was taxed more heavily than earned income. Before April 1973 this was achieved by giving a relief on earned income. Under the unified system an investment income surcharge was used to achieve a similar end until it was abolished in April 1984.

1.37 Earned Income Relief was a tax relief given against a proportion of earnings (usually up to a certain limit). If the earned income fraction were  $\frac{2}{9}$  then tax would be paid on  $\frac{7}{9}$  of earned income. For a taxpayer with earned income, the effective rate of tax would therefore be  $\frac{7}{9}$  of the standard rate.

1.38 The definition of earned income used in calculating earned income relief is shown in Table 1.8 while the actual rates of relief are shown in Table 1.12. The rates of relief often varied for different tranches of earned income and until April 1971 there was a maximum earned income relief. Earnings above this maximum were treated in exactly the same way as investment income. From April 1961, Earned Income Relief was available against surtax as well as regular income tax. At the same time a special earnings allowance was introduced to set against surtax, which was not available against income tax. This reduced surtaxable earnings by £2,000 but any unused relief could not be applied to investment income. Example 1.6 shows how this worked in practice for the 1972-73 tax system.

1.39 The favourable treatment of earned income relative to investment income meant that those with a high percentage of investment income in their total income could have a relatively large tax bill even if total income was small. As a result a small income relief was introduced in 1952-53, which allowed investment income to qualify for a relief if the tax unit's total income was small. This effectively removed the penalty on investment income. Marginal relief was also available for income slightly above this level<sup>4</sup>.

1.40 Earned Income Relief and small income relief can complicate comparisons of allowances and marginal rates. Thus when earned income relief was  $\frac{2}{9}$  of an individual's earnings the marginal tax rate on taxable earned income was  $\frac{7}{9}$  of the announced rates. For example the 38.75 per cent standard rate levied in 1972-73 gave an effective marginal rate of 30.14 per cent on the first £4,005 of earned income subject to tax. Conversely if a pre-1973 allowance was applied solely to earned income the allowance must be multiplied by  $\frac{9}{7}$  (with an earnings relief at the rate of  $\frac{2}{9}$ ) in order to make a comparison with an allowance granted under the unified system.

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<sup>2</sup> This meant that tax payable should not exceed the tax payable on income at the top of the small income range plus a marginal tax rate (also given in Table 1.12) multiplied by the excess. For example, a single individual in 1957-58 with income of £300 would have paid tax of £14  $\frac{2}{3}$  (taxable income of £93  $\frac{1}{3}$ ) as he would have qualified for small income relief. If instead he had £350 investment income marginal relief meant his annual tax payment could not exceed  $(£14 \frac{2}{3} + 0.45) \times £50 = £37.17$  (£37 3s 5d). If he did not claim small income relief his tax payable was £42.38 (£42 7s 6d) on a taxable income of £210. Since small income relief was always at the same rate as earned income relief it was only worth claiming if at least some income came from investments.



1.41 When Earned Income Relief and small income relief were abolished in April 1973, a distinction between earned and investment income was maintained with the introduction of an investment income surcharge whereby all investment income above an exemption limit was subject to a rate of surcharge of 15 per cent. The exemption limits are shown in Table 1.12. At different times there were different exemptions for those under and over 65 and between April 1974 and April 1979 a reduced rate of 10 per cent was payable on the first tranche of investment income. The effects of this system differed from the previous earned income and small income reliefs as the exemption limit applied to the size of investment income only. A person with high earnings could therefore have been exempt from investment income surcharge. In contrast small income relief applied only to people with a small total income.

1.42 Composite rate tax was abolished from 6 April 1991. Individuals with incomes less than their personal allowances are no longer liable to tax on interest from banks, building societies and other deposit-takers. This is estimated to include some five million married women with income below the tax threshold.

### **The taxation of families with children**

1.43 Throughout the post-war period the extra responsibility of having children has been recognised by the tax and benefit system, though the method has changed over time. Immediately after the war additional tax allowances were available for each child. These allowances are explained in more detail in Section 3.

1.44 This system of personal tax allowances in respect of children was of benefit only to taxpayers, although family allowances favouring non-taxpayers continued until April 1977. Child tax allowances were then gradually phased out – they were fully abolished in April 1979, while Child Benefit immediately replaced family allowance in April 1977. Child Benefit is explained in more detail in Section 3.

1.45 Support could also be available from tax credits, which are explained in Section 2.

### **The treatment of wife's income**

1.46 Before Independent Taxation was introduced, the tax system tended to treat married couples as one unit for income tax purposes – in effect a wife's income was treated as the husband's for the purposes of tax - and gave married men a higher personal allowance than single taxpayers (as shown in Table 1.12). In addition wives' earnings received an additional relief or allowance.

1.47 Before April 1973 a married woman's earned income received an additional relief of a fraction of her earnings subject to a maximum. The fraction and the maximum are shown in Table 1.12. However, in the

unified system a married woman was entitled to a wife's earned income allowance, which was equal to the smaller of a single person's tax allowance and her earned income<sup>5</sup>.

1.48 Any income above this limit was effectively transferred to the husband and taxed at his marginal rate.

1.49 Both before and after unification reduced rate bands (in years when they existed) applied to both the taxpayer's own income and his wife's earnings. So a married woman paid tax at her husband's marginal rate only on earnings over her personal allowance (from 1973) and her reduced rate bands. (But before April 1973, a wife's earned income relief was calculated on all her earnings not only that above her reduced rate bands.)

**Example 1.10: Unified system with reduced rate band**

1979-80	Married couple plus 2 children under 11 Husband earning £100 pw and family collection CB of £8 pw
Earned income	= <b>£100pw</b> = £5,200pa
Tax bill	= £(0.25 x 750) + 0.3 (5200 - 1815 - 750) = £978pa = <b>£18.81pw</b>
Net Income	= <b>£89.19</b>

1.50 As default, a husband got the married man's allowance and his wife got an allowance against her earnings only but only to the greater of her actual earnings or the single person's allowance. Alternatively a husband and wife could choose to have the wife's earnings taxed separately; this was called wife's earnings election. A taxpayer could make the election (or revoke one made earlier) within 12 months of the end of the tax year. If this was chosen the husband and wife were effectively taxed as two single people (except for any investment income accruing to the wife). So the husband and wife each had a single person's tax allowance (the married man lost his married man's allowance), and each has the lower, basic and higher rate bands of a single person. Even under wife's earnings election a wife's unearned income was always treated as part of her husband's income for tax purposes. See the examples below. Note that an 'option to elect' applied to surtax only in 1972-73. In all previous years election only applied to regular income tax.

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3 This ensures that a wife earning less than her personal tax allowance cannot transfer the unused balance to her husband. In contrast if a husband cannot make full use of his married man's allowance, this may be transferred to his wife.

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**Example 1.11: Wife's earnings election, 1989-90**

Husband earns £25,000 pa  
 Wife earns £12,000 pa

If taxed jointly (ie no wife's earnings election) they have a taxable income of:

	£37,000	- £4,375	married allowance
		- £2,785	wife's earned income allowance
=	£29,840		taxable income

On which they pay: = £(20,700 x 0.25 + 9,140 x 0.4) = **£8,831 tax**

If wife's earning election is chosen, husband pays tax on:

	£25,000	- £2,785	single allowance
=	£22,215		taxable income

Tax payable is (0.25 x 20,700) + (0.4 x 1,515) = £5,781.00 tax

Wife pays tax on:

	£12,000	- £2,785	single allowance
=	£ 9,215		taxable income

Tax payable is 0.25 x 9,215 = £2,303.75 tax

Combined tax bill = **£8,084.75 tax**

So there is a tax saving of £8,831 - £8,084.74 = £746.25

**Example 1.12: 1989-90; wife's earnings election with investment income**

If wife's income were made up of £4,000 pa earned income and £8,000 pa investment income, then under wife's earnings election, the wife's investment income would necessarily be included with her husband's income, and only her earned income would be taxed separately.

Tax bill under joint taxation would be as before, ie £8,831.

If wife's earnings election is chosen:

Husband pays tax on	£33,000	(£25,000 earnings + £8,000 wife's investment income)
less	£ 2,785	personal allowance
=	£30,215	taxable income

tax payable: £8,981.00

Wife pays tax on	£4,000	earnings
less	£2,785	personal allowance
=	£1,215	taxable income

tax payable £303.75

Making total tax bill of £9,284.75

So, in this case there would be a loss from wife's earnings election of:

£9,284.75 - £8,831 = £453.75

1.51 In deciding whether to elect or not a couple had to weigh the advantage of the wife paying tax according to her own separate schedule with her own basic rate and higher rate band (rather than at her husband's marginal rate) against the disadvantage of losing the married man's allowance. For 1989-90 an election

would normally have been worthwhile if a couple's combined income before deduction of allowances and relief was at least £30,510 including wife's earned income of at least £7,025. When there were multiple higher rates the calculation was more complex: break-even points for 1986-87 to 1989-90 are shown in Table 1.14.

1.52 As a result of the long basic rate band there was a large range over which the ratio of husband's income (and wife's unearned income) to wife's earned income could vary without affecting the income at which wife's earnings election became worthwhile. Consider a couple who were earning £30,510. When they had equal earnings their marginal rate of tax was 40 per cent if taxed as a couple; if taxed separately both paid tax at the basic rate. The couple would pay the same amount of tax under the two options. If taxed as a couple, changing the ratio of income between husband and wife would not affect their tax unless the wife could no longer claim all of her wife's earned income allowance (which was only the case if the husband earned more than 91 per cent of their joint income). Similarly if taxed separately, changing the ratio of income would only increase the tax bill if one earner reached the basic rate limit. Only when one partner earned more than 76.9 per cent of their joint income would higher rate tax become due under election.

1.53 The introduction of Independent Taxation in 1990-91 was accompanied by transitional protection to prevent couples for whom the wife's was the main income, from experiencing a reduction in their total allowance.

1.54 The current Independent Taxation system was announced in the 1988 Budget, and was introduced on 6 April 1990. The system's main features are:

- married women have independence and privacy in their tax affairs;
- husbands' and wives' income and capital gains are taxed independently;
- there is a new structure of income tax allowances, with a full personal allowance for married women; a Married Couple's Allowance (abolished for people born after 6/4/1935 from 6th April 2000); and higher allowances for the elderly; and
- it does not involve tax penalties on marriage. (NB: Those who continued to receive two lots of mortgage interest relief under joint taxation lost it on the introduction of the new system.)

1.55 The MCA was set initially against the husband's income, but was transferable to the wife if the husband has insufficient income to use it in full. From April 1993, a married couple has been able to transfer the whole MCA to the wife, or the wife has been able independently to claim half the allowance. For 1994-95 the MCA was restricted to 20 per cent and was no longer available at the taxpayer's marginal rate. Since April 1995 the allowances have been restricted. The restriction was at 15 per cent to 1998-99 and is 10 per cent since 1999-2000. From 1994-95 these allowances were therefore no longer deducted when calculating taxable income.

1.56 It is important to note that the MCA has been abolished for people born after 1935 (announced in the 1999 Budget) from 6 April 2000.

### **Treatment of one-parent families**

1.57 One-parent families were first recognised as being in need of special treatment by the tax system in April 1969 when single parents were awarded an additional personal allowance (APA) on top of the single person's allowance. From April 1973 onwards the APA was set as the difference between the married man's allowance and the single person's allowance so that a single parent family received a total personal allowance equal to the married man's allowance. From April 1990 it was set equal to the MCA.

1.58 No special treatment for single parent families was given in respect of family allowance until the financial year 1976-77 when a temporary benefit called 'Child Interim Benefit' was introduced pending the implementation in April 1977 of Child Benefit and child benefit increase (CB(I)). It was identical to FAM except that one-parent families could claim it in respect of their first child.

### **Taxation of the elderly**

1.59 The elderly receive a higher personal tax allowance unless their total income exceeds a ceiling (calculated from the aged income limit). For those with incomes above this limit, the difference between the age allowances and ordinary personal allowances was reduced by £2 per additional £3 of income until 1988-89, and by £1 per additional £2 of income since 1989-90. Thus at a certain point the difference between the age allowance and the ordinary personal allowance disappears (the 'run out' point). Married couples where the eldest partner was born before 6 April 1935 are also eligible for the MCA (note that since age is assessed at the end of the tax year a person eligible for MCA would be, for tax purposes, 70 years old). For elderly people with the MCA the personal allowance is withdrawn first and then the MCA (as appropriate), but the MCA can only be withdrawn until it reaches the value of the non-aged MCA. With the abolition of the non-aged MCA from 2000-01, it is tapered until it reaches a minimum value of £2,440 in 2007-08. Pensioners with income above the ceiling but below the 'run out' point face a marginal tax rate of 1½ times the basic rate i.e. 33 per cent (or 28 per cent if MCA is being reduced).

1.60 A taxpayer, or taxpayer couple, is regarded as 'elderly' where either partner is aged 65 or over, or reaches 65 during the tax year. Taxation of the elderly has been guided by two separate objectives: firstly that the elderly with more modest incomes should be taxed more leniently; and secondly that investment income to the elderly should be taxed less heavily since in many cases this is the return to lifetime savings. The latter aim prompted the age relief that was in force for the whole of the post war period until April 1973. This was granted instead of Earned Income Relief on total income (earned plus unearned) but was applicable only on total incomes up to a given limit. The limit and rate of allowance are shown in Table 1.15. For incomes

slightly in excess of these limits marginal relief was available so that tax could not exceed the tax payable if income had been at the limit plus a given rate of tax on the excess (also shown in Table 1.15). In April 1973 when the investment income surcharge was introduced age relief was abolished and the elderly were given the same exemption limit on investment income as all other taxpayers, though briefly, in financial years 1977-78 and 1978-79, a specially increased exemption was introduced for the elderly.

1.61 In addition to this relief to investment income an exemption for elderly people with small incomes was available from April 1957. Incomes below a limit (shown in Table 1.15) were exempt from income tax and a marginal relief was available for incomes slightly above the limit so that they should not be taxed any higher than the amount of tax they would have paid with income at the limit plus the marginal tax rate times the excess. This was abolished in April 1975 when the present system of age allowances was introduced but the new system was designed to have a similar effect.

### **Mortgage interest relief**

1.62 Until 6 April 2000 tax relief was available on loans for house-purchase (including caravans and houseboats) in the United Kingdom or Republic of Ireland provided that the property was used as the person's only or main residence. Relief was also available on home improvement loans, provided the loan was taken out before 6 April 1988. Mortgage interest relief was restricted to the basic rate in 1991-92, to 20 per cent from 1994-95, 15 per cent from 1995-96, and 10 per cent from 1998-99. It was abolished in April 2000.

1.63 For homeowners aged over 65, the interest on up to a further £30,000 of loans taken out before 9 March 1999 to buy an annuity also qualifies for tax relief, if secured on a main residence. The relief for annuities is at 23 per cent.

1.64 Before 6 April 1983 relief for mortgage interest was given through PAYE codings or tax assessments; but after then, for most borrowers, relief (other than higher rate relief) was given through the mortgage interest relief at source (MIRAS) scheme. Under the MIRAS scheme, the borrower made payments net of tax at the appropriate rate to the lender who then reclaimed the relief direct from the HMRC. Tax relief at higher rates of tax continued to be given through PAYE codings or tax assessment until April 1991 and relief for loans outside the MIRAS system is still given in this way.

1.65 Before 1974-75, there was no ceiling for mortgage interest relief. From 1974-1983 relief was limited to interest paid on loans up to £25,000. The ceiling has been £30,000 since 1983-84. Relief for mortgage interest was given through PAYE codings or tax assessment until 1983-84.

1.66 Before 1988-89 the ceiling applied to the loans of each tax unit: a married couple therefore shared a total ceiling of £30,000 whereas a separated, divorced or single person each had their own ceiling of £30,000, except where the mortgage was shared: in this case, a single limit of £30,000 per dwelling applied.

### Statutory indexation

1.67 Since 1977 there has been a statutory obligation to raise personal allowances and tax bands by at least the rate of inflation as measured by the Retail Prices Index during the twelve months to the September preceding the Budget. This was implemented by the Rooker - Wise amendment to the 1977 Finance Act. The following rounding conventions applied to the pre-independent taxation system from 1977:

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Single, married, aged single and aged married allowance	-	round increase up to nearest £10
Additional personal allowance and widow's bereavement allowance	-	Married allowance minus single allowance
Aged Income Limit	-	Round increase up to nearest £100
Thresholds	-	Round increase in band width up to nearest £100.

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The thresholds are then calculated by adding up the relevant bands. See current system for an example of how the rounding conventions are currently applied.

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1.68 From the November 1993 Budget onwards the statutory obligation to raise personal allowances was amended to the movement in the Retail Prices Index to the September preceding the tax year.

### Taxation of social security benefits

1.69 Originally most short-term benefits were liable to tax, but in 1949 they were exempted for administrative reasons. Successive governments have accepted that there is a strong argument for taxing them. As long as the benefits were exempt, those receiving them could be better off than other individuals with comparable income who were liable to tax.

1.70 Benefits paid to the unemployed and to people on strike were brought into tax from 5 July 1982<sup>6</sup>. Up to October 1996, the taxable benefits for the unemployed were:

- Unemployment Benefit (UB) for the claimant and the addition for dependent spouse; and
- Income Support (IS) - again for the claimant and dependent spouse - paid in lieu of Unemployment Benefit up to the rate of UB for the claimant and, where applicable, dependent spouse if, the UB rate exceeded the IS rate.

Additions to Unemployment Benefit and Income Support in respect of children were not taxable.

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<sup>6</sup> Prior to 5 July 1982, the unemployed who had paid tax earlier in the financial year could apply to the local tax office for refunds while unemployed. In practice they would receive such refunds at four weekly intervals.

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1.71 Where an Unemployment Benefit Office paid the benefit, no tax was deducted. Tax refunds or underpayments were made when the claimant's benefit claim finished (i.e. on re-entering paid employment) or at the end of the tax year, whichever was the earlier<sup>4</sup>. When the employer paid the benefit (e.g. during 'subsequent' method of taxation), freezing the claimant's tax position during unemployment and sorting it out after, was adopted so that in no case would claimants be taken below their minimum needs level by having tax deducted currently from benefit.

1.72 The same position held for those laid off during a strike or on short-time working; a striker cannot receive benefit on his or her own account, only for a dependant. Where a striker claimed Income Support for an adult dependant, the benefit was taxed. Again, however, Income Support paid for a child was outside the tax net. There were no PAYE refunds to strikers until the end of the strike. The tax on the Income Support would be collected by an adjustment to subsequent year's code.

1.73 Jobseeker's Allowance (JSA) replaced Unemployment Benefit and Income Support for unemployed people in October 1996.

### **Taxation of benefits-in-kind**

#### Company cars available for private use

- Up to 1993-94 the taxable value of company cars was based on one of 30 different scale charges that were dependent on the price, engine capacity and age of the car together with the number of business miles driven during the year. Between 1994-95 and 1998-99 the taxable value of company cars was based on 35 per cent of the list price (price of car and accessories less any capital contributions made by the taxpayer up to £5,000) of the company car. This value was reduced further to reflect both the age of the car and the amount of business mileage driven. (N.B. Business mileage does not include commuting.) Table 1.5 below shows the discounts available at different mileage/ age levels.

**Table 1.5: Discounts available at different mileage/ age levels for valuation of company cars**

<b>Business travel (in miles)</b>	<b>Cars under 4 years old</b>	<b>Cars over 4 years old</b>
Less than 2,500	NIL	1/3
2,500 to 17,999	1/3	5/9
over 18,000	2/3	7/9

- Between 1999-2000 and 2001-02 the taxable value of company cars was based on a percentage of the list price of the car, which varies with the number of business miles driven, with a one quarter discount for cars over four years old. Table 1.6 below shows the percentage of the car price charged.



**Table 1.6: Percentage of the car price charged for valuation of cars**  
**Percentage of the list price**

<b>Business travel (in miles)</b>	<b>Cars under 4 years old</b>	<b>Cars over 4 years old</b>
Less than 2,500	35%	26.25%
2,500 to 17,999	25%	18.75%
over 18,000	15%	11.25%

- Since 2002-03, the taxable value of company cars is based on a percentage of the list price (plus accessories) of the car that varies with the carbon dioxide (CO<sub>2</sub>) emissions of the vehicle. See paragraph 1.22 for full details of the current system.

Fuel for private use

- Up to 1997-98 the taxable value of free fuel for private use was based on one of six scale charges depending on the engine capacity of the car and the type of fuel used. From 1998-99 to 2002-03 the charges depend only on the engine capacity of the car.
- 2002-03 car fuel scales are shown below in Table 1.7.

**Table 1.7: Car fuel scale charge, 2002-03**

<b>Engine sizes (cc)</b>	<b>Fuel scale charge (£)</b> <b>2002-03</b>
<i>Petrol</i>	
0 - 1400	2,240
1401 - 2000	2,850
over 2000	4,200
<i>Diesel</i>	
0 - 2000	2,850
over 2000	4,200

Source: HM Revenue and Customs

- In 2003-04, a new fuel benefit charge was introduced, based on a percentage of £14,400. See paragraph 1.22 for full details.

Vans available for private use

- The private use of an employer provided van (including any fuel provided for private use) has incurred a scale charge of £500 from 1993-94 (£350 if the van is over 4 years old).

Beneficial loans

- Prior to 1994-95, if an employee received a loan, or enjoyed any form of credit by reasons of his employment, the benefit chargeable was the difference between the amount of interest payable using the official rate of interest and the actual interest paid. If the benefit was £200 or less up to 1990-91, or £300 up to 1993-94, or if the loan would have qualified for tax relief (e.g. a house purchase loan up to £30,000 for basic rate taxpayers only from 1991-92), no tax was charged. These rules changed in 1994-95 (see paragraph 1.22).

Section 1: Personal income tax

NICs treatment of benefits in kind

- Until April 2000, NICs were not liable on the majority of benefits in kind. The exceptions to this were company cars and fuel provided for private use, on which employer NICs (class 1a) were charged. As from April 2000, all taxable benefits not liable to class 1 NICs are liable to class 1a NICs, with the exception of nursery provision.

**Table 1.8: Definitions for tax/ benefit terminology**

	1948-49 to 1964-65	1965-66 to 1967-68	1968-69 to 1972-73	1973-74 to 1976-77	1976-77 onwards
Taxable Income	Income and family allowances <sup>1</sup> - NIC relief - earned income relief (or small income relief) wife's earned income relief - personal allowances - other deductions <sup>2</sup>	Income and family allowances <sup>1</sup> - earned income relief (or small income relief) - wife's earned income relief - personal allowances - other deductions <sup>2</sup>	Income and family allowances <sup>1</sup> - earned income relief (or small income relief) - wife's earned income relief - personal allowances - clawback - other deductions <sup>2</sup>	Income and family allowances <sup>1</sup> - personal allowances - clawback - other deductions <sup>2</sup>	Income and personal allowances - other deductions <sup>2</sup>
Surtaxable Income	Income and family allowances	Income and family allowances <sup>1</sup> - personal allowances in excess of a single man's allowance <sup>3</sup> - other deductions <sup>2</sup>	Income and family allowances <sup>1</sup> - NIC relief - single man's allowance <sup>3</sup> - other deductions <sup>2</sup>	Income and family allowances <sup>1</sup> - earned income relief - earnings allowance - personal allowances in excess of a single man's allowances <sup>3</sup> - other deductions <sup>2</sup>	Surtax abolished April 1973
Earned income for calculating income relief	Earnings and family allowances - NIC relief - other deductions <sup>2</sup>	Earnings and family allowances - other deductions <sup>2</sup>	Earnings and family allowances - other deductions <sup>2</sup>	Earnings and family allowances - other deductions <sup>2</sup>	Earned income relief abolished April 1973
Income calculating small Income relief	Income (including family allowances NIC relief) other deductions <sup>2</sup>	Income (including family allowances) - other deductions <sup>2</sup>	Income (including family allowances) - other deductions <sup>2</sup>	Income (including family allowances) - other deductions <sup>2</sup>	Small income relief abolished April 1973

<sup>1</sup> Family allowance would be surrendered if the amount of tax exceeds the amount of payment.

<sup>2</sup> Deductions differ between income tax, surtax, and the definition of income used for calculating earned income and small relief. The details are very complex but they cover such items as payments to pension and superannuation schemes, interest paid (after 1970-71 restricted to loans used to acquire certain assets including land and buildings and shares), retirement annuities and life assurance relief.

<sup>3</sup> Additional personal allowance was only taken into account for 1960-61 onwards and blind persons relief from 1962-63 onwards.

## C. HISTORICAL TABLES POST 1990

Table 1.9: Tax rates and allowances

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
<i>Standard rate (%)</i>	25.00	25.00	25.00	25.00 <sup>1</sup>	25.00 <sup>1</sup>	25.00 <sup>1</sup>	24.00 <sup>2</sup>
Standard rate band	20,700	23,700	23,700	23,700	23,700	24,300	25,500
Lower rate	-	-	20.00	20.00	20.00	20.00	20.00
Lower rate band	-	-	2,000	2,500	3,000	3,200	3,900
Higher rate	40.00	40.00	40.00	40.00	40.00	40.00	40.00
<i>Personal allowance</i>							
Basic allowance	3,005	3,295	3,445	3,445	3,445	3,525	3,765
Married Couple's Allowance	1,720	1,720	1,720	1,720	1,720 <sup>4</sup>	1,720 <sup>5</sup>	1,790 <sup>5</sup>
Single parent's additional personal allowance	1,720	1,720	1,720	1,720	1,720 <sup>4</sup>	1,720 <sup>5</sup>	1,790 <sup>5</sup>
Blind person's allowance <sup>7</sup>	1,080	1,080	1,080	1,080	1,200	1,200	1,250
Widow's Bereavement Allowance <sup>8</sup>	1,720	1,720	1,720	1,720	1,720 <sup>4</sup>	1,720 <sup>5</sup>	1,790 <sup>5</sup>
<i>Child Benefit - financial year average (see Table 1.11) non-taxable</i>							
1st child	7.25	8.75 <sup>9</sup>	9.65	10.00	10.20	10.40	10.80
2nd and subsequent children	7.25	7.37 <sup>9</sup>	7.80	8.10	8.25	8.45	8.80
One parent benefit	5.60	5.60	5.85	6.05	6.15	6.30	6.30
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<i>Standard rate (%)</i>	23.00 <sup>2</sup>	23.00 <sup>2</sup>	23.00 <sup>3</sup>	22.00 <sup>3</sup>	22.00 <sup>3</sup>	22.00 <sup>3</sup>	22.00 <sup>3</sup>
Standard rate band	26,100	27,100	28,000	28,400	29,400	29,900	30,500
Lower rate	20.00	20.00	10.00	10.00	10.00	10.00	10.00
Lower rate band	4,100	4,300	1,500	1,520	1,880	1,920	1,960
Higher rate	40.00	40.00	40.00	40.00	40.00	40.00	40.00
<i>Personal allowance</i>							
Basic allowance	4,045	4,195	4,335	4,385	4,535	4,615	4,615
Married Couple's Allowance	1,830 <sup>5</sup>	1,900 <sup>5</sup>	1,970 <sup>6</sup>	-	-	-	-
Single parent's additional personal allowance	1,830 <sup>5</sup>	1,900 <sup>5</sup>	1,970 <sup>6</sup>	-	-	-	-
Blind person's allowance <sup>7</sup>	1,280	1,330	1,380	1,400	1,450	1,480	1,510
Widow's Bereavement Allowance <sup>8</sup>	1,830 <sup>5</sup>	1,900 <sup>5</sup>	1,970 <sup>6</sup>	2000 <sup>8</sup>	8	8	8
<i>Child Benefit - financial year average (see Table 1.11) non-taxable</i>							
1st child	11.05	11.45	14.40	15.00	15.50	15.75	16.05
2nd and subsequent children	9.00	9.30	9.60	10.00	10.35	10.55	10.75
One parent benefit	-	-	-	-	-	-	-
Child Benefit (lone parent) <sup>10</sup>	17.10	17.10	17.10	17.55	17.55	17.55	17.55
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
<i>Standard rate (%)</i>	22.00 <sup>3</sup>	22.00 <sup>3</sup>	22.00 <sup>3</sup>	22.00 <sup>3</sup>	20.00 <sup>3</sup>	20.00 <sup>3</sup>	
Standard rate band	31,400	32,400	33,300	34,600	34,800	37,400	
Lower rate	10.00	10.00	10.00	10.00	11	11	
Lower rate band	2,020	2,090	2,150	2,230	11	11	
Higher rate	40.00	40.00	40.00	40.00	40.00	40.00	
<i>Personal allowance</i>							
Basic allowance	4,745	4,895	5,035	5,225	6,035	6,475	
Personal Allowance (PA) (65 - 74)	6,830	7,090	7,280	7,550	9,030	9,490	
Personal Allowance (PA) (75+)	6,950	7,220	7,420	7,690	9,180	9,640	
Married Couples Allowance (MCA) (65 - 74)	5,725	5,905	6,065	6,285	6,535	6,865	
Married Couples Allowance (MCA) (75+)	5,795	5,975	6,135	6,365	6,625	6,965	
Blind person's allowance <sup>7</sup>	1,560	1,610	1,660	1,730	1,800	1,890	
<i>Child Benefit - financial year average (see Table 1.11) non-taxable</i>							
1st child	16.50	17.00	17.45	18.10	18.80	20.00	
2nd and subsequent children	11.50	11.40	11.70	12.10	12.55	13.20	
One parent benefit	-	-	-	-	-	-	
Child Benefit (lone parent) <sup>10</sup>	17.55	17.55	17.55	-	-	-	

<sup>1</sup> The basic rate of tax on dividends was 20 per cent.<sup>2</sup> The basic rate of tax on dividends and savings income was 20 per cent.<sup>3</sup> The basic rate of tax on dividend income is 10 per cent, the higher rate for dividend income is 32.5 per cent.<sup>4</sup> Allowance available at a flat rate of 20 per cent.<sup>5</sup> Allowance available at a flat rate of 15 per cent.<sup>6</sup> Allowance available at a flat rate of 10 per cent.<sup>7</sup> Married couples where both spouses are blind receive double these allowances.<sup>8</sup> Covers the year of husband's death and following year. Widows whose spouse died in 1999-00 get £2,000 in 2000-01. This allowance was withdrawn for deaths occurring after 5th April 2000.<sup>9</sup> £8.25/£7.25 from April 1991, £9.25/£7.50 from October 1991.<sup>10</sup> Applies only for existing claimants and the reserved rights cases before 6th July 1998 e.g. Income Support Lone Parents.<sup>11</sup> The 10% lower rate of tax applies to savings income only up to £2,320 in 2008-09

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**Table 1.10a: Child Benefit rates**

	£ per week				No. of children in family			
	Amount for first child	Amount for subsequent children	Single parent family first child premium (One Parent Benefit)	Child Benefit (Lone Parent) <sup>1</sup>	1	2	3	4
09-Apr-90	7.25	7.25	5.60	-	7.25	14.50	21.75	29.00
08-Apr-91	8.25	7.25	5.60	-	8.25	15.50	22.75	30.00
07-Oct-91	9.25	7.50	5.60	-	9.25	16.75	24.25	31.75
06-Apr-92	9.65	7.80	5.85	-	9.65	17.45	25.25	33.05
12-Apr-93	10.00	8.10	6.05	-	10.00	18.10	26.20	34.30
11-Apr-94	10.20	8.25	6.15	-	10.20	18.45	26.70	34.95
10-Apr-95	10.40	8.45	6.30	-	10.40	18.85	27.30	35.75
08-Apr-96	10.80	8.80	6.30	-	10.80	19.60	28.40	37.20
Apr-97	11.05	9.00	-	17.10	11.05	20.05	29.05	38.05
Apr-98	11.45	9.30	-	17.10	11.45	20.75	30.05	39.35
Apr-99	14.40	9.60	-	17.10	14.40	24.00	33.60	43.20
Apr-00	15.00	10.00	-	17.55	15.00	25.00	35.00	45.00
Apr-01	15.50	10.35	-	17.55	15.50	25.85	36.20	46.55
Apr-02	15.75	10.55	-	17.55	15.75	26.30	36.85	47.40
Apr-03	16.05	10.75	-	17.55	16.05	26.80	37.55	48.30
Apr-04	16.50	11.05	-	17.55	16.50	27.55	38.60	49.65
Apr-05	17.00	11.40	-	17.55	17.00	28.40	39.80	51.20
Apr-06	17.45	11.70	-	17.55	17.45	29.15	40.85	52.55
Apr-07	18.10	12.10	-	-	18.10	30.20	42.30	54.40
Apr-08	18.80	12.55	-	-	18.80	31.35	43.90	56.45
Apr-09	20.00	13.20	-	-	20.00	33.20	46.40	59.60

<sup>1</sup> Applies only for existing claimants and the reserved rights cases before 6 July 1998 e.g. Income Support Lone Parents.

**Table 1.10b: Child Benefit (£ per week) - financial year average rates<sup>1</sup>**

	£ per week				No. of children in family			
	Amount for first child	Amount for subsequent children	Single parent family first child premium (One Parent Benefit)	Child Benefit (Lone Parent) <sup>2</sup>	1	2	3	4
1990-91	7.25	7.25	5.60	-	7.25	14.50	21.75	29.00
1991-92	8.75 <sup>3</sup>	7.37 <sup>3</sup>	5.60	-	8.75	16.12	23.49	30.86
1992-93	9.65	7.80	5.85	-	9.65	17.45	25.25	33.05
1993-94	10.00	8.10	6.05	-	10.00	18.10	26.20	34.30
1994-95	10.20	8.25	6.15	-	10.20	18.45	26.70	34.95
1995-96	10.40	8.45	6.30	-	10.40	18.85	27.30	35.75
1996-97	10.80	8.80	6.30	-	10.80	19.60	28.40	37.20
1997-98	11.05	9.00	-	17.10	11.05	20.05	29.05	38.05
1998-99	11.45	9.30	-	17.10	11.45	20.75	30.05	39.35
1999-00	14.40	9.60	-	17.10	14.40	24.00	33.60	43.20
2000-01	15.00	10.00	-	17.55	15.00	25.00	35.00	45.00
2001-02	15.50	10.35	-	17.55	15.50	25.85	36.20	46.55
2002-03	15.75	10.55	-	17.55	15.75	26.30	36.85	47.40
2003-04	16.05	10.75	-	17.55	16.05	26.80	37.55	48.30
2004-05	16.50	11.05	-	17.55	16.50	27.55	38.60	49.65
2005-06	17.00	11.40	-	17.55	17.00	28.40	39.80	51.20
2006-07	17.45	11.70	-	17.55	17.45	29.15	40.85	52.55
2007-08	18.10	12.10	-	-	18.10	30.20	42.30	54.40
2008-09	19.10 <sup>4</sup>	12.71 <sup>4</sup>	-	-	19.10	31.81	44.53	57.24
2009-10	20.00	13.20	-	-	20.00	33.20	46.40	59.60

<sup>1</sup> Calculated by weighting each rate in force in the financial year by the number of weeks it was in force for.

<sup>2</sup> Applies only for existing claimants and the reserved rights cases before 6 July 1998 e.g. Income Support Lone Parents.

Abolished 2007-08

<sup>3</sup> £8.25/£7.25 from April 1991, £9.25/£7.50 from October 1991.

<sup>4</sup> £18.80/£12.55 from April 2008, £20.00/£13.20 from January 2009.

**Table 1.11: Tax advantages for the elderly**

	Age Allowance				Income limit for Age Allowance <sup>1</sup>
	Personal		Personal plus married couple's <sup>2</sup>		
	Age 65-74 <sup>3</sup>	75 and over	Age 65-74 <sup>3</sup>	75 and over	
1990-91	3,670	3,820	5,815	6,005	12,300
1991-92	4,020	4,180	6,375	6,575	13,500
1992-93	4,200	4,370	6,665	6,875	14,200
1993-94	4,200	4,370	6,665	6,875	14,200
1994-95	4,200	4,370	6,865	7,075	14,200
1995-96	4,630	4,800	6,876	7,076	14,600
1996-97	4,910	5,090	7,246	7,456	15,200
1997-98	5,220	5,400	7,609	7,819	15,600
1998-99	5,410	5,600	7,889	8,109	16,200
1999-00	5,720	5,980	8,796	9,086	16,800
2000-01 <sup>3</sup>	5,790	6,050	8,976	9,268	17,000
2001-02 <sup>3</sup>	5,990	6,260	9,455	9,756	17,600
2002-03 <sup>3</sup>	6,100	6,370	9,632	9,934	17,900
2003-04 <sup>3</sup>	6,610	6,720	10,209	10,350	18,300
2004-05	6,830	6,950	12,555	12,745	18,900
2005-06	7,090	7,220	12,995	13,195	19,500
2006-07	7,280	7,420	13,345	13,555	20,100
2007-08	7,550	7,690	13,835	14,055	20,900
2008-09	9,030	9,180	15,565	15,805	21,800

<sup>1</sup> For those with incomes above this limit the difference between the age allowances and ordinary personal allowances is reduced by £2 per additional £3 of income (£1 per additional £2 since 1989). Thus at a certain point the difference between the age allowance and the ordinary personal allowance disappears. This is known as the run out point. This means that the marginal tax rate for someone with income in the withdrawal band will fall from nearly 42 per cent in 1988-89 to 36 per cent in 1996-97.

<sup>2</sup> The Married Couple's Allowance was restricted to 20 per cent in 1994-95, 15 per cent from 1995-96, and 10 per cent from 1999-00. (In 1995-96 the threshold was calculated as  $4630 + (15/20 \times 2995) = 6876.25$ ). In 1999-2000, 2000-2001 and 2001-2002. The calculation takes account of the changes to the allowances and the 10p starting rate which a person pays tax with an MCA. Budget 1999 abolished MCA for those born on or after 6 April 1935 (i.e. aged 65 or over on 5 April 2000) from April 2000.

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**Table 1.12: Cumulative income tax tables**

	Taxable Income		Tax rate for band (%)	Tax Bill for Band	
	£ per annum	£ per week		£ per annum	£ per week
1990-91	0 - 20,700	398.07	25	5,175	99.52
	Over 20,700		40		
1991-92	0 - 23,700	455.77	25	5,925	113.94
	Over 23,700		40		
1992-93	0 - 2,000	38.46	20	400	7.69
	2,000 - 23,700	455.77	25	5,425	104.33
	Over 23,700		40		
1993-94	0 - 2,500	48.07	20	500	9.62
	2,500 - 23,700	455.77	25	5,300	101.92
	Over 23,700		40		
1994-95	0 - 3,000	57.69	20	600	11.54
	3,000 - 23,700	455.77	25	5,175	99.52
	Over 23,700		40		
1995-96	0 - 3,200	61.54	20	640	12.31
	3,200 - 24,300	467.31	25	5,275	101.44
	over 24,300		40		
1996-97	0 - 3,900	75.00	20	780	15.00
	3,900-25,500	490.38	24	5,184	99.69
	over 25,500		40		
1997-98	0 - 4,100	78.85	20	820	15.77
	4,100 - 26,100	501.92	23	5,060	97.31
	over 26,100		40		
1998-99	0 - 4,300	82.69	20	860	16.54
	4,301-27,100	521.15	23	5,244	100.85
	over 27,000		40		
1999-00	0 - 1,500	28.85	10	150	2.88
	1,500-28,000	538.46	23	6,095	117.21
	over 28,000		40		
2000-01	0 - 1,520	29.23	10	152	2.92
	1,520-28,400	546.15	22	5,914	113.72
	over 28,400		40		
2001-02	0 - 1,880	36.15	10	188	3.62
	1,880-29,400	565.38	22	6,054	116.43
	over 29,400		40		
2002-03	0 - 1,920	36.92	10	192	3.69
	1,920-29,900	575.00	22	6,156	118.38
	over 29,900		40		
2003-04	0 - 1,960	37.69	10	196	3.77
	1,960-30,500	586.54	22	6,279	120.75
	over 30,500		40		
2004-05	0 - 2,020	38.85	10	202	3.88
	2,020-31,400	565.00	22	6,464	124.30
	over 31,400		40		
2005-06	0 - 2,090	40.19	10	209	4.02
	2,090-32,400	582.88	22	6,668	128.23
	over 32,400		40		
2006-07	0 - 2,150	41.34	10	215	4.13
	2,150-33,300	640.38	22	6,853	131.79
	over 33,300		40		
2007-08	0 - 2,230	42.88	10	223	4.29
	2,230-34,600	665.38	22	7,121	136.95
	over 34,600		40		
2008-09	0 - 34,800	669.23	20	6,960	133.85
	over 34,800		40		

## D. HISTORICAL TABLES PRE-1990

Table 1.13: Tax Rates and Allowances

	1948-50	1950-51	1951-52	1952-53	1953-55	1955-57	1957-59	1959-60	1960-61
Standard rate %	45.00	45.00	47.50	47.50	45.00	45.00	42.50	38.75	38.75
<i>Reduced rates (apply to each of taxpayer's own income and wife's earnings)</i>									
lowest rate (%)	15.00	12.50	15.00	15.00	12.50	11.25	11.25	8.75	8.75
band width (£)	50	50	50	100	100	60	60	60	60
second rate (%)	30.00	25.00	27.50	27.50	25.00	23.75	23.75	21.25	21.25
band width (£)	200	200	200	150	150	150	150	150	150
third rate (%)	-	-	-	37.50	35.00	33.75	33.75	31.25	31.25
band width (£)	-	-	-	150	150	150	150	150	150
<i>Earned Income Relief</i>									
First £2,000	1/5	1/5	1/5	-	-	-	-	-	-
First £2,025	-	-	-	2/9	2/9	2/9	-	-	-
First £4,005	-	-	-	-	-	-	2/9	2/9	2/9
Next £5,940	-	-	-	-	-	-	-	1/9	1/9
Maximum (£)	400	400	400	450	450	450	450	1,550	1,550
<i>Small Income Relief</i>									
Rate of allowance	-	-	-	2/9	2/9	2/9	2/9	2/9	2/9
Applicable on income up to	-	-	-	250	250	300	300	300	300
Marginal relief - rate of tax on excess	-	-	-	40%	40%	45%	45%	40%	40%
Up to income of	-	-	-	350	350	400	400	400	405
<i>Wife's Earned Income Relief</i>									
Fraction:	4/5	4/5	4/5	7/9	7/9	7/9	7/9	7/9	7/9
Maximum (£):	110	110	110	120	120	140	140	140	140
<i>National Insurance Contribution Relief<sup>1</sup></i>									
Employed man over 18 (£)	6-8 <sup>2</sup>	8	8	9	9	11-12 <sup>2</sup>	12-13 <sup>2</sup>	13	13
<i>Personal Allowances</i>									
Single	110	110	110	120	120	140	140	140	140
Married	180	180	190	210	210	240	240	240	240
Each Child: Under 11	-	-	-	-	-	-	100	100	100
11 - 15	60	60	70	85	85	100	125	125	125
Over 16	-	-	-	-	-	-	-	150	150
Housekeeper, or dependent relative <sup>3</sup>	50	50	50	50	60	60	60	60	75
limit of relative's income <sup>3</sup>	70	70	80	80	85	105	105-135 <sup>4</sup>	135	135
<i>Family Allowances (£ per week)</i>									
<i>- taxable as earned income</i>									
1st child	-	-	-	-	-	-	-	-	-
2nd child	0.25	0.25	0.25	0.34	0.40	0.40	0.40	0.40	0.40
3rd and subsequent children	0.25	0.25	0.25	0.34	0.40	0.40-0.45 <sup>5</sup>	0.50	0.50	0.50

Notes shown at end of table

Continued...

## Section 1: Personal income tax

**Table 1.13: Tax Rates and Allowances - continued**

	1961-63	1963-65	1965-68	1968-69	1969-70	1970-71	1971-72	1972-73
Standard rate %	38.75	38.75	41.25	41.25	41.25	41.25	38.75	38.75
<i>Reduced rates (apply to each of taxpayer's own income and wife's earnings)</i>								
lowest rate (%)	8.75	20.00	20.00	20.00	30.00	-	-	-
band with (£)	60	100	100	100	260	-	-	-
second rate (%)	21.25	30.00	30.00	30.00	-	-	-	-
band width (£)	150	200	200	200	-	-	-	-
third rate (%)	31.25	-	-	-	-	-	-	-
band width (£)	150	-	-	-	-	-	-	-
<i>Earned Income Relief</i>								
First £4,005	2/9	2/9	2/9	2/9	2/9	2/9	2/9	2/9
Next £5,940	1/9	1/9	1/9	1/9	1/9	1/9	15%	15%
Remainder	-	-	-	-	-	-	15%	15%
Maximum (£)	1,550	1,550	1,550	1,550	1,550	1,550	-	-
<i>Small Income Relief</i>								
Rate of allowance	2/9	2/9	2/9	2/9	2/9	2/9	2/9	2/9
Applicable on income up to	300(400) <sup>6</sup>	450	450	450	450	450	450	550
Marginal relief - rate of tax on excess	40(50)% <sup>6</sup>	50%	50%	50%	50%	55%	52.5%	52.5%
Up to income of (£)	405(550) <sup>6</sup>	680	705	705	710	750	750	805
<i>Wife's Earned Income Relief</i>								
Fraction:	7/9	7/9	7/9	7/9	7/9	7/9	7/9	7/9
Maximum (£):	140	200	220	220	255	325	325	460
<i>National Insurance Contribution Relief<sup>1</sup></i>								
Employee	18	22	-	-	-	-	-	-
Self-employed <sup>1</sup> - male	23	27	-	-	-	-	-	-
- female	19	22	-	-	-	-	-	-
<i>Personal allowances</i>								
Single	140	200	220	220	255	325	325	460
Married	240	320	340	340	375	465	465	600
Single Parent's additional allowance	-	-	-	-	100	100	100	100
Each Child: Under 11	100	115	115	115	115	115	155	155
11 - 15	125	140	140	140	140	140	180	180
Over 16	150	165	165	165	165	165	205	205
Housekeeper, or dependent relative <sup>3</sup>	75	75	75	75	75	75	75	75
limit of relative's income <sup>3</sup>	155	180	210 <sup>8</sup>	235	245	260	289	312
Blind Person's Allowance <sup>9</sup>	100 <sup>9</sup>	100	100	100	100	100	100	100
<i>Family Allowance (FAM) - £ per week</i>								
- taxable as earned income								
1st child:	-	-	-	-	-	-	-	-
2nd child:	0.40	0.40	0.40	0.83	0.90	0.90	0.90	0.90
3rd and subsequent children:	0.50	0.50	0.50	0.93	1.00	1.00	1.00	1.00
<i>Clawback £ (Reduction of personal reliefs for each child for whom FAM received)</i>								
Whole year	-	-	-	-	-	42	42	42
First half-year	-	-	-	15	21	-	-	-
Second half-year	-	-	-	21	21	-	-	-

Notes shown at end of table

Continued...



## Section 1: Personal income tax

**Table 1.13: Tax Rates and Allowances - continued**

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
<i>Standard rate %</i>	30.00	33.00	35.00	35.00	34.00	33.00	30.00	30.00
<i>Reduced rates</i> (apply to <u>each</u> of first £750 taxpayer's own income and wife's earnings)	-	-	-	-	-	25.00	25.00	-
<i>Investment Income Surcharge</i>								
Standard rate of 15% above:								
under 65's	2,000	2,000	2,000	2,000	2,000	2,250	-	-
65's and over	2,000	2,000	2,000	2,000	2,500	3,000	5,000	5,500
Reduced rate of 10% above:								
under 65's	-	1,000	1,000	1,000	1,500	1,700	-	-
65's and over	-	1,500	1,500	1,500	2,000	2,500	-	-
<i>Personal allowance</i>								
Single	595	625	675	735	945	985	1,165	1,375
Married	775	865	955	1,085	1,455	1,535	1,815	2,145
Single parent's additional allowance	180	180	280	350	510	550	650	770
Each Child: Under 11	200	240	240	300	170	100	-	-
11 - 15	235	275	275	335	205	135	-	-
Over 16	265	305	305	365	235	165	-	-
1st Child Additional Relief	-	-	-	-	26	-	-	-
Housekeeper, or dependent relative <sup>3</sup>	100	100	100	100	100	100	100	100
<i>maintained by single women</i>	-	-	-	-	-	145	145	145
<i>limit of relative's income</i> <sup>3</sup>	378	480	637	731	839	950	1090	1284
Blind Person's Allowance <sup>9</sup>	130	130	180	180	180	180	180	180
Widow's bereavement allowance <sup>10</sup>	-	-	-	-	-	-	-	770
<i>Family Allowance</i>								
- taxable								
1st child (£ per week):	-	-	-	-	-	-	-	-
2nd child:	0.90	0.90	1.50	1.50	-	-	-	-
3rd and subsequent children:	1.00	1.00	1.50	1.50	-	-	-	-
1st child of single parent	-	-	-	1.50	-	-	-	-
<i>Clawback</i> £ (Reduction of personal reliefs for each child for whom FAM received)								
£ per annum	60	52	52	52	-	-	-	-
<i>Child Benefit</i> - financial year average (see Table 1.15)								
- non taxable								
1st child	-	-	-	-	1.00	2.57	4.00	4.27
2nd and subsequent children	-	-	-	-	1.50	2.57	4.00	4.27
One Parent Benefit <sup>11</sup>	-	-	-	-	0.50	1.38	2.20	2.68

Notes shown at end of table

Continued...

## Section 1: Personal income tax

**Table 1.13: Tax rates and allowances - continued**

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
<b>Standard rate %</b>	30.00	30.00	30.00	30.00	30.00	29.00	27.00	25.00	25.00
<i>Investment income surcharge</i>									
Standard rate of 15% above	5,500	6,250	7,100 <sup>12</sup>	-	-	-	-	-	-
<i>Personal allowance</i>									
Single	1,375	1,565	1,785	2,005	2,205	2,335	2,425	2,605	2,785
Married	2,145	2,445	2,795	3,155	3,455	3,655	3,795	4,095	4,375
Single parent's additional allowance	770	880	1,010	1,150	1,250	1,320	1,370	1,490	1,590
Housekeeper, or dependent relative <sup>3</sup>	100	100	100	100	100	100	100	-	-
<i>maintained by single women</i>	145	145	145	145	145	145	145	-	-
<i>limit of relative's income<sup>3</sup></i>	1,458	1,600	1,731	1,803	1,909	2,006	2,054	-	-
Blind Person's Allowance <sup>9</sup>	360	360	360	360	360	360	540	540	540
Widow's bereavement allowance <sup>10</sup>	770	880	1,010	1,150	1,250	1,320	1,370	1,490	1,590
<i>Child Benefit - financial year average (see Table 1.15)</i>									
- non taxable									
1st child	4.93	5.47	6.09	6.63	6.90	7.07	7.25	7.25	7.25
2nd and subsequent children	4.93	5.47	6.09	6.63	6.90	7.07	7.25	7.25	7.25
One Parent Benefit <sup>11</sup>	3.11	3.43	3.80	4.12	4.36	4.58	4.70	4.90	5.20

<sup>1</sup> Up to, and including, 1964-65, this relief was available to those paying NIC's. Until 1960-61, it was deducted from income before calculation of earned income relief or small income relief; thereafter NIC relief was deducted after deduction of EIR or SIR.

<sup>2</sup> £6 in 1948-49; £8 in 1949-50; £11 in 1955-56; £12 in 1956-57 and 1957-58; and £13 in 1958-59.

<sup>3</sup> 'Dependent relative' excludes the case of a daughter maintained (as housekeeper) by an invalid taxpayer, for which a smaller allowance (£25 from 1948-49 to 1952-53, £40 from 1953-54 to 1972-73, and £55 since 1973-74) was available, and, after 1967-68 that of a single women taxpayer maintaining a dependent relative (for whom the allowance was £110 to 1972-73, and £145 since). Where the relative's income exceeds the limit, the allowance is reduced by the excess - since 1973-74 the limit has been the amount of the single person's basic retirement pension payable in the tax year. There are also special personal reliefs for those over pension age (see Table 1.17). Life assurance premiums were relieved at a rate of two-fifths of premiums (one-half from 1973-74) (or in full up to £10, and thereafter £10 or two-fifths (one-half) whichever was the greater) until 1978-79. In 1979-80 and 1980-81, 17½ per cent of premiums has been rebated by life assurance companies at source. The rate of relief was reduced to 15 per cent from 1981-82, and to 12½ per cent from 1989-90. Life Assurance Premium Relief (LAPR) was withdrawn from new qualifying life insurance contracts made after midnight on 13 March 1984, but it continues to force in respect of life contracts already in existence unless the policy terms are altered.

<sup>4</sup> £105 in 1957-58, £135 in 1958-59.

<sup>5</sup> 0.40 in 1955-56, 0.45 in 1956-57 see Table 1.14 for details.

<sup>6</sup> The figures in brackets refer to 1962-63.

<sup>7</sup> Reliefs for a person not in employment but paying NIC's were £1 lower than the reliefs for the self-employed. Rates for under 18s, employed, self-employed and non-employed were between £8 and £12 lower.

<sup>8</sup> £221 in 1967-68.

<sup>9</sup> Introduced in 1962-63. Married couples where both spouses are blind receive double these allowances.

<sup>10</sup> This relief, for widows in the year of the husband's death, was introduced in 1980-81, and extended in 1983-84 to cover, additionally, the year after the husband's death.

<sup>11</sup> Paid to single person as a premium in respect of first dependent child. Must be claimed with Child Benefit.

<sup>12</sup> Investment income surcharge (IIS) abolished from 1984-85.

**Table 1.14: Rates of surtax<sup>1</sup>**

				Years 1948-49 to 1971-72 (except 1965-66)		1965-66 and 1972-73	
First	£ 2,000				Nil		Nil
Next	£ 500	up to £ 2,500	at		10.0% <sup>2 3</sup>		11.00% <sup>3</sup>
Next	£ 500	up to £ 3,000	at		12.5% <sup>2 3</sup>		13.75% <sup>3</sup>
Next	£ 1,000	up to £ 4,000	at		17.5% <sup>3</sup>		19.25% <sup>3</sup>
Next	£ 1,000	up to £ 5,000	at		22.5%		24.75%
Next	£ 1,000	up to £ 6,000	at		27.5%		30.25%
Next	£ 2,000	up to £ 8,000	at		32.5%		35.75%
Next	£ 2,000	up to £10,000	at		37.5%		41.25%
Next	£ 2,000	up to £12,000	at		42.5%		46.75%
Next	£ 3,000	up to £15,000	at		47.5%		52.25%
Next	£ 5,000	up to £20,000	at		50.0%		55.00%
Above	£20,000				50.0% <sup>4</sup>		55.00%

<sup>1</sup> For definition of surtaxable income see Table 1.8.

<sup>2</sup> For 1969-70 and 1970-71 surtaxable incomes below £2,500 were exempt from surtax but above that level the whole schedule applied so that tax was paid on all surtaxable income above £2,000. However, marginal relief was available to prevent a large jump in taxable liability at £2,500 whereby incomes between £2,500 and £2,681 were charged at 40 per cent of the excess over £2,500.

<sup>3</sup> For 1971-72 and 1972-73 incomes below £3,000 were exempt from surtax. Marginal relief was available for surtaxable incomes in the range £3,000 to £3,499 whereby tax was only charged at 40 per cent (44 per cent in 1972-73) of the excess over £3,000.

<sup>4</sup> 52.5 per cent 1948-49 to 1950-51.

**Table 1.15: Joint income at which wife's earnings election was advantageous**

1986-87		1987-88		1988-89		1989-90	
A Combined Gross Income	B Wife's earnings	A Combined Gross income	B Wife's earnings	A Combined Gross income	B Wife's earnings	A Combined Gross income	B Wife's earnings
26,521	6,986 - 19,535	26,870	6,545 - 20,325	28,484	6,579 - 21,905	30,510	7,025 - 23,485
30,000	6,048 - 23,952	30,000	5,851 - 24,149	30,000	6,579 - 23,451	35,000	7,025 - 27,975
35,000	5,478 - 29,522	35,000	5,404 - 29,596	35,000	6,579 - 28,421	40,000	7,025 - 32,975
40,000	5,309 - 34,691	40,000	5,299 - 34,701	40,000	6,579 - 33,421	45,000	7,025 - 37,975
45,000	5,128 - 39,872	45,000	5,117 - 39,883	45,000	6,579 - 38,421		
48,425	>=4890 <sup>1</sup>	48,541	>=4,916 <sup>2</sup>				

<sup>1</sup> Provided other income (husband's income plus wife's investment income) is also at least £4,890.

<sup>2</sup> Provided other income (husband's income plus wife's investment income) is also at least £4,916.

Note: If combined income (before deduction of reliefs or personal allowance) is the figure in Column A then wife's income must normally be within the range quoted in B for election to be worthwhile.

Under Independent Taxation since 1990-91, there is no wife's earnings election as married women will automatically have all their income taxed separately from their husband's income.

Section 1: Personal income tax

Table 1.16: Tax Advantages For The Elderly

	Age Relief <sup>1</sup>			Elderly persons with small incomes- exemption <sup>2</sup>			
	Rate of Allowance	Applicable on income up to	Marginal relief Rate of Tax on excess	Exemption if income not above		Marginal relief on excess up to	Tax is limited to (of excess)
				Single	Married		
1948-49	1/5	500	62.50%				
1949-50	1/5	500	62.50%				
1950-51	1/5	500	62.50%				
1951-52	1/5	500	62.50%				
1952-53	2/9	500	62.50%				
1953-54	2/9	600	62.50%				
1954-55	2/9	600	62.50%				
1955-56	2/9	600	60.00%				
1956-57	2/9	600	60.00%				
1957-58	2/9	700	60.00%	250	400	50	50.0%
1958-59	2/9	800	60.00%	275	440	55	50.0%
1959-60	2/9	800	55.00%	275	440	55	45.0%
1960-61	2/9	800	55.00%	275	440	55	45.0%
1961-62	2/9	800	55.00%	275	440	55	45.0%
1962-63	2/9	800	55.00%	300	480	75	45.0%
1963-64	2/9	900	55.00%	325	520	130	45.0%
1964-65	2/9	900	55.00%	360	575	160	45.0%
1965-66	2/9	900	55.00%	390	625	180	45.0%
1966-67	2/9	900	55.00%	390	625	230	45.0%
1967-68	2/9	900	55.00%	401	643	265	45.0%
1968-69	2/9	900	55.00%	415	665	255	45.0%
1969-70	2/9	1,000	55.00%	425	680	330	45.0%
1970-71	2/9	1,000	55.00%	475	740	225	50.0%
1971-72	2/9	1,000 (Single) 1,200 (Married)	55.00%	504	786	330	47.5%
1972-73	2/9	1,000 (Single) 1,200 (Married)	55.00%	639	929	245	50.0%
1973-74		Relief abolished		700	1,000	340	50.0%
1974-75				810	1,170	565	55.0%
1975-76					Exemption abolished		

	Age allowance		Income Limit for Age Allowance <sup>3</sup>	
	Single	Married	Single	Married
1975-76	950	1,425		3,000
1976-77	1,010	1,555		3,250
1977-78	1,250	1,975		3,500
1978-79	1,300	2,075		4,000
1979-80	1,540	2,455		5,000
1980-81	1,820	2,895		5,900
1981-82	1,820	2,895		5,900
1982-83	2,070	3,295		6,700
1983-84	2,360	3,755		7,600
1984-85	2,490	3,955		8,100
1985-86	2,690	4,255		8,800
1986-87	2,850	4,505		9,400
	<b>Under 80</b>	<b>Over 80</b>	<b>Under 80</b>	<b>Over 80</b>
1987-88	2,960	3,070	4,675	4,845
1988-89	3,180	3,310	5,035	5,205
	<b>Age 65-74</b>	<b>75 and Over</b>	<b>Age 65-74</b>	<b>75 and over</b>
1989-90	3,400	3,540	5,385	5,565
				11,400

<sup>1</sup> Age relief was granted instead of earned income relief to persons aged 65 or over at any time in the tax year, on their total income (earned and unearned) if it did not exceed the amount in the second column above. On total incomes in excess of these, marginal relief was granted in that the maximum tax was calculated as the amount of tax paid on the income shown in column 2 plus tax at the rate shown in the third column of the excess.

<sup>2</sup> Incomes are exempt from tax if below the exemption limit (shown in fourth and fifth column above). Incomes which exceed these by not more than the excess (shown in the sixth column) are subject to marginal relief and tax cannot exceed the marginal rate (shown in the seventh column) times the excess.

<sup>3</sup> For those with incomes above this limit the difference between the age allowances and ordinary personal allowances is reduced by £2 per additional £3 of income (£1 per additional £2 since 1989). Thus at a certain point the difference between the age allowance and the ordinary personal allowance disappears. This is known as the run out point. This means that the marginal tax rate for someone with income in the withdrawal band will fall from nearly 42 per cent in 1988-89 to 36 per cent in 1996-97.

Section 1: Personal income tax

**Table 1.17: Cumulative income tax tables**

	Taxable Income		Tax Rate for band (%)	Tax Bill for Band		Cumulative tax bill	
	£ per annum	£ per week		£ per annum	£ per week	£ per annum	£ per week
1973-74	up to 5,000	96.15	30	1,500	28.85	1,500	28.85
	5,000 - 6,000	115.38	40	400	7.69	1,900	36.54
	6,000 - 7,000	134.61	45	450	8.65	2,350	45.19
	7,000 - 8,000	153.85	50	500	9.62	2,850	54.81
	8,000 - 10,000	192.31	55	1,100	21.15	3,950	75.96
	10,000 - 12,000	230.77	60	1,200	23.08	5,150	99.04
	12,000 - 15,000	288.46	65	1,950	37.50	7,100	136.54
	15,000 - 20,000	384.62	70	3,500	67.31	10,600	203.85
	Over 20,000		75				
1974-75	Up to 4,500	86.54	33	1,485	28.56	1,485	28.56
	4,500 - 5,000	96.15	38	190	3.65	1,675	32.21
	5,000 - 6,000	115.38	43	430	8.27	2,105	40.48
	6,000 - 7,000	134.61	48	480	9.23	2,585	49.71
	7,000 - 8,000	153.85	53	530	10.19	3,115	59.90
	8,000 - 10,000	192.31	58	1,160	22.31	4,275	82.21
	10,000 - 12,000	230.77	63	1,260	24.23	5,535	106.44
	12,000 - 15,000	288.46	68	2,040	39.23	7,575	145.67
	15,000 - 20,000	384.62	73	3,650	70.19	11,225	215.87
	Over 20,000		83				
1975-76	Up to 4,500	86.54	35	1,575	30.29	1,575	30.29
	4,500 - 5,000	96.15	40	200	3.85	1,775	34.13
	5,000 - 6,000	115.38	45	450	8.65	2,225	42.79
	6,000 - 7,000	134.61	50	500	9.62	2,725	52.40
	7,000 - 8,000	153.85	55	550	10.58	3,275	62.98
	8,000 - 10,000	192.31	60	1,200	23.08	4,475	86.06
	10,000 - 12,000	230.77	65	1,300	25.00	5,775	111.06
	12,000 - 15,000	288.46	70	2,100	40.38	7,875	151.44
	15,000 - 20,000	384.62	75	3,750	72.12	11,625	223.56
	Over 20,000		83				
1976-77	Up to 5,000	96.15	35	1,750	33.65	1,750	33.65
	5,000 - 5,500	105.77	40	200	3.85	1,950	37.50
	5,500 - 6,500	125.00	45	450	8.65	2,400	46.15
	6,500 - 7,500	144.23	50	500	9.62	2,900	55.77
	7,500 - 8,500	163.46	55	550	10.58	3,450	66.35
	8,500 - 10,000	192.31	60	900	17.31	4,350	83.65
	10,000 - 12,000	230.77	65	1,300	25.00	5,650	108.65
	12,000 - 15,000	288.46	70	2,100	40.38	7,750	149.04
	15,000 - 20,000	384.62	75	3,750	72.12	11,500	221.15
	Over 20,000		83				
1977-78	Up to 6,000	115.38	34	2,040	39.23	2,040	39.23
	6,000 - 7,000	134.61	40	400	7.69	2,440	46.92
	7,000 - 8,000	153.85	45	450	8.65	2,890	55.58
	8,000 - 9,000	173.08	50	500	9.62	3,390	65.19
	9,000 - 10,000	192.31	55	550	10.58	3,940	75.77
	10,000 - 12,000	230.77	60	1,200	23.08	5,140	98.85
	12,000 - 14,000	269.23	65	1,300	25.00	6,440	123.85
	14,000 - 16,000	307.69	70	1,400	26.92	7,840	150.77
	16,000 - 21,000	403.85	75	3,750	72.12	11,590	222.88
	Over 21,000		83				

Continued...

Section 1: Personal income tax

**Table 1.17: Cumulative income tax tables - continued**

	Taxable Income		Tax Rate for band (%)	Tax Bill for Band		Cumulative tax bill	
	£ per annum	£ per week		£ per annum	£ per week	£ per annum	£ per week
1978-79	Up to 750	14.42	25	187.5	3.61	187.5	3.61
	750 - 8,000	153.85	33	2,392.5	46.01	2,580.0	49.62
	8,000 - 9,000	173.08	40	400.0	7.69	2,980.0	57.31
	9,000 - 10,000	192.31	45	450.0	8.65	3,430.0	65.96
	10,000 - 11,000	211.54	50	500.0	9.62	3,930.0	75.58
	11,000 - 12,500	240.38	55	825.0	15.87	4,755.0	91.44
	12,500 - 14,000	269.23	60	900.0	17.31	5,655.0	108.75
	14,000 - 16,000	307.69	65	1,300.0	25.00	6,955.0	133.75
	16,000 - 18,500	355.77	70	1,750.0	33.65	8,705.0	167.40
	18,500 - 24,000	461.54	75	4,125.0	79.33	12,830.0	246.73
Over 24,000		83					
1979-80	Up to 750	14.42	25	187.5	3.61	187.5	3.61
	750 - 10,000	192.31	30	2,775.0	53.37	2,962.5	56.97
	10,000 - 12,000	230.77	40	800.0	15.38	3,762.5	72.36
	12,000 - 15,000	288.46	45	1,350.0	25.96	5,112.5	98.32
	15,000 - 20,000	384.62	50	2,500.0	48.08	7,612.5	146.39
	20,000 - 25,000	480.77	55	2,750.0	52.88	10,362.5	199.28
	Over 25,000		60				
1980-82	Up to 11,250	216.35	30	3,375	64.90	3,375	64.90
	11,250 - 13,250	254.81	40	800	15.38	4,175	80.29
	13,250 - 16,750	322.12	45	1,575	30.29	5,750	110.58
	16,750 - 22,250	427.88	50	2,750	52.88	8,500	163.46
	22,250 - 27,750	533.65	55	3,025	58.17	11,525	221.63
	Over 27,750		60				
1982-83	0 - 12,800	246.15	30	3,840	73.85	3,840	73.85
	12,800 - 15,100	290.38	40	920	17.69	4,760	91.54
	15,100 - 19,100	367.31	45	1,800	34.62	6,560	126.15
	19,100 - 25,300	486.54	50	3,100	59.62	9,660	185.77
	25,300 - 31,500	605.77	55	3,410	65.58	13,070	251.35
	Over 31,500		60				
1983-84	0 - 14,600	280.77	30	4,380	84.23	4,380	84.23
	14,600 - 17,200	330.77	40	1,040	20.00	5,420	104.23
	17,200 - 21,800	419.23	45	2,070	39.81	7,490	144.04
	21,800 - 28,900	555.77	50	3,550	68.27	11,040	212.31
	28,900 - 36,000	692.31	55	3,905	75.10	14,945	287.40
	Over 36,000		60				
1984-85	0 - 15,400	296.15	30	4,620	88.85	4,620	88.85
	15,400 - 18,200	350.00	40	1,120	21.54	5,740	110.38
	18,200 - 23,100	444.23	45	2,205	42.40	7,945	152.79
	23,100 - 30,600	588.46	50	3,750	72.12	11,695	224.90
	30,600 - 38,100	732.69	55	4,125	79.33	15,820	304.23
	Over 38,100		60				
1985-86	0-16,200	311.54	30	4,860	93.46	4,860	93.46
	16,200 - 19,200	369.23	40	1,200	23.08	6,060	116.54
	19,200 - 24,400	469.23	45	2,340	45.00	8,400	161.54
	24,400 - 32,300	621.15	50	3,950	75.96	12,350	237.50
	32,300 - 40,200	773.08	55	4,345	83.56	16,695	321.06
	Over 40,200		60				

Continued...

**Table 1.17: Cumulative income tax tables - continued**

	Taxable Income		Tax Rate for band (%)	Tax Bill for Band		Cumulative tax bill	
	£ per annum	£ per week		£ per annum	£ per week	£ per annum	£ per week
1986-87	0 - 17,200	330.77	29	4,988	95.92	4,988	95.92
	17,200 - 20,200	388.46	40	1,200	23.08	6,188	119.00
	20,200 - 25,400	488.46	45	2,340	45.00	8,528	164.00
	25,400 - 33,300	640.38	50	3,950	75.96	12,478	239.96
	33,300 - 41,200	792.31	55	4,345	83.56	16,823	323.52
	Over 41,200		60				
1987-88	0 - 17,900	344.23	27	4,833	92.94	4,833	92.94
	17,900 - 20,400	392.31	40	1,000	19.23	5,833	112.17
	20,400 - 25,400	488.46	45	2,250	43.27	8,083	155.44
	25,400 - 33,300	640.38	50	3,950	35.96	12,033	231.40
	33,300 - 41,200	792.31	55	4,345	83.56	16,378	314.96
	Over 41,200		60				
1988-89	0 - 19,300	371.15	25	4,825	92.79	4,825	92.79
	Over 19,300		40				
1989-90	0 - 20,700	398.07	25	5,175	99.52	5,175	99.52
	Over 20,700		40				





## **Section 2: Child and Working Tax Credits**

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**A: CURRENT SYSTEM**

**Table 2.1: Tax Credit key figures**

	2004-05	2005-06	2006-07	2007-08
		<i>Thousands</i>		
Annual average numbers of benefiting families <sup>1</sup>	5,888	5,939	5,955	5,981
		<i>£ Millions</i>		
Tax credit annual expenditure <sup>2</sup>	19,457	19,990	20,839	21,812

<sup>1</sup> Including out of work families with children not receiving Child Tax Credit but instead receiving the equivalent amount via child and related allowances in Income Support or income-based Jobseeker's Allowance (IS/JSA).

<sup>2</sup> Net cash paid to claimants including the total value of under and over payments. As above, figures include the equivalent child support in IS/JSA.

Source: HM Revenue and Customs.

**The Tax Credit system**

2.1 The Child Tax Credit (CTC) and the Working Tax Credit (WTC) were introduced in April 2003. HM Revenue & Customs (HMRC) administers these two tax credits. Current and historical rates are shown in Table 2.2.

2.2 A family's award is based on:

- current circumstances: for CTC, the number and ages of dependent children and whether they have a disability; for WTC, whether (and for how many hours) the family is working, the age of the person who is working, whether the person or their partner has a disability and the amount of any eligible childcare costs; and
- gross taxable income (joint income for a couple) for the tax year, after deducting pension contributions.

2.3 CTC and WTC treat income from savings just as any other income, except that the first £300 is disregarded. This includes income from savings and investments, pensions, property, trusts settlements and estates, foreign income, and any notional income. In calculating income, Child Benefit and other non-taxable benefits are wholly disregarded, as is any maintenance received.

2.4 Tax credit awards are initially made on the basis of current circumstances and the previous tax year's (PY) income. If an estimated current year (CY) income is reported, the calculation is re-based on the predicted CY income, although the first £25,000 of any increase over PY income is disregarded. If circumstances do not change, and no change is prompted by predicted CY income being reported, the award runs until the end of the tax year. At the end of each tax year the previous year's award is finalised and the current year's award is initially determined.

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2.5 Some changes in circumstances and significant changes in childcare costs (see below) must be reported in-year by the claimant, and the award is subsequently adjusted. There are some changes that must be reported within one month. If they are not reported in-year, the changes and incomes are reconciled at the end of the year. If the claimant's finalised income and circumstances at the end of the year are such that they have been paid too much tax credits, HMRC will recover the overpayment under the Code of Practice 26 "What happens if we have paid you too much tax credit?". HMRC will repay any underpayment in a lump sum.

2.6 To calculate the maximum award to which a family is entitled, the different elements for which the family is eligible are added up. Families with an income up to the threshold of £6,420 a year receive the maximum amount. Those with an income above the threshold of £6,420 receive less than the maximum amount, with the award being reduced at the rate of 39p for each pound of extra gross income. For families eligible for CTC and with incomes up to £50,000 the minimum award payable is the family element (including where relevant the baby addition). This family element is reduced by £1 for every £15 of income over £50,000.

2.7 The WTC and CTC are tapered away in the following order:

- the basic element of WTC is the first to be tapered away;
- when this is exhausted, the other elements of WTC are tapered away;
- the childcare element of WTC is the last WTC element to be tapered away;
- CTC starts to be tapered away only when all WTC is exhausted. As a consequence, a higher WTC entitlement (e.g. because of childcare costs) pushes entitlement to CTC further up the income scale.

2.8 CTC and the childcare element of WTC are paid to the main carer of the children, nominated by the claimants. The rest of WTC is paid to the adult working for at least 16 hours per week (or the nominated adult in a couple where both adults work). Tax credit payments are usually made direct into the bank account of the claimant (or claimants). Claimants can decide to be paid on a weekly or four-weekly basis.

2.9 Other types of help may be available to which entitlement is provided by WTC and CTC, such as health costs, free school meals and legal expenses. Each system of help has different rules. Details can be found in the HMRC publication 'WTC 6 - Child Tax Credit and Working Tax Credit – other types of help you may be able to get'.

2.10 Tax credits awards of £26 or less will not be paid (that is, 50p a week for awards lasting the whole year). There is no statutory obligation to uprate tax credits.

### **Working Tax Credit**

2.11 WTC is a tax credit available to working families on low or modest incomes. It is payable to families responsible for at least one child aged under 16 (under 20 if in full time non-advanced education or in approved training) in which at least one adult is working at least 16 hours per week. These groups are eligible for WTC from the age of 16. It is also available to workers who have a disability or are aged 50 or over and work at least 16 hours per week, as long as they are in receipt or have been in receipt of certain benefits. WTC is also available for other workers who are not responsible for a child, provided that they are aged 25 or over and they work at least 30 hours a week. There is no upper age limit on WTC eligibility. People receiving Statutory Maternity Pay, Maternity Allowance, Paternity Pay, or Statutory Adoption Pay are counted as being in work for this purpose, provided they were in qualifying remunerative in the period immediately before the period of maternity, paternity or adoption leave.

2.11 WTC includes a number of elements to reflect differing circumstances:

- a basic element paid to all those eligible for WTC;
- a lone parent or second adult element (for couples);
- a 30-hour element to provide incentives to increase hours (couples with children can add up their hours usually worked to qualify for the 30-hour element as long as one of them works at least 16 hours a week);
- a disability element for people with a disability;
- a severe disability element for people with a severe disability (the person with the severe disability does not have to be the person who is working);
- a 50+ element for people aged 50 or over who started work after a period on benefits, and;
- a childcare element for help with childcare costs;

2.12 The first £16.05 of income for those eligible for WTC is disregarded when calculating Housing Benefit and Council Tax Benefit.

2.13 The WTC childcare element provides help with up to 80 per cent of relevant childcare costs up to a limit of £175 per week in costs for families with one child in childcare and up to £300 per week for families with two or more children in childcare. Changes in costs of more than £10 per week must be reported. The system adapts the award to changes in childcare costs by allowing parents to claim on the basis of the weekly average of the year's childcare costs. So if a claimant pays £100 per week for 48 weeks and £200 for 4 weeks, he can claim 80per cent of  $(100 \times 48 + 200 \times 4) / 52 = £108$  per week of childcare costs.

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2.14 The childcare element is available where the family qualifies for WTC and:

- the claimant is a lone parent;
- the claimants are a couple in which both parents work at least 16 hours per week (including being on maternity or adoption leave – see above);
- the claimants are a couple in which one partner works at least 16 hours a week and the other partner is incapacitated (that is, in receipt of certain benefits) or is in hospital or in prison;
- the child in question is of qualifying age (from birth to the September following their 15th birthday, or for a disabled child, their 16th birthday); and
- the childcare provided meets certain conditions.

2.15 There is a Qualifying Benefit test for the disabled worker elements of WTC. This is satisfied if the person:

- is receiving Disability Living Allowance, Attendance Allowance, Industrial Injuries Disablement Benefit with Constant Attendance Allowance or Mobility Supplement, or War Disablement Pension with Constant Attendance Allowance or Mobility Supplement, or
- has a vehicle provided under the Invalid Vehicle Scheme; or
- within the 182 days before the WTC application, received Employment Support Allowance for 28 weeks or more, or Statutory Sick Pay followed by Employment Support Allowance for a combined period of 28 weeks, or Incapacity Benefit (short-term higher rate or long term rate), or Severe Disablement Allowance, or Disability Premium (or Higher pensioner premium) in Income Support, income-based Jobseeker's Allowance, Housing Benefit or Council Tax Benefit; or
- on one of the preceding 56 days was engaged in training for work, and for one or more of the 56 days immediately preceding the start of that period of training for work, was receiving Incapacity Benefit at the short-term higher rate or the long-term rate, or Severe Disablement Allowance, or contribution-based Employment and Support Allowance for 28 weeks or more, or Statutory Sick Pay followed by contribution-based Employment and Support Allowance for a combined period of 28 weeks or more.

If the person was entitled for at least one day in the preceding 56 days, to the disability element of WTC on the basis of satisfying one of the last two qualifying benefits tests listed above, they are treated as still meeting the qualifying benefit test.

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2.16 There is a Fast Track route to help people who are finding it hard to stay in work because of a disability. To qualify under Fast Track rules, the person must have:

- received on account of incapacity for work, Statutory Sick Pay, or Occupational Sick Pay, or Incapacity Benefit at the short-term lower rate, or Income Support, for a period of 140 qualifying days or more; or
- been awarded National Insurance credits for a period of 20 weeks on the grounds of incapacity or limited capability for work, and where the last of those days or weeks fell within the preceding 56 days; and
- the disability must be likely to last for at least six months or the rest of their life. In addition, their gross earnings must be less than they were before they had the disability, by at least 20 per cent or by £15, whichever is the greater.

If the person was entitled for at least one day in the preceding 56 days to the disability element of WTC on the basis of satisfying the Fast Track rule, they are treated as still meeting the Fast Track rule.

2.17 There is also a labour market disadvantage test. The worker must be suffering from at least one of a set of prescribed conditions, indicating a physical or mental disability that puts them at a disadvantage in getting a job. There are various ways in which this test can be satisfied in practice.

2.18 An additional severe disability element of WTC is payable where the claimant, or either claimant in a joint claim, is in receipt of Disability Living Allowance (Highest Rate Care Component) or Attendance Allowance (higher rate). If both members of a couple satisfy these conditions of entitlement, the award will include two severe disability elements. The person with the severe disability does not have to be the person who is working, as long as the other person satisfies the eligibility criteria for WTC.

### **Child Tax Credit**

2.19 CTC is for people who are responsible for at least one child or qualifying young person. It is payable regardless of employment status. For CTC purposes a person is a child until the day before their 16<sup>th</sup> birthday. A qualifying young person is anyone who is aged 16 or over but under 20 and who is in full-time, non-advanced education or approved training, providing they were enrolled/accepted on the course/approved training before their 19<sup>th</sup> birthday, or anyone who is 16 or 17, who has left full-time education and registered with a qualifying body for work or training and who notifies the Tax Credit Office of the registration within three months of the date they ceased to receive full time non-advanced education or to undertake approved training

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2.20 CTC replaced child allowances in Pension Credit and in new claims for Income Support, and income-based Jobseeker's Allowance. CTC is paid in addition to Child Benefit and comprises various elements depending on the circumstances of the claimant(s), as set out in Table 2.1.

2.21 A disability element can be paid if Disability Living Allowance (DLA) is being received for a child or the child is registered blind or has been taken off the blind register in the 28 weeks before the date of the claim. A severe disability element for a child may be paid if DLA (Higher Rate Care component) is payable for that child.

2.22 Families who receive Income Support or income-based Jobseeker's Allowance will automatically receive the maximum CTC for each element for which they are eligible. For other families their total tax credits award will begin to be tapered away at incomes over £6,420 if they are entitled to CTC and WTC (see paragraph 2.6), or at incomes over £15,575 if they are eligible for CTC only.

2.23 Changes of circumstances, other than changes relating to the disability elements, which would potentially increase awards can be treated as being made a maximum of three months from the date they are reported. Initial claims can also be treated as being made up to a maximum of three months before. Changes of circumstance potentially reducing awards are treated as being made from when the change occurred.

2.24 The formula for calculating the tax credit award is (subject to the effects of the disregard of income increases up to £25,000):

$$\begin{aligned} \text{Tax credits annual award} &= (\text{maximum WTC} + \text{maximum CTC}) \\ &\quad - 39\% \text{ of (gross annual household income} - \text{income threshold)}. \end{aligned}$$

The following examples are for the tax year 2009/10.



**Example 2.1: Couple with two children aged under 16, working 36 hours per week, with gross earnings of £12,000 per year**

<b>WTC</b>	
Basic credit	£1,890.70
Couple's element	£1,861.50
30-hour credit	£777.45
<i>Maximum WTC</i>	<i>£4,529.65</i>
<b>CTC</b>	
Family element	£547.50
Per child element	£4,474.90
<i>Maximum CTC</i>	<i>£5,022.40</i>
<b>WTC+CTC</b>	= (£4,529.65+ £5,022.40) - (£12,000 - £6,420) x 39%
	= £9,552.02 - £2,176.20
	= <b>£7,375.85 (£5,022.40 CTC and £2,353.45 WTC)</b>

**Example 2.2: Lone parent with one child aged under 16, working 25 hours a week, with gross earnings of £8,000 per year and allowable childcare charges of £40 a week**

<b>WTC</b>	
Basic element	£1,890.70
Lone parent element	£1,861.50
Childcare element	£1,664
<i>Maximum WTC</i>	<i>£5,416.20</i>
<b>CTC</b>	
Family element	£547.50
Per child element	£2,237.45
<i>Maximum CTC</i>	<i>£2,784.95</i>
<b>WTC+CTC</b>	= (£5,416.20+ £2,784.95) - (£8,000 - £6,420) x 39%
	= £8,201.15 - £616.20
	= <b>£7,584.95 (£2,784.95 CTC and £4,800.00 WTC)</b>



## **B. HISTORY**

### **Family Income Supplement**

2.25 Family Income Supplement (FIS) was introduced on the 3rd August 1971. It was a weekly, means-tested, non-contributory benefit paid through local post offices. FIS provided assistance to families (including one parent families) with at least one dependent child where the man and/or woman was in full time work. A dependent child for FIS purposes was a child provided for by the couple or single parent who was under 16 or between 16 and 19 but in full-time education. Full time work was defined as at least 30 hours a week for either the man or woman in the case of a couple (whether married or unmarried), and at least 24 hours a week for a lone parent.

2.26 FIS was payable if the family's gross weekly income fell short of a specified limit (fixed according to the number and, from November 1985, the ages of children in the family (see Table 2.5)). In calculating gross weekly income the following sources of income were excluded: Child Benefit, One Parent Benefit, Housing Benefit, educational maintenance allowance, the first £4 of a War Disablement Pension, any income of the children, payments for fostering children, Attendance Allowance and Mobility allowance.

2.27 The amount of FIS paid was one half of the difference between the family's gross income and the prescribed amount, rounded up to the nearest 10p. The minimum amount payable was 20p per week. There was also a maximum weekly payment.

2.28 Between August 1971 and October 1973, the maximum rate did not depend on the number of children in the family. From October 1973, two maximum rates were implemented, one for families with fewer than three children and one for families with three or more children. From July 1975, the maximum rate for a family increased for each additional child so that there was one maximum rate for each family size. (See Table 2.5.) Prior to November 1985, the amount of FIS payable did not depend on the age of children. However, from November 1985 both prescribed amounts and maximum rates payable depended on the age, as well as the number of children.

2.29 Formula for calculating FIS:

$0.50 \times (\text{prescribed amount} - \text{gross income})$

-rounded up to nearest 10p

-minimum 20p

-subject to maximum supplement shown in Table 2.5.

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2.30 A family's gross income was taken as their "normal" gross income at the date of claim. If a person's occupation pays him/her weekly, gross earnings were usually assessed over the five weeks before the claim. For those paid monthly, the period of assessment was usually two months. FIS was then payable for 12 months and changes in circumstances were not taken into account.

2.31 FIS claimants were automatically entitled to all the in-kind benefits discussed in Section 12.

**Example 2.4: Married with 2 children (1 aged under 11, 1 aged 11-15) in 1987-88**

Gross income			£ 80.00
Prescribed amount	£100.70 + £12.95	=	£113.65
Formula gives	0.5 x (£113.65 - £80)	=	£ 16.83
which is less than maximum of	£25.85 + £3.15	=	£ 29.00
so <b>£16.90</b> was payable			

### Family Credit

2.32 Family Credit (FC) replaced FIS from 11 April 1988. It was a tax-free, non-contributory, income-related Social Security benefit.

2.33 The differences in regime between FC and WFTC (which replaced it from October 1999) were:

- Under FC, from October 1994, childcare charges could be offset against earnings when calculating the award. In April 1996, the weekly amount that could be offset was increased from £40 to £60. This was increased further to £100 from June 1998 for those families incurring childcare costs for two or more children.
- The 30-hour credit was introduced in July 1995.
- Under FC, only the first £15 per week of any maintenance received was disregarded.
- Under FC, the income taper rate was 70 per cent of net income.
- All recipients of FC were entitled automatically to the other in-kind benefits set out in Section 12.



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benefit was payable if the claimant or claimant and partner together had capital of more than £16,000. A tariff income was calculated on capital between £3,000 and £16,000. Some Social Security benefits were disregarded in full in calculating entitlement (for example Disability Living Allowance).

2.36 If income was at or below an applicable amount (threshold) the maximum Disability Working Allowance was payable. If income exceeded the threshold the maximum benefit was reduced on a sliding scale (taper). Awards were based on the circumstance on the date of claim, were made for 26 weeks, and were not normally affected by changes in circumstance, even if earnings rose or work ceased.

2.37 Lump sum payments of Disability Working Allowance were available for awards of less than £4 a week, payable at the start of the claim. Disability Working Allowance recipients qualified for automatic remission of NHS charges.

### **Working Families' Tax Credit**

2.38 From October 1999 the Working Families' Tax Credit (WFTC) and the Disabled Person's Tax Credit (DPTC) replaced the social security benefits Family Credit and Disability Working Allowance. The Inland Revenue was responsible for paying the new tax credit, while the Department of Social Security had administered Family Credit and Disability Working allowance. WFTC was a tax credit available to working families on low or modest incomes and who were responsible for a child aged under 16 (or under 19 if in higher education at A level or equivalent standard), in which at least one adult was working (as an employee or self employed) at least 16 hours per week (for employees, averaged over the last few pay periods).

2.39 The amount of WFTC payable depended on the family's net income, the number and ages of the children in the family, the number of hours worked and, in certain circumstances, the amount of childcare charges paid. WFTC was not payable to those families who had over £8,000 in savings or capital. Those with savings between £3,000 and £8,000 had their award reduced by £1 for each £250 (or part thereof) of savings above £3,000.

2.40 WFTC was withdrawn at a rate of 55p for every pound of net income above the £5,060 threshold.

2.41 WFTC was paid at a set rate for 26 weeks, regardless of any change in earnings or other circumstances during the period. At the end of the period, claims had to be renewed and a new award be reassessed. In April 2001 the ability to terminate an award and apply for another on the birth of a child and counting periods of statutory and maternity pay as being in work for WFTC purposes was introduced. From December 2002, terminating awards were automatically extended to April 2003 without the need for a claim for a renewal award.

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2.42 Other types of help were available through WFTC, such as health costs, free school meals and legal expenses. Each system of help had different rules.

2.43 WFTC reached 1,376,000 families in November 2002.

### **Disabled Person's Tax Credit**

2.44 DPTC was a tax credit available to working disabled people on low or modest incomes and who had an illness or disability that put them at a disadvantage in getting a job.

2.45 The other rules and calculations were similar to WFTC, except that the upper limit on savings or capital was £16,000. The tax credit was payable only if the disabled person worked at least 16 hours per week, but the 30-hour tax credit was then available if either the disabled person or a partner worked at least 30 hours per week. The qualifying rules were the same as for the disabled person's element of WTC described above.

2.46 The Enhanced Disability tax credits for both adults and children for DPTC were introduced in April 2001, as was the rule to count periods on Statutory Maternity Pay and Maternity Allowances as being in work for DPTC purposes.

### **Children's Tax Credit**

2.47 The Children's Tax Credit was an income tax relief designed to help families who have at least one child under 16 living with them. It was introduced in April 2001 and in 2002-03 it was worth up to £529 or £10.17 a week off the tax liable to be paid. Children's Tax Credit replaced the Married Couple's Allowance and was expressed as an additional allowance of £5,290 given at the flat rate of 10 per cent. For higher rate taxpayers the credit of £529 was reduced at the rate of £1 for every £15 of income in the higher rate band. See example below.

2.48 A baby rate of children's tax credit was introduced from April 2002. This meant that for these families CTC was worth up to £1,049 in the tax year of the child's birth.

**Example 2.6: How Children's Tax Credit was calculated in 2002-03  
Woman with 2 children under 16 with earned income of £36,000. Husband earns  
£25,000.**

Woman receives Children's Tax Credit, as she is the higher earner. There is only one credit for each family.

Income	£36,000
Personal Allowance	£4,615
Taxable Income	£31,385

Tax liability  $(1,920 \times 0.1) + (27,980 \times 0.22) + (1,485 \times 0.4) = £6,941.60$

Since the woman is a higher rate taxpayer, the credit is reduced by  $\frac{£1,485}{15} = £99$

Therefore the credit is worth  $£529 - £99 = £430$  reduction in tax liability.

So the new tax liability is £6,511.60

### Child and Working Tax Credits

2.49 From April 2003 CTC and WTC replaced WFTC, DPTC, Children's Tax Credit and Employment Credit 50+ (previously administered by Job Centres). In a phased program from April 2003, they also replaced the child allowances in Income Support, income-based Jobseeker's Allowance and Minimum Income Guarantee/Pension Credit.



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**HISTORICAL TABLES**
**Table 2.2: Working and Child Tax Credit, current and historic rates**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Working Tax Credit</b>							
Basic element	1,525	1,570	1,620	1,665	1,730	1,800	1,890
Couple/ lone parent element	1,500	1,545	1,595	1,640	1,700	1,770	1,860
30-hour element	620	640	660	680	705	735	775
Disabled worker element	2,040	2,100	2,165	2,225	2,310	2,405	2,530
Severe disability element	865	890	920	945	980	1,020	1,075
50 plus element, 16-29 hours	1,045	1,075	1,110	1,140	1,185	1,235	1,300
50 plus element, 30+ hours	1,565	1,610	1,660	1,705	1,770	1,840	1,935
Childcare element							
Maximum eligible costs for 1 child		<i>£135 per week</i>		<i>£175 per week</i>			
Maximum eligible costs for 2 or more children		<i>£200 per week</i>		<i>£300 per week</i>			
Percentage of eligible costs covered	70%	70%	70%	80%	80%	80%	80%
<b>Child Tax Credit</b>							
Family element	545	545	545	545	545	545	545
Family element, baby addition	545	545	545	545	545	545	545
Child element	1,445	1,625	1,690	1,765	1,845	2,085	2,235
Disabled child element	2,115	2,215	2,285	2,350	2,440	2,540	2,670
Severely disabled child element	865	890	920	945	980	1,020	1,075
<b>Income thresholds and withdrawal rates</b>							
First income threshold	5,060	5,060	5,220	5,220	5,220	6,420	6,420
First withdrawal rate (per cent)	37	37	37	37	37	39	39
Second income threshold	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Second withdrawal rate (per cent)	6.67	6.67	6.67	6.67	6.67	6.67	6.67
First threshold for those entitled to Child Tax Credit onl	13,230	13,480	13,910	14,155	14,495	15,575	16,040
Income disregard	2,500	2,500	2,500	25,000	25,000	25,000	25,000

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## Section 2: Child and Working Tax Credits

**Table 2.3: Working Families' and Disabled Person's Tax Credits<sup>1</sup>**

		1999-00	2000-01	2001-02	2002-03
<b>Basic tax credit</b>					
WFTC	£ per week	52.30	53.15	59.00 <sup>8</sup>	62.50 <sup>10</sup>
DPTC - lone parent or couple	£ per week	83.55	84.90	91.25 <sup>8</sup>	95.30 <sup>10</sup>
DPTC - single person	£ per week	54.30	55.15	61.05 <sup>8</sup>	62.10
30-hour tax credit	£ per week	11.05	11.25	11.45	11.65
<b>Child tax credit</b>					
Under 11	£ per week	19.85	25.60 <sup>7</sup>	26.00	26.45
11-16 <sup>2</sup>	£ per week	20.90	25.60 <sup>7</sup>	26.00	26.45
16-18 <sup>2</sup>	£ per week	25.95	26.35	26.75	27.20
Disabled child tax credit <sup>3</sup>	£ per week	21.90	22.25	30.00	35.50
<b>Enhanced disability tax credit</b>					
Lone parent or couple	£ per week	-	-	16.00	16.25
Single person (DPTC)	£ per week	-	-	11.05	11.25
Child <sup>4</sup>	£ per week	-	-	41.05	46.75
<b>Childcare tax credit</b>					
Maximum eligible costs allowed - 1 child <sup>5</sup>	£ per week	100.00	100.00	135.00 <sup>9</sup>	135.00
Maximum eligible costs allowed - 2+ children <sup>5</sup>	£ per week	150.00	150.00	200.00 <sup>9</sup>	200.00
Percentage of allowed childcare costs in credit		70%	70%	70%	70%
<b>Savings</b>					
Amount disregarded	£	3,000	3,000	3,000	3,000
£1 per week income assumed per additional:	£	250	250	250	250
Upper limit (WFTC)	£	8,000	8,000	8,000	8,000
Upper limit (DPTC)	£	16,000	16,000	16,000	16,000
<b>Reduction of award through income<sup>6</sup></b>					
Income threshold - lone parent or couple	£ per week	90.00	91.45	92.90	94.50
Income threshold - single person (DPTC)	£ per week	70.00	71.10	72.25	73.50
Income taper rate		55%	55%	55%	55%
Minimum award	£ per week	0.50	0.50	0.50	0.50

<sup>1</sup> The rates apply to awards starting from the first Tuesday after 5 April in each year, unless otherwise stated.

<sup>2</sup> These rates apply to awards starting from the September following the child's relevant birthday.

<sup>3</sup> Payable in addition to the Child Tax Credit. For WFTC, available only in awards starting from October 2000.

<sup>4</sup> Payable instead of the disabled Child Tax Credit.

<sup>5</sup> Number of children for whom eligible childcare costs are incurred.

<sup>6</sup> Income is net of tax, national insurance contributions and half of pension contributions, and excludes Child Benefit, Housing Benefit, Council Tax Benefit, maintenance and investment income. The award is reduced by the excess of income over the threshold, multiplied by the income taper rate.

<sup>7</sup> For awards starting from 6 June 2000. £21.25 for awards starting during April and May 2000.

<sup>8</sup> For awards starting from 5 June 2001. £5.00 lower for awards starting during April and May 2001.

<sup>9</sup> For awards starting from 5 June 2001. The 2000-01 level for awards starting during April and May 2001.

<sup>10</sup> For awards starting from 4 June 2002. £2.50 lower for awards starting during April and May 2002.

**Table 2.4: Family Credit**

£ per week	Adult credit	30-hour credit	Child Credit for child aged				Applicable amount	Taper (%)
			Under 11	11-15	16-17	18		
1988-89	32.10	-	6.05	11.40	14.70	21.35	51.45	70
1989-90	33.60	-	7.30	12.90	16.35	23.30	54.80	70
1990-91	36.35	-	8.25	14.15	17.80	25.10	57.60	70
1991-92	38.30	-	9.70	16.10	20.05	27.95	62.25	70
1992-93	41.00	-	10.40	17.25	21.45	29.90	66.60	70
1993-94	42.50	-	10.75	17.85	22.20	31.00	69.00	70
1994-95	44.30	-	11.20	18.55	23.05	32.20	71.70	70
1995-96	45.10	10.00 <sup>1</sup>	11.40	18.90	23.45	32.80	73.00	70
1996-97	46.45	10.30	11.75	19.45	24.15	33.80	75.20	70
1997-98	47.65	10.55	12.05	19.95 <sup>2</sup>	24.80 <sup>2</sup>	34.70 <sup>2</sup>	77.15	70
1998-99	48.80	10.80	12.35 <sup>3</sup>	20.45	25.40		79.00	70
1999-00	49.80	11.05	15.15	20.90	25.95		80.65	70

<sup>1</sup> From 4 July 1995.

<sup>2</sup> From 7 October 1997, the trigger points for the increases at age 11 and 16 is the first Tuesday in September following the relevant birthday; and the credit for dependants aged 16 and 17 will continue up until the child's 19th birthday or to the end of non-advanced education, whichever occurs first. These changes do not apply where a child has reached their 11th, 16th or 18th birthday before 7 October 1997.

<sup>3</sup> Increased to £14.85 from November 1998.

**Table 2.5: Disability Working Allowance**

£ per week		1996-97	1997-98	1998-99	1999-00
Adult Allowance	- single	48.25	49.55	50.75	51.80
	- couple/lone parents	75.60	77.55	79.40	81.05
Child	- under 11	11.75	12.05	12.35 <sup>1</sup>	15.15
	- 11 to 15	19.45	19.95	20.45	20.90
	- 16 to 17	24.15	24.80	25.40	25.95
	- 18	33.80	34.70	-	-
Disabled Child's Allowance		20.40	20.95	21.45	21.90
30-hour credit		10.30	10.55	10.8	11.05
Applicable amount (threshold)					
	- single people	56.40	57.85	59.25	60.50
	- couple/lone parents	75.20	77.15	79.00	80.65
	Taper	70%	70%	70%	70%

Tariff income

£1 for every complete £250 or part of £250 between £3,000 and £16,000.

<sup>1</sup> Increased to £14.85 from November 1998.

**Table 2.6: Family Income Supplement: Prescribed Amounts And Maximum Weekly Payments**

£ per week	Prescribed amount			Maximum rate payable								
	Family with 1 child	for each additional child add		Family with 1 child	for each additional child add							
03/08/1971	18.00	2.00		4.00	-							
04/04/1972	20.00	2.00		5.00	-							
03/04/1973	21.00	2.50 <sup>1</sup>		5.00	-							
02/10/1973	21.50	2.50		5.00	- <sup>2</sup>							
23/07/1974	25.00	3.00		5.50	- <sup>3</sup>							
22/07/1975	31.50	3.50		7.00	0.50							
20/07/1976	39.00	4.50		8.50	0.50							
05/04/77 <sup>4</sup>	39.00	3.50		8.50	0.50							
19/07/1977	41.50	3.50		8.50	0.50							
15/11/1977	43.80	4.00		9.50	1.00							
14/11/1978	46.00	4.00		10.50	1.00							
13/11/1979	56.00	4.50		13.50	1.00							
25/11/1980	67.00	7.00		17.00	1.50							
24/11/1981	74.00	8.00		18.50	1.50							
23/11/1982	82.50	9.00		21.00	2.00							
22/11/1983	85.50	9.50		22.00	2.00							
20/11/1984	90.00	10.00		23.00	2.00							
	Under 11	11-15	16 and over	Under 11	11-15	16 and over	Under 11	11-15	16 and over	Under 11	11-15	16 and over
25/11/1985	97.50	98.50	99.50	11.50	12.50	13.50	25.00	25.50	26.00	2.50	3.00	3.50
28/07/1986	98.60	99.60	100.60	11.65	12.65	13.65	25.30	25.80	26.30	2.55	3.05	3.55
06/04/1987	100.70	101.75	102.80	11.90	12.95	14.00	25.85	26.40	26.90	2.60	3.15	3.65

<sup>1</sup> Up to 4 children, £2.00 thereafter.

<sup>2</sup> Extra £1.00 for families with three or more children.

<sup>3</sup> Extra £1.50 for families with three or more children.

<sup>4</sup> Child Benefit, introduced in April 1977, was disregarded for the purpose of the FIS scheme; the addition to the prescribed amount for each child after the first was reduced to offset partially the amount of Child Benefit disregarded. Prior to April 1977, Family Allowance had not been disregarded in calculating FIS.





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**A: CURRENT SYSTEM****Child Benefit****Table 3.1: Child Benefit expenditure**

	Outturns			Estimate 2008-09	Plans 2009-10
	2005-06	2006-07	2007-08		
	<i>£ Millions</i>				
Child Benefit expenditure	9,769	10,146	10,650	11,265	11,770

3.1 Families with children receive Child Benefit to help with the costs of bringing up children. Child Benefit is administered by HMRC. It is non-taxable, not income-tested and is payable in respect of each child under 16, for 16-18 year olds in full-time non-advanced education or on unwaged Government-arranged training programmes, and for 19 year olds completing an eligible course of non-advanced education or training which they started before their 19<sup>th</sup> birthday. In 2009-10 it is worth £20.00 a week for the first (eldest eligible) child and £13.20 for each other child.

3.2 Support is also available from Tax Credits, which are composed of Working Tax Credit and Child Tax Credit. Tax Credits are explained in more detail in Section 2.

**Child Trust Fund**

3.3 Children born on or after 1 September 2002 are eligible for a Child Trust Fund (CTF) account if child benefit has been awarded for them, they live in the UK, and are not subject to immigration restrictions. No eligible child will miss out on a CTF account. If parents do not open a CTF account for their child within one year, HMRC will automatically open an account for the child.

3.4 A CTF voucher for £250 is sent to parents automatically, and a further payment from the Government will be made at age seven. Children from low income families, and looked after children, receive an additional payment of £250 both with the initial Government endowment and with payments at age seven. "Low income" is defined as having a household income or below the first Child Tax Credit threshold (£16,040 for 2009-10). Children, parents, family and friends can contribute to a child's account up to an annual limit of £1,200, with no tax to pay on any interest or gains in the account. This will help the child build a savings habit, contribute to their financial education and help them build up a stock of assets to reinvest or use when they reach 18 years of age, giving them added security and opportunity in adulthood. At the age of 16, children take control of accounts, allowing them to invest the money as they wish. The money is locked in until child reaches age 18. Money in the CTF will not affect any family benefits during these 18 years. There are no restrictions on the use of the money at age 18 - young people are best placed to decide on use.

3.5 CTF accounts became available from 6 April 2005. Children born between September 2002 and April 2005 received a slightly higher amount from the Government to make up for them having to wait to open their accounts.

**Table 3.2: Child Trust Fund Endowments**

	£
<b>Initial Endowment</b>	
Child born 1 September 2002 to 5 April 2003	277
6 April 2003 to 5 April 2004	268
6 April 2004 to day preceding appointed day( in April 2005)	256
Child born after the appointed day in April 2005	250
<b>Supplementary Endowment</b>	
Child Benefit first paid 1 September 2002 to 5 April 2003	266
6 April 2003 to 5 April 2004	258
6 April 2004 to the appointed day in April 2005	250
After the appointed day in April 2005	250
<b>Looked After Children (Children in the care of a Local Authority) will receive one payment</b>	
Child born 1 September 2002 to 5 April 2003	554
6 April 2003 to 5 April 2004	536
6 April 2004 and the day preceding the appointed day	512
Child born after the appointed day in April 2005	500

3.6 Looked after children also receive an additional payment of £100 per year for every whole year they spend in care after 1 April 2007, in order that their CTF provides a more substantial asset for them on entering adult life.

3.7 At Budget 2009 the Government announced that it will contribute £100 a year to the CTF accounts of disabled children, with severely disabled children receiving £200 a year. Payments will start in April 2010 for children with a CTF account who receive Disability Living Allowance at any point in tax year 2009/10. This recognises the fact that disabled children are likely to have greater financial needs at age 18.

3.8 The Government is currently consulting on whether a further payment will be made at secondary school age.

### **Education Maintenance Allowance**

3.9 Education Maintenance Allowance (EMA) is an income-assessed allowance to support young people aged 16-19 in post-16 education. It consists of weekly payments of up to £30. In addition, bonus payments may be payable.

3.10 To receive EMA the learner must enroll on a course that meets the EMA definition of valid provision. This will be up to and including level 3 for a period of 10 weeks or more with a minimum of 12 guided learning hours a week delivered by a recognised provider whose provision is inspected by a public

### Section 3: Financial support for children and young people

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body that assures quality. In addition, their household income in the financial year prior to the academic year that EMA is paid must be less than £30,810 and they must meet EMA residency rules.

3.11 The weekly payment that a student will receive from September 2008 is based on household income for the financial year 2007-08 as set out below

<b>Household income</b>	<b>Weekly amount to be paid</b>
Up to £20,817	£30
More than £20,817 but less than or equal to £25,521	£20
More than £25,521 but less than or equal to £30,810	£10
More than £30,810	Not eligible for EMA

3.12 To receive EMA a young person must agree and sign a learning contract with their provider, which sets out what is expected of them in terms of, attendance, behaviour, coursework and progress. The school, college or training provider will stop a payment if the student fails to keep to the terms of their EMA Contract.

3.13 EMA will not affect other family benefits. It is designed to incentivise young people from low-income families to participate in learning post 16. It is paid direct into the learner's bank account. EMA is paid in addition to other support provided by the Government, such as Child Benefit, Child Tax Credit and Working Tax Credit. Any money earned by the young person from a part-time job does not affect EMA.

For further information visit the EMA website at [www.direct.gov.uk/ema](http://www.direct.gov.uk/ema) or <http://ema.lsc.gov.uk/fag/validproviders> for information about EMA valid provision trials.

#### **Statutory Maternity Pay**

3.14 Statutory Maternity Pay (SMP) is payable to women who have been employed continuously by the same employer for at least 26 weeks, including (and ending with) the 15th week before the expected week of childbirth (the qualifying week) and whose average gross weekly earnings in the last eight weeks of that period have been at least equal to the lower earnings limit for NICs. Women can choose when to start receiving SMP, from the 11<sup>th</sup> week before the week the baby is due, to the day following the birth.

3.15 SMP is payable for up to a maximum of 39 weeks. All women who qualify will get the first six weeks at a higher rate (90 per cent of their average weekly earnings with no upper limit). The remaining 33 weeks at the standard rate of SMP or the 90 per cent will continue if this is less than the standard rate. SMP is taxable and subject to NICs. Employers are reimbursed 92 per cent of the SMP paid out. Small employers (those whose gross annual NICs are £45,000 per annum or less from 6 April 2004) can claim

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100 per cent of their SMP (plus 4.5 per cent compensation) via their tax, NI and other payments due to HM Revenue and Customs.

3.16 The standard rate of SMP is £123.06 per week from April 2009. Statutory Sick Pay, Jobseekers Allowance, and generally speaking Employment and Support Allowance (ESA) cannot be paid during the Maternity Pay period. Otherwise state benefits affect, or are affected by, SMP in the same way as Statutory Sick Pay (see Section 13).

### **Statutory Paternity Pay**

3.17 Statutory Paternity Pay (SPP) can start at any time from the birth of the child but must be completed 56 days after the birth (or, if the baby is born early, within 56 days from the beginning of the week in which the baby was expected). The employee can choose to be paid SPP for one or two consecutive weeks.

3.18 To qualify for SPP in respect of a newborn child the employee must:

- have, or expect to have, responsibility for the child's upbringing;
- be the biological father of the child or the mother's husband or partner;
- have been continuously employed for at least 26 weeks continuing into the 15<sup>th</sup> week before the baby is due, the Qualifying Week (QW);
- remain in continuous employment with the employer from the end of the QW up to the date of birth of the child;
- intend at the start of the Paternity Pay Period to care for the child and/or support the mother;
- have average weekly earnings at or above the LEL that applies at the end of the QW; and
- give the employer notice of when he expects the liability to pay SPP to begin at least 28 days beforehand. Where this is not reasonably practicable it must be given as soon as is practicable.

3.19 The rules on continuous employment and calculation of average weekly earnings mirror those for SMP. Unlike SMP, entitlement to SPP cannot be established until the baby has been born. The weekly rate is currently the lesser of £123.06 and 90 per cent of the employees' average weekly earnings.

### **Statutory Adoption Pay**

3.20 Statutory Adoption Pay (SAP) is available to individuals who adopt and to one member of a couple, where the couple adopts jointly (the couple choose which partner).

3.21 To qualify for SAP, an employee must:

- have 26 weeks' continuous service with their employer by the week in which they are notified of having been matched with a child for adoption; and
- have average earnings in the last eight weeks of that period at least equal to the LEL.

3.22 Employers pay SAP for up to 39 weeks. The weekly rate is £123.06 per week in 2009-10 or 90 per cent of average weekly earnings if this is less than £123.06 per week. Adopters can choose to start receiving SAP up to 14 days before the child's expected date of placement but it cannot begin later than the date of placement. SAP is taxable and subject to NICs. Employers are reimbursed 92 per cent of the SAP paid out. Small employers (those whose gross annual NICs are £45,000 per annum or less from 6 April 2004) can claim 100 per cent of their SMP (plus 4.5 per cent compensation) via their tax, NI and other payments due to HM Revenue and Customs.

3.23 SAP is only payable where an adopter is newly matched with a child for adoption by an adoption agency. It will not apply where there is an existing relationship between the child and the adopter so a step-parent adopting their partner's children would not qualify. Adopters who have average weekly earnings below the LEL do not qualify for SAP, but may be able to receive help equivalent to Maternity Allowance through their local authority.

#### **Statutory Paternity Pay (adoption)**

3.24 The partner of an individual who adopts, or the other member of a couple who adopt jointly, may be entitled to SPP (adoption). For SPP (adoption) to be available the employee must:

- have, or expect to have, responsibility for the child's upbringing;
- be an adopter or the adopter's spouse or partner;
- have average weekly earnings at or above the LEL that applies at the end of the week in which the adopter is notified of having been matched with a child for adoption;
- have worked continuously for their employer for 26 weeks ending with the week in which the adopter is notified of being matched with a child; and
- remain in continuous employment with the employer up to the child's date of placement for adoption.

3.25 SPP (adoption) is paid by employers for either one or two consecutive weeks as chosen by the employee. The weekly rate is the lesser of £123.06 in 2009-10 and 90 per cent of average weekly earnings.

### **Maternity Allowance**

3.26 Women who are not entitled to SMP may qualify for Maternity Allowance (MA) from the Department for Work and Pensions, provided they have been employed and/or self-employed for at least 26 weeks of their test period (66 weeks ending with the week before the baby is due) and had average weekly earnings of at least £30 over any 13 weeks within the test period. MA is payable for up to 39 weeks.

3.27 MA is paid at a standard rate of £123.06 per week from April 2009 or 90 per cent of a woman's average weekly earnings if this calculation results in a rate that is less than the standard rate. Women who are self-employed will be treated as having earnings in order to receive a rate of MA. Women who have paid Class 2 NICs will be treated as having earnings sufficient to result in the standard rate of MA. Women who hold a Small Earnings Exception certificate will be treated as having earnings of £30 a week. Other State benefits affect, or are affected by MA in the same way as Employment and Support Allowance (see Section 9).

### **Sure Start Maternity Grant**

3.30 The **Sure Start Maternity Grant** is payable for each child that is expected, born, adopted, the subject of a parental order (following a surrogate birth) or, in certain circumstances, the subject of a residence order. In order to qualify for a grant claimants are required to submit a certificate, signed by an approved health professional, confirming that advice has been received on the health and welfare needs of the new baby (and on maternal health where a claim is made during pregnancy). A claim can be made any time from the 29<sup>th</sup> week of pregnancy until the child is three months old or until three months after the date of the adoption, parental order or residence order. In the case of adoptions and residence orders claims must be made before the baby is twelve months old.

3.31 The award is currently £500, and is paid to people awarded Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit, Working Tax Credit where the disability or severe disability element is included in the award or Child Tax Credit payable at a rate higher than the family element. Savings are not taken into account.

### **Health in Pregnancy Grant**

3.32 The Health in Pregnancy Grant is a tax-free payment of £190 to help women meet the additional costs they face in the run up to birth. In order to qualify for the Grant, women will need to be 25 weeks

pregnant, have been given health advice from a midwife or doctor to help them and their unborn baby stay healthy during pregnancy, and be present, 'ordinarily resident' and have a 'right to reside' in the UK.

3.33 Claim forms are available to women from midwife or doctor who will usually provide the claim form at the next ante-natal appointment after their 25th week of pregnancy. The Grant is payable in addition to all other benefits and tax credits.

## **B: HISTORY**

### **Family allowance and Child Benefit**

3.34 Throughout the post-war period the extra responsibility of having children has been recognised by the tax and benefit system, though the method has changed over time. Immediately after the war additional tax allowances were available for each child. In addition, as these were only of advantage to those who paid tax, a family allowance was payable to all families in respect of the second and subsequent children who were below school age or below 19 and in full time education.

3.35 The size of the tax allowances, which varied according to the age of the children from April 1957 onwards, and the value of the family allowance are shown below in Tables 3.5 and 3.6. (Note that in 1977-78 an additional personal allowance was payable in respect of the first child.) Family allowance ('FAM') was paid by means of a book of weekly orders, which were cashed at the post office and were taxed as earned income through the husband's earnings. This meant that taxpayers benefited less from the family allowance than those whose income was below the tax threshold. Similar objectives also prompted the introduction in April 1968 of a system of clawback. The family's annual tax allowance was reduced in respect of every child for whom FAM was received. The size of clawback is shown in Table 1.12 in Section 1, and an example is shown below.

#### **Example 3.1: Unified system with family allowances**

1976-77: Married couple plus 2 children under 11 earning £75 pw and collecting FAM of £1.50 pw

Income = **£76.50pw** = £3,978pa

Tax bill = £0.35 (3,978 - 1,085 - 600 + 52) = £820.76pa = **£15.78pw**  
(takes account of married man's allowance, child tax allowances and clawback)

Net Income = **£60.72pw**

3.36 This system of personal tax allowances in respect of children was of benefit only to taxpayers, although family allowances favouring non-taxpayers continued until April 1977. No special treatment for single parent families was given in respect of family allowance until the financial year 1976-77 when a temporary benefit called 'Child Interim Benefit' was introduced pending the implementation in April 1977 of Child Benefit and Child Benefit increase known as One Parent Benefit. It was identical to FAM except that one-parent families could claim it in respect of their first child. Child tax allowances were then gradually phased out – they were fully abolished in April 1979, while Child Benefit immediately replaced family allowance in April 1977.

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3.37 Child Benefit is not taxable and is payable in respect of each child up to age 16, for 16-18 year olds in full-time, non-advanced education or on unwaged Government-arranged training programmes, and for 19 year olds completing an eligible course of non-advanced education or training, which they started before their 19<sup>th</sup> birthday. Since 6 April 1992, Child Benefit has been uprated by the September RPI each April, except in April 1999, April 2000, and January 2009, when the eldest or first child rate was increased by more than the RPI. Historical Child Benefit rates are shown in Tables 3.3 and 3.4 for years since 1990 and Tables 3.8 and 3.9 for earlier years.

3.38 Since 1997 some lone parents have received a higher rate of Child Benefit for their only or eldest child known as Child Benefit (Lone Parent). This was formerly a separate payment called One Parent Benefit, which was introduced in April 1977. This additional money for lone parents was abolished from 6 July 1998 but has continued in payment to certain lone parents in specified circumstances, at the rate of £17.55, which has been frozen since April 2000. From 9 April 2007 this higher rate ceased to exist. All families now receive the same amount each week for the first or eldest child.

### **Statutory Maternity Pay**

3.39 Historic rates are shown in Table 3.5. Annual estimated numbers receiving SMP and annual expenditure on SMP are shown in Table 3.6.

3.40 For women expecting babies on or after 6 April 2003, the duration of SMP was increased from 18 to 26 weeks. SMP was extended again to 39 weeks for women expecting babies on or after 1 April 2007. The first 6 weeks continue to be paid at 90 per cent of earnings with no upper limit. The remaining 33 weeks are paid at the lesser of the flat rate or 90 per cent of earnings.

### **Statutory Paternity Pay**

3.41 SPP was introduced for parents whose babies were born, or expected to be born, on or after 6 April 2003. A baby expected to be born on or after 6 April 2003 could have been born prematurely as early as the end of November 2002. SPP would have been paid to eligible parents even where the child was born prematurely. Parents whose babies were due before 6 April 2003 but were born after 6 April 2003 were also entitled to paternity leave and pay. SPP can start at any time from the birth of the child until 56 days after the birth. It is paid for one or two weeks.

### **Statutory Adoption Pay**

3.42 Statutory Adoption Pay (SAP) became available to employees where a child was placed with them for adoption on or after 6 April 2003. SAP is payable when a child is adopted from within the UK or from overseas. It is paid for up to 39 weeks.

### **Maternity Allowance**

3.43 Prior to March 1977 a woman must have had at least 26 flat rate class 1 and/or class 2 contributions or credits in the relevant contribution year.

3.44 From March 1977 she must have paid or been credited with an earnings factor of 50 times the LEL in the relevant tax year.

3.45 A half rate or three-quarter rate benefit was payable as with UB. Reduced rates were abolished on 5 October 1986.

3.46 From April 1987 Statutory Maternity Pay replaced MA for most employees. To qualify for MA a woman must have paid at least 26 flat rate Class 1 and/or Class 2 contributions in the 52 week period ending in the 15<sup>th</sup> week before the baby is due. For women expecting babies on or after 16 October 1994, this period was extended to 66 weeks ending with the week before the baby is due.

3.47 A woman expecting her baby on or after 20 August 2000 no longer needs to have paid contributions to qualify for MA. Instead, she must satisfy two conditions, namely, she must have been employed or self-employed for at least 26 weeks within her test period (66 weeks ending with the week before the week her baby is due) and her average weekly earnings over a 13 week period within the test period must have been at least £30.

3.48 MA was extended to 26 weeks for women expecting babies on or after 6 April 2003 (it was previously payable for 18 weeks) and women could chose any 13 weeks in their test period over which to average their earnings. MA was extended again to 39 weeks for women expecting babies on or after 1 April 2007.

3.49 Historical rates of maternity benefits are shown in Table 3.5. Estimated numbers receiving MA at a particular time, and annual expenditure on MA, are shown in Table 3.7.

### **Maternity Grant**

3.50 Before July 1982, the Maternity Grant was a national insurance benefit paid as a lump sum and based on the contributions of the mother or her husband. (See Table 3.10.)

3.51 A Maternity Grant was paid for each child born. If the child was stillborn, the grant was paid if the pregnancy lasted for at least 28 weeks.

3.52 From July 1982, the Maternity Grant was non-contributory and paid to all mothers who satisfied a test of presence in Great Britain.

3.53 The Maternity Grant was abolished from 6 April 1987 and replaced by a 'maternity payment' from the Social Fund.

### **Social Fund**

3.54 The Social Fund provides support to a number of groups through a combination of grants and loans; it succeeded Supplementary Benefit single payments and the old universal Maternity and Death Grants.

3.55 Regulations introduced from April 1987 provide entitlement for help with the immediate needs of a new born or adopted baby given various conditions.

3.56 The Maternity Payment replaced The Maternity Grant on 6 April 1987. On 27 March 2000, the Maternity Payment (£100) was replaced by a Sure Start Maternity Grant of £200. This was increased to £300 from 3 December 2000 and to £500 from 16 June 2002. Originally, any savings over £500 (£1000 for those aged 60 or over) were taken into account on a pound for pound basis. On 8 October 2001 this capital rule was abolished. From April 1997, in the case of surrogacy, married couples with a parental order were eligible to claim a Maternity Payment.

Section 3: Financial support for children and young people

**C: Historical tables post-1990**

**Table 3.3: Child Benefit rates**

	£ per week				No. of children in family			
	Amount for first child	Amount for subsequent children	Single parent family first child premium (One Parent Benefit)	Child Benefit (Lone Parent) <sup>1</sup>	1	2	3	4
09-Apr-90	7.25	7.25	5.60	-	7.25	14.50	21.75	29.00
08-Apr-91	8.25	7.25	5.60	-	8.25	15.50	22.75	30.00
07-Oct-91	9.25	7.50	5.60	-	9.25	16.75	24.25	31.75
06-Apr-92	9.65	7.80	5.85	-	9.65	17.45	25.25	33.05
12-Apr-93	10.00	8.10	6.05	-	10.00	18.10	26.20	34.30
11-Apr-94	10.20	8.25	6.15	-	10.20	18.45	26.70	34.95
10-Apr-95	10.40	8.45	6.30	-	10.40	18.85	27.30	35.75
08-Apr-96	10.80	8.80	6.30	-	10.80	19.60	28.40	37.20
Apr-97	11.05	9.00	-	17.10	11.05	20.05	29.05	38.05
Apr-98	11.45	9.30	-	17.10	11.45	20.75	30.05	39.35
Apr-99	14.40	9.60	-	17.10	14.40	24.00	33.60	43.20
Apr-00	15.00	10.00	-	17.55	15.00	25.00	35.00	45.00
Apr-01	15.50	10.35	-	17.55	15.50	25.85	36.20	46.55
Apr-02	15.75	10.55	-	17.55	15.75	26.30	36.85	47.40
Apr-03	16.05	10.75	-	17.55	16.05	26.80	37.55	48.30
Apr-04	16.50	11.05	-	17.55	16.50	27.55	38.60	49.65
Apr-05	17.00	11.40	-	17.55	17.00	28.40	39.80	51.20
Apr-06	17.45	11.70	-	17.55	17.45	29.15	40.85	52.55
Apr-07	18.10	12.10	-	-	18.10	30.20	42.30	54.40
Apr-08	18.80	12.55	-	-	18.80	31.35	43.90	56.45
Jan-09	20.00	13.20	-	-	20.00	33.20	46.40	59.60

<sup>1</sup> Applied only for existing claimants and the reserved rights cases before 6 July 1998 e.g. Income Support Lone Parents. In April 2007 the transitionally protected rate of CB for lone parents was extinguished when the standard rate of CB payable for the first eldest child increased to £18.10 a week

**Table 3.4: Child Benefit - financial year average rates<sup>1</sup>**

	£ per week				No. of children in family			
	Amount for first child	Amount for subsequent children	Single parent family first child premium (One Parent Benefit)	Child Benefit (Lone Parent) <sup>2</sup>	1	2	3	4
1990-91	7.25	7.25	5.60	-	7.25	14.50	21.75	29.00
1991-92	8.75 <sup>3</sup>	7.37 <sup>3</sup>	5.60	-	8.75	16.12	23.49	30.86
1992-93	9.65	7.80	5.85	-	9.65	17.45	25.25	33.05
1993-94	10.00	8.10	6.05	-	10.00	18.10	26.20	34.30
1994-95	10.20	8.25	6.15	-	10.20	18.45	26.70	34.95
1995-96	10.40	8.45	6.30	-	10.40	18.85	27.30	35.75
1996-97	10.80	8.80	6.30	-	10.80	19.60	28.40	37.20
1997-98	11.05	9.00	-	17.10	11.05	20.05	29.05	38.05
1998-99	11.45	9.30	-	17.10	11.45	20.75	30.05	39.35
1999-00	14.40	9.60	-	17.10	14.40	24.00	33.60	43.20
2000-01	15.00	10.00	-	17.55	15.00	25.00	35.00	45.00
2001-02	15.50	10.35	-	17.55	15.50	25.85	36.20	46.55
2002-03	15.75	10.55	-	17.55	15.75	26.30	36.85	47.40
2003-04	16.05	10.75	-	17.55	16.05	26.80	37.55	48.30
2004-05	16.50	11.05	-	17.55	16.50	27.55	38.60	49.65
2005-06	17.00	11.40	-	17.55	17.00	28.40	39.80	51.20
2006-07	17.45	11.70	-	17.55	17.45	29.15	40.85	52.55
2007-08	18.10	12.10	-	-	18.10	30.20	42.30	54.40
2008-09	19.10 <sup>4</sup>	12.71 <sup>4</sup>	-	-	19.10	31.81	44.53	57.24
2009-10	20.00	13.20	-	-	20.00	33.20	46.40	59.60

<sup>1</sup> Calculated by weighting each rate in force in the financial year by the number of weeks it was in force for.

<sup>2</sup> Applied only for existing claimants and the reserved rights cases before 6 July 1998 e.g. Income Support Lone Parents. In April 2007 the transitionally protected rate of CB for lone parents was extinguished when the standard rate of CB payable for the first eldest child increased to £18.10 a week

<sup>3</sup> £8.25/£7.25 from April 1991, £9.25/£7.50 from October 1991.

<sup>4</sup> £18.80/£12.55 from April 2008, £20.00/£13.20 from January 2009.

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**Table 3.5: Rates of Maternity Benefits**

£ per week	Maternity Allowance								Statutory Maternity Pay (SMP) Lower Rate <sup>7,10</sup>	
	Personal Benefit			Increase for dependants						
	Standard	3/4	1/2	Adults			Each Child			
				Standard	3/4	1/2				
Nov 1981	22.50	16.88	11.25	13.90	10.43	6.95	0.80			
Nov 1982	25.00	18.75	12.50	15.45	11.59	7.73	0.30			
Nov 1983	25.95	19.46	12.98	16.00	12.00	8.00	0.15			
Nov 1984	27.25	20.44	13.63	16.80	12.60	8.40	- <sup>1</sup>			
Nov 1985	29.15	21.86	14.58	18.00	13.50	9.00				
July 1986	29.45	22.09	14.73	18.20	13.65	9.10				
	Higher Rate <sup>2</sup>	Lower Rate <sup>3</sup>	New Standard Rate <sup>5</sup>	Threshold <sup>6</sup>						
Apr 1987 <sup>4</sup>		30.05		18.60					47.20	
Apr 1988		31.30		19.40					49.20	
Apr 1989		33.20		20.55					52.10	
Apr 1990		35.70		22.10					52.50	
Apr 1991		40.60		24.50					52.50	
Apr 1992		42.25		25.50					52.50	
Apr 1993		43.75		26.40					52.50	
Apr 1994		44.55		26.90					52.50	
Oct 1994	52.50	44.55		26.90					52.50	
Apr 1995	52.50	45.55		27.50					52.50	
Apr 1996	54.55	47.35		28.55					54.55	
Apr 1997	55.70	48.35		29.15					55.70	
Apr 1998	57.70	50.10		30.20					57.70	
Apr 1999	59.55	51.70		31.15					59.55	
Apr 2000	60.20	52.25	60.20	30.00	31.50					60.20
Apr 2001			62.20 <sup>8</sup>	30.00	32.55					62.20
Apr 2002			75.00 <sup>8</sup>	30.00	33.10					75.00
Apr 2003			100.00 <sup>9</sup>	30.00	33.65					100.00
Apr 2004			102.80	30.00	34.60					102.80
Apr-05			106.00	30.00	35.65					106.00
Apr-06			108.85	30.00	36.60					108.85
Apr-07			112.75	30.00	37.90					112.75
Apr-08			117.18	30.00	39.40					117.18
Apr-09			123.06	30.00	41.35					123.06

<sup>1</sup> Child dependency addition was abolished from 26 November 1984.

<sup>2</sup> The woman must be an employee in the 15th week before the baby is expected (the qualifying week).

<sup>3</sup> From 16 October 1994, the lower rate applies for women who are not employees in the qualifying week.

<sup>4</sup> Before April 1987 there was also a one-off Maternity Grant of £25. Since April 1987 the grant is based on needs and is made from the Social Fund.

<sup>5</sup> New Standard Rate introduced from April 2000.

<sup>6</sup> MA Earnings Threshold introduced from April 2000.

<sup>7</sup> Up until April 2003 the higher rate of 90 per cent of average earnings was paid for the first 6 weeks. Lower rate was paid for up to 12 weeks.

<sup>8</sup> Women whose average weekly earnings are over £30 but less than the LEL which applies at the beginning of their test period receive MA of 90% of their average earnings.

<sup>9</sup> From April 2003 the standard rate MA is no longer linked to the LEL. Women whose average earnings are equal to or above £30 will receive standard rate MA or 90 per cent of their average weekly earnings if this is less than standard rate MA from April 2003.

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**Table 3.6: Key figures for Statutory Maternity Pay**

	Outturn				Estimate	Plans	Plans
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	<i>Thousands</i>						
Average number of beneficiaries over the financial year (note 1)	284	290	303	315	328	332	332
	<i>£Millions</i>						
Annual expenditure	1,035	1,291	1,184	1,287	1,496	1,751	1,824

1) Number of claims gives the number of claims made for SMP in a financial year. It denotes the number of SMP claims that start in the year, and not a point in time caseload.

**Table 3.7: Key figures for Maternity Allowance**

	Outturn				Estimate	Plans	Plans
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	<i>Thousands</i>						
Average number of beneficiaries over the financial year	22	26	29	27	41	49	51
	<i>£Millions</i>						
Annual expenditure	128	150	164	175	247	324	352

**D: Historical tables pre-1990**

**Table 3.8: Family allowances and Child Benefit<sup>1</sup>**

	£ per week							
	Amount for first eligible child <sup>2</sup>	Amount for subsequent Children	Single parent family first child premium (One Parent Benefit)	No. of children in family				
				1	2	3	4	
06-Aug-46	0.25	0.25	-	-	0.25	0.50	0.75	
02-Sep-52	0.40	0.40	-	-	0.40	0.80	1.20	
02-Oct-56	0.40	0.50	-	-	0.40	0.90	1.40	
24-Oct-67	0.40	0.50 <sup>3</sup>	-	-	0.40	0.90	1.65	
09-Apr-68	0.75	0.85	-	-	0.75	1.60	2.45	
08-Oct-68	0.90	1.00	-	-	0.90	1.90	2.90	
08-Apr-75	1.50	1.50	-	-	1.50	3.00	4.50	
06-Apr-76	1.50	1.50	1.50	-	1.50	3.00	4.50	
05-Apr-77	1.00	1.50	0.50	1.00	2.50	4.00	5.50	
03-Apr-78	2.30	2.30	1.00	2.30	4.60	6.90	9.20	
13-Nov-78	3.00	3.00	2.00	3.00	6.00	9.00	12.00	
02-Apr-79	4.00	4.00	2.00	4.00	8.00	12.00	16.00	
12-Nov-79	4.00	4.00	2.50	4.00	8.00	12.00	16.00	
24-Nov-80	4.75	4.75	3.00	4.75	9.50	14.25	19.00	
23-Nov-81	5.25	5.25	3.30	5.25	10.50	15.75	21.00	
22-Nov-82	5.85	5.85	3.65	5.85	11.70	17.55	23.40	
21-Nov-83	6.50	6.50	4.05	6.50	13.00	19.50	26.00	
26-Nov-84	6.85	6.85	4.25	6.85	13.70	20.55	27.40	
25-Nov-85	7.00	7.00	4.55	7.00	14.00	21.00	28.00	
28-Jul-86	7.10	7.10	4.60	7.10	14.20	21.30	28.40	
06-Apr-87	7.25	7.25	4.70	7.25	14.50	21.75	29.00	
11-Apr-88	7.25	7.25	4.90	7.25	14.50	21.75	29.00	
10-Apr-89	7.25	7.25	5.20	7.25	14.50	21.75	29.00	

<sup>1</sup> Family allowance was abolished at the end of March 1977 when child benefit was introduced. Family allowance was taxable as earnings of the husband and subject to clawback. Child Benefit is not taxable.

<sup>2</sup> Family allowance was payable to the second and subsequent children.

**Table 3.9: Family allowances and Child Benefit - financial year average rates<sup>1</sup>**

	Amount for first eligible child <sup>2</sup>	Amount for subsequent Children	Single parent family first child premium (One Parent Benefit)	No. of children in family			
				1	2	3	4
48-49 to 51-52	0.25	0.25	-	-	0.25	0.50	0.75
52-53	0.34	0.34	-	-	0.34	0.68	1.02
53-54 to 55-56	0.40	0.40	-	-	0.40	0.80	1.20
56-57	0.40	0.45	-	-	0.40	0.85	1.30
57-58 to 66-67	0.40	0.50	-	-	0.40	0.90	1.40
67-68	0.40	0.50	-	-	0.40	0.90	1.51
68-69	0.83	0.93	-	-	0.83	1.75	2.68
69-70 to 74-75	0.90	1.00	-	-	0.90	1.90	2.90
75-76	1.50	1.50	-	-	1.50	3.00	4.50
76-77	1.50	1.50	-	-	1.50	3.00	4.50
77-78	1.00	1.50	0.50	1.00	2.50	4.00	5.50
78-79	2.57	2.57	1.38	2.57	5.14	7.71	10.28
79-80	4.00	4.00	2.20	4.00	8.00	12.00	16.00
80-81	4.27	4.27	2.68	4.27	8.55	12.82	17.10
81-82	4.93	4.93	3.11	4.93	9.87	14.80	19.74
82-83	5.47	5.47	3.43	5.47	10.94	16.41	21.88
83-84	6.09	6.09	3.80	6.09	12.18	18.27	24.36
84-85	6.63	6.63	4.12	6.63	13.26	19.89	26.52
85-86	6.90	6.90	4.36	6.90	13.81	20.71	27.62
86-87	7.07	7.07	4.58	7.07	14.14	21.21	28.28
87-88	7.25	7.25	4.70	7.25	14.50	21.75	29.00
88-89	7.25	7.25	4.90	7.25	14.50	21.75	29.00
89-90	7.25	7.25	5.20	7.25	14.50	21.75	29.00

<sup>1</sup> Family allowance was abolished at the end of March 1977 when child benefit was introduced. Family allowance was taxable as earnings of the husband and subject to clawback. Child benefit is not taxable.

<sup>2</sup> Family allowance was payable to the second and subsequent children.

**Table 3.10: Maternity Grant rates**

£ per week	
05/07/1948	4.00
26/10/1953	9.00
16/05/1955	10.00
03/02/1958	12.50
03/04/1961	14.00
11/03/1963	16.00
25/01/1965	22.00
03/11/1969	25.00



**Section 4: Indirect tax**

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**A CURRENT SYSTEM**
**Table 4.1: Some key figures**

	Outturn 2007-08	Estimate 2008-09	Projection 2009-10
<i>£Billions</i>			
<i>Indirect tax receipts</i>			
Value added tax	80.6	78.4	63.7
Fuel duties	24.9	24.6	26.6
Tobacco duties	8.1	8.2	8.3
Spirits duties	2.4	2.4	2.6
Wine duties	2.6	2.6	2.7
Beer and cider duties	3.3	3.4	3.4
Betting and gaming duties	1.5	1.5	1.5
Air passenger duty	2.0	1.9	1.8
Insurance premium tax	2.3	2.3	2.4
Landfill tax	0.9	1.0	1.0
Climate change levy	0.7	0.7	0.7
Aggregates levy	0.3	0.3	0.3
Customs duties and levies	2.5	2.7	2.7
<b>Total indirect tax</b>	<b>132.1</b>	<b>130.0</b>	<b>117.7</b>
Vehicle excise duties	5.4	5.6	5.6

**Introduction**

4.1 Indirect taxes cover HM Revenue & Customs duties on specific commodities and vehicle excise duty (VED), as well as more general sales taxes. Changes can be made to duty rates and VAT by Order, without the need for primary legislation. These ‘regulator’ powers are discussed in paragraphs 4.39 to 4.44.

**VAT**

4.2 Value added tax (VAT) is a broadly based *ad valorem* tax charged on the supply of a broad range of goods and services. VAT is governed by a framework of EU legislation, that is transposed into domestic law. The tax is designed to fall on the final consumption of goods and services supplied to the home market. VAT is payable in addition to any customs duty or other tax on the goods. It is levied on the final (VAT-exclusive) cost or price of the goods supplied, and so is levied on any customs duty or other tax the goods may bear. The vast majority of businesses account for their VAT by submitting four quarterly returns in one year.

4.3 VAT is charged at a standard rate on most goods and services. The standard rate was temporarily reduced from 17½ per cent to 15 per cent between 1 December 2009 and 31st December 2009 by use of the VAT regulator (see paragraph 4.52).

4.4 The VAT liability that accrues at each stage of production and distribution is calculated as the tax value of the supply multiplied by the applicable VAT tax rate. The tax value represents the price that has first

been decided between supplier and purchaser for the supply before any VAT is added. The tax value for the VAT calculation is inclusive of other taxes and duties. A taxable body charges VAT on supplies it makes (output tax), pays tax to suppliers on the materials and services it buys (input tax) and accounts to HM Revenue & Customs for the difference between output tax and input tax in each accounting period. This usually involves a net payment to HM Revenue & Customs because output tax exceeds input tax; but where output tax is less than input tax, the taxable body claims a repayment. If the customer is an end consumer, this end consumer will effectively be paying all the VAT.

Example 4.1 <i>The UK supply chain for Widgets*</i>			
Event	Manufacturer's Input Tax	Manufacturer's Output Tax	Manufacturer's Net VAT Payable
Manufacturer sells widget to Wholesaler for £20 + £3.00 VAT.	£0	£3.00	<b>£3.00</b>
Event	Wholesaler's Input Tax	Wholesaler's Output Tax	Wholesaler's Net VAT Payable
Wholesaler sells widget to Retailer for £30 + £4.50 VAT.	£3.00	£4.50	<b>£1.50</b>
Event	Retailer's Input Tax	Retailer's Output Tax	Retailer's Net VAT Payable
Retailer sells widget to UK customer for £60 + £9.00 VAT.	£4.50	£9.00	<b>£4.50</b>
* VAT rate at 15% in this example.			
			Net Amount of VAT Received By HMRC
			<b>£9.00</b>

### Legal Framework

4.5 VAT in the UK is a part of a European tax governed by European law, so there are constraints on how it is actually applied in the UK and other member states. The minimum standard rate of VAT in member states is 15 per cent. The zero-rate is not featured in the EU law as it was not intended that any reduced VAT rate throughout Europe would be below 5 per cent. However, zero-rating remains in some member countries, including the UK, as a legacy of pre-EU legislation. These member states have been granted a derogation to continue existing zero-rating but cannot add new goods or services.

### Zero-rated supplies

4.6 Certain goods and services are zero-rated, meaning they are legally taxable, but the rate of tax is zero. Output tax is not chargeable on such supplies but VAT that the business has paid on its inputs is reclaimable. Businesses whose main output are zero-rated supplies, and whose input tax in consequence regularly exceeds their output tax may opt for a one-month tax period in order to obtain earlier repayment. Categories of zero-rated goods and services are shown in Table 4.3a. For the recent history of removal of zero-rating for various cases, see paragraph 4.61.

### Reduced rate supplies

4.7 European VAT law allows Member States to apply either one or two reduced rates of not less than 5 per cent to a prescribed list of goods and services. These same agreements also allow Member States to apply a reduced rate to supplies which they had previously zero-rated (e.g. in the UK, domestic fuel and power). Categories of goods and services to which the UK applies a reduced rate are shown in Table 4.3b. For the complete history of introducing reduced rate goods and services, see paragraph 4.63.

### Exempt supplies

4.8 Other goods and services are exempt from VAT. Persons making supplies of exempt goods or services do not charge their customers tax on these supplies but, unlike zero-rated supplies, are not normally entitled to reclaim any tax on inputs. Some element of irrecoverable VAT may, therefore, enter into the price of exempt supplies. The main exemptions are shown in Table 4.4.

4.9 The approximate proportions of consumers' (household) expenditure that fall into the different VAT categories (data for the year 2008) are as follows:

Approximate proportion of consumers' expenditure:

Subject to VAT at standard rate (17.5%)	52 per cent
Subject to VAT at reduced rate (5%)	4 per cent
Subject to VAT at zero rate	12 per cent
Exempt or out of scope	32 per cent

(Percentages have been rounded individually)

4.10A person who makes both taxable (including zero-rated) and exempt supplies is termed 'partially exempt'; generally he must attribute his input tax between taxable and exempt outputs according to the inputs in each and deduct only that part of the input tax which relates to the taxable outputs. This procedure is subject to de minimis limits.

### Registration and deregistration

4.11 A trader whose taxable supplies exceed or are likely to exceed a set limit (£68,000) is liable to be registered with HM Revenue & Customs, although a trader whose taxable supplies are zero-rated can request exemption from registration. There is also provision for traders whose turnover is below the registration limit to register voluntarily.

If a registered trader's turnover falls below a second set limit (£66,000), then the trader has the option of deregistering. Exemption or deregistration saves a trader from having to render returns and keep proper records for VAT purposes, but means that input tax paid on purchases of goods and services is not reclaimable.

### Optional small business schemes

4.12 From 1 July 1988 an optional annual accounting scheme was introduced for businesses with a tax exclusive turnover of under £250k. The scheme allows businesses to make instalments during the year, calculating their VAT liability at the end of the year together with a balancing payment. The scheme was extended to businesses with a tax exclusive turnover of under £300k from 9 April 1991, to under £600k from 1 April 2001, to under £660k from 1 April 2004 and to under £1.35m from 1 April 2006.

4.13 From 1 October 1987 an optional cash accounting scheme was introduced for businesses with a tax exclusive turnover not exceeding £250k. The scheme allows businesses to account for VAT when payments are made and received rather than when invoices are issued, improving cash flow and providing automatic bad debt relief. The scheme was extended to businesses with a tax exclusive turnover not exceeding £300k from 1 October 1990, not exceeding £350k from 1 April 1993, not exceeding £600k for 1 April 2001, not exceeding £660k from 1 April 2004, and not exceeding £1.35m from 1 April 2007.

4.14 From 25 April 2002 an optional flat rate scheme was introduced for businesses with a tax exclusive turnover not exceeding £100,000. The scheme allows these businesses to calculate their net tax by applying a flat rate percentage to their tax inclusive income. From 1 May 2003, the scheme was extended to businesses with a tax exclusive turnover not exceeding £150,000. From January 2004 there was a 1 per cent reduction in the rates used to calculate net tax. The rates were recalculated with effect from 1 December 2008 to take account of the change in the standard rate of VAT.

### Treatment of Purchases of Goods From Abroad

4.15 VAT is charged on the importation or acquisition of most goods received from outside the UK. When goods are imported into the UK from outside the EU, UK VAT is normally due at the same rate as on a

supply of those goods in the UK. VAT on goods imported from outside the EU is paid to HMRC physically when the goods clear customs control. VAT on goods imported from other EU states is collected via a self-charge on the importers VAT return. Subject to the normal rules for reclaiming VAT paid, the importer of the goods can reclaim input tax if these goods are subsequently used as an input in production or for onward supply.

#### Treatment of Sales Of Goods To Purchasers From Abroad

4.16 Concerning exports of goods, if these are sold to a foreign customer outside of the EU, the supply is normally zero-rated for UK tax purposes provided certain conditions are met. (The goods would then be subject to the tax regime applicable in the foreign country). If goods are supplied to a VAT-registered customer in another EU country and the goods are removed from the UK, the supply may be zero-rated (for UK tax purposes) provided certain conditions are met. (The goods will then be subject to the tax regime applicable in the other EU country). Since 1 January 1993, UK traders registered for VAT who make supplies of goods to traders registered for VAT in other EU countries have been required to send lists of their EU sales to HMRC.

#### Treatment of Purchases of Services From Abroad

4.17 The basic rule is that the place of supply for services is the place where the supplier belongs (although there are exceptions to this rule). For services falling under this basic rule that are purchased by a UK person from a supplier belonging outside the UK, there is no UK VAT paid on the supply. The suppliers will be subject to their own country's tax regime. From 1 January 2010, the basic rule will change for business-to-business supplies and VAT will be chargeable in the country of the business customer. A UK business customer will, from 1 January 2010 pay UK VAT on most services purchased from abroad by self-charging the VAT on his VAT return. The VAT self-charged can then be recovered as input tax subject to the normal rules.

#### Treatment of Supplies of Services To Non UK Customers

4.18 For supplies of services by UK registered taxable persons to overseas customers, the rules are broadly the mirror of those described in the previous section both in respect of the current basic rule and that applying from 1 January 2010.

#### **Specific duties**

4.19 Specific duties need to be increased each year in line with inflation if the tax burden is to be maintained in real terms. Since 1997, the expected inflation rate for the year to third quarter following the budget has been the basis for revalorisation. In recent Budgets, there has been a move away from automatic increases, such as tobacco escalator, towards year-by-year judgements, with some duties increasing by more or less than revalorisation. Current and historical rates are shown in Table 4.5.



### Alcoholic drinks

4.20 Beer Duty is based on the actual alcohol content of beer when it leaves the brewery or packaging plant. It is charged at a rate per hectolitre per one per cent of alcohol by volume. Beer produced by breweries producing less than 60,000 hectolitres of beer per annum attracts reduced rates of duty.

4.21 Cider and perry. This duty covers cider not exceeding 8.5 per cent volume alcohol. Cider of a greater strength is liable to made-wine duty as apple or pear wine. Cider above 7.5 per cent volume alcohol (but not exceeding 8.5 per cent) is charged at a higher rate of cider duty. Sparkling cider (i.e. in mushroom stoppered bottles) is chargeable at a higher rate of duty (it is aligned with the rate for low strength sparkling wine).

4.22 The taxation of some traditional mixed drinks (such as shandy) is based on the duty on its components. Duty on spirits-based coolers is charged per litre of alcohol at the same rate as spirits. Duty on wine-based coolers is charged at a rate per hectolitre of product in two bands – exceeding 1.2 per cent but not exceeding 4 per cent and exceeding 4 per cent but not exceeding 5.5 per cent.

4.23 Wines exceeding 5.5 per cent are charged at a rate per hectolitre of product in four different duty rates:

- still wine, with a strength not exceeding 15 per cent;
- sparkling wine, with a strength exceeding 5.5 per cent but not exceeding 8.5 per cent;
- sparkling wine, with a strength exceeding 8.5 per cent but not exceeding 15 per cent; and
- fortified wine, with a strength over 15 per cent but not exceeding 22 per cent.

There is a separate rate for wine of an alcoholic strength exceeding 22 per cent, which is charged at the same rate as spirits per litre of alcohol.

4.24 Spirits. Duty is charged according to alcoholic content – the unit of charge is the ‘litre of alcohol’.

Budget 2009 increased duty rates by 2 per cent nominal and, as announced at Budget 2008, duty rates will increase by 2 per cent above inflation in future years.

### Tobacco goods

4.25 The current and historical rates of duty on cigarettes and pipe tobacco are shown in Table 4.5b. Cigars and hand-rolling tobaccos are also taxed, but snuff is exempt. For tobacco products other than cigarettes excise duty is now based entirely on weight; for cigarettes, there is an ad valorem element, calculated as a percentage of the retail price (including VAT) and a fixed charge per 1,000 cigarettes (the specific element). Tobacco duties were increased in the Pre-Budget Report 2008 to ensure the overall

taxation of tobacco products remained broadly unchanged following the reduction in the standard rate of VAT. Budget 2009 increased tobacco duties by 2 per cent nominal.

### Hydrocarbon oils

4.19 Current and historical rates of duty are shown in Table 4.5c. Hydrocarbon oils consist of:

- light oils: mainly unleaded petrol for road use;
- heavy oils: mainly unrebated diesel for road use; and
- rebated oils: mainly rebated heavy oil for use in industrial processes and heating including domestic heating, and in off road vehicles. All heavy oil not for use in road vehicles is relieved from part of the duty by means of a rebate upon delivery. Budget 2008 introduced a rebated rate of duty for biodiesel and bioblend for use other than as a road fuel. Rates payable after rebate are shown in the final column of Table 4.5c
- biofuels: biodiesel and bioethanol for use as a road fuel are subject to 20 pence per litre duty differential until 2010, when they will be subject to duty at the same rate as road fuel diesel and petrol, as support for biofuels take-up moves entirely to the Renewable Transport Fuels Obligation (RTFO).

4.26 Following 1 December 2008 and 1 April 2009 increases in duty rates, Budget 2009 announced that duty will increase on 1 September 2009 and by 1 penny per litre in real terms on 1 April each year from 2010 to 2013.

4.27 VAT is chargeable on all hydrocarbon oils used as road fuels or lubricants and on non-domestic use.

### **Vehicle excise duty**

#### Vehicle excise duty on cars

4.28 Vehicle excise duty (VED) is a duty on mechanically propelled vehicles used or kept on a public road (a vehicle does not have to be licensed if it is kept solely on private premises, although the law does require that the vehicle be declared as statutorily 'off-the-road'). Annual and six-monthly licences are available, where the six-monthly rate is 55 per cent of the annual licence rate. There are currently two co-existing forms of VED: one for private and light goods vehicles registered before 1 March 2001 and one for private vehicles first registered on or after this date.

4.29 For private and light goods vehicles first registered before 1 March 2001, there are two different VED rates depending on engine size. Vehicles with engines no larger than 1549cc pay £125 for full-year VED and vehicles with larger engines pay £190.

4.30 For **cars** first registered from 1 March 2001 onwards, there is a graduated system of VED based on CO<sub>2</sub> emissions and fuel type. There are now thirteen CO<sub>2</sub> bands, and each band has a standard and a discounted duty rate according to whether the vehicle runs on regular petrol and diesel or is capable of running on cleaner fuels (includes petrol-electric hybrids). The VED rates vary from £0 to £405 for a full year. Under the current arrangement, only cars registered on or after 22 March 2006 are liable for the highest VED bands. **Light goods vehicles** registered from 1 March 2001 onwards pay £185 a year. A light goods vehicle incentive rate exists for clean air emissions vans taken-up early, ahead of mandatory implementation of EU clean air emissions vehicle regulations.

4.31 Cars and other broadly non-commercial vehicles built before 1 January 1973 are exempted from VED and there are also exemptions for vehicles for the disabled, emergency vehicles (fire engines, ambulances and police cars) and vehicles with very limited road use.

#### VED on heavy goods vehicles

4.32 There are currently seven broad bands of rates, ranging from £165 to £1850 according to gross weight and the number of axles. These rates have remained unchanged since a major reform of rates in 2001.

#### VED on motorcycles

4.33 There are currently four bands of VED for motorcycles, which range from £15 to £66 per year according to engine size. The £15 rate for the very smallest motorcycles has remained unchanged since 1991.

### **Other taxes**

#### Betting and gaming taxes

4.34 General Betting Duty is charged as a percentage of the gross profits made in respect of bets placed with off-course bookmakers. The current rate of duty is 15 per cent. Gross profits are calculated by deducting amounts paid out in winnings from the amount staked on bets (an additional levy is charged on bets, which is not duty but is payable to the Horse Race Levy Board).

4.35 Pool Betting Duty - charged as a percentage of the net amount of receipts from pool betting. The net amount of receipts is calculated as the total amount staked added to the total of expenses and profits not met from stakes less the total amount paid out in related winnings. The current rate is 15 per cent.

4.36 Gaming Licence Duty - the duty is charged as a percentage of the gross gaming yield based on a banded scale, where the duty rate varies from 15 to 50 per cent. Remote Gaming Duty was introduced on 1 September 2007 and duty is calculated as 15 per cent remote gaming gross profit.

4.37 Amusement Machine Licence duty is paid on the licence required for each machine, which may be taken out for periods of between one and twelve months.

4.38 Bingo duty – the duty is calculated as 22 per cent of gross profits. The gross profit is calculated as the total amount that players pay to participate in bingo less the total value of prizes bingo promoters pay out as winnings.

4.39 Lottery duty - charged at 12 per cent of the value of the consideration given for the taking of a ticket or chance in a lottery. Only the National Lottery currently pays the duty.

#### Insurance premium tax

4.40 This is a tax levied on most general insurance premiums where the insured risk is located in the United Kingdom. All long-term insurance (such as life assurance and pensions) is exempt and there are also exemptions for general insurance of international air and sea transport and trade. To prevent premiums being taxed twice, insurance premium tax does not apply to reinsurance. The standard rate is 5 per cent, and the higher rate is 17.5 per cent – the latter is an anti-avoidance measure for a limited range of insurance usually sold with goods and services subject to VAT.

#### Air passenger duty

4.41 Air passenger duty is applied to air passengers travelling from United Kingdom airports. There are exemptions for transit and certain transfer passengers on international flights, children under 2 who are not allocated a separate seat before boarding the aircraft, passengers on small aircraft, crew and cabin staff, passengers not carried for reward (e.g. deportees). To the end of October 2009 for flights to destinations in the European Economic Area, the European Common Aviation Area, countries applying to join the EU, and Switzerland, reduced and standard rates of £10 and £20 apply. To the end of October 2009 for flights to other destinations, reduced and standard rates of £40 and £80 apply. However if a class of travel provides for seating in excess of 40” then the standard (rather than the reduced) rate of APD applies. From November 2009 geographical distance bandings take effect, measured on the distance between London and a country’s capital city (except far eastern Russia which falls into a further distance banding). The split between reduced and standard rates will remain, as shown in table 4.8. From November 2010 rates will again be revised upwards as shown in table 4.8. The reduced rate applies to those travelling in the lowest

class of travel on any flight. There is an exemption for flights from airports in the Scottish Highlands and Islands.

#### Landfill tax

4.42 Landfill tax is a tax on the disposal of waste by way of landfill at landfill sites licensed (or permitted) under environmental legislation. The tax encourages the waste management industry and waste producers to seek more environmentally sustainable waste options such as recycling, incineration and anaerobic digestion.

4.43 There are two rates of landfill tax: the current standard rate of tax is £40 per tonne. This applies to waste that biodegrades e.g. household waste, which produces methane, a potent greenhouse gas. The lower rate of tax, which applies to inactive waste, such as gravel, rock or soil is £2.50 per tonne. Inactive waste is waste that does not decay (and therefore does not give off methane) or has the potential to pollute groundwater or contaminate land. There is a Landfill Communities Fund (LCF), which encourages the improvement of the environment in the vicinity of a landfill site by funding environmental projects aimed to redress some of the environmental damage caused by landfill. Funded through the contributions of landfill site operators, who can receive a tax credit, which is used to offset against their landfill tax returns.

4.44 Budget 2009 announced a continuation of increases to the standard rate of landfill tax by £8 per tonne each year until 2013-14 to ensure that the waste management industry and waste producers embrace alternative technologies and reduce reliance on landfill.

#### Climate change levy

4.45 The aim of the levy is to encourage energy efficiency and to help meet the UK's legally binding target for reducing greenhouse gas emissions set under EC conditions. The levy applies to electricity, coal, hydrocarbon derivatives, and natural and liquid petroleum gas. The levy does not apply to any sources of energy on which duty is paid (e.g. road fuel etc). The levy is only applied to businesses that pay the standard rate of VAT on fuel; it does not apply to domestic premises, charities or businesses with a small user usage.

4.46 There are exemptions to the tax such as for energy products used in certain recycling processes (e.g. coal that is used as a raw material to make carbon filters) and for electricity generated from combined heat and power plants sold via licensed electricity supplies.

4.47 Some businesses in energy intensive sectors can also gain relief from the tax through climate change agreements, which give an entitlement to claim up to 80 per cent relief in return for meeting challenging targets for reducing their emissions or improving energy efficiency.

4.48 The rates of duty for 2009-10 are:

- electricity: £0.00470 per kilowatt hour;
- gas supplied by a gas utility or any gas supplied in a gaseous state that is of a kind supplied by a gas utility: £0.00164 per Kilowatt hour;
- any petroleum gas, or other gaseous hydrocarbon, supplied in a liquid state: £0.01050 per kilogram; and
- any other taxable commodity, £0.01281 per kilogram.

Budget 2009 announced that the rates will be frozen for 2010-11 as above.

#### Aggregates levy

4.49 Aggregates levy was introduced to tackle the environmental costs of quarrying and to encourage the use of recycled aggregates and alternative materials. It applies to the vast majority of sand, gravel or (crushed) rock, which is used commercially within the UK.. There are a number of reliefs from the levy mostly for taxable materials put to a non-aggregate use e.g. sand for use in the manufacture of glass. Additionally there are a number of exemptions from the levy; it does not apply to other quarried or mined products such as coal, and shale, or to recycled aggregates such as china clay. This is largely to promote the use of certain materials as an alternative to virgin aggregate. There is also an Aggregates Levy Sustainability Fund, which works alongside the levy to reduce the impact of aggregates production on the environment . The levy is charged at a single flat rate of £2.00 per tonne.

4.50 Budget 2008 announced that the rate of Aggregates Levy increase by 5p from £1.95 per tonne to £2.00 per tonne from 1 April 2009 to maintain the levy's environmental effectiveness. Budget 2009 announced a freeze to the levy at £2.00 per tonne for 2010-2011 to enable the sector to recover from the economic difficulties faced by the downturn in construction works.

#### **The regulators**

4.51 There are three regulators, covering VAT, tobacco products, and other excise duties. These provide for changes to be made to indirect tax rates by Order, without need for immediate primary legislation. All three regulators are activated by Treasury Orders introduced as Statutory Instruments subject to Affirmative Resolution within 28 sitting days in the case of duty or tax increases and to the Negative Resolution procedure in the case of reductions. Rate changes made under all three regulators lapse automatically a year after their first application, unless they are continued by a further Order (although

changes in such subsequent Orders must always be applied to the original rate or duty of tax) or have been consolidated by provisions in a subsequent Finance Bill. There are provisions in Finance Bill 2009 to make clear that it is possible to change VAT rates temporarily for *up to* a year, rather than a year exactly.

#### Excise duties

4.52 There are three groups of excise duty within the scope of the regulator powers:

- alcoholic drinks: spirits, beer, wine, made-wine, cider and perry;
- duties charged by the Hydrocarbon Oils Duties Act 1979: including hydrocarbon oils, other liquid motor fuel substitutes, and gas for use as road fuel; and
- certain other excise duties: air passenger duty and most betting and gaming duties.

4.53 Rates of duty or rebate, drawback or allowance may be adjusted by an increase or decrease of up to 10 per cent (of the underlying rate that is set in primary legislation). Different percentage changes can be applied to different types of duty, but one Order cannot provide for both increases and decreases in taxation.

#### VAT regulator

4.54 This allows for a change of up to 25 per cent in the standard VAT rate (i.e. from 17½ per cent to just above 13 per cent or just below 22 per cent). However, all EU member states have agreed to apply a minimum standard VAT rate of 15 per cent.

4.55 The VAT legislation also makes provision for the zero-rating and exempt schedules to be altered (either by adding new items or deleting or amending existing ones) by Order, without need for primary legislation. Again, this is subject to the constraints of EU law regarding the scope of zero-rated and exempt supplies.

#### Tobacco products regulator

4.56 This allows the rate of duty on tobacco products to be increased or reduced by up to 10 per cent and allows for different proportionate changes for the different products. In the case of cigarettes both specific and ad valorem elements can be varied by up to 10 per cent. (In the case of the latter, this means the rate could be varied from 22 per cent to between 19.8 per cent and 24.2 per cent.)

## **B. HISTORY**

### **VAT**

4.57 A general sales tax – ‘purchase tax’ - was first introduced in 1940. This single stage commodity tax was levied on wholesalers but did not apply to service industries. An attempt to redress the balance was made in 1966 when a selective employment tax (SET) was introduced. This operated as an addition to employer's national insurance contributions. It was refunded to all industries apart from those in the service and construction sectors. VAT replaced purchase tax and SET in 1973.

4.58 VAT was introduced in the UK on 1 April 1973, with a single positive rate (the standard rate) in addition to the zero rate. The rates of many of the specific customs duties fell when VAT was introduced in April 1973 to compensate for the additional VAT burden on the goods. Historical VAT rates and registration limits are shown in Tables 4.2 and 4.8.

4.59 Input tax attributable to ‘exempt’ outputs cannot normally be reclaimed. Most other input tax is deductible – current exceptions include VAT on business entertainment and tax on motor cars purchased for business use (other than cars purchased by taxi firms, self-drive hire firms and driving schools since 1 August 1992, cars leased by them since 1 January 1994, or cars purchased on or after 1 August 1995 that are demonstrably to be used wholly for business purposes). VAT is chargeable on goods imported into the UK, by whatever means, whether the importer is registered as a taxable person or not; and on goods removed from bonded warehouses. VAT is also chargeable on certain services received in the UK from overseas by means of a ‘reverse charge’ (the recipient being regarded as having both received and supplied the services in the UK and required to account for VAT accordingly); the value of such imported services counting as taxable turnover for VAT registration purposes. Since the introduction of the European Single Market on 1 January 1993, VAT on imports from EC countries is no longer charged at importation, although VAT on other imports still becomes due then. Businesses acquiring goods from EC countries now account for any VAT due on their normal returns to HM Revenue & Customs.

4.60 The new higher rate of VAT was introduced in November 1974; this was abolished in June 1979 and there remained a single positive rate of VAT until the reduced rate for domestic fuel and power was introduced on 1 April 1994. Certain technical changes were made from 1 January 1978 to comply with the EC 6th VAT directive (which laid down a common structure for VAT within the Community).

#### Extension of VAT standard rate

4.61 The following is a brief recent history of the removal of zero-rating (and changes from exemption to standard rating):



- 1 May 1980: Standard rate extended to lubricating and certain other previously zero-rated oils;
- 1 May 1984: Standard rate extended to hot take-away food and drink;
- 1 June 1984: Standard rate extended to building alterations and certain goods installed as fixtures in new buildings;
- 1 May 1985: Standard rate extended to advertising in newspapers, journals and periodicals;
- 1 May 1988: Standard rate extended to certain confectionery (cereal bars);
- 1 September 1988: Standard rate extended to spectacles and privately dispensed hearing aids. These were previously exempt;
- 1 April 1989: Standard rate extended to non-residential construction, civil engineering and property development; to supplies of protective boots and helmets to a person other than to an employer for the use of his employees; and to news services other than those supplied directly to the public or for production of zero-rated products such as newspapers;
- 1 April 1989: Landlords given the option to tax rents and sales of non-residential buildings. This allows landlords to recover the VAT they pay, they are not allowed to tax rent from charities' non-business buildings other than offices;
- 1 July 1990: Standard rate extended to non-domestic energy and water/sewerage services to industry;
- 1 August 1990: Standard rate extended to stores used on private voyages and flights;
- 1 April 1995: Standard rate extended to services relating to entertainment or recreational activities and car parking at airports, which include an element of passenger transport;
- 1 January 1996: Standard rate of VAT applied to the whole of a tour operator's margin on holidays and travel within the European Community (previously only applied to standard rated elements);
- 27 June 1996: Heated water excluded from the zero rate schedule 8 Group 2 of the VAT Act 1994; and
- 1 July 1999: Standard rate applied to goods bought by travellers on journeys between member states, as part of the abolition of duty-free shopping on journeys within the EU.
- 1 May 2007: Standard rate extended to certain supplies by health professionals which are not medical care.

#### The higher rate of VAT

4.62 This applied from November 1974 to petrol and from May 1975 to the groups of goods listed in Table 4.9. The higher rate was also chargeable on most parts and accessories for these goods, on services (repairs, hire etc) connected with these goods, and goods supplied in connection with such services. The higher rate was discontinued when the unified rate of 15 per cent was introduced in June 1979.

### The reduced rate of VAT

4.63 Until 1994 domestic fuel and power was zero-rated.

- 1 April 1994: Domestic fuel and power became liable to VAT at a rate of 8 per cent.
- 1 September 1997: Domestic fuel and power VAT rate reduced to 5 per cent.
- 1 July 1998: The reduced rate of 5 per cent was extended to the installation of energy saving materials in the homes of pensioners and the less well off when funded by grants.
- 1 April 2000: The reduced rate for energy saving materials was extended to cover installation in all homes and to certain other grant funded work.
- 1 January 2001: The reduced rate was extended to include women's sanitary protection.
- 12 May 2001: The reduced rate was extended to include children's car seats and some residential conversions and renovations of empty properties.
- 1 June 2002: The reduced rate was extended to include the grant-funded installation of heating equipment.
- 1 June 2004: The existing reduced rate for ESMs extended to include ground source heat pumps.
- 1 April 2005: The reduced rate was extended to include sales of videos and other supplies of information connected with the welfare of elderly or disabled people or children.
- 7 April 2006: The reduced rate was extended to include installation of wood-fuelled boilers and installation of air source heat pumps and micro combined heat and power (micro-CHP) boilers.
- 1 July 2006: The reduced rate was extended to include contraceptive products.
- 1 July 2007: Reduced rate extended to include certain home alterations that support the need of the elderly people. Reduced rate of 5 percent for one year for the counter sales of smoking cessation products.
- 1 January 2008: Renovations or alteration works to a residential property to qualify for a reduced rate 5 percent, if the property is unoccupied for at least 2 years.
- 12 March 2008: Smoking cessation products reduced rate extended after 30 June 2008.
- 1 July 2009: The reduced rates on children's car seats extend to children's car seat bases

Table 4.3b shows categories of reduced rate goods and services.

### **Specific duties**

4.64 Tables 4.5 and 4.6 show the rates of the most important duties since 1990 and Table 4.7 gives some indication of changes in their real value. Tables 4.10 to 4.12 show the same information for earlier years back to 1969.

Alcoholic drinks

4.65 **Beer.** Until May 1993 the unit of charge was the hectolitre (bulk barrel of 36 gallons prior to 1980) of worts, the liquid produced from the mash before onset of fermentation. The wort content of 'beer' is effectively a measure of its potential alcohol content. The rate of duty depended on the original specific gravity of the worts with each degree above 1000 (pure water) attracting duty at the rate of £1.163 per degree. 'Beer' with an alcoholic strength not exceeding 1.2 per cent (approximately 1016°) is exempt from duty.

4.66 On 1 June 2002 a reduced rate of duty was introduced for beer produced by small breweries. Under this scheme breweries producing up to 30,000 hectolitres of beer per annum qualified for a 50 per cent reduction in the standard duty rate on the first 5,00 hl of production.

4.67 From 1 June 2004 an amendment to the scheme was introduced whereby breweries whose annual production was between 30,000 and 60,000 hectolitres also received some duty relief on their first 5,000hl. This worked in the form of a taper, so that between 30,000hl and 60,000hl the value of the relief gradually reduced from 50 per cent to zero. This amended version of the scheme is still in use today.

4.68 **Cider and Perry.** This duty was introduced in September 1976. It covered cider not exceeding 8.7 per cent volume alcohol until 14 March 1984, when the limit was reduced to 8.5 per cent volume alcohol. Since 1 October 1996 cider above 7.5 per cent (but not exceeding 8.5 per cent) has been charged at a higher rate of cider duty. From 1 January 1997 sparkling cider (i.e. in mushroom stoppered bottles) was chargeable at a higher rate of duty, which was increased to align with the rate for lower strength sparkling wines from 9 March 1999.

4.69 **Coolers.** The duty bands for low-strength (alcohol strength of between 1.2 and 5.5 per cent) mixed drinks were introduced in October 1988. Since 28<sup>th</sup> April 2002 duty on spirits-based Coolers has been charged per litre of alcohol at the same rate as spirits.

4.70 **Wine.** Until January 1976, wine was classified into two strengths for revenue purposes:

- heavy, over 25° proof spirit (27° for Commonwealth wine) - mainly fortified wines; and
- light, less than 25° (27°) proof spirit - table wines.

4.71 From January 1976 until 1992 excise duty on wine made from fresh grapes was charged at three different rates according to strength:

- 'lower', not exceeding 15 per cent alcohol by volume - mainly light or table wine;
- 'middle', over 15 and not exceeding 18 per cent alcohol by volume - fortified wines e.g.: sherry; and
- 'higher', over 18 and not exceeding 22 per cent alcohol by volume, e.g.: port.

4.72 There was a surcharge on sparkling wines until March 1984. Since then, a separate duty for sparkling wine has been imposed. Wine with above 22 per cent alcohol content is subject to an additional duty for every 1 per cent by which its strength exceeds 22 per cent. Made-wine duty has been aligned with that of wine from fresh grapes since March 1984.

4.73 Since January 1997, the current four separate duty rates have applied to wine. In addition, wine with alcoholic strength exceeding 22 per cent is charged at the same rate as spirits per litre of alcohol.

4.74 **Made-wine.** This duty was introduced in January 1976 to cover wines made from anything other than fresh grapes. Charged until March 1984 at different rates for three different strengths (less than 10 per cent, 10-15 per cent and over 15 per cent volume alcohol content). It is now aligned with wine from fresh grapes.

4.75 Until January 1976, there was a 'British wine' duty, charged on any liquor made from fruit and sugar that had been fermented. It covered mead, and strong ciders and perries of 15° or more proof spirit. As with wine there were two separate duty rates for wine of less than, and more than, 27° proof spirit, respectively.

4.76 **Spirits** are charged according to alcoholic strength. Until 1 January 1980, the unit of charge was the proof gallon (i.e. one gallon of 100 proof alcohol). The unit of charge is now the 'litre of alcohol'.

#### Tobacco goods

4.77 From September 1978 to March 1981 an extra duty was charged on cigarettes with a tar yield of 20mg or more.

4.78 Before 10 May 1976 excise duty was not charged on tobacco products as such, but customs duty was charged on the original imported tobacco according to origin and moisture content. Customs duty was reduced on the introduction of excise duty in May 1976 but when custom duty was abandoned on 1 January 1978, the excise duties on tobacco products were increased to compensate.

#### Hydrocarbon oils

4.79 From November 1974 to June 1979, petrol and certain light oils and petrol substitutes were chargeable at higher rates.

4.80 Domestic kerosene (paraffin). In March 1984 the duty on domestic kerosene was abolished.

4.81 Aviation kerosene (AVTUR). In March 1986 the duty on AVTUR was abolished. . Following the ending of a derogation the UK held under the Energy Products Directive, from late 2008 duty on AVTUR has resumed on supplies used for private pleasure flying, charged at the same rate as for unleaded petrol.

4.82 Gas for use as a road fuel was charged with excise duty at half the light oil rate from July 1972, as was aviation gasoline from March 1982. This applied until November 1994; from then the differential in favour of gas for use as a road fuel was increased. Until late 2008, when the rate was put onto a freestanding basis, aviation gasoline was subject to duty at half the rate for light oil.

4.83 In April 1987 a tax (duty and VAT) differential of 1.1p per litre between leaded and unleaded petrol was introduced to encourage a switch to unleaded petrol. In March 1989, the tax differential was increased to 3.1p per litre and increases brought the differential to 6.66p per litre in March 1999. In October 1999 lead replacement petrol (LRP) was introduced to replace leaded petrol. LRP had the same duty as super unleaded petrol (higher octane unleaded petrol) until March 2001 when the duty rate for super unleaded petrol was abolished. Duty on LRP is now charged at either the unleaded petrol rate or the light oil rate depending on the sulphur and aromatics content of the fuel.

4.84 From 15 August 1997 a new duty rate for ultra low sulphur diesel was introduced, which was 1 penny less than the rate for conventional diesel. The duty differentials were raised to 3 pence in March 1999 and 6 pence in March 2001. In October 2000 a separate rate of duty was introduced for ultra low sulphur petrol (ULSP), which was a penny less than the rate for standard unleaded petrol.

4.85 In July 2002, a separate rate of duty was introduced for bio-diesel, which was 20 pence per litre less than the rate for ultra-low sulphur diesel and ultra-low sulphur petrol. This rate will be maintained until 2010-11, when it will cease in favour of a regulatory mechanism in support of biofuels – the Renewable Transport Fuel Obligation (RTFO).

4.86 From 1 October 2003 new duty rates for sulphur-free diesel and sulphur-free petrol were introduced, set at the same rate for ULSP and ULSD.

4.87 In January 2005, a separate rate of duty was introduced for bioethanol, which was 20 pence per litre less than the rate for ultra-low sulphur diesel and ultra-low sulphur petrol. This rate will be maintained until 2010-11, when it will cease in favour of a regulatory mechanism in support of biofuels – the Renewable Transport Fuel Obligation (RTFO).

4.88 In April 2008, duty rates were simplified. The three duty rates for heavy oil (ULSD, SFD and heavy oil which is not ULSD/SFD) were reduced to one rate: heavy oil; and the four duty rates for light oil (ULSP,

SFP, unleaded petrol and other light oils) were reduced to two rates: light oil and light oil other than unleaded petrol.

4.89 Heating oils for domestic use were zero-rated for VAT until April 1994.

### Car Tax

4.90 This was introduced in April 1973 when VAT replaced purchase tax on cars to make good the difference between the rate of purchase tax and lower VAT rate. The scope was extended to motorcycles in April 1981 and to motor caravans in May 1985. From 1 April 1989, cars leased to the disabled were relieved of car tax. Until 11 March 1992 car tax was charged at 10 per cent of the wholesale value of the vehicle (with the exception of motor caravans where it was 10 per cent of 3/5ths of the wholesale value). On 11 March 1992 car tax fell to 5 per cent and it was abolished from 12 November 1992.

4.91 Note that wholesale value was defined for Car Tax purposes as  $\frac{5}{6}$ ths of the wholesaler's list price exclusive of VAT and Car Tax (i.e. the tax-exclusive recommended retail price). This allowed for the retailer's mark-up, which was assumed to be  $\frac{1}{6}$ th. So when Car Tax was 5 per cent, it was effectively levied on cars and motorcycles at a rate of  $4\frac{1}{6}$  per cent of the tax-exclusive list price.

### **Vehicle excise duty**

#### Vehicle excise duty on cars

4.92 Since 1937 the proceeds of this duty have not been hypothecated to road construction and maintenance; they are paid to the Consolidated Fund. Six-monthly licences replaced four-monthly licences on 1 October 1980.

4.93 Until January 1948 the rate of duty varied according to the horsepower of the car. Up until 1999 all modern cars paid the same rate irrespective of size or other factors, but in June of that year the first stage of a policy to levy VED according to environmental criteria was introduced, whereby cars with engine sizes of 1100cc or less became entitled to a reduction of £55 in VED. The qualifying figure was raised to 1200cc in March 2001 and to 1549cc in July 2001, backdated through rebates to November 2000.

4.94 Graduated VED based on CO<sub>2</sub> emissions and fuel type was introduced for cars first registered on or after 1 March 2001.

#### Vehicle excise duty on heavy goods vehicles

4.95 VED on heavy goods vehicles was changed in October 1982 from being levied on an unladen weight basis to a gross weight basis. In October 1990, a further amendment to the heavy goods tax threshold was made from 1,525kg unladen to 3,500kg gross. For the heavier categories of vehicles, it was also inversely related to numbers of axles.

4.96 In December 2001, radical reforms to VED for heavy goods vehicles were implemented. Over 100 different tax rates were replaced with a system of seven broad bands of rates, ranging from £160 to £1850.

#### Vehicle excise duty on motorcycles

4.97 Budget 2002 reformed the VED system for motorcycles, replacing the previous three-banded system with four bands to more closely reflect the current motorcycle fleet.

### **Other taxes**

#### Betting and gaming taxes

4.98 Since October 2001, General Betting Duty has been charged as a percentage of the gross profits made in respect of bets placed with off-course bookmakers. Previously the duty was charged as a percentage of the amounts staked.

4.99 Pool betting duty was introduced on 1 April 2002. Pool betting duty was previously charged as a percentage of the amount staked on bets.

4.100 Amusement machine licence duty (AMLD) replaced Gaming Machine Licence Duty with effect from 1 November 1995, extending the scope of the duty to cover pinball machines and video machines, including quiz machines. From 1<sup>st</sup> August 2006, new machine categories and duty rates will apply to any licence from this period. The changes to the descriptions of gaming machines (including Fixed Odds Betting Terminals) and the rates of AMLD will affect any licensable machine for play in the UK.

4.101 Remote Gaming Duty was introduced on 1 September 2007 and duty is calculated as 15 per cent remote gaming gross profit. Remote gaming refers to playing a game of chance for a prize by use of remote communication - for example, the internet, telephone or television.

4.102 From 27 October 2003, the basis on which Bingo Duty is charged was changed. Duty is calculated as a percentage of the gross profits made in respect of players paying to participate in bingo minus the total

value of prizes bingo promoters pay out in winnings. Previously the duty was charged as a percentage of money staked by players plus  $\frac{1}{9}$  of added prize money.

#### Insurance premium tax

4.103 Insurance premium tax was introduced on 1 October 1994 at a rate of 2.5 per cent of the premium (gross of brokers' commission). With effect from 1 April 1997 this rose to 4 per cent on most general insurance and a higher rate of 17.5 per cent was introduced as an anti-avoidance measure for a limited range of insurance usually sold with goods and services subject to VAT. The standard rate increased to 5 per cent from 1 July 1999.

#### Air passenger duty

4.104 This was introduced on 1 November 1994. Some exemptions apply - to children under 2, passengers on small aircraft, crew and cabin staff, passengers not carried for reward (e.g. deportees) and certain transfer passengers on international flights. Initially the charge was £5 for those flying to destinations in the European Economic Area (EEA) (including flights within the United Kingdom) and £10 for those flying elsewhere, but from 1 November 1997 these rates increased to £10 and £20 respectively. From 1 April 2001 new reduced and standard rates of £5 and £10 applied for flights to EEA destinations and of £20 and £40 for flights to non-EEA destinations. These rates were doubled to their present levels from 1 February 2007. The reduced rate applies to those travelling in the lowest class of travel on any flight. In addition to the removal of a previous exemption for passengers on the return leg of a flight within the United Kingdom, April 2001 also saw the introduction of an exemption for flight from airports in the Scottish Highlands and Islands. Duty rates will change from November 2009 as geographical bandings come into effect, and will rise again from November 2010.

#### Landfill tax

4.105 Landfill tax was introduced on 1 October 1996 and applies to the disposal of waste in landfill sites. The lower rate of tax was introduced at £2 per tonne. The standard rate of tax from 1 October 1996 was £7 per tonne and increased to £10 per tonne from 1st April 1999. The standard rate of tax was then raised by an additional £1 per tonne each year for the next five years. In Budget 2004 the Government announced that the standard rate of landfill tax would increase by £3 per tonne to £18 per tonne in 2005-06, and by at least £3 per tonne in the years thereafter, on the way to a medium to long term rate of £35 per tonne. However, in Budget 2007, the Government announced that the standard rate would increase by £8 per tonne each year from the 1 April 2008 until at last 2010-11 in order to encourage greater diversion of waste from landfill and more sustainable waste management options. The lower rate applying to inactive waste will also increase from £2 to £2.50 per tonne from 1 April 2008.



Other indirect taxes

4.106 Climate change levy came into effect in April 2001 and is designed to encourage the non-domestic sector to become more energy-efficient and so reduce carbon emissions. Products subject to the levy are electricity at 0.43pence per KWh, gas at 0.15 pp KWh, LPG at 0.96 pp kg (equivalent to 0.07 pp KWh) and solid fuels at 1.17 pp kg (or 0.15 ppKWh). In Budget 2006, the Government announced that as from 1 April 2007, the levy rate would be increased in line with current inflation and will continue to do so as announced in Budget 2007. Current levy rates are at 0.456 pp KWh, gas at 0.159 pp KWh, LPG at 1.018 pp kg and solid fuels at 1.242 pp kg.

4.107 The aggregates levy came into effect on 1 April 2002 and was introduced to reduce the amount of primary aggregate being extracted and to encourage use of alternatives. It applies to virgin sand, gravel and crushed rock which is subject to commercial exploitation in the UK – including that dredged from the seabed within UK territorial waters and was charged at £1.60 per tonne when the levy was introduced. This rate had been frozen until the Government announced in Budget 2007, that as from 1 April 2008 the rate will increase to £1.95 per tonne to take account of inflation since the introduction of the levy. Subsequently, Budget 2008 announced a further increase to the levy rate to £2.00 per tonne from 1 April 2009 to maintain the levy's environmental effectiveness.

4.108 Duty on matches and mechanical lighters was abolished from 1 January 1993.

**Use of regulators**

4.109 The economic regulator was introduced in 1961. Originally, it was a fairly blunt instrument that could apply only to the whole range of Customs and Excise revenue duties and purchase taxes. In 1964, the duties were split into groups and it became possible to apply the regulator more selectively. The original legislation provided that the Economic Regulator could be used only for '... regulating the balance between demand and resources ...' (hence it was known as the Economic Regulator) but this condition was removed by the *Finance Act 1980* as this was consistent with the VAT and tobacco regulators that were permanent, and not subject to any constraint about the need to balance demand and resources.

4.110 When VAT was introduced in 1973, provision was made for a separate VAT regulator. When the duty on tobacco leaf and imported products was replaced by a tobacco product (excise) duty in 1976, tobacco was removed from the economic regulator and a special tobacco products regulator was introduced.

4.111 Tax regulator powers have been used to increase taxation on four occasions. On each of these occasions, the duty rates on the products affected were surcharged by the maximum 10 per cent:

July 1961. A 10 per cent surcharge was imposed on all former Customs and Excise revenue duties and on purchase tax. It remained in force until the 1962 Budget broadly consolidated the surcharge into the rates.

July 1966. A 10 per cent surcharge was imposed on alcoholic drinks, hydrocarbon oil and purchase tax, until it was consolidated into the rates in the 1967 Budget.

November 1968. A 10 per cent surcharge was imposed on alcoholic drinks, tobacco, hydrocarbon oil and purchase tax, until the 1969 Budget when rates of duty were increased by amounts approximately equal to or higher than the surcharge.

December 1976. A 10 per cent surcharge was imposed on alcoholic drinks and on the former Customs and Excise duties on tobacco (other than the tobacco products duty which was separately surcharged by 10 per cent). The surcharges were maintained until the 1977 Budget when they were consolidated in the rates of those duties.

The VAT regulator was used in July 1974 to reduce the standard rate of VAT from 10 per cent to 8 per cent, as part of an attack on inflation and was designed to reduce prices, with acceptance of a consequential loss of revenue. The economic regulator has not been applied to the minor excise duties since they became a separate group.

4.112 September 2004 & December 2004. The regulator powers were used to freeze temporarily the effective duty rate increases on hydrocarbon oils and other fuels, which were legislated for in the Finance Act 2004. This action was in response to volatility in the international oils markets in the summer of 2004. A slight increase in effective rates of duty for rebated oils was made using the same powers in December 2004, but the rates still remained lower than would have been the case had the Finance Act 2004 increases been allowed to take full effect. The changes were consolidated in Finance Act 2005.

4.113 September 2005 & December 2005. The regulator powers were used to freeze temporarily the effective duty rate increases on hydrocarbon oils and other fuels legislated for in the Finance Act 2005, owing to continuing volatility in the international oils markets. The effective rates of duty for rebated oils were increased in December 2005 using the same powers, but the rates still remained lower than would have been the case had the Finance Act 2005 increases been allowed to take full effect.

4.114 September 2006 & December 2006. The regulator powers were used to freeze temporarily the effective duty rate increases on hydrocarbon oils and other fuels legislated for in the Finance Act 2006, owing to continuing volatility in the international oils markets. The same powers were used again in December 2006 to increase the effective rates back to the levels legislated for in the Finance Act 2006.

4.115 In 1979 the regulator powers were amended so as to make them permanent - previously they had required statutory annual renewal.

## C. HISTORICAL TABLES POST 1990

Table 4.2: Rates of VAT and registration limits

Fiscal year	Date of change	Rates (%)		Limits <sup>1</sup> annual taxable turnover	
		Standard	Reduced	Registration	Deregistration <sup>2</sup>
1990-91	21.03.90 <sup>3</sup>	15	-	£25,400	£24,400 <sup>4</sup>
1991-92	20.03.91	17½	-	£35,000	£33,600 <sup>5</sup>
1992-93	11.03.92	17½	-	£36,600	£35,100 <sup>6</sup>
1993-94	17.03.93	17½	-	£37,600	£36,000 <sup>7</sup>
	01.12.93	17½	8	£45,000	£43,000
1994-95	30.11.94	17½	8	£46,000	£44,000
1995-96	29.11.95	17½	8	£47,000	£45,000
1996-97	27.11.96	17½	8	£48,000	£46,000
1997-98	01.09.97	17½	5	£49,000	£47,000
1998-99	01.04.98	17½	5	£50,000	£48,000
1999-00	01.04.99	17½	5	£51,000	£49,000
2000-01	01.04.00	17½	5	£52,000	£50,000
2001-02	01.04.01	17½	5	£54,000	£52,000
2002-03	25.04.02	17½	5	£55,000	£53,000
2003-04	10.04.03	17½	5	£56,000	£54,000
2004-05	01.04.04	17½	5	£58,000	£56,000
2005-06	01.04.05	17½	5	£60,000	£58,000
2006-07	01.04.06	17½	5	£61,000	£59,000
2007-08	01.04.07	17½	5	£64,000	£62,000
2008-09	01.04.08	17½	5	£67,000	£65,000
2009-10	01.12.08 <sup>8</sup>	15	5	£67,000	£65,000
2009-10	01.05.09	15	5	£68,000	£66,000

<sup>1</sup> Once turnover reaches or is expected to reach registration limit, registration is compulsory; if it falls below deregistration limit, deregistration is optional.

<sup>2</sup> The figures given are for "future turnover".

<sup>3</sup> Prior to this date, the limit for registration was based on either past or anticipated taxable turnover. With effect from this date, the limit is confined in most cases to taxable turnover within the past twelve months or less.

<sup>4</sup> From 1 June 1990.

<sup>5</sup> From 1 May 1991.

<sup>6</sup> From 1 May 1992.

<sup>7</sup> From 1 May 1993.

<sup>8</sup> At PBR 2008 the standard rate of VAT is reduced to 15% for a 13 month period from 1 December 2008 to 31 December 2009 when the rate will revert to 17.5%.

Section 4: Indirect tax

**Table 4.3a: Categories of zero-rated goods and services**

Group	Description
Group 1	Food <sup>1</sup>
Group 2	Sewerage services and water
Group 3	Books etc.
Group 4	Talking books for the blind and handicapped and wireless sets for the blind.
Group 5	Construction of buildings etc
Group 6	Protected buildings
Group 7	International services
Group 8	Transport
Group 9	Caravans and houseboats
Group 10	Gold
Group 11	Bank notes
Group 12	Drugs, medicines and aids for the handicapped, etc
Group 13	Imports, exports etc
Group 14	See footnote 2
Group 15	Charities, etc <sup>3</sup>
Group 16	Clothing and footwear <sup>4</sup>

Supplies of goods are also zero rated if the goods are exported to outside the Member States or shipped as stores on a voyage or flight to a destination outside the United Kingdom.

See paragraph 3.50 for previous zero-rated groups.

<sup>1</sup> Generally covers food and drink except: when supplied by caterers; when supplied on premises; certain categories of food (such as confectionary); alcoholic and soft drinks; and pet food.

<sup>2</sup> Group 14 Tax free shops omitted by SI 1999/1642 art 2 wef 1.7.99 (see paragraph 4.51).

<sup>3</sup> Historical changes to the charity group:

- since 1.4.86 includes certain supplies of medical equipment made to charities and to equipment for the handicapped;
- from 1.4.97 extended to drugs and chemicals, certain medical equipment and welfare vehicles;
- from 1.4.89 extended to sterilizing equipment used by medical research charities and certain types of advertisements placed by charities;
- from 1.4.00 extended to all charity advertisements, bathrooms for disabled people in charity buildings and sales of donated goods not previously covered; and
- from 1.4.01 extended to cover additional adapted vehicles for disabled people, (carrying up to 12 people).

<sup>4</sup> Clothing and footwear generally covers clothing and footwear for children up to the age of 13, plus certain protective clothing for adults, namely protective boots and helmets for industrial use and motor-cycle helmets. From 1.4.01 extended to cover all adult clothing and footwear.

**Table 4.3b: Categories of reduced rate goods and services**

Group	Description
Group 1	Supplies of domestic fuel and power <sup>1</sup>
Group 2	Installation of energy-saving materials <sup>2</sup>
Group 3	Grant-funded installation or connection of heating equipment, security goods and gas supplies
Group 4	Women's sanitary products
Group 5	Children's car seats
Group 6	Residential conversions
Group 7	Residential renovations and alterations
Group 8	Contraceptive products
Group 9	Welfare advice or information
Group 10	Installation of mobility aids for the elderly
Group 11	Smoking cessation products

See paragraph 4.63 for a complete history of decisions on reduced rates

**Table 4.4: Categories of exempt goods and services<sup>1</sup>**

Group	Description
Group 1	Land
Group 2	Insurance
Group 3	Postal Services
Group 4	Betting, gaming and lotteries
Group 5	Finance
Group 6	Education
Group 7	Health and Welfare
Group 8	Burial and cremation
Group 9	Subscriptions to trade unions, professional bodies and other public interest bodies <sup>2</sup>
Group 10	Sport, sports competitions and physical education
Group 11	Works of art, etc
Group 12	Fund-raising events by charities and other qualifying bodies <sup>3</sup>
Group 13	Cultural services etc <sup>4</sup>
Group 14	Supplies of goods where input tax cannot be recovered <sup>5</sup>
Group 15	Investment in gold <sup>6</sup>

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<sup>1</sup> As in Value Added Tax Act 1994. Schedule 9.

<sup>2</sup> From 1.12.99 extended to bodies that have objects which are in the public domain and are of a political, religious, patriotic, philosophical, philanthropic or civic nature.

<sup>3</sup> Extended from 1.4.00 to cover additional events.

<sup>4</sup> From 1.6.96 exemption introduced on admission charges to certain cultural places and events.

<sup>5</sup> Inserted by SI 1999/2833 art 2 wef 1.3.2000.

<sup>6</sup> Inserted by SI 1999/3116 art 2 wef 1.1.2000.

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Section 4: Indirect tax

**Table 4.5ai: Rates of specific duties on alcoholic drinks**

Beer <sup>1</sup>							
Year	Date of change	Breweries producing 5000 Hls or less		Breweries producing 5000 to 30000 HI		Breweries producing 30000 to 60000 HI	
		Each deg over 1030 <sup>o</sup>	per 1% of alcohol by volume	per 1% of alcohol by volume	per 1% of alcohol by volume	per 1% of alcohol by volume	per 1% of alcohol by volume
£ per hectolitre (HI)							
1990-91	19.03.91	1.060	-	-	-	-	-
1991-92	10.03.92	1.108	-	-	-	-	-
1992-93	01.01.93	1.108	-	-	-	-	-
	16.03.93	1.163	-	-	-	-	-
1993-94	01.06.93	-	10.45	-	-	-	-
1994-95	01.01.95	-	10.82	-	-	-	-
1995-96	01.01.96	-	10.82	-	-	-	-
1996-97	01.10.96	-	10.82	-	-	-	-
1997-98	01.01.98	-	11.14	-	-	-	-
1998-99	01.01.99	-	11.50	-	-	-	-
1999-00	01.04.00	-	11.89	-	-	-	-
2000-01	07.03.01	-	11.89	-	-	-	-
2001-02	28.04.02	-	11.89	-	-	-	-
	01.06.02	-	11.89	5.95	Between 5.95 - 10.90	-	-
2002-03	14.04.03	-	12.22	6.12	Between 6.12 - 11.21	-	-
2003-04	21.03.04	-	12.59	6.30	Between 6.30 - 11.54	-	-
	01.06.04	-	12.59	6.30	Between 6.30 - 11.54	Between 11.54 - 12.59	-
2004-05	20.03.05	-	12.92	6.46	Between 6.46 - 11.85	Between 11.85 - 12.92	-
2005-06	26.03.06	-	13.26	6.63	Between 6.63 - 12.16	Between 12.16 - 13.26	-
2006-07	26.03.07	-	13.72	6.86	Between 6.86 - 12.57	Between 12.57 - 13.71	-
2007-08	17.03.08	-	14.96	7.48	Between 7.48 - 13.71	Between 13.71 - 14.96	-
2007-08	01.12.08	-	16.15	8.08	Between 8.08 - 14.80	Between 14.80 - 16.15	-
2008-09	23.04.09	-	16.47	8.24	Between 8.24 - 16.15	Between 16.15 - 16.47	-

<sup>1</sup> Budget 2002 introduced Beer Duty relief for small breweries. Reduced rates are set at 50% of the standard rate for annual production up to 5,000 hectolitres rising, on a tapered basis, to the full standard rate at 30,000 hectolitres and above. From 01.06.04, reduced duty rates will be introduced for beer produced by independent breweries producing between 30,000 and 60,000 hectolitres per year. These reduced rates will taper the reduced rate presently paid at a production level of 30,000 hectolitres per year to the full standard rate on exceeding 60,000 hectolitres.

Section 4: Indirect tax

Table 4.5a: Rates of specific duties on alcoholic drinks

Year	Date of change	Spirits £ per litre of alcohol	Spirits-based coolers £ per litre of alcohol	Cider and perry <sup>1</sup>		Coolers		Wine					
				Up to 7.5%	7.5% to 8.5%	Over 1.2% up to 4.0%	Over 4.0% up to 5.5%	Made-wine (higher rate)	Wine from fresh grapes				
				alcohol by volume		alcohol by volume			light under 15%	fortified 15-18%			
								£ per hectolitre (HI)					
1990-91	19.03.91	18.96	-	20.40	20.40			239.80	120.54	207.89			
1991-92	10.03.92	19.81	-	21.32	21.32			250.59	125.96	217.25			
								wine and made wine					
								Still	Sparkling				
								up to 15%	15% to 22%	5.5% to 8.5%	8.5% to 15%		
1992-93	01.01.93	19.81	-	21.32	21.32	-	-	125.96	203.93	-	208.00		
	16.03.93	19.81	-	22.39	22.39	-	-	132.26	220.43	-	218.40		
1993-94	01.06.93	19.81	-	22.39	22.39	-	-	132.26	220.43	-	218.40		
	01.01.94	19.81	-	22.82	22.82	-	-	134.77	207.33	-	222.55		
1994-95	01.01.95	20.60	-	23.78	23.78	23.41	42.14	140.44	200.64	-	200.64		
	28.11.95	19.78	-	23.78	23.78	23.41	42.14	140.44	200.64	-	200.64		
1995-96	01.01.96	19.78	-	23.78	23.78	23.41	42.14	140.44	187.24	-	200.64		
1996-97	01.10.96	19.78	-	23.78	35.67	23.41	42.14	140.44	187.24	-	200.64		
	26.11.96	18.99	-	23.78	35.67	23.41	42.14	140.44	187.24	-	200.64		
	01.01.97	18.99	-	23.78	35.67	43.28	59.51	140.44	187.24	195.63	200.64		
1997-98	01.01.98	19.56	-	24.49	36.74	44.58	61.30	144.65	192.86	201.50	206.66		
	17.03.98	19.56	-	24.49	36.74	44.58	61.30	144.65	192.86	161.20	206.66		
1998-99	01.01.99	19.56	-	25.27	37.92	46.01	63.26	149.28	199.03	161.20	213.27		
1999-00	01.04.00	19.56	-	26.13	39.21	47.58	65.42	154.37	205.82	166.70	220.54		
2000-01	07.03.01	19.56	-	26.13	39.21	47.58	65.42	154.37	205.82	166.70	220.54		
2001-02	28.04.02	19.56	19.56 <sup>2</sup>	25.61	38.43	47.58 <sup>2</sup>	65.42 <sup>2</sup>	154.37	205.82	166.70	220.54		
2002-03	14.04.03	19.56	19.56	25.61	38.43	48.91	67.25	158.69	211.58	166.70	220.54		
2003-04	21.03.04	19.56	19.56	25.61	38.43	50.38	69.27	163.47	217.95	166.70	220.54		
2004-05	20.03.05	19.56	19.56	25.61	38.43	51.69	71.07	167.72	223.62	166.70	220.54		
2005-06	26.03.06	19.56	19.56	25.61	38.43	53.06	72.95	172.17	229.55	166.70	220.54		
2006-07	26.03.07	19.56	19.56	26.48	39.73	54.85	75.42	177.99	237.31	172.33	227.99		
2007-08	17.03.08	21.35	21.35	28.90	43.37	59.87	82.32	194.28	259.02	188.10	248.85		
2007-08	01.12.08	22.20	22.20	31.21	46.83	64.65	88.90	209.82	279.74	203.14	268.75		
2008-09	23.04.09	22.64	22.64	31.83	47.77	65.94	90.68	214.02	285.33	207.20	274.13		

<sup>1</sup> A new rate of duty was introduced on 1.1.97 for 'sparkling' cider and perry. The rate from 1.1.97 was £36.45 per hectolitre, which was increased to 37.54 from 1.1.98 and £45.05 per hectolitre from 17.3.98 and £161.20 from 09.03.99.

<sup>2</sup> With effect from 27.04.02 spirits based coolers are subject to duty at the same rate as Spirits. Coolers based on other products remain subject to duty at the coolers rates.



**Table 4.5b: Rates of specific duties on tobacco**

	Tobacco products					
	Date of change	Cigarettes		Cigars tobacco £ per Kg	Hand-rolled tobacco £ per Kg	Pipe-tobacco £ per Kg
		Ad valorem rate %	Specific duty £ per thousand			
1990-91	19.03.91	21	40.15			28.69
1991-92	10.03.92	21	44.32	67.89	71.63	29.98
1992-93	16.03.93	20	48.75	72.30	76.29	31.93
1993-94	30.11.93	20	52.33	77.58	81.86	34.26
1994-95	29.11.94	20	55.58	82.56	85.94	36.30
	01.01.95	20	57.64	85.61	85.94	37.64
1995-96	28.11.95	20	62.52	91.52	85.94	40.24
1996-97	26.11.96	21	65.97	98.02	87.74	43.10
1997-98	01.12.97	21	72.06	105.86	87.74	46.55
1998-99	01.12.98	22	77.09	114.79	87.74	50.47
	09.03.99	22	82.59	122.06	87.74	53.66
1999-00	21.03.00	22	90.43	132.33	95.12	58.17
2000-01	07.03.01	22	92.25	134.69	96.81	59.21
2001-02	17.04.02	22	94.24	137.26	98.66	60.34
2002-03	09.04.03	22	96.88	141.10	101.42	62.03
2003-04	17.03.04	22	99.80	145.35	104.47	63.90
2004-05	16.03.05	22	102.39	149.12	107.18	65.56
2005-06	22.03.06	22	105.10	153.07	110.02	67.30
2006-07	22.03.07	22	108.74	158.24	113.74	69.57
2007-08	12.03.08	22	112.07	163.22	117.32	71.76
2007-08	24.11.08	24	112.07	169.74	122.01	74.63
2008-09	22.04.09	24	114.31	173.13	124.45	76.12

**Table 4.5ci: Rates of specific duties on fuel, pence per litre**

	Date of change	Petrol					
		Leaded <sup>1</sup>	Unleaded <sup>1,6</sup>	Super Unleaded <sup>1</sup> / Lead replacement <sup>2</sup>	Ultra low Sulphur Petrol <sup>3,6</sup>	Sulphur Free Petrol <sup>4,6</sup>	Bio Ethanol <sup>5</sup>
1990-91	19.03.91	25.85	22.41				
1991-92	10.03.92	27.79	23.42				
1992-93	16.03.93	30.58	25.76				
1993-94	30.11.93	33.14	28.32				
1994-95	29.11.94	35.26	30.44				
	01.01.95	36.14	31.32				
1995-96	28.11.95	39.12	34.30				
1996-97	15.05.96	39.12	34.30	37.62			
	26.11.96	41.68	36.86	40.18			
1997-98	02.07.97	45.10	40.28	43.60			
	17.03.98	49.26	43.99	48.76			
1998-99	09.03.99	52.88	47.21	52.33			
1999-00	21.03.00	54.68	48.82	50.89			
2000-01	01.10.00	54.68	48.82	50.89	47.82		
	07.03.01	54.68	46.82	-	45.82		
2001-02	15.06.01	54.68	48.82	-	45.82		
2002-03	17.04.02	54.68	48.82	-	45.82		
2003-04	09.04.03	54.68	48.82	-	45.82		
	01.10.03	56.20	50.19		47.10	47.10	27.10
2004-05	03.12.04	56.20	50.19	-	47.10	47.10	27.10
2005-06	06.12.05	56.20	50.19	-	47.10	47.10	27.10
2006-07	07.12.06	57.68	51.52		48.35	48.35	28.35
2007-08	01.10.07	60.07	53.65		50.35	50.35	30.35
2008-09	01.04.08	60.07	50.35		50.35	50.35	30.35
	01.12.08	62.07	52.35		52.35	52.35	32.35
2009-10	01.04.09	62.07	54.19		54.19	54.19	34.19
	01.05.09	63.91	54.19		54.19	54.19	34.19
	01.10.09 <sup>7</sup>	65.91	56.19	-	-	-	36.19

<sup>1</sup> In March 1987 a duty differential was introduced in favour of unleaded petrol. From 29 November 1994 the duty rate for unleaded petrol was aligned with that for deriv. In May 1996 a new higher rate was introduced for super unleaded petrol.

<sup>2</sup> Lead replacement petrol was introduced from 1 October 1999 and carries the same rate of duty as super unleaded petrol. In March 2001 the rate for super unleaded petrol was abolished and the rate appropriate to unleaded or ultra low sulphur petrol charged dependent upon the sulphur and aromatics content.

<sup>3</sup> In October 2000 a new rate was introduced for ultra low sulphur petrol (ULSP).

<sup>4</sup> Sulphur free petrol was introduced from October 2003

<sup>5</sup> Budget 2004 confirmed a duty incentive of 20 pence per litre for bioethanol to be introduced from 1 January 2005.

<sup>6</sup> From 1 April 2008, ultra low sulphur petrol and sulphur free petrol became liable to duty at the same rate as unleaded.

**Table 4.5cii: Rates of specific duties on fuel, pence per litre**

	Date of change	Unrebated Heavy Oil				Rebated Heavy Oil	
		Derv <sup>1,5</sup>	Ultra low Sulphur Diesel <sup>2,5</sup>	Sulphur Free Diesel <sup>3,5</sup>	Bio Diesel/ Blended <sup>4</sup>	Fuel Oil	Gas Oil
1990-91	19.03.91	21.87				0.91	1.29
1991-92	10.03.92	22.85				0.95	1.35
1992-93	16.03.93	25.14				1.05	1.49
1993-94	30.11.93	27.70				1.16	1.64
1994-95	29.11.94	30.44				1.66	2.14
	01.01.95	31.32				1.66	2.14
1995-96	28.11.95	34.30	-			1.81	2.33
1996-97	15.05.96	34.30	-			1.81	2.33
	26.11.96	36.86	-			1.94	2.50
1997-98	02.07.97	40.28	-			2.00	2.58
	15.08.97	40.28	39.28			2.00	2.58
	17.03.98	44.99	42.99			2.18	2.82
1998-99	09.03.99	50.21	47.21			2.65	3.03
1999-00	21.03.00	51.82	48.82			2.74	3.13
2000-01	01.10.00	51.82	48.82			2.74	3.13
2001-02	15.06.01	51.82	45.82			2.74	3.13
2002-03	17.04.02	51.82	45.82		25.82	2.74	3.13
2003-04	09.04.03	51.82	45.82		25.82	3.82	4.22
	01.10.03	53.27	47.10	47.10	27.10	3.82	4.22
2004-05	03.12.04	53.27	47.10	47.10	27.10	4.82	5.22
2005-06	06.12.05	53.27	47.10	47.10	27.10	6.04	6.44
2006-07	07.12.06	54.68	48.35	48.35	28.35	7.29	7.69
2007-08	01.10.07	56.94	50.35	50.35	30.35	9.29	9.69
2008-09	01.04.08	50.35	50.35	50.35	30.35	9.29	9.69
	01.12.08	52.35	52.35	52.35	32.35	9.66	10.07
2009-10	01.04.09	54.19	54.19	54.19	34.19	10.00	10.42
	01.05.09	54.19	54.19	54.19	34.19	10.00	10.42
	01.10.09 <sup>6</sup>	56.19	-	-	36.19	10.37	10.80

<sup>1</sup> Diesel oil for road vehicles.<sup>2</sup> In August 1997 a new rate for ultra low sulphur diesel (ULSD) was introduced. relative to the rates for ultra-low sulphur fuels.<sup>3</sup> Sulphur free diesel was introduced in October 2003<sup>4</sup> Biodiesel duty took effect on 26 July 2002. This will apply to pure biodiesel and the proportions of biodiesel blended or mixed with heavy oils.<sup>5</sup> From 1 April 2008, ultra low sulphur diesel and sulphur free diesel became liable to duty at the same rate as d

**Table 4.6ai: Rates of VED on cars since 1990**

	Date of Change	Annual licence fee £	
		Standard	Reduced <sup>1</sup>
1990-91		100	
1991-92		100	
1992-93	11-Mar-92	110	
1993-94	17-Mar-93	125	
	01-Dec-93	130	
1994-95	29-Nov-94	135	
1995-96		135	
1996-97	29-Nov-95	140	
1997-98	27-Nov-96	145	
1998-99	16-Nov-97	150	
1999-00	11-Mar-99	155	
	01-Jun-99		100
2000-01		155	100
2001-02 <sup>2</sup>	01-Mar-01	160	105
2002-03	01-May-02	160	105
2003-04	01-May-03	165	105
2004-05	01-May-04	165	110
2005-06	01-Apr-05	170	110
2006-07	23-Mar-06	175	110
2007-08	22-Mar-07	180	115
2008-09	13-Mar-08	185	120
2009-10	01-May-09	190	125

**1 From June 1999 cars with an engine size of 1100cc or less qualified for a reduced rate. From March 2001 the qualifying engine size was increased to 1200cc. The qualifying engine size was further increased to 1549cc in July 2001 (backdated**

**2 From 2001-02 onwards rates apply to pre-March 2001 registered cars only**

**Table 4.6aii: Rates of VED on cars registered after 1st March 2001**

	Date of change	Annual licence fee £ by emissions bracket (grams of CO <sub>2</sub> per km)						
		below 100	101-120	121-150	151-165	166-185	186+	226+ <sup>1</sup>
2001-02	01-Mar-01	100	100	100	120	140	155	
2002-03	01-May-02	70	70	100	120	140	155	
2003-04	01-May-03	65	75	105	125	145	160	
2004-05	01-May-04	65	75	105	125	145	160	
2005-06	01-Apr-05	65	75	105	125	150	165	
2006-07	23-Mar-06	0	40	100	125	150	190	210
2007-08	22-Mar-07	0	35	115	140	165	205	300
2008-09	13-Mar-08	0	35	120	145	170	210	400
		below 100	101-110	111-120	121-130	131-140	141-150	151-165
2009-10 <sup>2</sup>	01-May-09	0	35	35	120	120	125	150
		166-175	176-185	186-200	201-225	226-255 <sup>1</sup>	255+ <sup>1</sup>	
2009-10	01-May-09	175	175	215	215	405	405	

**1 Cars that emit over 225g/km of CO<sub>2</sub> registered prior to 23 March 2006 are exempt from CO<sub>2</sub> based VED**

**2 New graduated system introduced**

**Table 4.6b: Rates of VED for motorcycles**

Year	Date of change	Engine size	Annual fee £	
			Standard	Reduced
2003-04	01-May-03	Not over 150cc	15	
		151cc-400cc	30	
		401cc-600cc	45	
		All other motorcycles	60	
2004-05	01-May-04	Not over 150cc	15	
		151cc-400cc	30	
		401cc-600cc	45	
		All other motorcycles	60	
2005-06	01-Apr-05	Not over 150cc	15	
		151cc - 400cc	30	
		401cc - 600cc	45	
		All other motorcycles	60	
2006-07	23-Mar-06	Not over 150cc	15	
		151cc - 400cc	31	
		401cc - 600cc	46	
		All other motorcycles	62	
2007-08	22-Mar-07	Not over 150cc	15	
		151cc - 400cc	32	
		401cc - 600cc	47	
		All other motorcycles	64	
2008-09	13-Mar-08	Not over 150cc	15	
		151cc - 400cc	33	
		401cc - 600cc	48	
		All other motorcycles	66	
2009-10	01-May-09	Not over 150cc	15	
		151cc - 400cc	33	
		401cc - 600cc	48	
		All other motorcycles	66	

**Table 4.6c: Rates of VED for heavy goods vehicles**

Year	Date of change	Annual fee, £	
		Standard	Reduced
2004-05	01-May-04	according to HGV band	reduced pollution band
2005-06	01-Apr-05	according to HGV band	reduced pollution band
2006-07	23-Mar-06	according to HGV band	reduced pollution band
2007-08	22-Mar-07	according to HGV band	reduced pollution band
2008-09	13-Mar-08	according to HGV band	reduced pollution band
2009-10	01-May-09	according to HGV band	reduced pollution band

**Table 4.7i: Incidence of duty, pence**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 09 prices
<b>Spirits: 70cl bottle of whiskey at 40% alcohol</b>					
1990	919.0	485.8	605.7	65.9	1064.9
1991	1064.0	530.9	689.3	64.8	1112.4
1992 <sup>3</sup>	1096.0	554.7	717.9	65.5	1112.3
1993	1124.0	554.7	722.1	64.2	1100.1
1994	1112.0	554.7	720.3	64.8	1071.0
1995	1118.0	576.8	743.3	66.5	1069.7
1996	1114.0	553.8	719.8	64.6	1006.8
1997	1125.0	531.7	699.3	62.2	951.5
1998	1149.0	547.7	718.8	62.6	946.8
1999	1181.0	547.7	723.6	61.3	930.4
2000	1172.0	547.7	722.2	61.6	910.8
2001	1178.0	547.7	723.1	61.4	888.0
2002	1182.0	547.7	723.7	61.2	877.4
2003	1165.0	547.7	721.2	61.9	849.3
2004	1192.0	547.7	725.2	60.8	832.2
2005	1156.0	547.7	719.9	62.3	800.6
2006	1169.0	547.7	721.8	61.7	784.1
2007	1152.0	547.7	719.3	62.4	749.6
2008	1210.0	547.7	727.9	60.2	728.9
2009	1320.0	597.8	770.0	58.3	770.0
<b>Beer: pint of bitter (in pub)</b>					
1990	108.0	20.4	34.5	31.9	60.6
1991	123.0	22.3	40.6	33.0	65.5
1992	132.0	23.3	43.0	32.5	66.6
1993	139.0	24.5	45.2	32.5	68.8
1994	143.0	23.2	44.5	31.1	66.1
1995	149.0	24.0	46.2	31.0	66.4
1996	154.0	24.0	46.9	30.5	65.6
1997	159.0	24.0	47.7	30.0	64.9
1998	166.0	24.7	49.4	29.8	65.1
1999	174.0	25.5	51.4	29.5	66.1
2000	179.0	25.5	52.1	29.1	65.8
2001	184.0	26.4	53.8	29.2	66.0
2002	189.0	26.4	54.2	28.7	65.7
2003	193.0	27.1	55.8	28.9	65.7
2004	198.0	27.1	56.6	28.6	64.9
2005	205.0	27.9	58.4	28.5	65.0
2006	213.0	27.9	59.6	28.0	64.7
2007	222.0	28.6	61.7	27.8	64.3
2008	229.0	30.4	64.5	28.2	64.6
2009	241.0	35.8	67.2	27.9	67.2

Footnotes after table 4.7iv

**Table 4.7i: Incidence of duty, pence - continued**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 09 prices
<b>Beer: pint of lager</b>					
1990	121.0	21.5	37.3	30.8	65.5
1991	137.0	23.5	43.9	32.0	70.8
1992	146.0	24.6	46.3	31.7	71.7
1993	154.0	25.8	48.7	31.6	74.2
1994	158.0	24.3	47.9	30.3	71.2
1995	165.0	25.2	49.8	30.2	71.6
1996	170.0	25.2	50.5	29.7	70.7
1997	175.0	25.2	51.3	29.3	69.8
1998	183.0	26.0	53.2	29.1	70.1
1999	191.0	26.8	55.2	28.9	71.0
2000	197.0	26.8	56.1	28.5	70.8
2001	203.0	27.7	57.9	28.5	71.1
2002	206.0	27.7	58.4	28.3	70.8
2003	211.0	28.5	59.9	28.4	70.5
2004	217.0	28.5	60.8	28.0	69.8
2005	224.0	29.3	62.7	28.0	69.7
2006	232.0	29.3	63.9	27.5	69.4
2007	241.0	30.1	66.0	27.4	68.8
2008	250.0	31.9	69.2	27.7	69.3
2009	264.0	37.6	72.1	27.3	72.1

Footnotes after table 4.7iv.

Section 4: Indirect tax

**Table 4.7ii: Incidence of duty, pence**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 09 prices
<b>Table wine: 75cl bottle</b>					
1990	247.0	82.7	114.9	46.5	202.1
1991	274.0	90.4	131.2	47.9	211.7
1992 <sup>4</sup>	283.0	94.5	136.6	48.3	211.7
1993	290.0	99.3	142.5	49.1	217.0
1994	290.0	101.1	144.3	49.7	214.5
1995	291.0	105.3	148.7	51.1	213.9
1996	300.0	105.3	150.0	50.0	209.8
1997	307.0	105.3	151.1	49.2	205.5
1998	305.0	108.5	153.9	50.5	202.7
1999	314.0	112.0	158.7	50.5	204.1
2000	315.0	112.0	158.9	50.4	200.4
2001	320.0	115.8	163.4	51.1	200.7
2002	321.0	115.8	163.6	51.0	198.3
2003	323.0	115.8	163.9	50.7	193.0
2004	328.0	119.0	167.9	51.2	192.6
2005	335.0	122.6	172.5	51.5	191.9
2006	339.0	122.6	173.1	51.1	188.0
2007	345.0	129.1	180.5	52.3	188.1
2008	348.0	133.5	185.3	53.2	185.6
2009	364.0	157.4	204.8	56.3	204.8
<b>Cider: per litre</b>					
1990	130.0	18.7	35.6	27.4	62.6
1991	145.0	20.4	42.0	29.0	67.8
1992	146.0	21.3	43.1	29.5	66.7
1993	154.0	22.4	45.3	29.4	69.1
1994	163.0	22.8	47.1	28.9	70.0
1995	160.0	23.8	47.6	29.8	68.5
1996	160.0	23.8	47.6	29.8	66.6
1997	163.0	23.8	48.1	29.5	65.4
1998	170.0	24.5	49.8	29.3	65.6
1999	171.0	25.3	50.7	29.7	65.2
2000	173.0	25.3	51.0	29.5	64.4
2001	179.0	26.1	52.8	29.5	64.8
2002	173.0	26.1	51.9	30.0	62.9
2003	179.0	25.6	52.3	29.2	61.6
2004	180.0	25.6	52.4	29.1	60.1
2005	177.0	25.6	52.0	29.4	57.8
2006	177.0	26.6	53.0	29.9	57.6
2007	178.0	26.6	53.1	29.8	55.3
2008	178.0	26.5	53.0	29.8	53.1
2009	178.0	31.2	54.4	30.6	54.4

Footnotes after table 4.7iv.



Section 4: Indirect tax

**Table 4.7iii: Incidence of duty, pence**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 09 prices
<b>Tobacco: packet of 20 king size cigarettes</b>					
1990	175.0	106.6	129.4	74.0	227.6
1991	202.0	122.7	152.8	75.6	246.5
1992	221.0	126.7	159.6	72.2	247.3
1993	237.0	138.4	173.7	73.3	264.7
1994	252.0	155.1	192.6	76.4	286.4
1995	270.0	169.3	209.5	77.6	301.5
1996	289.0	182.8	225.9	78.2	316.0
1997	308.0	196.6	242.5	78.7	330.0
1998	336.0	214.7	264.7	78.8	348.7
1999	364.0	234.3	288.5	79.3	370.9
2000	388.0	250.5	308.3	79.5	388.8
2001	422.0	273.7	336.6	79.8	413.3
2002	439.0	281.1	346.5	78.9	420.0
2003	451.0	287.7	354.9	78.7	417.9
2004	465.0	303.9	373.1	80.2	428.2
2005	482.0	305.6	377.4	78.3	419.8
2006	505.0	315.9	391.1	77.4	424.9
2007	523.0	325.3	403.2	77.1	420.2
2008	544.0	337.0	418.0	76.8	418.6
2009	585.0	369.0	445.3	76.1	445.3
<b>Cigars - a typical brand in the mid-price category (pack of small cigars)</b>					
1992	170.0	58.0	83.3	49.0	129.1
1993	180.0	61.8	88.6	49.2	135.0
1994	191.0	66.3	94.7	49.6	140.9
1995	202.0	73.2	103.3	51.1	148.6
1996	212.0	78.2	109.8	51.8	153.6
1997	216.0	70.1	103.3	47.8	140.6
1998	238.0	75.7	111.1	46.7	146.4
1999	252.0	82.1	119.6	47.5	153.8
2000	265.0	87.3	126.7	47.8	159.8
2001	283.0	88.7	130.8	46.2	160.6
2002	297.0	90.2	134.5	45.3	163.0
2003	305.0	92.0	137.4	45.0	161.8
2004	315.0	94.5	141.5	44.9	162.3
2005	324.0	97.4	145.6	45.0	162.0
2006	339.0	99.9	150.4	44.4	163.4
2007	342.0	102.6	153.5	44.9	160.0
2008	349.0	106.0	158.0	45.3	158.2
2009	368.0	116.0	164.0	44.6	164.0

Footnotes in the next page.

Section 4: Indirect tax

**Table 4.7iii: Incidence of duty, pence - continued**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 09 prices
<b>Hand Rolling Tobacco - a typical brand in the mid-price category (25g)</b>					
1992	310.0	179.1	225.3	72.7	349.0
1993	331.0	190.7	240.0	72.5	365.7
1994	353.0	204.7	257.3	72.9	382.5
1995	368.0	214.9	269.7	73.3	388.1
1996	372.0	214.9	270.3	72.6	378.0
1997	376.0	219.4	275.4	73.2	374.7
1998	389.0	219.4	277.3	71.3	365.3
1999	395.0	219.4	278.2	70.4	357.7
2000	400.0	219.4	278.9	69.7	351.8
2001	433.0	237.8	302.3	69.8	371.2
2002	449.0	242.0	308.9	68.8	374.5
2003	460.0	246.7	315.2	68.5	371.2
2004	476.0	253.6	324.4	68.2	372.2
2005	490.0	261.2	334.2	68.2	371.7
2006	513.0	268.0	344.4	67.1	374.1
2007	523.0	275.1	352.9	67.5	367.8
2008	555.0	284.4	367.0	66.1	367.5
2009	594.0	311.1	388.6	65.4	388.6
<b>Pipe - a typical brand in the mid-price category (25g)</b>					
1992	184.0	74.9	102.3	55.6	158.5
1993	197.0	79.8	109.1	55.4	166.3
1994	211.0	85.7	117.1	55.5	174.2
1995	226.0	94.1	127.8	56.5	183.9
1996	243.0	100.6	136.8	56.3	191.3
1997	264.0	107.8	136.8	51.8	186.2
1998	274.0	116.4	157.2	57.4	207.0
1999	291.0	126.2	169.5	58.3	218.0
2000	306.0	134.2	179.7	58.7	226.7
2001	330.0	145.4	194.6	59.0	238.9
2002	345.0	148.0	199.4	57.8	241.8
2003	355.0	150.9	203.7	57.4	239.9
2004	365.0	155.1	209.4	57.4	240.3
2005	375.0	159.8	215.6	57.5	239.8
2006	391.0	163.9	222.1	56.8	241.3
2007	396.0	168.3	227.2	57.4	236.8
2008	419.0	179.4	241.8	57.7	242.1
2009	450.0	190.3	249.0	55.3	249.0

Footnotes in the next page.

**Table 4.7iv: Incidence of duty, pence**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 09 prices
<b>Petrol (4 star): per litre</b>					
1990	40.9	20.4	25.8	63.0	45.3
1991	45.1	22.5	28.4	62.9	45.8
1992	46.9	25.9	32.8	70.0	50.9
1993	51.3	27.8	35.4	69.1	54.0
1994	55.5	33.1	41.4	74.6	61.6
1995	59.1	36.1	44.9	76.0	64.7
1996	62.0	39.1	48.3	78.0	67.6
1997	65.5	41.7	51.4	78.6	70.0
1998	69.0	45.1	55.4	80.2	73.0
1999	69.6	49.3	59.6	85.7	76.7
<b>Lead replacement petrol: per litre<sup>5</sup></b>					
2000	80.8	52.3	64.4	79.6	81.2
2001	82.2	50.9	63.1	76.8	77.5
2002	75.9	48.8	60.1	79.2	72.9
2003	78.2	48.8	60.4	77.3	71.2
<b>2004: no more clearances on lead</b>					
<b>Petrol (unleaded): per litre</b>					
1991	43.3	19.5	25.1	58.0	40.6
1992	43.4	22.4	28.9	66.5	44.7
1993	47.1	23.4	30.4	64.6	46.4
1994	50.8	28.3	35.9	70.6	53.4
1995	53.4	31.3	39.3	73.5	56.5
1996	55.9	34.3	42.6	76.2	59.6
1997	61.1	36.9	46.0	75.2	62.5
1998	63.1	40.3	49.7	78.7	65.4
1999	62.9	44.0	53.4	84.9	68.6
2000	75.4	47.2	58.4	77.5	73.7
2001	76.9	48.8	60.3	78.4	74.0
2002	69.9	48.8	59.2	84.7	71.8
2003	75.0	48.8	60.0	80.0	70.6
2004	76.2	50.2	61.5	80.8	70.6
2005	79.0	50.2	62.0	78.4	68.9
2006	88.8	50.2	63.4	71.4	68.9
2007	86.9	51.5	64.5	74.2	67.2
2008	103.7	53.7	69.1	66.6	69.2
2009	86.3	52.4	65.2	75.5	65.2

Footnotes in the next page.

**Table 4.7iv: Incidence of duty, pence - continued**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	65.2076596 0
<b>Derv: per litre<sup>6</sup></b>					
1990	39.2	19.0	24.1	61.5	42.4
1991	43.3	21.9	27.5	63.6	44.5
1992	43.2	22.9	29.3	67.9	45.4
1993	47.1	25.1	32.1	68.2	48.9
1994	51.7	27.7	35.4	68.5	52.6
1995	54.1	31.3	39.4	72.7	56.6
1996	57.4	34.3	42.9	74.6	59.9
1997	62.0	36.9	46.1	74.4	62.8
1998	63.3	40.3	49.7	78.5	65.5
1999	64.0	45.0	54.5	85.3	70.1
2000	77.8	47.2	58.8	75.6	74.1
2001	81.6	48.8	61.0	74.7	74.9
2002	74.7	45.8	56.9	76.2	69.0
2003	76.4	45.8	57.2	74.9	67.3
2004	77.9	47.1	58.7	75.3	67.4
2005	84.2	47.1	59.6	70.9	66.3
2006	93.1	47.1	61.0	65.5	66.2
2007	91.4	48.4	62.0	67.8	64.6
2008	108.7	50.4	66.5	61.2	66.6
2009	98.7	52.4	67.1	67.9	67.1

**Notes to Table 4.7**

1. Prices shown reflect Budget tax changes; for years to 1993 they generally relate to April/ May and from 1994 onwards they relate to January.
2. Retail price, including VAT and excise duties.
3. 70cl became the prescribed size for typical bottle of spirits from 1 January 1992. Prices prior to 1992 have been derived by scaling down the price of a 75cl bottle.
4. 75cl became the prescribed size for a bottle of table wine from 1 January 1992. Prices prior to 1992 have been derived by scaling down the price of a 1 litre bottle.
5. Lead Replacement Petrol (LRP) was introduced in October 1999 to replace leaded petrol, which is now virtually unavailable.
6. From January 2000 the price shown is for Ultra Low Sulphur Diesel (ULSD) which accounts for virtually all diesel sold.

**Table 4.8: Air Passenger Duty rates from Nov 2009**

Rates effective from 1 Nov 2009 and 1 Nov 2010	In the lowest class of travel		In other than the lowest class of travel	
	2009-10	2010-11	2009-10	2010-11
Band A (0-2,000)	£11	£12	£22	£24
Band B (2,001-4,000)	£45	£60	£90	£120
Band C (4,001-6,000)	£50	£75	£100	£150
Band D (over 6,000)	£55	£85	£110	£170

**D. HISTORICAL TABLES PRE 1990****Table 4.9: Rates of VAT since introduction and registration limits**

Fiscal year	Date of change	Rates (%)			Limits <sup>1</sup> annual taxable turnover	
		Standard	Higher	Reduced	Registration	Deregistration <sup>2</sup>
1973-74	01.04.73	10	-	-	£5,000	£4,000
1974-75	29.07.74	8	-	-	£5,000	£4,000
1975-76	-	8	25	-	£5,000	£4,000
1976-77	12.04.76	8	12½	-	£5,000	£4,000
1977-78	01.10.77	8	12½	-	£7,500	£6,000
1978-79	12.04.78	8	12½	-	£10,000	£6,000
1979-80	18.06.79	15	-	-	£10,000	£8,500
1980-81	27.03.80	15	-	-	£13,500	£12,000
1981-82	11.03.81	15	-	-	£15,000	£14,000
1982-83	10.03.82	15	-	-	£17,000	£16,000
1983-84	16.03.83	15	-	-	£18,000	£17,000
1984-85	14.03.84	15	-	-	£18,700	£17,700
1985-86	20.03.85	15	-	-	£19,500	£18,500
1986-87	19.03.86	15	-	-	£20,500	£20,500
1987-88	18.03.87	15	-	-	£21,300	£20,300
1988-89	16.03.88	15	-	-	£22,100	£21,100
1989-90	15.03.89	15	-	-	£23,600	£22,600

<sup>1</sup> Once turnover reaches or is expected to reach registration limit, registration is compulsory; if it falls below deregistration limit, deregistration is optional.

<sup>2</sup> The figures given are for "future turnover". Between 1 June 1980 and 15 May 1987 it was also possible to claim deregistration on the grounds that turnover for the last two years had not exceeded the registration limit for these years.

**Table 4.10: Goods subject to the higher rate May 1975 to June 1979**

Group	Description
Group 1	Most domestic electrical appliances
Group 2	Radios, televisions, and hi-fi equipment
Group 3	Pleasure boats and light aircraft
Group 4	Towing caravans
Group 5	Photographic equipment
Group 6	Furs
Group 7	Jewellery, and goldsmiths' and silversmiths' wares
Group 8	Petrol (from November 1974)

Section 4: Indirect tax

**Table 4.11a: Rates of specific duties on alcoholic drinks**

Year	Date of change	Spirits	Beer		Cider and Perry <sup>1</sup>	Made-wine (higher rate) <sup>2</sup>	Wine from fresh grapes <sup>3</sup>	
		£ per proof gallon	Up to 1030 <sup>o</sup>	Each Extra Degree	£ per gallon	£ per gallon	alcohol by volume	
			£ per bulk barrel				light under 15%	fortified 15-18%
1969-70	16.04.69	18.85	10.375 <sup>4</sup>	0.4400	-	1.7375	1.7375	2.8375
1970-71	15.02.71	18.85	10.375	0.4400	-	1.7375	1.7375	2.8375
1971-72	-	18.85	10.375	0.4400	-	1.7375	1.7375	2.8375
1972-73	-	18.85	10.375	0.4400	-	1.7375	1.7375	2.8375
1973-74	01.04.73 <sup>5</sup>							
	01.07.73	15.45	6.900	0.2900	-	1.000	0.950	2.1000
	01.01.74	15.45	6.900	0.2900	-	1.000	0.825	1.8583
	27.03.74	17.01	9.360	0.3120	-	1.545	1.370	2.4033
1974-75	01.01.75	17.01	9.360	0.3120	-	1.545	1.345	2.3450
1975-76	16.04.75	22.09	13.680	0.4560	-	2.875	2.675	3.6750
	01.01.76	22.09	13.680	0.4560	-	2.830	2.652	2.9350
1976-77	07.04.76	24.63	15.840	0.5280	0.220	3.160	2.955	3.4100
	01.01.77 <sup>6</sup>	27.09	17.424	0.5808	0.242	3.475	3.250	3.7500
	30.03.77	27.09	17.424	0.5808	0.242	3.475	3.250	3.7500
1977-78	-	27.09	17.424	0.5808	0.242	3.475	3.250	3.7500
1978-79	-	27.09	17.424	0.5808	0.242	3.475	3.250	3.7500
1979-80	-	27.09	17.424	0.5808	0.242	3.475	3.250	3.7500
		Per litre of alcohol	£ per hectolitre					
1979-80	-	10.44	10.65	0.355	5.32	76.43	71.49	82.48
	26.03.80	11.87	13.05	0.435	6.05	87.04	81.42	93.93
1980-81	10.03.81	13.6	18.00	0.600	7.20	113.90	95.20	122.90
1981-82	10.03.82	14.47	20.40	0.680	8.16	127.80	106.80	137.90
1982-83	16.03.83	15.19	21.60	0.720	9.69	135.20	113.00	145.90
1983-84	14.04.84	15.48	24.00	0.800	14.28	183.30	90.50	157.50
1984-85	20.03.85	15.77	25.80	0.860	15.80	194.90	98.00	169.00
1985-86	19.03.86	15.77	25.80	0.860	15.80	194.90	98.00	169.00
1986-87	18.03.87	15.77	25.80	0.860	15.80	194.90	98.00	169.00
1987-88	15.03.88	15.77	27.00	0.900	17.33	203.70	102.40	176.60
1988-89	-	15.77	27.00	0.900	17.33	203.70	102.40	176.00
1989-90 <sup>7</sup>	20.03.90	17.35	-	0.970	18.66	219.40	110.28	190.20

Footnotes on next page.

**Footnotes to Table 4.11a:**

<sup>1</sup>The duty on cider and perry of less than 8.7 per cent (8.5 per cent from 14 March 1984) alcohol by volume was introduced with effect from 6 September 1976. Cider and perry of greater strength are liable to made-wine duty as made-wine.

<sup>2</sup>Prior to 1 January 1976, the figures are for the higher rate of British Wine duty (see text: 'made-wine') levied on still wine of more than 27 proof spirit. The duty on still wine of less than 27 was 25p lower per gallon. An extra 30p per gallon was levied on sparkling wines over and above the appropriate still wine rate. From 1 January 1976 to 13 March 1984 the made-wine duty rate shown is for 'made-wine' of 18-22 per cent of alcohol by volume; the duty on light made-wines (10-15 per cent alcohol) was 9.1 per cent lower. Since 14 March 1984, made-wine duty rates have been aligned with duty rates for wine.

<sup>3</sup>Prior to 1 January 1976, the figures relate to imported wines whether of fresh grapes or not. There were separate rates for light and heavy, different strengths within light and heavy, still and sparkling wines and for the part of the world from which the wine was imported (two Commonwealth categories, EEC and other countries), and, prior to 1 January 1974, whether or not the wine was in bottle when imported. The rates shown here are for:

- Light wine: still, of a strength not exceeding 26.2 per cent proof spirit, imported in bottle from the European Community;
- Fortified wine: prior to 1 January 1974, duty on still wine of more than 25 proof (27 proof in the case of Commonwealth wine) imported in bottle from outside the EEC; 1 January 1974 to 31 December 1975, duty on port, sherry, Setubal muscatel, and Tokay, imported from outside the EEC.

The full range of rates can be found in *Annual Abstract of Statistics*, 1981 edition, Table 16.21, pp 397 et seq.

From 1 January 1976 the rates shown are for light still wines (table wines) of less than 15 per cent volume alcohol content, and for fortified still wines up to 18 per cent volume alcohol content. There was a surcharge for sparkling wines until March 1984 and subsequently a separate duty rate.

<sup>4</sup>A bulk barrel is 36 gallons. The rate shown is for home-produced and Commonwealth beer prior to 1 January 1976. There was a higher rate on beer from the EEC before that date.

<sup>5</sup>Duty rates fell on 1 April 1973 to offset the imposition of VAT on alcoholic drinks.

<sup>6</sup>The increase in (most) duties on 1 January 1977 reflects a 10 per cent regulator surcharge which was imposed on all items from that date. The surcharge was consolidated into duty rates in the 1977 Budget.

<sup>7</sup>Abolition of minimum beer duty took effect from 1 October 1988, 'beer' with an alcoholic strength not exceeding 1.2 per cent remains exempt from duty.

**Table 4.11b: Rates of specific duties on tobacco**

	Date of change	Tobacco products		
		Pipe-tobacco <sup>1</sup> £ per lb	Cigarettes	
			Ad val rate %	Specific duty £ per thousand
1969-70 to 1975-76		Customs duty charged on imports of tobacco in these years <sup>2</sup>		
1976-77	07.04.76	1.55	20	-
	30.03.77	1.705	22	1.41
1977-78	01.01.78	7.30	30	9.00
1978-79	-	7.30	30	9.00
1979-80	12.06.79	7.30	30	9.00
	13.08.79	7.30	21	11.77
		£ per Kg	%	£ per thousand
	01.01.80	16.09	21	11.77
	26.03.80	17.40	21	13.42
1980-81	10.03.81	21.92	21	18.04
1981-82 <sup>3</sup>	02.07.81	22.96	21	19.03
	10.03.82	24.95	21	20.68
1982-83	16.03.83	24.95	21	21.67
1983-84	14.03.84	24.95	21	24.97
1984-85	22.03.85	24.95	21	26.95
1985-86	19.03.86	24.95	21	30.61
1986-87	18.03.87	24.95	21	30.61
1987-88	15.03.88	24.95	21	31.74
1988-89	14.03.89	24.95	21	31.74
1989-90	29.03.90	24.95	21	34.91

<sup>1</sup> More precisely, tobacco other than hand-rolling.

<sup>2</sup> See text ('Tobacco goods'). The pre-1976 rates of customs duty on tobacco imports varied according to moisture content of the tobacco and its origin. Commonwealth tobacco was taxed at a lower rate than tobacco from elsewhere; and tobacco with more than 10 per cent moisture content was also less heavily taxed. Duties were levied on a weight basis irrespective of whether the tobacco was leaf or manufactured products: thus manufactured cigars and cigarettes were taxed by weight rather than - as now for cigarettes - on a per cigarette basis. The transition from customs to excise duties was completed on 1 January 1978; for 1976 and 1977 calendar years, the rates shown in the table relate to the excise duties only - but it has to be remembered that the customs duty co-existed in those years. The full range of customs duty rates on tobacco imports may be found in *Annual Abstract of Statistics, 1981 edition, table 16.21, pp 397 et seq.*

<sup>3</sup> A 10p duty (+VAT) differential between petrol and derv was established by Parliament in the debate on the 1981 Finance Bill to favour industry. In order to make good the resultant loss of revenue, duty on tobacco and cigarettes and certain betting duties were raised further at the same date.



**Table 4.11c: Rates of specific duties on fuel**

	Date of change	Petrol		Unrebated Heavy Oil	Rebated Heavy Oil	
		Leaded <sup>1</sup>	Unleaded	Derv <sup>2</sup>	Fuel Oil	Gas Oil
£ per gallon						
1969-70 to 1975-76		0.225		0.225	0.010	0.010
1976-77	09.04.76	0.300		0.300	0.010	0.010
	29.03.77	0.350		0.350	0.025	0.025
	08.08.77	0.300		0.350	0.025	0.025
pence per litre						
1977-78	01.01.78	6.60		7.70	0.55	0.55
1978-79		6.60		7.70	0.55	0.55
1979-80	12.06.79	8.10		9.20	0.66	0.66
	26.03.80	10.00		10.00	0.77	0.77
1980-81	10.03.81	13.82		13.82	0.77	0.77
1981-82	02.07.81	13.82		11.91	0.77	0.77
	09.03.82	15.54		13.25	0.77	0.77
1982-83	15.03.83	16.30		13.82	0.77	0.77
1983-84	13.03.84	17.16		14.48	0.77	0.77
1984-85	19.03.85	17.94		15.15	0.77	0.77
1985-86	18.03.86	19.38		16.39	0.77	1.10
1986-87	17.03.87	19.38	18.42	16.39	0.77	1.10
1987-88	15.03.88	20.44	18.42	17.29	0.77	1.10
1988-89	14.03.89	20.44	17.72	17.29	0.77	1.10
1989-90	20.03.90	22.48	19.49	19.02	0.83	1.18

<sup>1</sup> In March 1987 a duty differential was introduced in favour of unleaded petrol.

<sup>2</sup> Diesel oil for road vehicles.

**Table 4.12: Rates of VED for cars**

	Date of change	Annual licence fee £
1968-69 to 1974-75	19-Mar-68	25
1975-76	16-Apr-75	40
1976-77		40
1977-78	30-Mar-77	50
1978-79 to 1979-80		50
1980-81	27-Mar-80	60
1981-82	11-Mar-81	70
1982-83	10-Mar-82	80
1983-84	16-Mar-83	85
1984-85	14-Mar-84	90
1985-86	20-Mar-85	100
1986-87		100
1987-88		100
1988-89		100
1989-90		100

Section 4: Indirect tax

**Table 4.13i: Incidence of duty, pence**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 08 prices
<b>Spirits: 70cl bottle of whiskey at 40% alcohol</b>					
1964	203	139	139	68.5	2062
1965	217	157	157	72.4	2223
1966	216	157	157	72.7	2139
1967	224	173	173	77.2	2300
1968	231	185	185	80.1	2350
1969	245	203	203	82.9	2445
1970	244	203	203	83.2	2299
1971	250	203	203	81.2	2100
1972	249	203	203	81.5	1961
1973	241	167	189	78.4	1672
1974 <sup>3</sup>	254	185	208	81.9	1586
1975	323	238	262	81.1	1608
1976	365	265	292	80.0	1538
1977	402	292	322	80.1	1464
1978	411	292	322	78.3	1352
1979 <sup>4</sup>	457	292	352	77.0	1303
1980	501	332	397	79.2	1246
1981	587	381	397	67.6	1114
1982	656	405	397	60.5	1026
1983	695	425	397	57.1	980
1984	717	433	397	55.4	934
1985	734	442	397	54.1	881
1986	751	442	397	52.9	851
1987	766	442	397	51.8	818
1988	794	442	397	50.0	779
1989	832	442	397	47.7	723
<b>Beer: pint of bitter (in pub)</b>					
1964	8.8	3.5	3.5	39.8	52
1965	9.2	3.9	3.9	42.4	55
1966	9.6	4.3	4.3	44.8	59
1967	9.6	4.3	4.3	44.8	57
1968	10.0	4.7	4.7	47.0	60
1969	10.8	4.7	4.7	43.5	57
1970	11.7	4.7	4.7	40.2	53
1971	12.0	4.7	4.7	39.2	49
1972	13.0	4.7	4.7	36.2	45
1973	14.0	3.1	4.4	31.4	39
1974 <sup>3</sup>	17.0	4.0	5.5	32.4	42
1975	21.0	5.9	7.5	35.7	46
1976	26.0	6.8	8.7	33.5	46
1977	30.0	7.5	9.7	32.3	44
1978	32.5	7.5	9.9	30.5	42
1979 <sup>4</sup>	36.0	7.5	12.2	33.9	45
1980	44.0	9.1	14.8	33.6	46
1981	51.0	12.6	19.3	37.8	54
1982	57.0	14.3	21.7	38.1	56
1983	61.0	15.1	23.1	37.9	57
1984	72.0	16.8	26.2	36.4	62
1985	78.0	18.1	28.3	36.3	63
1986	82.0	18.1	28.8	35.1	62
1987	85.0	18.1	29.2	34.4	60
1988	91.0	18.9	30.8	33.8	60
1989	97.0	18.9	31.6	32.6	58
<b>Table wine: 75cl bottle</b>					
1979 <sup>4</sup>	161	54	75	46.6	278
1980	169	61	83	49.1	261
1981	189	71	96	50.8	269
1982	207	80	107	51.7	276
1983	214	85	113	52.8	279
1984	204	68	95	46.6	224
1985	205	74	101	49.3	224
1986	210	74	101	48.1	217
1987	217	74	102	47.0	210
1988	221	77	106	48.0	208
1989	227	77	107	47.1	195

Footnotes in the next page.

Section 4: Indirect tax

**Table 4.13ii: Incidence of duty, pence**

Year <sup>1</sup>	Price <sup>2</sup>	Duty	Duty + VAT	Duty + VAT as % of price	Duty + VAT Jan 08 prices
<b>Tobacco: packet of 20 king size cigarettes</b>					
1964	20.5	13.8	13.8	67.3	205
1967	23.0	15.8	15.8	68.7	210
1970	26.0	18.3	18.3	70.4	207
1974 <sup>3</sup>	31.5	19.5	22.4	71.1	171
1977	55.0	34.5	38.6	70.2	176
1978	55.0	34.5	38.6	70.2	162
1979 <sup>4</sup>	66.0	37.4	46.0	69.7	170
1980	73.0	42.1	51.6	70.7	162
1981	91.0	55.2	67.1	73.7	188
1982	102.0	62.8	76.1	74.6	197
1983	109.0	66.2	80.4	73.8	199
1984	123.0	75.7	91.8	74.6	216
1985	133.0	81.8	99.2	74.6	220
1986	148.0	92.3	111.6	75.4	239
1987	152.0	93.1	112.9	74.3	233
1988	155.0	96.1	116.3	75.0	228
1989	161.0	97.3	118.3	73.5	215
<b>Petrol (4 star): per litre</b>					
1964 April	5.2	3.0	3.0	57.7	45
1967 April	6.0	3.9	3.9	65.0	52
1970 April	7.2	5.0	5.0	69.4	57
1974 <sup>3</sup> April	12.1	5.0	5.0	41.3	38
1977 April	18.5	7.7	7.7	41.6	35
1978 April	16.5	6.6	6.6	40.0	28
1979 <sup>4</sup> July	26.2	8.1	8.1	30.9	30
1980 April	29.0	10.0	10.0	34.5	31
1981 April	33.7	13.8	13.8	40.9	39
1982 April	35.6	15.5	15.5	43.5	40
1983 April	39.4	16.3	16.3	41.4	40
1984 April	40.3	17.2	17.2	42.7	40
1985 April	44.8	17.9	17.9	40.0	40
1986 April	37.2	19.4	19.4	52.2	42
1987 April	38.1	19.4	19.4	50.9	40
1988 April	37.5	20.4	20.4	54.4	40
1989 April	40.0	20.4	20.4	#DIV/0! 49.6	37
<b>Derv: per litre</b>					
1964 April	5.0	3.0	3.0	60.0	45
1967 April	5.9	3.9	3.9	66.1	52
1970 April	7.0	5.0	5.0	71.4	57
1974 <sup>3</sup> April	12.0	5.0	6.0	50.0	46
1977 April	18.4	7.7	9.7	52.7	44
1978 April	18.5	7.7	9.8	53.0	41
1979 <sup>4</sup> April	27.2	9.2	12.2	44.9	45
1980 April	29.6	10.0	13.9	47.0	44
1981 April	35.3	13.8	18.4	52.1	52
1982 April	35.7	13.3	17.9	50.1	46
1983 April	37.5	13.8	18.7	49.9	46
1984 April	37.9	14.5	19.4	51.2	46
1985 April	43.2	15.2	20.8	48.1	46
1986 April	37.3	16.4	21.3	57.1	46
1987 April	34.8	16.4	20.9	60.1	43
1988 April	34.4	17.3	21.8	63.4	43
1989 April	36.1	17.3	22.0	60.9	40

<sup>1</sup>Prices shown reflect Budget tax changes; they generally relate to April/May.

<sup>2</sup>Retail price including VAT and excise duties.

<sup>3</sup>The rate of VAT used for 1974 in these tables is 10 per cent. This was later reduced for all goods subject to excise duties to 8 per cent on 29 July 1974. The rate was subsequently increased, for petrol only to 25 per cent on 18 November 1974.

<sup>4</sup>Owing to the date of the Budget (12 June 1979) the July RPI has been used. The VAT rate increased to 15 per cent on 18 June 1979



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**Section 5: National insurance contributions**

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**A. THE CURRENT SYSTEM**

**Table 5.1: Some key figures**

UK National Insurance Contributions (NIC) receipts	2005-06	2006-07 <sup>3</sup>	2007-08 <sup>3</sup>	2008-09 <sup>3</sup>
	<i>£billions</i>			
Employees <sup>1</sup>	33.1	34.6	37.1	38.9
Employers <sup>2</sup>	48.8	51.4	55.0	55.4
Self-employed	2.7	2.8	2.9	2.9
<b>Total</b>	<b>84.5</b>	<b>88.9</b>	<b>95.0</b>	<b>97.2</b>

1. Employees contributions include Class 3.

2. Employers contributions include Class 1A.

3. All the figures are provisional, net of all contracting out rebates, and gross of SSP, SMP and NIC holidays.

Source: HM Revenue & Customs

**Introduction**

5.1 There are four classes of contribution:

Class 1: Earnings-related contributions paid by both employees and employers.

Class 1A: Contributions paid by employers only on the value of most benefits in kind, e.g. company cars

Class 1B: Contributions paid by employers only on the value of items included in a PAYE Settlement Agreement

Class 2: Flat rate contributions paid by the self-employed whose earnings are above the small earnings exception, or who do not claim an exception.

Class 3: Flat rate voluntary contributions for those not required to pay Class 1 or Class 2 contributions, which can be paid by those whose contribution record would otherwise be deficient, including those living overseas.

Class 4: Profit-related contributions paid by the self-employed in addition to Class 2 contributions.

5.2 Most Class 1 contributions are based on weekly/monthly earnings derived from employment. There are special rules for directors. Class 2 contributions are payable by all those who are self-employed unless an exemption is claimed for low earnings and Class 4 contributions are based on annual taxable profits National Insurance contributions (NICs) finance payment of the National Insurance Fund benefits listed below:

**Short-term benefits**

- Jobseeker's Allowance (contribution-based)
- Incapacity Benefit short-term (due to be replaced by Employment Support Allowance from October 2008)
- Maternity Allowance

## Section 5: National insurance contributions

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### Long-term benefits

- Retirement Pension
- Incapacity Benefit long-term
- Widow's Payment, Widow's Pension and Widowed Mother's Allowance
- Child's special allowance (not payable in respect of new claims from 6.8.87)

### Benefits not subject to contribution conditions, but paid for out of NI Fund

- Guardian's Allowance;
- Christmas bonus (where the qualifying benefit is paid for out of the NI Fund).

5.3 Benefits in the first two groups above are only payable to claimants who satisfy the relevant contribution conditions (see Section 6).

## The current regime

### Class 1

5.4 An employee aged 16 or over but below retirement age (currently 65 for men, 60 for women) who satisfies certain prescribed conditions as to residence or presence in Great Britain must pay primary Class 1 contributions if their earnings in any particular pay period exceed the primary threshold. The employer must also pay secondary contributions on those earnings irrespective of the age of the employee.

**Table 5.2: Class 1 National Insurance Contributions for not contracted out only in 2009-10**

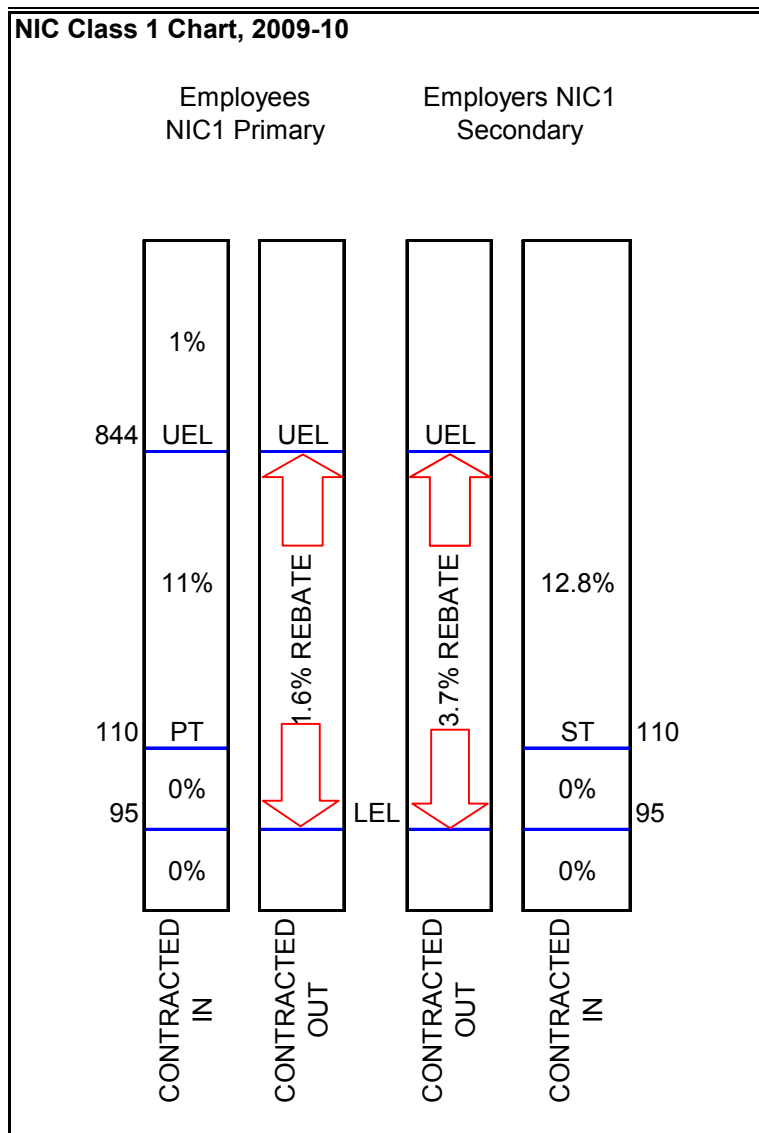
Weekly Earnings £	Employee's Contributions (%)	Employers contributions (%)
Below 95 (LEL)	(No NICs payable)	(No NICs payable)
95 to 110 (PT/ST)	0	(No NICs payable)
110 to 844 (UEL)	11	12.8
Above 844	1	12.8

5.5 No contributions are payable between the Lower Earnings Limit (LEL) and the Primary Threshold (PT), but employees with earnings between these thresholds are treated as having paid contributions enabling those earnings to count towards NI benefits.

5.6 Employees pay Class 1 contributions equal to 11 per cent of earnings above the PT (£110 per week in 200/10) up to the upper earnings limit (UEL, £844 per week), and 1 per cent of all earnings above the UEL. Employers pay Class 1 secondary contributions equal to 12.8 per cent of earnings above the secondary threshold (ST, £105 per week).

5.7 Members of an occupational pension scheme that achieves certain specified standards may 'contract-out' from the state second pension (previously the state earnings-related pension scheme, SERPS), which is normally payable in addition to the basic State Pension.





5.8 All contracted-out employees and their employers pay contributions from the PT and ST respectively, but receive a contracted-out rebate, which is calculated on the amount of earnings between the lower earnings limit (LEL) and the upper accruals point (UAP). For employees the rebate is 1.6 per cent of earnings. For employers it is 3.7 per cent [This rate is not reflected in the example below] for contracted-out salary-related schemes, and for contracted-out money purchase schemes and appropriate personal pensions the employers' rebate depends on the age of the employee. This rebate means that contracted-out employees and their employers pay a lower rate of contribution between the LEL and the UAP, in recognition of the fact that they lose their entitlement to the earnings-related element of the State pension as a result of being contracted-out.

5.9 Class 1A contributions are paid by employers and certain third parties only and cover most taxable benefits such as the value of company cars and fuel, accommodation benefits and loan benefits (see Section 1 for further details). Class 1A contributions are paid in the year following the year in which the taxable benefit is provided, so they have no impact on the National Insurance Fund until the following year.

However, the National Accounts basis used for the Budget for National Insurance costings aims to recognise when liability accrues irrespective of when the money is actually received.

**Example 5.1: The contracted out rebate calculation, 2009-10**

**Assume an employee contracted out with a wage of £900 a week (primary class 1 contributions):**

NIC before the rebate	= (844-110)*11%	= £80.74 pw	} below UEL
Rebate	= (844-95)*1.6%	= £11.98 pw	
NIC	= £80.74 - £11.98	= £68.76 pw	
NIC	= (900-844)*1%	= £0.56 pw	} above UEL
Total NIC	= £68.76 + £0.56	= £69.32 pw	

**For the employer (secondary class 1 contributions):**

NIC before the rebate	= (844-110)*12.8%	= £93.95 pw	} below UEL
Rebate	= (844-95)*3.7%	= £27.71 pw	
NIC	= £93.95 - £27.71	= £66.24 pw	
NIC	= (900-844)*12.8%	= £7.17 pw	} above UEL
Total NIC	= £66.24 + £7.17	= £73.41 pw	

5.10 Class 1B contributions are also paid only by employers and cover PAYE Settlement Agreements (PSA) under which an employer agrees to meet the income tax liability arising on a restricted range of benefits. Class 1B is payable on the value of the items included in the PSA that would otherwise attract a Class 1 or Class 1A liability and the value of the income tax met by the employer.

The reduced rate Class 1 contribution for certain married women is equal to 4.85 per cent of earnings between the PT and the UEL. An additional 1 per cent is payable for earnings above the UEL.

Contributions by the self-employed (Class 2 and 4)

5.11 Class 2 contributions are a flat-rate weekly liability payable by all self-employed people over 16 unless earnings are expected to be low (below £5,075 for 2009-10) and they have applied for the small earnings exception. Class 4 contributions are earnings-related payments that are paid if taxable profits exceed the lower profits limit. They are calculated at 8 per cent of profits between the upper and lower profits limits and 1 per cent above the upper profits limit. The current rates of Class 2 and Class 4 contributions are shown in Table 5.3.

Voluntary payment of Class 2 contributions

5.12 A self-employed person may choose to pay Class 2 contributions even if not liable to do so (because, for instance, earnings are below the small earnings exception in a particular week). The rate of Class 2 contributions in 2009-10 is £2.40 per week. Paying voluntary Class 2 contributions in such

## Section 5: National insurance contributions

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circumstances can be a better and more affordable way of preserving entitlement to benefit than paying Class 3 contributions. This is because Class 3 contributions carry entitlement to a more restricted range of benefits and are set at a higher cost.

### Voluntary payment of Class 3 contributions

5.13 Class 3 contributions may be paid by people aged 16 and over to enable them to qualify for Retirement Pension and widow's benefits if their contribution record would not otherwise be sufficient. The rate of Class 3 contributions in 2009-10 is £12.05 per week, an increase from £8.10 per week for 2008-09. The rise in rate reflects a cost neutral package with Class 3 contribution rules changed to allow those reaching State Pension age between April 2008 and April 2015 with 20 qualifying years to purchase up to 6 additional years from 1975-76.

**Table 5.3: Class 2,3 and 4 rates and limits in 2009-10**

<b>Class</b>	<b>Rate</b>
<u>Class 2</u> (Flat-rate weekly) (Small earnings exception £4,825 (per annum))	£2.40
<u>Class 3</u> (Flat-rate voluntary weekly contributions)	£12.05
<u>Class 4</u> (Self-employed, profit-related):	
Rate on profits between LPL and UPL:	8.0%
Rate on profits above UPL:	1.0%
Lower profits limit (LPL):	£5,715
Upper profits limit (UPL):	£43,875

## **B. HISTORY**

### **1911 to 1948**

5.14 National Insurance was introduced in 1911 to provide a source of non-means-tested basic income during interruptions in earning capacity caused by sickness and (to a lesser extent) unemployment. Throughout the period it was limited to workers below an earnings threshold, with a small area of voluntary participation for those with earnings just above it. Some occupations (mainly large public-sector employments) were excluded from insurance. Contributions were flat-rate, and paid and collected separately for different contingencies. Sickness benefits were insured (and the benefits paid) through Friendly Societies and it was possible for benefits to vary above a flat-rate minimum depending on the investment performance of the society. It was possible to be insured for different combinations of unemployment, sickness, pensions, and widows' benefits. There were also separate insurance schemes, with different benefit and contribution rates, for some types of occupation, such as agricultural workers.

5.15 Over the period, the scheme became more comprehensive, covering more groups of workers and a wider income range. The range of benefits provided expanded from the initial working-age protection against sickness, unemployment and maternity needs introduced in the National Insurance Act 1911 to include contributory retirement and survivors' benefits in 1925. However, there was no consistency in the rate of benefit or in the treatment of dependants.

### **July 1948 to April 1961**

5.16 Following the recommendations in Sir William Beveridge's 1942 report *Social Insurance and Allied Services*, the National Insurance system included all employed and self-employed earners and was accessible voluntarily to non-workers, though married women were not expected to participate. However, contributors were divided into different classes with access to different groups of benefits. From 1948, the introduction of the National Health Service meant that sickness insurance contributions purchased benefits alone, not—as previously—benefits and medical care.

5.17 In this period National Insurance contributions were flat rate contributions paid by the employed (Class 1), the self-employed (Class 2) and the non-employed (Class 3). Different rates were payable for each class. The rate also depended on the contributor's sex and age (whether they were under or over 18). In addition to national insurance, the contributions included elements for the National Health Service and, in the case of Class 1 contributions, for industrial injuries. For employees (i.e. Class 1) separate contributions were paid by the employee and employer. Rates of Class 1 contributions paid for men and women over the age of 18 are shown in Table 5.6.

5.18 Married women could choose whether to pay the full contribution or a reduced payment, which only covered the industrial injuries contribution and gave no entitlement to other contributory benefits (although married women could claim retirement pension based on their husband's contribution record).

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5.19 Men over 65 and women over 60 only paid industrial injuries contributions until the National Insurance Act 1957 allowed the elderly to choose to earn additional pension rights whilst working by paying full rate contributions.

5.20 Members of HM Forces also paid a reduced flat-rate contribution.

#### **April 1961 to April 1975**

5.21 After April 1961 weekly flat-rate contributions continued to be paid in much the same way as before (although 'contracting-out' was introduced - see below). However additional graduated contributions were introduced for employees (Class 1 contributors). These qualified the person for the new graduated pension. Flat rate weekly 'stamps' continued to be the sole means of obtaining all other contributory benefits. Graduated contributions were levied as a straight percentage (see Table 5.6 for figures)<sup>1</sup> on the excess of income over the LEL up to the UEL. From October 1967 there was a second rate of contribution on earnings over an intermediate earnings limit up to the UEL. For not contracted-out contributions only, the rate was consolidated once more at a single rate in October 1972. Example 5.2 gives an illustration.

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<sup>1</sup>Actual contributions rose in small discrete steps that approximated to these percentage rates (see Social Security Statistics 1975, Table 40.04 and 40.05).

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**Example 5.2: Male employee, over 18 earning £25 per week: not contracted out**

**August 1969**

Male employee, over 18 earning £25 per week: not contracted out.

<b>Employee:</b>	Flat rate contribution	=	£0.83 pw
	Graduated element	=	$(18-9) \times 4.75\%$ $+ (25-18) \times 0.50\%$
		=	£0.46 pw
	Total	=	£1.30 pw
<b>Employer:</b>	Flat rate contribution	=	£0.78 pw
	Graduated element	=	£0.46 pw
	Total	=	£1.24 pw

**Example 5.3: Employee over 16 not contracted out**

**August 1978**

Employee over 16, earning £15 pw

Employee	- nil
Employer	- nil

Employee over 16, earning £18 pw

Employee	$18 \times 0.065$	=	£1.17
Employer	$18 \times 0.10$	=	£1.80
National Insurance Surcharge	$18 \times 0.02$	=	£0.36

5.22 The employer made an equal graduated contribution. For the purposes of this calculation income was defined as gross pay including overtime, commission and bonuses. Employees could be contracted-out of the graduated pension if they had an occupational pension scheme that achieved certain specified standards. If they chose this option they would pay higher flat rate contributions but lower graduated contributions. The latter would result in a smaller graduated pension.

5.23 The rates of graduated contributions were the same for men and women (whether the latter opted for reduced flat rate contributions or not). No graduated contributions were payable by, or on behalf of, those under 18 or those treated as retired for pension purposes.

**April 1975 to October 1985**

5.24 From April 1975, the flat rate contributions and graduated elements were replaced with an earnings related percentage based system. There were different percentage rates for employees and employers and contracted out and not contracted-out contributions (see Table 5.7).

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5.25 The transition to an earnings-related contribution system led to a number of major changes in the structure of National Insurance. These included:

- the introduction of lower and upper earnings limits for contribution liability. A lower limit was required both for practical administrative reasons and to concentrate contributions and benefits on people who depended substantially on income from work. The lower limit was linked to the level of basic retirement pension. An upper limit was required to prevent excessive burdens (and the acquisition of very high benefit entitlements);
- the concept of a two-part benefit system for longer-term needs, consisting of a basic flat-rate benefit and an earnings-linked second pension (SERPS);
- equalisation of contribution and benefit rates for men and women and young people;
- the abolition of the "married women's election" (the special lower-rate National Insurance contribution paid by married women) for marriages after April 1977;
- the introduction of Home Responsibilities Protection (HRP) for people prevented from working to the full by the care of children. HRP made it easier to achieve a full retirement pension by excluding years of very low earnings and child-care from the length of the working life over which retirement pension was calculated;

No contributions were paid unless earnings were above the LEL. However, where earnings exceeded the lower limits the relevant rate applied to all earnings. In addition, employers were liable for national insurance surcharge between April 1977 and October 1984.

5.26 The contracted out rebate for employer and employee contributions was only applied between the LEL and UEL. Earnings below the LEL and above the UEL were charged at the appropriate not contracted-out rate.

### **October 1985 to October 1989**

5.27 From 1985 a number of different rates were introduced between the lower and upper earnings limits. For each level of earnings the appropriate rate was applied to all earnings, not just the earnings within the band to which each rate applied. (See Table 5.8.) There was also no UEL for employer contributions.

**Example 5.4: Not contracted out**

**August 1988**

Not Contracted Out

**Earnings £ per week**

**Employee**

**Employer**

30	0	0
60	0.05 x 60 = £ 3.00	0.05 x 60 = £ 3.00
100	0.07 x 100 = £ 7.00	0.07 x 100 = £ 7.00
200	0.09 x 200 = £18.00	0.1045 x 200 = £20.90
400	0.09 x 305 = £27.45	0.1045 x 400 = £41.80
500	0.09 x 305 = £27.45	0.1045 x 500 = £52.25

**October 1989 to April 1999**

Class 1

5.28 An employee aged 16 or over had to pay primary Class 1 contributions and the employer had to pay secondary contributions unless weekly earnings were below the LEL in which case neither payment was made. In 1998-99, employees Class 1 contributions were equal to 2 per cent of earnings up to the LEL (£64 per week) and 10 per cent of earnings above the LEL, up to the UEL (£485 per week). (See Table 5.4.)

5.29 It was possible for Class 1 contributors to contract-out. The option of contracting-out had been (re) introduced for those employees with an occupational pension scheme that achieved certain specified standards. Contracted-out employees and their employers paid a lower rate of contribution on earnings between the lower and upper limits; however, they lost entitlement to the earnings-related pension as a result. This contracted-out rate was, in 1998-99, 1.6 per cent below the not contracted-out rate for employees, and 3.0 per cent below the not contracted-out rate for employers.

5.30 Women who had paid earnings-related reduced rate contributions before 5 April 1978 were able to continue to do so<sup>2</sup>. The reduced percentage rate remained unchanged at 3.85 per cent from 1983 to 2003-04. Although reduced rate contributions gave no entitlement to sickness and unemployment benefits, women in Class 1 employment with reduced rate liability were covered for Industrial Injury Benefits. The woman's right to pay contributions at the reduced rate did not affect the employer's obligation to pay full secondary contributions.

<sup>2</sup> Unless the woman's marriage ends in divorce or annulment, or she ceases to be entitled to widow's benefit or if there are two consecutive tax years in which she has not been liable to pay Class 1 contributions, or has been self-employed. Thus the number of women entitled to pay reduced rate contributions falls every year.



<b>Examples 5.5: Pre-April 1999 NICs system (assuming no car or fuel benefits), 1998-99</b>			
<b>Not Contracted Out</b>			
Earnings per week	Employee		Employer
30	0		0
70	$(0.02 \times 64) + (0.1 \times 6)$	= £ 1.88	$0.03 \times 70$
100	$(0.02 \times 64) + (0.1 \times 36)$	= £ 4.88	$0.03 \times 100$
200	$(0.02 \times 64) + (0.1 \times 136)$	= £14.88	$0.07 \times 200$
400	$(0.02 \times 64) + (0.1 \times 336)$	= £34.88	$0.10 \times 400$
500	$(0.02 \times 64) + (0.1 \times 421)$	= £43.38	$0.10 \times 500$
<b>Contracted Out</b>			
Earnings per week			
30	0		0
70	$(0.02 \times 64) + (0.084 \times 6)$	= £ 1.78	$(0.03 \times 64) + (0.000 \times 6)$
100	$(0.02 \times 64) + (0.084 \times 36)$	= £ 4.30	$(0.03 \times 64) + (0.000 \times 36)$
200	$(0.02 \times 64) + (0.084 \times 136)$	= £12.70	$(0.07 \times 64) + (0.04 \times 136)$
400	$(0.02 \times 64) + (0.084 \times 336)$	= £29.50	$(0.10 \times 64) + (0.07 \times 336)$
500	$(0.02 \times 64) + (0.084 \times 421)$	= £36.64	$(0.10 \times 64) + (0.07 \times 421)$
			+ $(0.10 \times 15)$
			= £37.37

5.31 Since April 1978, NICs had not been paid by employees over the pension age (65 for men, 60 for women). However contributions were still to be paid, at the not contracted-out rate, by their employers where their earnings exceeded the Class 1 LEL.

5.32 From 1975 HM forces had paid a reduced percentage rate. This no longer applied from April 1996 when members of the forces and their employer began to pay NICs at the standard rate.

5.33 From 1991-92 Class 1A employers' NICs have been charged on company cars and free fuel provided by the employer for private use. These benefits-in-kind remained exempt from employees' NICs. Employers' NIC liability in respect of company cars and free fuel was calculated on the basis of the Inland Revenue scale charges used to assess income tax. Employers' contributions based on the scale charges were paid at the not contracted-out rate (10 per cent in 1998-99) in all cases, except where the employee earned at a rate of less than £8,500 per year, including expenses and benefits, in which case no contributions were levied on benefits in kind. See Table 1.7 for details of car and fuel scales. Liability was assessed annually, and paid in arrears.

5.34 The range within which the LEL and UEL had to fall was specified in legislation. The weekly LEL was fixed at the level of the single basic pension rounded down to the nearest pound (50 pence until 1986). The UEL had to fall between 6½ and 7½ times the level of the LEL. Primary legislation was required to relax these constraints.

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Contributions by the self-employed (Class 2 and 4)

5.35 Class 2 contributions were flat-rate payments payable by all self-employed people over 16 unless they had applied for the small earnings exception. Class 4 contributions were a percentage of earnings between the lower and upper profits limit. The rates of Class 2 and Class 4 contributions are shown in Table 5.5. Married women could have chosen to pay a 'reduced rate' of contributions (under the same conditions as for Class 1 contributions - see above). This exempted them from any Class 2 contributions. They remained liable to Class 4 contributions at the normal rate. Class 4 contributions did not count towards any benefits. They were intended to spread the cost of benefits available to the self-employed in a more equitable way and so reduce the burden on the self-employed with low earnings.

Voluntary payment of Class 2 contributions

5.36 A self-employed person might choose to pay Class 2 contributions even if not liable to do so (because, for instance, earnings were below the small earnings exception). Paying voluntary Class 2 contributions in such circumstances could be a better way of preserving entitlement to benefit than paying Class 3 contributions because Class 3 contributions carried entitlement to a more restricted range of benefits.

Voluntary payment of Class 3 contributions

5.37 Class 3 contributions might be paid by people aged 16 and over to enable them to qualify for Retirement Pension and widow's benefits if their contribution record would not otherwise have been sufficient.

Personal pensions

5.38 As a result of the Social Security Act 1986, people could make their own provision for retirement by taking out Personal Pensions (PP). Personal Pensions which meet certain conditions (called Appropriate Personal Pensions or APPs) can be used to contract out of the SERPS (previously only occupational schemes have been allowed to opt out of SERPS). The DSS make minimum contributions to these schemes a year in arrears. These may combine three different elements: the contracted-out national insurance rebate, an addition for age and some tax relief. PPs taken out before 5 April 1989 could be backdated to April 1987 and would receive the full minimum contribution for this period.

5.39 The contracted out rebate - all PP optants were required to pay full rate NICs based on their earnings between the LEL and UEL. The rebate made over by the DSS into the APP scheme was the appropriate percentage applied to the difference between these two rates. On earnings from 1988/89 to 1992/93 it was 5.8 per cent. From 1993/94 to 1997/98 it was 4.8 per cent. From 1997/98 age related rebates have applied and these range from 3.4 per cent, at age 16, to the capped rate of 9 per cent at age 46.

### **Changes from April 1999**

5.40 The Chancellor announced in the March 1998 and March 1999 Budgets that the Government would introduce the biggest reform to national insurance since the mid-1970s. The changes involved:

- from April 1999, removing the 'entry fee' for employees which was a 2 per cent liability on earnings below the lower earnings limit (£66 for 1999-00); and
- removing the liability for employers to pay contributions on earnings below the Lower Earnings Limit (LEL) and aligning the point at which they start to pay NICs (the secondary threshold) with the income tax personal allowance. The system of multiple national insurance rates payable by employers was replaced with a single rate of 12.2 per cent.

### **Changes from April 2000**

5.41 The changes from April 2000 were as follows:

- the first stage of a two-stage alignment of the level at which employees start to pay NICs (the primary threshold) with the non-aged (under 65) personal allowance for income tax was implemented. At the same time appropriate measures were taken to protect benefit entitlement for those earning between the LEL and the new primary threshold. The Upper Earnings Limit (UEL) was increased to maintain the NIC base;
- the flat rate Class 2 NIC was reduced to £2 a week. The point at which Class 4 NICs on profits become payable was aligned with the personal allowance for income tax (£85 per week for 2000-01) and the rate was increased to 7 per cent. The upper profit limit - the point at which Class 4 liability ends - was increased to £535 a week; and
- in 1999-2000, Class 1A contributions were a percentage of the value of company cars and fuel. From April 2000, the liability for this class was extended to include other taxable benefits such as accommodation benefits and loan benefits which were not already subject to Class 1.

### **Changes from April 2001**

5.42 The changes from April 2001 were as follows:

- an alignment of the primary and secondary thresholds for Class 1 contributions with the Personal Allowance, which has been increased in line with the retail price index. For 2001/ 02 this was £87 a week for weekly paid employees and £378 a month for other employees;
  - an increase in the lower and upper earnings limits for Class 1 contributions to £72 (from £67) a week and £575 (from £535) a week respectively. The increase in the LEL was in line with the increase to the basic state retirement pension, while the increase in the UEL was as announced in the March 1999 Budget;
  - Class 3 contributions were increased broadly in line with RPI; and
-

- the lower and upper profit limits for Class 4 were aligned with the personal allowance and the upper earnings limit for Class 1 contributions respectively.
- Stakeholder pensions introduced which could be used to contract out of SERPS in the same manner as Appropriate Personal Pensions.

### **Changes from April 2002**

5.43 The changes from April 2002 were as follows:

- reduction of the Class 1 secondary rate to 11.8 percent (from 11.9 percent);
- State Second Pension (S2P) replaced SERPS to provide more generous additional State Pensions for low to moderate earners.

### **Changes from April 2003**

5.44 The changes from April 2003 were as follows:

- an additional one per cent increase in contribution rates for employers, employees and the self-employed on all earnings above the primary threshold and profits above the lower profits limit..

### **Changes from April 2004**

5.45 Normal up rating.

### **Changes from April 2005**

5.46 Normal up rating.

### **Changes from April 2006**

5.47 The changes from April 2006 were as follows:

- an increase in the lower and upper earnings limits for Class 1 primary contributions to £84 (from £82) a week and to £645 (from £630) a week respectively - in line with inflation;
  - an increase of the annual small earnings exception for Class 2 contributions to £4,465 (from £4,345);
  - an increase of the annual upper profits limit for Class 4 contributions to £33,540 (from £32,760);
  - an increase of the Class 3 contribution from £7.35 to £7.55; and the special rate of Class 2 contributions for volunteer development workers was increased by 10 pence to £4.20 in line with the statutory formula of 5 percent of the primary Class 1 LEL.
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### **Changes from April 2007**

5.48 Normal up rating.

### **Changes from April 2008**

5.49 The changes from April 2008 as announced in the 2007 Budget were as follows

- an increase in the upper earnings limit for class 1 contributions of £75 per week above indexation with a corresponding increase in the annual upper profits limit for Class 4 contributions;

### **Changes from April 2009**

5.50 The following changes were also announced in the 2007 Budget from April 2009

- Fully align the level of the upper earnings limit and upper profits limit with the higher rate threshold for income tax;
- Increase the higher rate threshold for tax, and consequently the UEL and UPL, by £800 a year above indexation.

5.51 As announced at PBR 2008 the Class 3 rate was increased above indexation to £12.05 per week and contribution rules changed to allow those reaching SPA who met certain restrictions to purchase up to 6 additional qualifying years. This package was intended to be cost neutral.

### **Announced future changes**

5.52 The changes announced at PBR 2008 were:

- Increasing the employee, employer and self-employed NICs rates by 0.5% from April 2011
- Aligning the primary threshold (but not the secondary threshold) with the level of the weekly equivalent of the income tax personal allowance from April 2011

**C HISTORICAL TABLES POST 1990**

**Table 5.4 Class 1 national insurance contributions**

	Weekly Income	Income chargeable	Employee's contribution <sup>1</sup>	Employers contribution <sup>2</sup>
<b>1990-91</b>	Below	46 (LEL)	----- (No NICs payable) -----	
		46 to 79.99	} 2% on first £46; 9% on income over £46	5.00%
		80 to 124.99		7.00%
		125 to 174.99		9.00%
		175 to 350		10.45%
	Above	350 (UEL)	income under 350 (UEL) for employees all income for employers	£28.28
	Rebate <sup>3</sup>	income between 46 (LEL) and 350 (UEL)	2.0%	3.80%
<b>1991-92</b>	Below	52 (LEL)	----- (No NICs payable) -----	
		52 to 84.99	} 2% on first £52; 9% on income over £52	4.60%
		85 to 129.99		6.60%
		130 to 184.99		8.60%
		185 to 390		10.40%
	Above	390 (UEL)	income under 390 (UEL) for employees all income for employers	£31.46
	Rebate <sup>3</sup>	income between 52 (LEL) and 390 (UEL)	2.0%	3.80%
<b>1992-93</b>	Below	54 (LEL)	----- (No NICs payable) -----	
		54 to 89.99	} 2% on first £54; 9% on income over £54	4.60%
		90 to 134.99		6.60%
		135 to 189.99		8.60%
		190 to 405		10.40%
	Above	405 (UEL)	income under 405 (UEL) for employees all income for employers	£32.67
	Rebate <sup>3</sup>	income between 54 (LEL) and 405 (UEL)	2.0%	3.80%
<b>1993-94</b>	Below	56 (LEL)	----- (No NICs payable) -----	
		56 to 94.99	} 2% on first £56; 9% on income over £56	4.60%
		95 to 139.99		6.60%
		140 to 194.99		8.60%
		195 to 420		10.40%
	Above	420 (UEL)	income under 420 (UEL) for employees all income for employers	£33.88
	Rebate <sup>3</sup>	income between 56 (LEL) and 420 (UEL)	1.8%	3.00%
<b>1994-95</b>	Below	57 (LEL)	----- (No NICs payable) -----	
		57 to 99.99	} 2% on first £57; 10% on income over £57	3.60%
		100 to 144.99		5.60%
		145 to 199.99		7.60%
		200 to 430		10.20%
	Above	430 (UEL)	income under 430 (UEL) for employees all income for employers	£38.44
	Rebate <sup>3</sup>	income between 57 (LEL) and 430 (UEL)	1.8%	3.00%
<b>1995-96</b>	Below	58 (LEL)	----- (No NICs payable) -----	
		58 to 104.99	} 2% on first £58; 10% on income over £58	3.00%
		105 to 149.99		5.00%
		150 to 204.99		7.00%
		205 to 440		10.20%
	Above	440 (UEL)	income under 440 (UEL) for employees all income for employers	£39.36
	Rebate <sup>3</sup>	income between 58 (LEL) and 440 (UEL)	1.8%	3.00%

Section 5: National insurance contributions

**Table 5.4 Class 1 National Insurance Contributions (continued)**

	Weekly Income	Income Chargeable	Employee's contribution <sup>1</sup>	Employers contribution <sup>2</sup>	
<b>1996-97</b>	Below	61 (LEL)	----- (No NICs payable) -----		
		61 to 109.99	all income	} 2% on first £61; 10% on income over £61	
		110 to 154.99	all income		
		155 to 209.99	all income		
		210 to 455	all income		
	Above	455 (UEL)	income under 455 (UEL) for employees all income for employers	£40.62	10.20%
	Rebate <sup>3</sup>	income between 61 (LEL) and 455 (UEL)	1.8%	3.00%	
<b>1997-98</b>	Below	62 (LEL)	----- (No NICs payable) -----		
		62 to 109.99	all income	} 2% on first £62; 10% on income over £62	
		110 to 154.99	all income		
		155 to 209.99	all income		
		210 to 465	all income		
	Above	465 (UEL)	income under 465 (UEL) for employees all income for employers	£41.54	10.00%
	Rebate <sup>3</sup>	income between 62 (LEL) and 465 (UEL)	1.6%	3.00% <sup>4</sup> (1.50%) <sup>5</sup>	
<b>1998-99</b>	Below	64 (LEL)	----- (No NICs payable) -----		
		64 to 109.99	all income	} 2% on first £64; 10% on income over £64	
		110 to 154.99	all income		
		155 to 209.99	all income		
		210 to 485	all income		
	Above	485 (UEL)	income under 485 (UEL) for employees all income for employers	£43.38	10.00%
	Rebate <sup>3</sup>	income between 64 (LEL) and 485 (UEL)	1.6%	3.00% <sup>4</sup> (1.50%) <sup>5</sup>	
<b>1999-00</b>	Below	66 (LEL)	----- (No NICs payable) -----		
		66 to 82.99	income above 66 (LEL)	10%	
		83 to 500	income above 66 (LEL) for employees, income above 83 (ST) for employers	10%	12.20%
	Above	500 (UEL)	income under 500 (UEL) for employees income above 83 (ST) for employers	£43.40	12.20%
		Rebate <sup>3</sup>	income between 66 (LEL) and 500 (UEL)	1.6%	3.00% <sup>4</sup> (0.60%) <sup>5</sup>
<b>2000-01</b>	Below	67 (LEL)	----- (No NICs payable) -----		
		67 to 75.99	income above 67 (LEL)	0%	
		76 to 83.99	income above 76 (PT)	10%	0.00%
		84 to 535	income above 76 (PT) for employees, income above 84 (ST) for employers	10%	12.20%
	Above	535 (UEL)	income under 535 (UEL) for employees income above 84 (ST) for employers	£45.90	12.20%
		Rebate <sup>3</sup>	income between 67 (LEL) and 535 (UEL)	1.6%	3.00% <sup>6</sup>
<b>2001-02</b>	Below	72 (LEL)	----- (No NICs payable) -----		
		72 to 86.99	income above 72 (LEL)	0%	
		87 to 575	income above 87 (PT/ST)	10%	11.90%
	Above	575 (UEL)	income under 575 (UEL) for employees income above 87 (ST) for employers	£48.80	11.90%
		Rebate <sup>3</sup>	income between 72 (LEL) and 575 (UEL)	1.6%	3.00% <sup>6</sup>

Section 5: National insurance contributions

**Table 5.4 Class 1 National Insurance Contributions (continued)**

		Weekly Income	Income Chargeable	Employee's contribution <sup>1</sup>	Employers contribution <sup>2</sup>
<b>2002-03</b>	Below	75 (LEL)	------(No NICs payable)-----		
		75 to 88.99	income above 75 (LEL)	0%	0.00%
	Above	89 to 585	income above 89 (PT/ST)	10%	11.80%
		585 (UEL)	income under 585 (UEL) for employees income above 89 (ST) for employers	£49.60	11.80%
	Rebate <sup>3</sup>		income between 75 (LEL) and 585 (UEL)	1.6%	3.50% <sup>6</sup>
<b>2003-04</b>	Below	77 (LEL)	------(No NICs payable)-----		
		77 to 88.99	income above 77 (LEL)	0%	0.00%
	Above	89 to 595	income above 89 (PT/ST)	11%	12.80%
		595 (UEL)	income under 595 (UEL) for employees income above 595 (UEL) for employees income above 89 (ST) for employers	£55.66 1%	12.80%
	Rebate <sup>3</sup>		income between 77 (LEL) and 595 (UEL)	1.6%	3.50% <sup>6</sup>
<b>2004-05</b>	Below	79 (LEL)	------(No NICs payable)-----		
		79 to 91	income above 79 (LEL)	0%	0.00%
	Above	91 to 610	income above 91 (PT/ST)	11%	12.80%
		610 (UEL)	income above 610 (UEL) for employees	1%	12.80%
	Rebate <sup>3</sup>		income between 79 (LEL) and 610 (UEL)	1.6%	3.50% <sup>6</sup>
<b>2005-06</b>	Below	82 (LEL)	------(No NICs payable)-----		
		82 to 94	income above 82 (LEL)	0%	0.00%
	Above	94 to 630	income above 94 (PT/ST)	11%	12.80%
		630 (UEL)	income above 630 (UEL) for employees	1%	12.80%
	Rebate <sup>3</sup>		income between 82 (LEL) and 630 (UEL)	1.6%	3.50% <sup>6</sup>
<b>2006-07</b>	Below	84 (LEL)	------(No NICs payable)-----		
		84 to 97	income above 84 (LEL)	0%	0.00%
	Above	97 to 645	income above 97 (PT/ST)	11%	12.80%
		645 (UEL)	income above 645 (UEL) for employees	1%	12.80%
	Rebate <sup>3</sup>		income between 84 (LEL) and 645 (UEL)	1.6%	3.50% <sup>6</sup>
<b>2007-08</b>	Below	87 (LEL)	------(No NICs payable)-----		
		87 to 100	income above 87 (LEL)	0%	0.00%
	Above	100 to 670	income above 100 (PT/ST)	11%	12.80%
		670 (UEL)	income above 670 (UEL) for employees	1%	12.80%
	Rebate <sup>3</sup>		income between 87 (LEL) and 670 (UEL)	1.6%	3.70% <sup>6</sup>
<b>2008-09</b>	Below	90 (LEL)	------(No NICs payable)-----		
		90 to 105	income above 90 (LEL)	0%	0.00%
	Above	105 to 770	income above 105 (PT/ST)	11%	12.80%
		770 (UEL)	income above 770 (UEL) for employees	1%	12.80%
	Rebate <sup>3</sup>		income between 90 (LEL) and 770 (UEL)	1.6%	3.70% <sup>6</sup>
<b>2009-10</b>	Below	95 (LEL)	------(No NICs payable)-----		
		95 to 110	income above 95 (LEL)	0%	0.00%
	Above	110 to 844	income above 110 (PT/ST)	11%	12.80%
		844 (UEL)	income above 844 (UEL) for employees	1%	12.80%
	Rebate <sup>3</sup>		income between 95 (LEL) and 844 (UEL)	1.6%	3.70% <sup>6</sup>

Footnote in the next page



## Section 5: National insurance contributions

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### Notes to Table 5.4

<sup>1</sup> This rate applies to all earnings below the UEL for 1985-86 to 1998-99

<sup>2</sup> This rate applies to all earnings

<sup>3</sup> The contracted out rebate rate is applied only to earnings between the LEL and UEL

<sup>4</sup> Rate for Contracted-Out Salary Related (COSR) scheme

<sup>5</sup> Rate for Contracted-Out Money Purchase Scheme (COMPS). The employer's contracted-out rebate varies according to the age of the employee. However, in 1999-2000 only a rebate of 0.6 percent (1.5 percent in 1997-98 and 1998-99) was deducted from from contributions at the time they were paid, the remainder was paid by the Contribution Agency in the following financial year the submission by employers of end-of-year returns.

<sup>6</sup> For the year 2000-01 and 2001-02, the contracted-out rebate for secondary contributions is 3% of earnings between the LEL and UEL for contracted-out salary-related schemes. The rate for 2002-03 to 2006-07 is 3.5% and in 2007-08 it is 3.7%. For contracted-out money purchase schemes, the employer's contracted -out rebate varies according to the age of the employee. For appropriate personal pensions, the total rebate (primary and secondary combined) applicable to earnings is like the rebate from COMPS, related to the age of the employee.

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## Section 5: National insurance contributions

Table 5.5: Class 2, 3 and 4 contributions

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Class 2: (Flat rate weekly)							
Flat rate weekly	£4.55	£5.15	£5.35	£5.55	£5.65	£5.75	£6.05
Small earnings exception <sup>1</sup> : (per annum)	£2,600	£2,900	£3,030	£3,140	£3,200	£3,260	£3,430
Class 4: (Self-employed; profit-related)							
Rate on profits between LPL and UPL	6.3%	6.3%	6.3%	6.3%	7.3%	7.3%	6.0%
Lower profits limit (LPL)	£5,450	£5,900	£6,120	£6,340	£6,490	£6,640	£6,860
Upper profits limit (UPL)	£18,200	£20,280	£21,060	£21,840	£22,360	£22,880	£23,660
Class 3: (Flat-rate voluntary weekly contributions)							
Contributions	£4.45	£5.05	£5.25	£5.45	£5.55	£5.65	£5.95
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Class 2: (Flat rate weekly)							
Flat rate weekly	£6.15	£6.35	£6.55	£2.00	£2.00	£2.00	£2.00
Small earnings exception <sup>1</sup> : (per annum)	£3,480	£3,590	£3,770	£3,825	£3,955	£4,025	£4,095
Class 4: (Self-employed; profit-related)							
Rate on profits between LPL and UPL	6.0%	6.0%	6.0%	7.0%	7.0%	7.0%	8.0%
Rate on profits above UPL	-	-	-	-	-	-	1.0%
Lower profits limit (LPL)	£7,010	£7,310	£7,530	£4,385	£4,535	£4,615	£4,615
Upper profits limit (UPL)	£24,180	£25,220	£26,000	£27,820	£29,900	£30,420	£30,940
Class 3: (Flat-rate voluntary weekly contributions)							
Contributions	£6.05	£6.25	£6.45	£6.55	£6.75	£6.85	£6.95
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
Class 2: (Flat rate weekly)							
Flat rate weekly	£2.05	£2.10	£2.10	£2.20	£2.30	£2.40	
Small earnings exception <sup>1</sup> : (per annum)	£4,215	£4,345	£4,465	£4,635	£4,825	£5,075	
Class 4: (Self-employed; profit-related)							
Rate on profits between LPL and UPL	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Rate on profits above UPL	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Lower profits limit (LPL)	£4,745	£4,895	£5,035	£5,225	£5,435	£5,715	
Upper profits limit (UPL)	£31,720	£32,760	£33,540	£34,840	£40,040	£43,875	
Class 3: (Flat-rate voluntary weekly contributions)							
Contributions	£7.15	£7.35	£7.55	£7.80	£8.10	£12.05	

<sup>1</sup> If earnings from self-employment are below this annual limit and the contributor applies for and is granted a small earnings exception, then Class 2 contributions may be paid voluntarily if desired.

## D HISTORICAL TABLES PRE 1990

Table 5.6: Class 1 contributions July 1948 - April 1975

	Flat-rate contributions <sup>1</sup> , £pw not contracted-out rate <sup>2</sup>				Graduated element <sup>3</sup> , per cent <sup>4</sup>			Earnings Limits <sup>5</sup> £ pw			Employee's maximum contributions Men over 18	
	Men over 18		Women over 18		Lower rate		Upper rate <sup>6</sup>	L	I	U	not contracted out	
	Employee	Employer	Employee	Employer	not contracted out	contracted out	contracted out				contracted out	
05/07/1948	0.246	0.208	0.192	0.162							0.246	
01/10/1951	0.254	0.217	0.200	0.171							0.254	
06/10/1952	0.287	0.250	0.225	0.196							0.287	
06/06/1955	0.337	0.300	0.275	0.246							0.337	
02/09/1957	0.371	0.308	0.300	0.254							0.371	
03/02/1958	0.471	0.404	0.383	0.329							0.471	
07/07/1958	0.496	0.412	0.400	0.338							0.496	
03/04/61 <sup>7</sup>	0.487	0.421	0.400	0.358	4.25			9	-	15	0.742	
03/07/1961	0.529	0.429	0.433	0.367	4.25			9	-	15	0.783	
03/06/63 <sup>8</sup>	0.583	0.483	0.483	0.417	4.25			9	-	18	0.967	
29/03/1965	0.683	0.646	0.571	0.558	4.25			9	-	18	1.067	
06/12/65 <sup>9</sup>	0.683	0.646	0.571	0.558	4.25			9	-	18	1.067	
05/09/66 <sup>9</sup>	0.683	0.646	0.571	0.558	4.75	0.50	0.50	9	18	30	1.171	0.908
06/02/1967	0.683	0.646	0.571	0.558	4.75	0.50	0.50	9	18	30	1.171	0.908
30/10/1967	0.783	0.758	0.658	0.658	4.75	0.50	0.50	9	18	30	1.271	1.008
06/05/1968	0.833	0.783	0.704	0.679	4.75	0.50	0.50	9	18	30	1.321	1.058
02/09/1968	0.833	0.783	0.704	0.679	4.75	0.50	0.50	9	18	30	1.321	1.058
07/07/1969	0.833	0.783	0.704	0.679	4.75	0.50	0.50	9	18	30	1.321	1.058
03/11/1969	0.883	0.833	0.750	0.725	4.75	0.50	3.25	9	18	30	1.700	1.438
06/07/1970	0.883	0.883	0.750	0.775	4.75	0.50	3.25	9	18	30	1.700	1.438
15/02/1971	0.880	0.887	0.750	0.771	4.75	0.50	3.25	9	18	30	1.700	1.430
05/07/1971	0.880	0.887	0.750	0.771	4.75	0.50	3.25	9	18	30	1.700	1.430
20/09/2000	0.880	0.887	0.750	0.771	4.75	0.50	4.35	9	18	42	2.350	2.080
02/10/1972	0.880	0.987	0.750	0.861	4.75	0.50	4.75	9	18	48	2.730	2.470
02/04/1973	0.880	0.987	0.750	0.861	4.75	0.50	4.75	9	18	48	2.730	2.470
01/10/1973	0.840	1.127	0.710	0.981	5.00	0.75	5.00	9	18	54	3.090	2.830
21/01/1974	0.840	1.217	0.710	1.051	5.00	0.75	5.00	9	18	54	3.090	2.830
05/08/1974	0.750	1.657	0.620	1.431	5.50	0.75	5.50	9	18	62	3.660	3.400

Notes to Table 5.6 are shown on the next page.

Section 5: National insurance contributions

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**Notes to Table 5.6**

- 1 'Flat-rate' contributions include National Insurance, Industrial Injuries, and National Health Allocation. Different rates were payable:
- by employee and employer;
  - by men and women;
  - by those over 18 and under 18; and
  - (after April 1961) in respect of those contracted-in to the graduated pension scheme, and those contracted-out.

The rates shown in the table pre-February 1971 have been converted into decimal form from the £sd rates which applied then.

5 July 1948-2 April 1961: no graduated contributions were payable.

3 April 1961-5 April 1975: the contributions were made up of two components:

- flat-rate contributions payable by all employees; and
- contributions based on weekly earnings in excess of £9 (the 'graduated contribution'). For those earning less than £9 a week, no graduated contribution was payable.

Each component had two rates of contribution: one for those contracted-in to (or more properly 'not contracted-out' of) the graduated pension scheme, and the other for those contracted-out. The flat-rate contributions for the contracted-out were higher than for those not contracted-out, whereas the graduated contributions for the contracted-out were lower.

- 2 The contracted-out rates were higher by the following amounts:

From:	Men over 18		Women over 18	
	Employee	Employer	Employee	Employer
3 April 1961	£0.079	£0.063	£0.042	£0.021
3 June 1963	£0.121	£0.121	£0.075	£0.075
15 February 1971	12p	12p	8p	8p

- 3 The rates shown were payable by both the employer and the employee. Until April 1975 the employer's graduated contribution was always equal to that of the employee.
- 4 Graduated contributions were derived from tables of contributions against earnings. Contributions went up in discrete steps of £0.50, £1, or £3 of earnings. The percentage rates shown here are thus only approximate. (The full tables are given in Social Security Statistics 1975, tables 40.04 and 40.05, p199-204).
- 5 3 April 1961-4 October 1966: there was one rate for graduated contributions between the LEL and UEL. Graduated contributions were payable only on earnings in excess of the lower limit.  
5 October 1966-5 April 1975: there were two rates for graduated contributions. The lower rate applied to earnings between the lower and the intermediate earnings limit, and the upper band ran from the intermediate to the upper limit. The contracted-out rate was lower than the not-contracted-out rate in the lower band, but in the upper band the two rates were the same. After October 1972, the not-contracted-out rates in the upper and lower bands were the same but two rates remained for those contracted-out.
- 6 L: lower; I: intermediate (top of lower band); U: upper. No graduated contributions were payable on earnings above the upper earnings limit.
- 7 The graduated pension scheme, with its graduated rates came into operation on 6 April 1961.
- 8 The graduated rates changed on 1 June 1963.
- 9 The graduated rates changed on 5 October 1966.
-

Section 5: National insurance contributions

**Table 5.7: Class 1 contributions 6 April 1975 to October 1985**

	Employee's Contributions				Employers' Contributions <sup>1</sup>				Earnings Limits	
	Not Contracted-out		Contracted-out <sup>2</sup>		Not Contracted-out		Contracted-out <sup>2</sup>		Lower(£)	Upper(£)
	Rate(%)	Max(£)	Rate(%)	Max(£)	Rate(%)	Max(£)	Rate(%)	Max(£)		
1975-76	5.50	3.79	As not		8.50	5.86	As not		11.00	69
1976-77	5.75	5.46	contracted		8.75	8.31	contracted		13.00	95
1977-78	5.75	6.04	out		8.75	9.19	out		15.00	105
1978-79	6.50	7.80	4.00	5.24	10.00	12.00	5.50	7.39	17.50	120
1979-80	6.50	8.77	4.00	5.89	10.00	13.50	5.50	8.30	19.50	135
1980-81	6.75	11.14	4.25	7.59	10.20	16.83	5.70	10.44	23.00	165
1981-82	7.75	15.50	5.25	11.17	10.20	20.40	5.70	12.61	27.00	200
1982-83	8.75	19.25	6.25	14.49	10.20	22.44	5.70	13.87	29.50	220
1983-84	9.00	21.15	6.85	16.80	10.45	24.56	6.35	16.26	32.50	235
1984-85 <sup>3</sup>	9.00	22.50	6.85	17.86	10.45	26.12	6.35	17.27	34.00	250

<sup>1</sup> In addition, national insurance surcharge (NIS) was payable by most employers (excluding charities) from April 1977 to its abolition on 1st October 1984 (6 April 1985 for local authorities). NIS was levied on employees' gross earnings on exactly the same basis as employers' NICs.

**Rates of NIS since its introduction:**

from: 06-Apr-77 02-Oct-78 02-Aug-82 06-Apr-83 01-Oct-84  
per cent rate 2 3½ 2 1½ 0

At the end of 1982-83 a rebate was made to employers. This reduced the effective rate of NIS for the year as a whole to 2 per cent.

<sup>2</sup> The contracted-out rebate for employer and employees contributions is applied only between LEL and UEL. Earnings below the LEL and above the UEL are charged at the appropriate not contracted-out rate.

<sup>3</sup> Between April 1985 and October 1985 the LEL and UEL were £35.50 and £265 respectively.

Section 5: National insurance contributions

**Table 5.8: Class 1 contributions October 1985 to April 1990**

		Weekly income	Income Chargeable	Employee's contributions rate <sup>1</sup>	Employer's contributions rate <sup>2</sup>
<b>06-Oct-1985 to 05-Apr-1986</b>	Below	35.50 (LEL)	0	(No NICs payable)	
		35.50 to 55	all income	5%	5.00%
		55 to 90	all income	7%	7.00%
		90 to 130	all income	9%	9.00%
		130 to 265	all income	9%	10.45%
	Above	265 (UEL)	0-265	£23.85	10.45%
	Rebate <sup>3</sup>		income between 35.50 (LEL) and 265 (UEL)	2.15	4.10
<b>1986-87</b>	Below	38 (LEL)	0	(No NICs payable)	
		38 to 60	all income	5%	5.00%
		60 to 95	all income	7%	7.00%
		95 to 140	all income	9%	9.00%
		140 to 285	all income	9%	10.45%
	Above	285 (UEL)	0-285	£25.65	10.45%
	Rebate <sup>3</sup>		income between 38 (LEL) and 285 (UEL)	2.15	4.10
<b>1987-88</b>	Below	39 (LEL)	0	(No NICs payable)	
		39 to 65	all income	5%	5.00%
		65 to 100	all income	7%	7.00%
		100 to 150	all income	9%	9.00%
		150 to 295	all income	9%	10.45%
	Above	295 (UEL)	0-295	£26.55	10.45%
	Rebate <sup>3</sup>		income between 39 (LEL) and 295 (UEL)	2.15	4.10
<b>1988-89</b>	Below	41 (LEL)	0	(No NICs payable)	
		41 to 70	all income	5%	5.00%
		70 to 105	all income	7%	7.00%
		105 to 155	all income	9%	9.00%
		155 to 305	all income	9%	10.45%
	Above	305 (UEL)	0-305	£27.45	10.45%
	Rebate <sup>3</sup>		income between 41 (LEL) and 305 (UEL)	2.00	3.80
<b>06-Apr-1989 to 04-Oct-1989</b>	Below	43 (LEL)	0	(No NICs payable)	
		43 to 75	all income	5%	5.00%
		75 to 115	all income	7%	7.00%
		115 to 165	all income	9%	9.00%
		165 to 325	all income	9%	10.45%
	Above	325 (UEL)	0-325	£29.25	10.45%
	Rebate <sup>3</sup>		income between 43 (LEL) and 325 (UEL)	2.00	3.80
<b>05-Oct-1989 to April 1990</b>	Below	43 (LEL)	0	(No NICs payable)	
		43 to 75	all income	2% on first £43;	5.00%
		75 to 115	all income	9% on balance	7.00%
		115 to 165	all income		9.00%
		165 to 325	all income		10.45%
	Above	325 (UEL)	0-325	£26.25	10.45%
	Rebate <sup>3</sup>		income between 43 (LEL) and 325 (UEL)	2.00	3.80

<sup>1</sup> This rate applies to all earnings below the UEL for 1985-86 to 1988-89.

<sup>2</sup> This rate applies to all earnings.

<sup>3</sup> The non contracted-out rebate is applied only to earnings between the LEL and the UEL.

Section 5: National insurance contributions

**Table 5.9: Reduced rate contributions for married women**

	£
05-Jul-48	0.013
03-Feb-58	0.021
03-Apr-61	0.017
03-Jun-63	0.021
29-Mar-65	0.025
30-Oct-67	0.029
03-Nov-69	0.033
20 September 1971 to 5 April 1975	0.040
	%
06-Apr-75	2.00
06-Apr-81	2.75
06-Apr-82	3.20
6 April 1983 onwards <sup>1</sup>	3.85

<sup>1</sup> From April 1999, this applies only on income above the LEL.

**Table 5.10: Class 2, 3 and 4 contributions<sup>1</sup>**

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Class 2: (Flat-rate weekly)								
Men	£2.41	£2.41	£2.66	£1.90	£2.10	£2.50	£3.40	£3.75
Women	£2.10	£2.20	£2.55					
Small earnings exception <sup>2</sup> (per annum)	£675	£775	£875	£950	£1,050	£1,250	£1,475	£1,600
Class 4: (Self-employed profit related)								
Rate on profits between LPL and UPL	8.00%	8.00%	8.00%	5.00%	5.00%	5.00%	5.75%	6.00%
Lower profits limit (LPL)	£1,600	£1,600	£1,750	£2,000	£2,250	£2,650	£3,150	£3,450
Upper profits limit (UPL)	£3,600	£4,900	£5,500	£6,250	£7,000	£8,300	£10,000	£11,000
Class 3: (Flat-rate voluntary weekly contributions)								
Contribution	£1.90	£2.10	£2.45	£1.80	£2.00	£2.40	£3.30	£3.65
	1983-84	1984-85	1985-86 <sup>3</sup>	1986-87	1987-88	1988-89	1989-90	
Class 2: (Flat-rate weekly)								
Flat rate weekly (men and women)		£4.40	£4.60	£4.75	£3.75	£3.85	£4.05	£4.25
Small earnings exception <sup>2</sup> (per annum)		£1,775	£1,850	£1,925	£2,075	£2,125	£2,250	£2,350
Class 4: (Self-employed; profit-related)								
Rate on profits between LPL and UPL		6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%
Lower profits limit (LPL)		£3,800	£3,950	£4,150	£4,450	£4,590	£4,750	£5,050
Upper profits limit (UPL)		£12,000	£13,000	£13,780	£14,820	£15,340	£15,860	£16,900
Class 3: (Flat-rate voluntary weekly contributions)								
Contributions		£4.30	£4.50	£4.65	£3.65	£3.75	£3.95	£4.15

<sup>1</sup> Pre-April 1975 Class 2 and 3 contributions can be found in Social Security Statistics (1974) pages 187-188.

<sup>2</sup> If earnings from self-employment are below this annual limit Class 2 contributions need not be paid. Class 2 or 3 contributions may be paid voluntarily if desired.

<sup>3</sup> On 6 October 1985 the Class 2 rate fell to £3.50 and the Class 3 rate fell to £3.40.





## **Section 6: Contribution conditions**

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## A. CURRENT SYSTEM

### Introduction

6.1 Contribution records and the contribution conditions for benefit are expressed in terms of the earnings on which contributions have been paid. The technical expression is the 'earnings factor'. Employees' contributions (Class 1) are paid as a percentage of their earnings. The Primary Threshold is the point from which employees start to pay contributions. Employees' earnings become relevant for contributory benefit purposes when they reach the 'lower earnings limit' (LEL) but they do not become liable to pay contributions until they reach the Primary or 'employee's threshold'. National Insurance contributions (NICs) are payable on earnings above the 'upper earnings limit'. Earnings upon which contributions have been paid, or treated as paid, are recorded by employers and the figure is used to calculate an earnings factor. Those with earnings below the LEL will have an earnings factor of zero, and those with earnings above the UEL will have an earnings factor equal to the UEL. The contribution conditions are expressed in terms of multiples of the LEL for the relevant tax year.

6.2 The other classes of contribution that can confer benefit rights are Class 2 (self-employed) and Class 3 (voluntary). Contributions are set at a weekly flat rate with Class 3 payable weekly and Class 2 either monthly or quarterly. Where they do confer benefit rights these contributions are treated as a Class 1 contribution paid at the lower weekly limit for employees; the resulting earnings factor is equal to the LEL.

6.3 Self-employed people pay Class 2 Contributions at a flat rate. Share Fishermen and Volunteer Development Workers (VDW) pay Special Class 2 Contributions. For National Insurance (NI) purposes, share fishermen are treated as self-employed but they pay a special kind of Class 2 contributions. Special Class 2 contributions differ from ordinary Class 2 contributions because:

- they are paid at a higher weekly rate than ordinary Class 2 contributions; and
- they count towards entitlement to JSA (C).

6.4 To receive certain benefits, an individual must have sufficient contributions that have been paid, treated as paid, or credited in the relevant tax years. These are usually the tax years finishing in the previous calendar year and the previous tax year. Thus, if benefit were claimed between January and December 2007 the relevant tax years would be 2004-05 and 2005-06. Different conditions may apply to some benefits, such as the basic State Pension, Widow's Benefits, Bereavement Benefits or Maternity Allowance.

6.5 Certain classes of contribution do not count towards entitlement to some or all benefits. Self-employed Class 4 contributions and Employer's Class 1 contributions do not give any benefit entitlement; reduced-rate contributions paid by women holding certificates of election do not give entitlement to any benefits.

6.6 Table 6.1 sets out the contributory state benefits discussed in this manual and the class of contributions that can count towards entitlement.

**Table 6.1: Contributions and benefit entitlements**

Benefit	Contributions taken into account			
	Class 1	Class 2	Class 3	Class 4
Retirement Pension	Yes	Yes	Yes	No
Jobseeker's Allowance	Yes	No <sup>2</sup>	No	No
Incapacity Benefit	Yes	Yes	No	No
Widow's Benefit	Yes	Yes	Yes	No
Maternity Allowance <sup>1</sup>	No	Yes	No	No

<sup>1</sup> See chapter 3 for maternal/paternal benefits.

<sup>2</sup> Class 2 contributions paid by Share fishermen and Volunteer development workers (overseas) do go towards helping a person qualify for Job Seeker's Allowance.

### Jobseeker's Allowance

6.7 Jobseeker's Allowance (JSA) includes two forms of help:

- contribution-based JSA is a personal benefit paid to unemployed people for up to 182 days who have paid sufficient NICs. It is paid irrespective of any capital held or a partner's earnings. Claimants with occupational or personal pensions who claim contribution-based JSA will have their benefit reduced by the amount the pension exceeds £50 a week; and
- income-based JSA is an indefinite means-tested benefit for unemployed people and their dependants, very similar to Income Support. The amount in payment has various elements: a personal allowance is paid for a single person (at the same age-related rate as contribution-based JSA) or for a couple [N.B. where the claimant has a partner, a higher amount of personal allowance is payable]; premiums, which can be paid for groups of people with special needs; and help in certain circumstances with mortgage interest and other housing costs not met by Housing Benefit. Certain couples may have to make a joint claim in order to receive income-based Jobseeker's Allowance.

6.8 On 6 April 2004, Child Tax Credit (CTC) replaced the elements within income-based Jobseeker's Allowance that were paid for children, such as child personal allowances, lone parent, family and disabled child premiums. This means that a family entitled to JSA now receives the appropriate adult elements only.

This applies to:

- new and repeat claims made on or after 6 April 2004; and
- existing claims where the customer already has a CTC award taken into account in their assessment on or after 12 April 2004.

6.9 The contribution conditions that applied for Unemployment Benefit were carried forward into JSA. A person's entitlement to contribution-based JSA is normally based on their NICs in the last two full tax years before the benefit year in which they made their JSA claim. There are two contribution conditions that the jobseeker must satisfy:

- Class 1 contributions on earnings of at least 25 times the lower earnings limit must be actually paid in one of the two relevant tax years on which the claim is based. Credits do not count for this condition; and
- Class 1 contributions on earnings of at least 50 times the lower earnings limit must be paid or credited in both of the relevant tax years on which the claim is based.

### **Credits**

6.10 In addition to paying, or being treated as having paid contributions, a person can be credited with NICs:

- a. special (non-permanent) credits are available to people who have not paid sufficient contributions to qualify for certain benefits. These credits are available to some people who received bereavement benefits and people who have recently finished a course of full-time education, training or apprenticeship that began before the age of 21; and
- b. a person may be credited with a contribution, subject to certain rules, for each week during which he or she:
  - was unemployed and available for and actively seeking employment;
  - was incapable of work through sickness or disability;
  - received Maternity Allowance;
  - was entitled to Statutory Maternity Pay or Statutory Adoption Pay;
  - received Carer's Allowance (or would have done if they had not received a bereavement benefit of a higher amount);
  - received Working Tax Credit;
  - attended an approved training course that was not expected to last more than 12 months;
  - was on jury service; or
  - was imprisoned following a conviction that was subsequently quashed;

Credits are currently awarded automatically to men for the tax years in which they reach age 60 and the four subsequent years provided they are not liable to pay Class 1 or 2 NICs and to young people for the tax years containing their 16<sup>th</sup>, 17<sup>th</sup> and 18<sup>th</sup> birthdays. Credits for men aged 60 and over will start to be phased out from April 2010 in line with the increase in women's State Pension age.

### **Home Responsibilities Protection**

6.11 Home Responsibilities Protection (HRP) helps to protect the basic State Pension of those precluded from regular employment because they are caring for children or a sick or disabled person at home. It is available to people who either:

- a. get Child Benefit (for which they are the claimant<sup>1</sup>) for a child under age 16;
- b. get Income Support and are not required to register for work because they look after someone who is sick or disabled;
- c. spend at least 35 hours a week in caring for someone who receives Attendance Allowance or the middle or highest rate of Disability Living Allowance care component or Constant Attendance Allowance for a minimum of 48 weeks in the year; or
- d. are registered foster carers (since April 2003) throughout the tax year and do not receive Child Benefit and are either not in paid work or do not earn enough in a tax year for it to count towards the basic State Pension.

It is awarded automatically to people in groups (a) and (b) who have a NI number (people in groups (c) and (d) have to apply) and works by reducing the number of qualifying years needed for a basic State Pension or Bereavement Benefits. HRP does not help in qualifying for other benefits and is not awarded to married women and widows who have maintained the right to pay reduced rate NI contributions. For a full basic State Pension, HRP cannot reduce the number of qualifying years below 20.

From 6 April 2010, HRP will be replaced by credits for parents and carers. Years of HRP acquired before April 2010 will be converted to credits where the contributor reaches State Pension age on or after 6 April 2010.

### **Incapacity Benefit**

6.12 Employees who are not entitled to Statutory Sick Pay (see Section 13) and other workers may qualify for short-term Incapacity Benefit. A claimant must satisfy two qualifying conditions. First, in one of the last three tax years before the benefit claim year, the claimant must have paid Class 1 contributions (credits do not count) on earnings and/or paid Class 2 contributions of at least 25 times LEL for that year. Second, in the 2 relevant tax years before the year in which the claim is made, he must have paid or been credited with Class 1 contributions on earnings and/or paid Class 2 contributions of at least 50 times LEL in those years.

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<sup>1</sup> Since 6 April 2008, people reaching State Pension age after this date can apply to have their partner's HRP transferred to them if their partner who claimed Child Benefit does not need HRP because he or she was working and paying contributions for the relevant years.

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6.13 A person who becomes ill or disabled before age 20 (25 in certain circumstances) may be able to qualify for Incapacity Benefit without having to satisfy the contribution conditions.

6.14 Note that since October 2008 IB has been to be replaced with the Employment and Support Allowance (ESA). For details of this see Section 9.

### **Basic State Pensions, Widowed Mother's Allowance, Widow's Pension, Widowed Parent's Allowance and Bereavement Allowance**

6.15 Until April 2010, two conditions must be satisfied to qualify for a basic State Pension. First, the individual must have actually paid, in any tax year since 6 April 1978, Class 1 contributions on earnings of at least 52 times the weekly lower earnings limit for the tax year concerned or, in the tax years 1975-76, 1976-77 or 1977-78, Class 1 contributions on earnings of at least 50 times the weekly lower limit for the tax year concerned. Either way, the equivalent number of Class 2 or Class 3 contributions actually paid in a tax year will be sufficient. Alternatively, he/she must have actually paid at least 50 flat-rate contributions in any year before 6 April 1975.

6.16 Second, the contribution record must show a minimum number of 'qualifying' tax years in the 'working life' (about nine out of ten years of the contributor's working life)<sup>2</sup>. The number of qualifying years is determined as follows. For the tax year from 6 April 1978 and later tax years, a qualifying year is any tax year containing qualifying earnings of at least 52 times the weekly lower earnings limit for that year (50 times for April 1975-April 1978). Qualifying earnings are:

- earnings on which full rate employees' Class 1 contributions have been paid, or treated as paid (earnings on which married womens' and widows' reduced rate contributions have been paid do not count);
- each Class 2 or Class 3 contribution, which counts as one weeks' earnings at the lower earnings limit (LEL); and
- each credit awarded for a week during which the person was incapable of work or unemployed and available for work or Incapacity benefit, Carer's Allowance, Working Tax Credit, Statutory Maternity Pay, Statutory Adoption Pay, Maternity Allowance or JSA was received, undertook approved training or jury service, served a prison sentence following which the conviction was quashed, or had credits automatically awarded on age grounds.

6.17 The full rate of basic State Pension will only be paid if the contribution record has the number of qualifying years required, taking into account any years of HRP.

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<sup>2</sup> The working life is currently 49 years for men and 44 years for women born on or before 5 October 1950.

6.18 A reduced rate of basic State Pension may be paid if the contribution record being used satisfies the first contribution condition but does not contain the number of qualifying years required for the second condition. No basic State Pension is payable at all, however, unless the contribution record contains at least one-quarter of the number of qualifying years required for the full rate of basic State Pension.

6.19 The reduced rate of basic State Pension is found by taking the number of qualifying years on the contribution record and expressing this as a percentage of the number required for the full rate of basic State Pension. The reduced rate of basic State Pension is that percentage of the full rate or married women's rate on her husband's contributions, as appropriate.

6.20 All young people can receive Class 3 credits for the year of their 16th birthday and the two following tax years. These credits are for long-term benefits, (basic State Pension, Widow's Benefits and Bereavement Benefits) and are included when calculating their basic State Pension providing that they have actually paid contributions as detailed in paragraph 6.9.

#### **Changes to the State Pension system from April 2010**

6.21 For those reaching State Pension a on or after 6 April 2010, the two current contribution conditions will be removed and replaced by a new single contribution condition, which will need to be satisfied for a person to be entitled to a basic State Pension.

6.22 To qualify for any basic State Pension, a person must have in any tax year in their working life:

- (i) have paid (or have been treated as paid); or
- (ii) have been credited with; or
- (iii) have a combination of paid (or treated as paid) and credited, Class 1 (full rate), 2 or 3 NI contributions which give an Earnings Factor (within tolerance\*) of not less than the Qualifying Earnings Factor for that year; or
- (iv) have actually paid or been credited with at least one Class 1 (full rate), 2 or 3 NI contribution at any time before 6 April 1975.

There will no longer be a requirement to have a minimum number of qualifying tax years in the working life to get a minimum basic State Pension.

6.23 Both men and women reaching State Pension age on or after 6 April 2010 will need 30 qualifying years during their working life to qualify for the full basic State Pension.

*Please note that these changes do not apply to the qualifying conditions for Bereavement Benefits.*

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\* If the total earnings factor includes any Class 1 contributions and is less than the Qualifying Earnings Factor for the relevant year, a tolerance level of up to £50 can be applied, so the year would be qualifying for example if annual earnings were short of the annual Qualifying Earnings Factor by £50.

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## **B: HISTORY**

### **The old system of 'earnings factors'**

6.24 The old system differs from the current system insofar as, from April 1975 to April 1987, the earnings factor was expressed in terms of contributions paid on earnings. The DSS recorded the amount of an employee's contributions and translated it back into an earnings factor.

6.25 Since April 1987, the earnings factor has been expressed in terms of the earnings on which contributions have been paid. A primary threshold was introduced in April 2000 as the point from which employees start to pay contributions, although employees' earnings become relevant for contributory benefit purposes when they reach the LEL.

### **Unemployment Benefit (UB): reduced rates**

6.26 Before October 1986 claimants with insufficient contributions were entitled to reduced rates of short-term benefits if they had paid or been credited with an earnings factor of at least 25 times the LEL. There were two rates: half rate benefit for those with an earnings factor of between 25 and 37½ times the LEL and three quarter rate benefit for those with an earnings factor between 37½ and 50 times the LEL.

6.27 Reduced rates were abolished on 5 October 1986, although claimants continued to receive reduced rate benefits where the period of claim (called the period of interruption of employment or PIE) began before 5 October. Reduced rate benefit remained payable in these cases until the earlier of either the end of the PIE or 4 October 1987.

### **Jobseeker's Allowance**

6.28 JSA replaced contributory Unemployment Benefit and Income Support for unemployed people from October 1996. The contribution conditions that applied for Unemployment Benefit were carried forward into contribution-based JSA. See Section 7 for more details of these systems.

### **Sickness Benefit**

6.29 Prior to 1975, a claimant must have had at least 26 flat-rate Class 1 and/or Class 2 contributions or credits in the relevant contribution year to be eligible for Sickness Benefit (SB).

6.30 From 1975 to 5 April 2001 a claimant would have satisfied the first contribution condition for sickness/incapacity benefit if they had paid Class 1 and/or 2 contributions of at least 25 times the LEL in any one tax year.

6.31 Reduced rates of short-term benefits, including SB, were ended on 5 October 1986, unless a claimant's PIE began before that date. SB claims that began after 5 October 1986 could be paid at reduced rates where the SB period linked to a period of SSP that began on 5 October 1986. Transitional protection in all these cases ceased on 4 October 1987.

6.32 SB was replaced on 13 April 1995 with short-term Incapacity Benefit (IB). Existing cases transferred onto short-term IB (lower rate) on 13 April 1995 payable at the same rate as SB. From the 29<sup>th</sup> week of incapacity these cases transferred onto short-term IB (higher rate).

6.33 From 6 April 2001, the first contribution condition for IB was changed so that contributions had to be paid in one of the last three tax years before the benefit claim year. Previously it had been in any one tax year. In addition, the contributions for IB were relaxed to enable people who became ill or disabled before the age of 20 (or 25 in certain cases) to gain access to IB without having to satisfy the contribution conditions.

#### **State Pensions qualifying years before 1975-76**

6.34 For tax years before 1975-76, the total numbers of flat-rate contributions paid by (or credited to) the person before 6 April 1975 is added up and divided by 50, but a person cannot have more qualifying years than tax years in this part of his or her working life.

#### **Widow's Allowance**

6.35 This was paid for the first 26 weeks after death if the widow was under 60 at the time or her husband was not entitled to a State Pension when he died, and he had actually paid before his death either:

- a. before 6 April 1975 - at least 25 Class 1, Class 2, or Class 3 contributions before age 65; or
- b. after 6 April 1975 - contributions in any one tax year on wages at least 25 times the lower earnings limit for that year (a Class 2 or 3 contribution counts as one week's earnings at the lower earnings limit).

6.36 Widow's Allowance was abolished for women whose husband died on or after 11 April 1988. It was replaced by 'Widow's payment' (see Section 9). Contribution conditions were not changed.

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**Section 7: Jobseeker's Allowance and Unemployment Benefit**

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**A. CURRENT SYSTEM****Table 7.1: Jobseeker's Allowance (JSA) key figures**

						Plans	
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<i>Average number of beneficiaries over the financial year</i>	<i>Thousands</i>						
JSA( income based)	649	601	646	704	625	774	1449
JSA( contribution based)	164	140	146	139	122	167	304
<i>Annual expenditure</i>	<i>£ Millions</i>						
JSA (income based)	2,052	1,759	1,825	1,962	1,816	2,148	4,743
JSA (contribution based)	507	445	486	478	427	733	1,115
JSA (total)	2,559	2,204	2,311	2,440	2,244	2,880	5,858

Source: Department for Work and Pensions

**Introduction**

7.1 Jobseeker's Allowance (JSA) is a weekly benefit for the unemployed. It has a unified structure that meets the needs of unemployed people until they return to work. JSA consists of both contribution-based and income-based elements paid at standard rates. Those who have paid sufficient national insurance contributions (NICs) may receive a personal rate of contribution-based JSA for 182 days, irrespective of income or capital (except in the case of those with occupational or personal pensions (see paragraph 7.5)) or a partner's earnings. Those who do not qualify, or whose needs are not met by the contributory element, may qualify for income-based help for themselves and their dependants, if their income is insufficient for their needs. This help will be provided for as long as it is needed, if the qualifying conditions continue to be met. JSA is liable to income tax, though the tax is not deducted from the benefit payments.

**Eligibility**

7.2 To be eligible for JSA a claimant must be unemployed, in Great Britain, capable of and available for employed work (i.e. employment assessable for income tax under Schedule E (PAYE) and liable to Class 1 NICs), actively seeking work, have entered into a jobseeker's agreement and not be in relevant education. They may also be available for self-employment, provided they are still prepared to take a job as an employed earner. For contribution-based JSA they must also satisfy the contribution conditions explained in Section 6. Benefit is not payable where the claimant works on average 16 hours or more a week, (24 hours a week for partners in income-based JSA cases). A person working below 16/ 24 hours can have a certain amount of earnings disregarded.

7.3 People who leave their job without just cause, or who are dismissed for misconduct, and people who refuse to take up an offer of employment without good cause, suffer a benefit penalty. Currently, the sanction is loss of benefit for up to 26 weeks.

### **Rates of Jobseeker's Allowance**

7.4 The rates of JSA are age related and the same amount for both components.

Single aged 24 or under	50.95
Single aged 25 or over	64.30
Lone Parent under 18	50.95
Lone Parent aged 18 or over	64.30
Couple both under 18	Max 76.90
Couple both 18 or over	100.95

Note: From 7 April 2008 the lower rate of benefit for single under 18s has been abolished.

7.5 Claimants with occupational or personal pensions who claim contribution-based JSA will have their benefit reduced by the amount the pension exceeds £50 a week. Claimants receiving income-based JSA will have their benefit reduced pound for pound.

## **B. HISTORY**

### **Historical rates of Unemployment Benefit**

7.6 The standard rates of Unemployment Benefit (UB) and increases payable to partners or adult dependants since 1948 are shown in Table 7.4. Increases were paid if the dependant's total earnings did not exceed the weekly amount of the increase. Until November 1984, claimants under pension age also received an increase for each dependent child.

7.7 Those above pensionable age and not retired (ie between 65 and 70 for men, 60 and 64 for women) received a higher rate of benefit - see Table 7.3. If a dependant's earnings exceeded the dependency increase, then no increase was payable.

### **Earnings related supplement (ERS)**

7.8 This was introduced in October 1966 and finally discontinued on 2 January 1982. Claims for unemployment were honoured until the end of June 1982; following this no further payments of ERS were made.

7.9 ERS was payable to claimants below pension age who were entitled to standard rate UB and had reckonable weekly earnings of more than the lower limit (see Table 7.6). Reckonable weekly earnings (RWE) were taken as one-fiftieth of the total reckonable earnings in the relevant tax-year where reckonable earnings were those from employment in the relevant tax-year on which schedule E income tax has been assessed and paid through PAYE.

### **Calculation of earnings related supplement**

7.10 Table 7.6 shows the rates of ERS payable and the limits of reckonable weekly earnings between which these rates operated. Thus, for the whole of the duration of the scheme, ERS was payable at a rate of one-third of earnings above the lower limit up to the top of the lower band, and then at either 15 per cent or 10 per cent above the top of the lower band up to the upper limit. For earnings levels at or above the upper limit the ERS payable reached a maximum, the size of which is shown in the final column.

7.11 Thus, for example, for unemployment in 1981 (the last benefit year in respect of which ERS claims were payable):

- if reckonable weekly earnings (RWE) (as defined above) were less than £19.50 per week in 1979-80 ERS was zero;

- for RWE between £19.50 and £30, ERS was one-third of the amount by which they exceeded £19.50;
- for RWE above £30, but less than £135, ERS was 10 per cent of the amount that RWE exceeded £30 plus £3.50, ie one-third of the difference between £30 and £19.50;
- for RWE at or above £135, ERS reached a ceiling of £14.00.

### **Payment**

7.12 ERS was payable after 12 waiting days, including Saturdays – i.e. two weeks - for a period of up to 156 days, again including Saturdays – i.e. 26 weeks - during an interruption of employment.

### **Weekly benefit ceiling**

7.13 As a final restraint, and in order to mitigate the employment trap effects of UB and ERS combined, the total of UB and ERS payable each week could not exceed 85 per cent of the reckonable weekly earnings. The restriction operated only on ERS, however. Thus, if UB and ERS as calculated together exceeded 85 per cent of RWE, ERS was reduced so that the total payable came to the 85 per cent figure. If the flat-rate UB alone exceeded 85 per cent of RWE, however, UB was nonetheless paid in full, but no ERS would be paid.

### **Jobseeker's Allowance**

7.14 JSA was introduced on 7 October 1996, replacing UB/IS for the unemployed. Like the benefits it replaced, JSA is liable to income tax, though the tax is not deducted from the benefit payments.



**C. HISTORICAL TABLES POST 1990**

**Table 7.2: Unemployment Benefit and Jobseeker's Allowance rates**

	Standard benefit for adult claiming on own contributions			Increase for dependent adult	Married couple <sup>1</sup>
09/04/1990		37.35		23.05	60.40
08/04/1991		41.40		25.55	66.95
06/04/1992		43.10		26.60	69.70
12/04/1993		44.65		27.55	72.20
13/04/1994		45.45		28.05	73.50
13/04/1995		46.45		28.65	75.10
11/04/1996		48.25		29.75	78.00
	16-17	18-24	Over 24		
07/10/1996 <sup>2</sup>	28.85	37.90	47.90	-	75.20
07/04/1997	29.60	38.90	49.15	-	77.15
06/04/1998	30.30	39.85	50.35		79.00
12/04/1999	30.95	40.70	51.40		80.65
10/04/2000	31.45	41.35	52.20		81.95
12/04/2001	31.95	42.00	53.05		83.25
12/04/2002	32.50	42.70	53.95		84.65
07/04/2003	32.90	43.25	54.65		85.75
05/04/2004	33.50	44.05	55.65		87.30
04/04/2005	33.85	44.50	56.65		88.15
03/04/2006	34.60	45.50	57.45		90.10
06/04/2007	35.65	46.85	59.15		92.80
07/04/2008		47.95	60.50		94.95
06/04/2009		50.95	64.30		100.95

<sup>1</sup> Married couple, i.e. man claiming on own contributions with dependent wife (or partner) claiming on man's contributions. Sum of higher/standard benefit and increase for dependent adult.

<sup>2</sup> Jobseeker's Allowance replaced unemployment benefit on 7 October 1996. The above rates refer to contribution-based JSA. The rates of income-based JSA are the same as for Income Support.

Please note that there are different rates for couples under-18 which are to a maximum of £76.90.

**Table 7.3: Rates for claimants over pension age**

Date	Claimant £/week	Adult Dependant £/week
09/04/1990	46.90	28.20
08/04/1991	52.00	31.25
06/04/1992	54.15	32.55
12/04/1993	56.10	33.70
13/04/1994	57.60	34.50
13/04/1995	58.65	35.25
11/04/1996	61.15	36.60
07/04/1997	68.80	- <sup>3</sup>
06/04/1998	70.45	- <sup>3</sup>

<sup>1</sup> Jobseeker's Allowance replaced UB on 7 October 1996

<sup>2</sup> Pensioners do not receive JSA. They receive IS for the elderly.

<sup>3</sup> There are no adult dependent increases in JSA/IS for the elderly.

**D. HISTORICAL TABLES PRE 1990**

**Table 7.4: Unemployment Benefit: standard rates**

	Man or single woman over 18 ('Higher rate')	Those under 18 ('Lower rate')	Married woman over 18 claiming on own contributions ('Middle rate')	Increase for dependent adult	Married couple <sup>2</sup>	Increase for dependent children		
						1st	2nd	3rd and subsequent
05/07/48	1.300	0.750	1.00	0.800	2.10	0.375	-	-
30/08/51	1.300	0.750	1.00	0.800	2.10	0.500	0.125	0.125
24/07/52	1.625	1.000	1.30	1.075	2.70	0.525	0.125	0.125
19/05/55	2.000	1.150	1.50	1.250	3.25	0.575	0.175	0.175
06/02/58	2.500	1.425	1.70	1.500	4.00	0.750	0.350	0.350
06/04/61	2.875	1.625	1.95	1.750	4.63	0.875	0.475	0.475
07/03/63	3.375	1.925	2.30	2.075	5.45	1.000	0.600	0.600
28/01/65	4.000	2.275	2.75	2.500	6.50	1.125	0.725	0.725
26/10/67 <sup>3</sup>	4.500	2.500	3.10	2.800	7.30	1.250	0.850	0.850
11/04/68 <sup>3</sup>	4.500	2.500	3.10	2.800	7.30	1.400	0.650	0.550
10/10/68 <sup>3</sup>	4.500	2.500	3.10	2.800	7.30	1.400	0.500	0.400
06/11/69	5.000	2.750	3.50	3.100	8.10	1.550	0.650	0.550
23/09/71	6.000	3.300	4.20	3.700	9.70	1.850	0.950	0.850
05/10/72	6.750	3.700	4.75	4.150	10.90	2.100	1.200	1.100
04/10/73	7.350	4.050	5.15	4.550	11.90	2.300	1.400	1.300
25/07/74	8.600	4.750 <sup>4</sup>	6.05	5.300	13.90	2.700	1.800	1.700
10/04/75	9.800		6.90	6.100	15.90	3.100	1.600	1.600
20/11/75	11.100		7.80	6.900	18.00	3.500	2.000	2.000
18/11/76	12.900		9.20	8.000	20.90	4.050	2.550	2.550
04/04/77	12.900		9.20	8.000	20.90	3.050 <sup>5</sup>	2.550	2.550
17/11/77	14.700		10.50	9.100	23.80	3.500	3.000	3.000
	Standard benefit for adult claiming on own contributions <sup>6</sup>				Increase for each dependent child			
06/04/78		14.70		9.10	23.80		2.20	
16/11/78		15.75		9.75	25.50		1.85 <sup>7</sup>	
15/11/79		18.50		11.45	29.95		1.70	
27/11/80		20.65		12.75	33.40		1.25	
26/11/81		22.50		13.90	36.40		0.80	
25/11/82		25.00		15.45	40.45		0.30	
23/11/83		27.05		16.70	43.75		0.15	
29/11/84		28.45		17.55	46.00		-	
25/11/85		30.45		18.80	49.25		-	
28/07/86		30.80		19.00	49.80		-	
06/04/87		31.45		19.40	50.85		-	
11/04/88		32.75		20.20	52.95		-	
10/04/89		34.70		21.40	56.10		-	

<sup>1</sup> These were also the rates for Sickness Benefit until November 1983, though the rates have now diverged.

<sup>2</sup> Married couple, i.e. man claiming on own contributions with dependent wife (or partner) claiming on man's contributions. Sum of higher/standard benefit and increase for dependent adult.

<sup>3</sup> The reduction in rates for second and further children compensated for concomitant increases in family allowance at these dates.

<sup>4</sup> The lower rate of Unemployment Benefit for those under the age of 18 was discontinued at 7 April 1975; after that date they were entitled to the appropriate adult rate.

<sup>5</sup> Reduced to take account of the introduction of Child Benefit - which, unlike family allowance, is awarded to the first child as well as subsequent ones.

<sup>6</sup> For those not qualifying, on grounds of insufficient contributions, for standard rate UB, three-quarters, and half-rates were payable according to contributions record until October 1986 (see Section 5).

<sup>7</sup> £0.85 between 2 April 1979 and 15 November 1979.

**Table 7.5: Rates for claimants over pension age**

Date	Claimant £/week	Adult Dependant £/week
24/11/80		15.60
23/11/81		17.00
22/11/82		18.85
21/11/83		20.45
26/11/84		21.50
25/11/85	38.50	23.00
28/07/86	38.85	23.25
06/04/87	39.50	23.75
11/04/88	41.15	24.75
10/04/89	43.60	26.20

**Table 7.6: Rates of earnings related supplement October 1966 - January 1982**

Unemployment commencing in period	Relevant tax-year for calculation of earnings <sup>1</sup>	Lower limit (£)	Rate in lower band	Top of lower band (£)	Rate in upper band (%)	Upper band (£)	Max ERS payable (£)	
6 Oct 1966 - 6 Jan 1974 <sup>2 3</sup>	1965-66 to 1971-72	9.00	1/3	30.00	-	-		
In Benefit year <sup>3</sup>	Commencing							
1974	07-Jan	1972-73	10.00	1/3	30.00	15	42.00	8.47
1975	06-Jan	1973-74	10.00	1/3	30.00	15	48.00	9.37
1976	04-Jan	1974-75	10.00	1/3	30.00	15	54.00	10.27
1977	02-Jan	1975-76	11.00	1/3	30.00	15	69.00	12.18
1978	01-Jan	1976-77	13.00	1/3	30.00	15	95.00	15.42
1979	07-Jan	1977-78	15.00	1/3	30.00	15	105.00	16.25
1980	06-Jan	1978-79	17.50	1/3	30.00	15	120.00	17.67
1981	04-Jan	1979-80	19.50	1/3	30.00	10	135.00	14.00
1982	03-Jan	-	Abolished					

<sup>1</sup> From 1967 to May 1972 the benefit years began on the first Monday in May. The relevant tax-year was the tax-year ending one month previously.

<sup>2</sup> From January 1973 the benefit year began on the first Monday in January (from 1976, the first Sunday). The relevant tax-year was that ending in April of the previous year. Transitionally, ERS payable for unemployment commencing between 1 May 1972 and 6 Jan 1974 (two benefit years) was based on earnings in the 1971-72 tax year.

<sup>3</sup> See text for calculation of earnings.

**Table 7.7: Timetable for entitlement to unemployment benefit and earnings related supplement, 1966-1981**

Period of interruption of employment	Weeks equivalent	Payable
Days - including Saturdays		
Up to 3	-	neither
4-12	½-2	UB only
13-169	2-28	UB and ERS
169-312	28-52	UB only
313+	52+	Supplementary benefits



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**Section 8: State Pensions**

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**A. CURRENT SYSTEM**

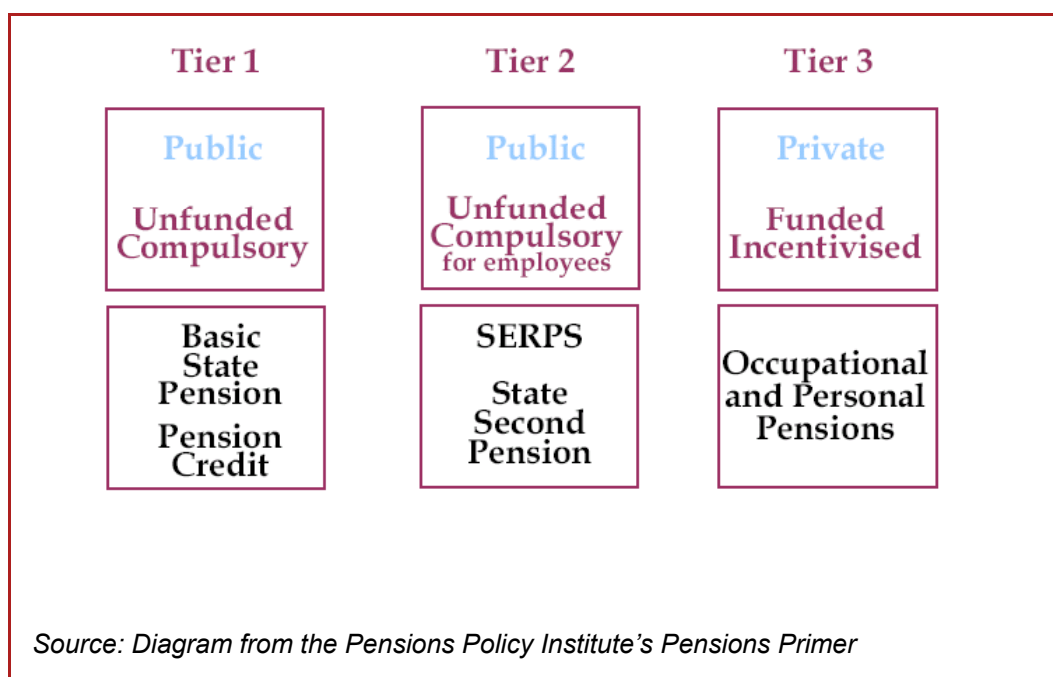
**Table 8.1: State Pension key figures**

	Outturn				Estimate	Plans
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<i>Average number of beneficiaries over the financial year</i>						
	<i>Thousands</i>					
State Pension	11,451	11,561	11,705	11,907	12,132	12,426
Non-contributory pension	23	23	23	25	26	28
<i>Annual expenditure</i>						
	<i>£ Millions</i>					
State Pension	48,772	51,392	53,629	57,554	61,589	67,204
Non-contributory pension	30	31	34	40	43	50

Source: Department for Work and Pensions.

**Introduction**

8.1 The pensions landscape in the UK is complex, and it is helpful to think of it as having three tiers:



8.2 The first tier of pension provision is provided by the state, and consists of a basic level of pension provision. This constitutes both (i) the basic State Pension of up to £95.25 per week, which almost all will be entitled to, and (ii) the Pension Credit which is an income-related benefit that guarantees those aged 60<sup>1</sup> or over a minimum income of £130.00 per week. Pension Credit also rewards people aged 65 or over who have made modest provision towards their retirement such as savings or a second pension.

<sup>1</sup> From 6 April 2010 the State Pension age for women will gradually rise from 60 reaching 65 by April 2020. The age from which people can start to get Pension Credit will rise in line with this.

8.3 The aim of the second tier is to provide a further pension for employees the value of which is more closely related to their lifetime earnings. So, whereas the first tier aims to provide a base level of support, the second is more concerned with reducing the difference between pre- and post-retirement incomes. This is currently achieved through the additional State Pension or State Second Pension.

8.4 The third tier is private pensions, namely all those voluntary pension arrangements that are not directly funded by the state. The primary aim of private pensions is to redistribute income across an individual's lifetime, and not to redistribute income from higher-income to lower-income people (as is frequently the case in the state pension system).

### **The equalisation of women's State Pension age**

8.5 The State Pension age for women will gradually rise to 65 between 2010 and 2020 so that for women born on or after 6 April 1955 their State Pension age will be the same as men. For women born between 6 April 1950 and 5 April 1955 the State Pension age will be between 60 and 65 depending on their date of birth. The Pension Service website - [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk) - has a simple calculator which people can use to find the precise date at which they can claim their State Pension.

### **Basic State Pension**

8.6 In 2009/10 the full basic State Pension is £95.25 a week and the minimum basic State Pension is £23.81 a week.

8.7 A person can get a basic State Pension by building up enough qualifying years before State Pension age (currently 65 for a man and 60 for a woman born on or before 5 April 1950). A qualifying year is a tax year in which a person has sufficient earnings upon which they have paid, are treated as having paid or have been credited with, National Insurance contributions. In 2009/10 a person needs to have £4,940 or more of such earnings if they are an employee (Class 1 contributions) or £5,075 or more if they are self-employed (Class 2 contributions).

8.8 Currently men normally need 44 qualifying years to get the full basic State Pension and 11 qualifying years to get the minimum basic State Pension. Women with a State Pension age of 60 normally need 39 qualifying years for a full basic State Pension and 10 qualifying years to get the minimum basic State Pension. For both men and women attaining State Pension age after 5 April 2010, the number of qualifying years needed for the full basic State Pension will be reduced to 30 years and they will only need a minimum of one qualifying year to get any basic State Pension.



8.9 However, the number of qualifying years needs be reduced if someone qualifies for Home Responsibilities Protection.

8.10 Also, by State Pension age, a person needs to have one qualifying year from National Insurance contributions they have paid or from National Insurance contributions treated as being paid, to be eligible for any State Pension. A person will not be eligible for a State Pension if they only have one year of credits.

8.11 Married women who have not built up their own entitlement to a basic State Pension can use their husband's National Insurance record instead (as long as he has reached State Pension age and has claimed his State Pension). They could then receive a Category B basic State Pension of up to 60% of their husband's Category A basic State Pension entitlement (up to £57.05 in 2009/10).

8.12 A married woman may be entitled to both Category A and Category B Pensions at the same time. If so, and the rate of their Category A basic State Pension is less than the full rate of Category B Pension payable to a married woman, the two State Pensions will be combined to give a composite pension. The Category A Pension will be increased by the lesser of these amounts:

- the difference between the full Category B Pension and the Category A basic State Pension to which they are entitled; or
- the weekly rate of the Category B Pension to which they are entitled.

8.13 The basic State Pension is increased for dependants including a spouse, an adult childminder and, in some cases, children for whom the individual is entitled to Child Benefit (see paragraph 8.7). However, the increase for adult dependants is only payable for new claims if the dependant's earnings are below a set limit. Where the spouse who is dependant is living with the spouse who is getting a State Pension, then this limit is equal to the rate of Jobseeker's Allowance for a person aged 25 or over (£64.30 from April 2009). Where the spouse who is dependant is not living with the spouse who is getting the State Pension the limit is equal to the full rate of Category B Pension (£57.05 from April 2009). Any earnings above this limit mean that the dependency increase is completely withdrawn. A dependant's earnings cannot affect a person's right to a standard rate State Pension. See Part B for details relating to the 'earnings rule', which is still in force for adult dependency increases of the basic State Pension (though no longer for the principal claimant). In addition to this rule, there is a separate earnings rule for child dependency increases. Where a pensioner is entitled to a State Pension increase for a child, payment of this increase depends on the earnings of his or her spouse, civil partner or partner. No increase is payable for the eldest, or only, child if the earnings exceed £195 per week from April 2009. The earnings limit is increased by £26 for each subsequent child. Entitlement to dependency increases is affected if the dependant is receiving other state benefits in their own right, such as State Pension. If the amount of that benefit is equal to or exceeds the

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amount of the dependency increase then no dependency increase is paid. Otherwise the amount of the benefit is deducted from the dependency increase and only the balance is paid.

8.14 For new claims on or after 6 April 2003, it is not possible to get an increase in a Category A or Category B Pension for dependant children. Instead provision for children is made through Child Tax Credit. Individuals who were in receipt of an increase for children at 6 April 2003 will continue to receive the increase for as long as they are entitled to, or are treated as being entitled to, Child Benefit for that child or children.

### **Additional State Pension-State Earnings-Related Pension Scheme (SERPS)**

8.15 SERPS is based on earnings on which standard rate Class 1 national insurance contributions have been paid as an employee from the tax year beginning 6 April 1978 – 5 April 2002. The scheme provides for an additional State Pension, which depends on revalued earnings.

8.16 Main points:

- entitlement depends on the individual having earnings over the annual Lower Earnings Limit (LEL) on which he/ she has paid standard rate Class 1 national insurance contributions in one or more tax years after 5 April 1978;
- it is a cash benefit consisting of an earnings-related weekly State Pension, usually paid on top of the basic State Pension, although the individual does not have to be entitled to a basic State Pension;
- It is reduced or extinguished by a 'contracted-out deduction' in respect of those tax years in which the claimant was 'contracted-out' up to 5 April 1997, and;
- it applies for the tax years 1978-79 to 2001-02 inclusive.

8.17 The amount payable is based on the total amount of earnings on which an individual paid contributions in each relevant tax year since 6 April 1978. The qualifying level of earnings for the basic State Pension for each year is deducted from the relevant annual earnings. The resulting surpluses are revalued in line with the increase in national average earnings. The amount of additional State Pension earned in each year is divided by the number of years in the working life since 1978. For someone reaching State Pension age in 2009/10 this will be 30 years.

8.18 The amount accrued each year under SERPS is a fixed proportion of earnings in excess of the LEL. This figure is revalued in line with average earnings to the year before the person reaches State Pension age and is then added to similar amounts accrued from all the other years worked.

8.19 For people reaching State Pension age on, or after, 6 April 2000, SERPS is worked out as follows:

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8.20 For the period 1978/79 to 1987/88 the revalued surplus figure for those years is multiplied by 25 per cent. This figure is then divided by the total number of years between 1978/79 (or the tax year in which they reached age 16, if this is later) and the tax year ending before the one in which the person reaches State Pension age.

8.21 For the period 1988/89 – 2001/02, the percentage used depends on when the person reaches State Pension age. For those reaching State Pension age between 1988/89 and 1999/2000, the percentage is 25 per cent.

8.22 For those reaching State Pension Age from 2000/01 onwards, the percentage is between 24.5 per cent and 20 per cent, as shown in the table below. This figure is then divided by the total number of years between 1978/79 (or the tax year in which they reached 16, if this is later) and the tax year ending before the one in which they reach State Pension age.

8.23 For example, for someone who reaches State Pension age in 2009/10 the percentage was 20.5 per cent. Additionally, the amount of SERPS that a surviving spouse or civil partner may inherit was changed from 6 October 2002<sup>2</sup>. There were differences in the computation of additional State Pension for people who reached State Pension age on or before 5 April 2000.

### **Contracting out of SERPS**

8.24 Prior to 6 April 1997, an occupational, salary-related scheme that was used to contract out of SERPS had to provide a minimum level of pension for each member. In such schemes, both the employer and the employee paid a lower rate of National Insurance contributions and, in return, the schemes committed themselves to paying a pension that was no lower than a statutory minimum - the Guaranteed Minimum Pension (GMP). The value of the GMP was broadly equivalent to the SERPS. When a member claims their state retirement pension, their SERPS is reduced by their full GMP entitlement by way of a “contracted out deduction” (COD). The COD is set at the level of the GMP payable by the occupational pension scheme (or, if the person has been a member of more than one contracted-out scheme, the total GMP entitlement from all schemes). In contracted-out money purchase (COMP) schemes, the occupational pension provided takes the place of SERPS. At state retirement age a COD is applied to SERPS in the same way as for members of COSR schemes. The COD avoids double provision as it would be wrong for a member to benefit from paying reduced rate NI contributions and to then receive a full SERPS entitlement for the same period.

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<sup>2</sup> Where the deceased spouse or civil partner had reached State Pension age before 6 October 2002, a maximum of 100 per cent SERPS can be inherited, irrespective of when the death occurred. Otherwise there is a sliding scale in two year bands so that the maximum amount reduces to 50 per cent for those who reach, or are due to reach, State Pension age on or after 6 October 2010.

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8.25 From 1979-1988, COSR schemes were not required to inflation proof GMPs. From 1988-1997, schemes were required to provide inflation proofing, capped at 3 per cent. As SERPS receives full inflation proofing, the value of a GMP may eventually fall below the level of SERPS – in these circumstances SERPS would come into payment, thus ensuring that a scheme member is no worse-off as a result of having joined a contracted out pension scheme. The links between SERPS and contracted-out schemes (COMPs and COSRs) were broken from 6 April 1997. COSR schemes are no longer required to provide GMPs, but instead have to meet a test of overall scheme quality in respect of future service. Breaking the link meant that SERPS ceased to provide top-up inflation proofing of contracted-out pensions for benefits accrued from 1997 onwards. Inflation proofing of up to 5 per cent, reduced to 2.5 per cent from 2005, will be provided by pension schemes to pensions in payment through limited price indexation (LPI). SERPS also ceased to offer top-up inflation proofing for COMPs and APPs (appropriate personal pensions).

### **Additional State Pension, State Second Pension**

8.26 The Child Support, Pensions and Social Security Act 2000 introduced the legislation that reformed SERPS through the State Second Pension from 6 April 2002.

State Second Pension differs from SERPS in that:

- a. It has three cumulative 'Earnings Bands' that are as follows:

**The first band** covers earnings between the LEL and a statutory Low Earnings Threshold (LET), between £4,940 and £13,900 in 2009/10. Employees whose earnings fall into this band are treated as having earnings at the LET. As rights are accrued at 40 per cent rather than at 20 per cent under SERPS, employees will be at least twice as well off as they would have been under SERPS. The weekly accrual for employees in this band in 2009/10 is calculated as follows:

$$(1 / 49) \times (2 / 5) \times (£13,900/52 - £95) = £0.70$$

Note: the accrual rate used in this example is 20 per cent. This rate will not apply to those who reach State Pension age before 2009-10 (see paragraph 8.12 for a full explanation). Additionally, this example assumes that additional pension has been going for 49 years. This will not happen until 2027. Until then the divisor is the number of tax years between 1978-79 and the tax year immediately before the person reaches State Pension age.

**The second band** covers earnings between the LET and a new Upper Earnings Threshold (UET), which is £31,800 in 2009/10. Employees earning up to the upper limit of Band 2 also gain over SERPS, but the gains taper off above the LET the more they earn.

**The third band** covers earnings between the UET and the annual national insurance Upper Earnings Limit (UEL), which was £40,040 in 2008/09. From 6 April 2009 the UEL is replaced by a new upper accrual point as the cap on accruals in the State Second Pension and rebate

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calculations. It is fixed at the 2008/09 level of the UEL. Employees in this range will get the same benefits from the State Second Pension, as they would have done from SERPS.

- b. Carers are treated as having earnings at the LET for each complete tax year they do not work at all, or earn less than the annual LEL and they are looking after:
  - a child under age six and get child benefit for that child; or
  - an ill or disabled person **and** are entitled to Carer's Allowance **or** qualify for Home Responsibilities Protection (HRP).
- c. Long-term ill/disabled people – are treated as having earnings at the LET for each complete tax year they are entitled to long-term Incapacity Benefit, Employment and Support Allowance<sup>3</sup> or get Severe Disablement Allowance, as long as, at State Pension age, they have worked and paid Class 1 National Insurance Contributions, or are treated as having paid Class 1 National Insurance Contributions, for at least a tenth of their working life since 1978.
- d. Employees whose earnings fall within Bands 1 and 2 who are contracted-out will benefit from a combination of enhanced rebates to their private scheme and/or state scheme top-ups.

#### **Non-contributory State Pension (Category D)**

8.27 This State Pension was introduced in 1971 for any person who is not getting a contributory basic State Pension or who is receiving a contributory State Pension that is less than the rate of the non-contributory State Pension (£57.05 in 2009/10). The non-contributory State Pension is payable to any person above the age of 80, living in Great Britain and resident in the United Kingdom for a total of at least ten years in any previous continuous period of twenty years after their 60<sup>th</sup> birthday.

8.28 The non-contributory State Pension is taxable but is unaffected by earnings. Table 8.5 shows that married women received a reduced rate of non-contributory State Pension up until 25 November 1985. They now receive the full rate.

#### **Deferral**

8.29 It is possible for people to defer drawing their State Pension to earn an increase to their State Pension or a one-off taxable lump-sum payment. Changes introduced in April 2005 mean that a person who defers for a minimum of 12 months after 6 April 2005 will have the option of either an increase in their weekly pension (when finally claimed) of approximately 10.4 per cent for every year of deferral (compared to about

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<sup>3</sup> To qualify a person would need to meet one of the following conditions: i) be entitled to the support component; ii) be treated as entitled to the support component by having received statutory sick pay immediately before getting Employment and Support Allowance; or iii) be entitled to the work related activity component for 52 weeks or more;

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7.5 per cent extra before 6 April 2005) or a one-off taxable lump sum comprising pension foregone plus a rate of return of 2 per cent above the Bank of England base rate and their normal pension. Extra State Pension and the lump-sum payment accrue on all components of the contributory State Pension, including any earnings-related element (whether this is by way of State Earnings-Related Pension Scheme (SERPS) pension, State Second Pension or Graduated Retirement Benefit) but excluding increases payable for a dependent adult.

8.30 The extra State Pension is taxable in the same way as normal State Pension. Lump-sum payments will also be taxable at the marginal rate applicable to the person's other income either in the year they retire or in the following year, if they choose so. The lump sum will not erode the age-related personal tax allowance.

8.31 The extra State Pension is treated in the same way as any other retirement income in Pension Credit, Housing Benefit and Council Tax Benefit. Extra State Pension may also earn additional savings credit in Pension Credit where a person's income exceeds the savings credit threshold.

8.32 The gross amount of lump sum payments will be disregarded in calculating Pension Credit, Housing Benefit or Council Tax Benefit.

8.33 No National Insurance contributions are payable by employees after reaching State Pension age (currently 60 for women; 65 for men).

### **Changes to the State Pension system**

8.34 It is worth noting that proposals first set out in the May 2006 Pensions White Paper and taken forward in the Pensions Act 2007 will change the current State Pension system considerably. Some of the main changes include the following.

8.35 To make the State Pension fairer and more widely available for people reaching State Pension age on or after 6 April 2010 by:

- reducing the number of qualifying years needed for a full basic State Pension to 30;
- removing the minimum contribution conditions that require people to have at least 25 per cent of the qualifying years needed for a full basic State Pension to get any basic State Pension at all, at least on qualifying year of which they must have paid, or been treated as having paid. The new contribution condition will mean that just one qualifying year, of paid or credited contributions, will give entitlement to some basic State Pension. Each qualifying year, up to a total of 30, will be worth 1/30 of the full basic State Pension;

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- modernising the contributory principle for the State Pension so that paid and caring contributions are treated equally and periods spent caring for children or severely disabled people will build entitlement to both the basic State Pension and State Second Pension. Home Responsibilities Protection (which reduces the number of qualifying years needed for the basic State Pension) will be replaced with more flexible weekly National Insurance credits for people getting Child Benefit for a child aged under 12, approved foster carers and people caring at least 20 hours a week for severely disabled people.

8.36 These changes will improve State Pension coverage for women and carers in particular. As a result of reforms under the Pensions Act 2007 around three quarters of women reaching State Pension age in 2010 will be entitled to a full basic State Pension compared with around half without the reforms. By 2025 over 90 per cent of women reaching State Pension age (the same proportion as men) will be entitled to a full basic State Pension. Almost 1 million extra people (approximately 90 per cent of them women) will build up entitlement to State Second Pension from 2010 as a result of the reforms.

8.37 To simplify and make more generous state pensions provision by:

- re-linking the uprating of the basic State Pension to average earnings during the next Parliament. The objective is to do this in 2012, subject to affordability and the fiscal position, but in any event by the end of the next Parliament at the latest. A statement will be made on the precise date at the beginning of the next Parliament;
- reforming the State Second Pension so that, by around 2030, it becomes a simple, flat-rate weekly top-up to the basic State Pension;
- abolishing adult dependency increases for new claimants from 6 April 2010 and reinvesting the money saved to provide improved state pensions;
- continuing to uprate the Pension Credit standard minimum guarantee in line with earnings over the long term;

8.38 Pension age is to increase broadly in line with average life expectancy gains, from 65 to 68 between 2024 and 2046.

### **Pension Credit**

8.39 Pension Credit is a tax-free income-related benefit that provides a guaranteed income for people aged 60<sup>4</sup> or over living in Great Britain.

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<sup>4</sup> From 6 April 2010 the State Pension age for women will gradually rise from 60 reaching 65 by April 2020. The age from which people can start to get Pension Credit will rise in line with this.

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8.40 There are two parts to Pension Credit, Guarantee Credit and Savings Credit. Guarantee Credit works by topping up the weekly income of those aged 60 or over to a guaranteed minimum level. The Savings Credit rewards pensioners aged 65 and over who have saved some money towards their retirement, such as savings or a second pension.

8.41 The guarantee element is £130 a week for single pensioners and £198.45 a week for couples. The savings credit threshold starts at £96 a week for a single pensioner aged 65 or over, with a maximum weekly reward of £20.40; the threshold for couples (where at least one member of the couple is aged 65 or over) is £153.40, with a maximum weekly reward of £27.03. The savings credit provides 60p for each £1 of income above the savings threshold. Once the maximum reward is reached it is reduced by 40p for each additional £1 of income. Single pensioners with incomes of up to around £181 a week, and couples with up to around £266 a week, may still be entitled to Pension Credit. Even if customers have more money than this coming in each week they may still get Pension Credit if they are entitled to extra amounts.

### **Extra amounts**

8.42 Pension Credit makes provisions for extra amounts (similar to premiums in Income Support – see Chapter 10) in specific circumstances. These are normally where:

- the customer or partner are severely disabled;
- the customer or partner look after a severely disabled person; or
- the customer has certain housing costs, like mortgage interest payments (see Chapter 10).

8.43 The first £6,000 of capital is disregarded (£10,000 if you are in a care home). Capital over £6,000 will be treated as having an assumed income of £1 for every £500 (or part of £500) by which capital exceeds £6,000. There is no upper capital limit. Budget 2009 announced an increase to the capital threshold in Pension Credit, Housing Benefit and Council Tax Benefit for those aged 60 or over from £6,000 to £10,000, bringing it in line with the threshold for those living in care homes, coming into effect from November 2009.

#### **Example 8.1:**

Single Pensioner A, aged 67, has a full basic State Pension and an occupational pension worth £20 a week. She also has £7,000 of capital.

Her own income is £107.30 a week, plus £2 a week from her capital.

She will be entitled to a total of £28.68 Pension Credit a week, made up of £20.70 guarantee element and £7.98 savings credit.



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## B HISTORY

### The 'earnings rule'

8.44 The abolition of the earnings rule, which reduced the amount of State Pension people could receive if they had earnings above a certain limit, was announced in the 1989 Budget and was effective from 1 October 1989. The earnings rule attached to increases for dependants was not, however, abolished. The former earnings rule, as it stood, is described below.

8.45 A retired pensioner between the ages of 65 and 70 for a man, or 60 and 65 for a woman, who took work had his/her basic State Pension and increments, invalidity additions and increments, any increase for spouse or childminder and any increase for a child reduced if earnings exceeded a specified limit (see Table 8.2). (Earnings did not affect additional State Pension, Graduated Retirement Benefit, contracted-out deductions, or increments to those.)

**Table 8.2: Pension earning limits**

	From Nov '79	From Nov '82	From Nov '83	From Nov '84	From Nov '85
Earnings	£52	£57	£65	£70	£75 <sup>1</sup>
Top Earnings Limit	£56	£61	£69	£74	£79 <sup>1</sup>

<sup>1</sup> Unchanged at July 1986, April 1987, April 1988 and April 1989.

8.46 Between the earnings limit and the top earnings limit the basic State Pension was reduced by 5p for every 10p of earnings. Above the top limit it was reduced one for one. Thus, just prior to abolition of the earnings rule, a pensioner in the relevant age group earning more than £120 per week had his basic State Pension abated entirely.

8.47 Before 16 September 1985 there was a similar arrangement for the increase in the State Pension available for a dependent adult. The dependency increase was reduced by 5p for every 10p of the dependant's earnings between £45.00 and £49.00 (from November 1978) and by 5p for every 5p above that limit. Existing beneficiaries at September 1985 continue to benefit from this 'taper' rule so long as they receive their dependant's increase. From 16 September 1985 the increase for adult dependants is only payable for new claims if the dependant's earnings do not exceed a limit equal to the personal rate of unemployment benefit. Since April 1997, this has been equal to the rate of Jobseekers' Allowance for a person aged 25 or over. Any earnings above this limit mean that the dependency increase is completely withdrawn. (See Table 8.4.)

8.48 Where a wife is living with her husband, and both are over State Pension age, she may be entitled to a Category B Pension if she has no, or little, entitlement to a Category A Pension. This is equal in amount

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to the dependent adult's increase. The Category B Pension, however, was subject to the same limits for earnings rule purposes as the husband's State Pension. The State Pension of each partner was only affected by his/her own earnings, not those of his/her partner. The effect of the earnings rule was that between April 1989 and 1 October 1989, a married couple, both over State Pension age, with standard rate basic State Pension based on the husband's contributions totalling £69.80 per week could each earn up to £75 a week each without their State Pensions being affected.

### **Definition of earnings**

8.49 Earnings include wages, overtime, salaries, fees, commission, regular tips, bonuses (other than the Christmas Bonus) of up to £10 paid by an employer, pensions paid by employers and from personal pensions and self-employed pension arrangements, basic allowances, attendance allowances and special responsibilities allowances as a councillor under the Local Government Act 1972 (or Local Government (Scotland) Act 1973) and Local Government and Housing Act 1989 whether or not the allowances are actually claimed or paid, and amounts received by taking in boarders and lodgers.

8.50 In assessing earnings the value of the following items may be disregarded:

- meals provided by the employer at the place of work;
- accommodation provided by the employer in which the earner is required to live as a condition of employment; and
- food or produce provided for the earner's personal needs or those of his/her household.

8.51 Until 5 April 1975 the earner's share of National Insurance contributions could be deducted from total earnings. (Since 6 April 1975 a retired person has not paid National Insurance contributions.) Deductions can also be made for reasonable expenses incurred in connection with employment (e.g. Trade Union subscriptions, fares, overalls and tools and equipment). Where no meal voucher is provided the cost of a meal up to 15p taken during working hours could be deducted. The reasonable cost of providing care for a member of the household because the pensioner was at work could also be deducted from earnings.

### **Child dependency increase**

8.52 Since 6 April 2003, it has not been possible to get an increase in the Category A or Category B Pension. Instead provision for children is made in Child Tax Credit. Individuals already receiving an increase for children at 6 April 2003 will continue to receive the increase for as long as they are entitled to, or are treated as being entitled to, Child Benefit for that child or children.

### **Pension Credit**

8.53 Pension Credit was introduced in October 2003 replacing the Minimum Income Guarantee (Income Support for people aged 60 or over). Pension Credit, for the first time, rewards people aged 65 or over who have made a modest provision for their retirement, such as savings or a second pension. With Pension Credit the weekly income assessment/means test was abolished for those aged 65 or over, reducing the level of intrusion and the burden placed on pensioners by removing the need for pensioners to report all changes in their circumstances.

8.54 On the introduction of Pension Credit the rules excluding pensioners with £12,000 or more of savings from any help were also abolished, capital/savings below £6,000<sup>5</sup> (£10,000 for those in care homes) are fully disregarded and the notional rate of income applied to capital above these levels is set at a rate of £1 for each £500 or part of £500 – which is half the previous assumed rate of income under the Minimum Income Guarantee. In addition the remunerative work rule that excluded pensioners who worked 16 hours a week or more (24 hours for couples) under the Minimum Income Guarantee scheme was also abolished.

8.55 Table 8.3b shows current and historical rates of Pension Credit. These amounts may be more for people who have caring responsibilities, disabilities or have certain housing costs.

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<sup>5</sup> In the Budget 2009, the Chancellor announced plans to increase the capital threshold in Pension Credit, Housing Benefit and Council Tax Benefit for those aged 60 or over from £6,000 to £10,000, bringing it in line with the threshold for those living in care homes.

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**C HISTORICAL TABLES post 1990**
**Table 8.3a: The State Pension: standard rates<sup>1</sup>**

£ per week	Basic State Pension		Adult dependant	Increase for dependent children		Non-contributory pension Each man or single woman
	Single person on own insurance <sup>2</sup>	Married couple on husband's insurance <sup>2,3</sup>		Eldest <sup>4</sup>	Other	
09/04/90	46.90	75.10	28.20	9.65		28.45
08/04/91	52.00	83.25	31.25	9.70	10.70	31.50
06/04/92	54.15	86.70	32.55	9.75	10.85	32.80
12/04/93	56.10	89.80	33.70	9.80	10.95	33.95
11/04/94	57.60	92.10	34.50	9.80	11.00	34.75
10/04/95	58.85	94.10	35.25	9.85	11.05	35.50
08/04/96	61.15	97.75	36.60	9.90	11.15	36.85
07/04/97	62.45	99.80	37.35	9.90	11.20	37.60
06/04/98	64.70	103.40	38.70	9.90	11.30	38.95
12/04/99	66.75	106.70	39.95	9.90	11.35	40.20
10/04/00	67.50	107.90	40.40	9.85	11.35	40.65
09/04/01	72.50	115.90	43.40	9.70	11.35	43.65
08/04/02	75.50	120.70	45.20	9.65	11.35	45.20
07/04/03	77.45	123.80	46.35	9.55	11.35	46.35
12/04/04	79.60	127.25	47.65	9.55	11.35	47.65
11/04/05	82.05	131.20	49.15	9.40	11.35	49.15
10/04/06	84.25	134.75	50.50	9.25	11.35	50.50
09/04/07	87.30	139.60	52.30	9.00	11.35	52.30
07/04/08	90.70	145.05	54.35	8.75	11.35	54.35
06/04/09	95.25	152.30	57.05	8.20	11.35	57.05

<sup>1</sup> The rates quoted here are standard rates for those with qualifying contribution records. Lower rates may be payable in certain circumstances - for instance where an individual has a deficient record.

<sup>2</sup> From September 1971 those over 80 receive an extra 25p per week age addition.

<sup>3</sup> This is the rate where the wife's State Pension is based on the husband's contributions. Where it is based on her own contribution the rate for the married couple is twice that for a single person, if both individuals are entitled to 100 per cent State Pension.

<sup>4</sup> The rate for the eldest or only child is reduced in relation to other children to take account of the corresponding increase in Child Benefit.

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Section 8: State Pensions

**Table 8.3b: Pension Credit**

	2003-04 <sup>1</sup>	2004-05 <sup>2</sup>	2005-2006	2006/07	2007/08	2008/09	2009/10
<i>Guarantee element</i> <sup>3</sup>							
Single	£102.10	£105.45	£109.45	£114.05	£119.05	£124.05	£130.00
Couple	£155.80	£160.95	£167.05	£174.05	£181.70	£189.35	£198.45
<i>Savings reward</i> <sup>4</sup>							
Threshold - single	£77.45	£79.60	£82.05	£84.25	£87.30	£91.20	£96.00
Threshold - couple	£123.80	£127.25	£131.20	£134.75	£139.60	£145.80	£153.40
Maximum - single	£14.79	£15.51	£16.44	£17.88	£19.05	£19.71	£20.40
Maximum - couple	£19.20	£20.22	£21.51	£23.58	£25.26	£26.13	£27.03
Amount of capital disregarded <sup>5</sup>	£6,000	£6,000	£6,000	£6,000	£6,000	£6,000	£6,000 <sup>6</sup>

<sup>1</sup> Pension Credit was introduced on 6 October 2003.

<sup>2</sup> From 12 April 2004.

<sup>3</sup> Available to those aged 60 or over.

<sup>4</sup> Available to singles aged 65 or over, or for couples where at least one member is aged 65 or over.

<sup>5</sup> Deemed income of £1 for each £500 in excess of these amounts.

<sup>6</sup> The threshold will rise to £10,000.00 for all from November 2009

**Table 8.4: Dependant's earnings limits<sup>1</sup>**

	£
16/09/1985	28.45
25/11/1985	30.45
28/07/1986	30.80
06/04/1987	31.45
11/04/1988	32.75
10/04/1989	34.70
09/04/1990	37.35
08/04/1991	41.40
06/04/1992	43.10
12/04/1993	44.65
11/04/1994	45.45
10/04/1995	46.45
08/04/1996	48.25
07/04/1997	49.15
06/04/1998	50.35
12/04/1999	51.40
10/04/2000	52.20
09/04/2001	53.05
08/04/2002	53.95
07/04/2003	54.65
12/04/2004	55.65
11/04/2005	56.20
10/04/2006	57.45
09/04/2007	59.15
07/04/2008	60.50
06/04/2009	64.30

<sup>1</sup> If the dependant's earnings exceed this limit the dependant's increase is completely withdrawn. See paragraph 8.24 for arrangements before 16 September 1985.

## D HISTORICAL TABLES pre 1990

Table 8.5: The State Pension: standard rates<sup>1</sup>

£ per week	Basic State Pension			Increase for dependent children <sup>4</sup>			Non-contributory pension <sup>5</sup>	
	Single person on own Insurance <sup>2</sup>	Married couple on husband's Insurance <sup>2,3</sup>	Adult dependant	1st Child	2nd Child	further Child	Each man or single woman	Married woman
05/07/48	1.30	2.10	0.80	0.38	-	-		
03/09/51	1.50	2.50	1.00	0.50	0.13	0.13		
29/09/52	1.63	2.70	1.08	0.53	0.13	0.13		
25/04/55	2.00	3.25	1.25	0.58	0.18	0.18		
27/01/58	2.50	4.00	1.50	0.75	0.35	0.35		
03/04/61	2.88	4.63	1.75	0.88	0.48	0.48		
27/05/63	3.75	5.45	2.08	1.00	0.60	0.60		
29/03/65	4.00	6.50	2.50	1.13	0.73	0.73		
30/10/67	4.50	7.30	2.80	1.25	0.85	0.85 <sup>8</sup>		
09/04/68	4.50	7.30	2.80	1.40	0.65	0.55		
08/10/68	4.50	7.30	2.80	1.40	0.50	0.40		
02/11/69	5.00	8.10	3.10	1.55	0.65	0.55		
03/11/70	5.00	8.10	3.10	1.55	0.65	0.55	3.00	1.85
20/09/71	6.00	9.70	3.70	2.95	2.05	1.95	3.85	2.45
02/10/72	6.75	10.90	4.15	3.30	2.40	2.30	4.30	2.75
01/10/73	7.75	12.50	4.75	3.80	2.90	2.80	4.90	3.10
22/07/74	10.00	16.00	6.00	4.90	4.00	3.90	6.25	3.95
07/04/75	11.60	18.50	6.90	5.65	4.15	4.15	7.15	4.55
17/11/75	13.30	21.20	7.90	6.50	5.00	5.00	8.15	5.15
15/11/76	15.30	24.50	9.20	7.45	5.95	5.95	9.45	5.85
04/04/77 <sup>6</sup>	15.30	24.50	9.20	6.45	5.95	5.95	9.45	5.85
14/11/77	17.50	28.00	10.50	7.40	6.90	6.90	10.75	6.55
03/04/78 <sup>6</sup>	17.50	28.00	10.50	6.10	6.10	6.10	10.75	6.55
13/11/78	19.50	31.20	11.70	6.35	6.35	6.35	11.95	7.30
02/04/79 <sup>6</sup>	19.50	31.20	11.70	5.35	5.35	5.35	11.95	7.30
				Dependant child				
12/11/79	23.30	37.30	14.00		7.10		14.25	8.65
24/11/80	27.15	43.45	16.30		7.50		16.55	10.05
23/11/81	29.60	47.35	17.75		7.70		18.00	10.90
22/11/82	32.85	52.55	19.70		7.95		19.95	12.05
21/11/83	34.05	54.50	20.45		7.60		20.70	12.50
26/11/84	35.80	57.30	21.50		7.65		21.75	13.10
25/11/85	38.30	61.30	23.00		8.05		23.25	- <sup>7</sup>
28/07/86	38.70	61.95	23.25		8.05		23.50	-
06/04/87	39.50	63.25	23.75		8.05		24.00	-
11/04/88	41.15	65.90	24.75		8.40		25.00	-
10/04/89	43.60	69.80	26.20		8.95		26.45	-

<sup>1</sup> The rates quoted here are standard rates for those with qualifying contribution records. Lower rates may be payable in certain circumstances - for instance where an individual has a deficient record.

<sup>2</sup> From September 1971 those over 80 receive an extra 25p per week age addition.

<sup>3</sup> This is the rate where the wife's State Pension is based on the husband's contributions. Where it is based on her own contribution the rate for the married couple is twice that for a single person, if both individuals are entitled to 100 per cent pension.

<sup>4</sup> Payable in addition to Child Benefit.

<sup>5</sup> Introduced in November 1970 to apply to those over State Pension age in July 1948. From September 1971 it was extended to all those aged 80 or over who satisfy the residence tests but either fail to qualify for contributory State Pension or qualify for a lower rate than the rate of non-contributory State Pension. The figures in these columns include the 25p age addition, since normally only those aged 80 or over qualify. There may, however, be a few women aged under 80 who are entitled to the benefit because they are or have been married to a man who is/was entitled.

<sup>6</sup> In the calendar years 1977, 1978 and 1979 adjustments were made to the child increases in the first week of April to take account of simultaneous changes in the level of Child Benefit.

<sup>7</sup> The reduced rate for married women was abolished from 25 November 1985. They now receive the full rate, unless they are under 80 and their entitlement depends upon their husband's entitlement to the benefit.

<sup>8</sup> 85p was paid for the third child and 60p for each further child.

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**Section 9: Other contributory benefits**

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**A. CURRENT SYSTEM****Table 9.1: Other Contributory Benefits key figures**

	Ottum						Forecast	
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<i>Average number of beneficiaries over the financial year</i>								
Widows'/ Bereavement Benefit	255	230	206	185	166	151	131	116
Industrial Injuries disablement Benefit	267	266	267	266	265	259	256	253
Incapacity Benefit/Employment and Support Allowance <sup>1</sup>	1,585	1,570	1,543	1,500	1,456	1,412	1,398	1,331
<i>Annual expenditure</i>								
Widows'/Bereavement Benefit	1,087	1,007	923	875	797	737	679	634
Industrial Injuries disablement Benefit	733	737	750	746	750	759	781	806
Incapacity Benefit/Employment and Support Allowance <sup>1</sup>								

<sup>1</sup> Employment and Support Allowance replaced Incapacity Benefit and Income Support paid on the grounds of incapacity for new claimants in October 2008. The above figures relate to the contributory element of Employment and Support Allowance only.

Source: Department for Work and Pensions

**Incapacity Benefit**

9.1 Incapacity Benefit (IB) is a flat rate National Insurance benefit intended to provide a basic non-means tested income to people who are incapacitated by their illness or disability. From 27 October 2008, ESA replaced IB and Income Support paid on the grounds of incapacity to become the main income replacement benefit for people with a disability or health condition for new customers. There are two types of Incapacity Benefit (IB) – short-term and long-term.

Incapacity benefit is a contributory benefit and, for those people who do not qualify under the special provisions for people incapacitated in youth, certain groups of young people may qualify under the entitlement based on their National Insurance contributions record.

**Short-term**

9.2 Short-term IB is paid for a maximum of 52 weeks; short-term lower rate is payable from week 1 to 28, and short-term higher rate is payable from week 29 to 52. Short-term IB is contributory and can be paid from the fourth day of incapacity for those who do not have entitlement to Statutory Sick Pay (SSP), or after a period of SSP has ended (see Section 13 for details of SSP). Short term IB is not paid for the first three days of sickness; these are known as 'waiting days'. This applies to people who move straight onto IB.

9.3 Short-term IB is payable regardless of a claimant's capital. Since 6 April 2001, occupational and personal pensions paid by employers in excess of £85 a week are taken into account when assessing IB for people making a new non-linking claim. Benefit is reduced by 50 per cent of the excess over £85.

People with the most severe disabilities, who receive the highest rate of the care component of Disability Living Allowance, will not have their IB affected by pensions. The claimant must be incapable of work due to illness or disability. Entitlement is dependent upon the satisfaction of one or two medical tests, the own occupation test and the Personal Capability Assessment (PCA). Medical certificates provided by the claimant's GP are required until the PCA has been applied. If the claimant had a regular occupation prior to the onset of incapacity, the Own Occupation Test (OOT) will apply for the first 28 weeks of sickness, followed by the PCA from the 29<sup>th</sup> week of incapacity. For those who have no regular job such as the unemployed or non-employed, prior to the onset of incapacity the PCA will apply from week 1.

9.4 Short-term IB may be paid for up to one year past State Pension age (60 for women, 65 for men), providing the claim for IB began before the claimant reached State Pension age. Entitlement is based on the rate of their State Pension (SP) entitlement. Increases for an adult dependant can be paid with short-term and long-term IB. Increases for child dependants can be paid with short-term higher rate IB and long-term IB, and IB paid at State Pension rate, providing the claim began prior to April 2003. Child Tax Credits may be available for people who are claiming since that date.

**Table 9.2: Rates of short-term Incapacity Benefit**

£ per week	04/2009
Short-term lower rate	£67.75
Short-term higher rate	£80.15
Dependency Increase	£41.35
<i>If over pensionable age</i>	
Short-term lower rate	£86.20
Short-term higher rate	£89.80
Dependency Increase	£51.10
<i>Child Dependency Increase (higher and pension rates only)</i>	
First child	£8.20
Subsequent children	£11.35

9.5 Short-term (higher rate) IB is taxable from week 29. Tax will only be payable where the person's taxable income from all sources, including IB, exceeds their income tax allowance.

#### Long-term

9.6 Long-term IB is payable after a person has been incapable of work for 52 weeks, and received either short-term IB, or a combination of SSP and short-term IB throughout the 52 weeks. The long-term rate of IB will be payable from week 29 to those who are terminally ill, or in receipt of the highest rate care component of Disability Living Allowance.

9.7 An age addition is payable to people whose incapacity begins early in life. The age addition is paid at one of two rates dependent on the person's age when their incapacity for work began. Dependency increases may also be paid. Long-term IB is taxable, and is not payable past State Pension age.

9.8 Most Invalidation Benefit (IVB) recipients were transferred to the long-term rate of IB on 13 April 1995. Their benefit is transitionally protected and all elements apart from the former additional pension will continue to be updated. In addition their benefit remains tax-free.

**Table 9.3: Rates of long-term Incapacity Benefit**

£ per week	04/2009
Long-term IB	£89.80
Incapacity Age Addition (higher)	£15.65
Incapacity Age Addition (lower)	£6.55
<i>Invalidation Allowance (transitional cases):</i>	
Higher	£15.65
Middle	£9.10
Lower	£5.35
<i>Dependency Increase:</i>	
Adult dependant	£53.10
Child dependency increase:	
First child	£8.20
Subsequent child	£11.35

9.9 From 28 October 2008 Incapacity Benefit new claims ceased and were replaced by Employment and Support Allowance (ESA). There are only linking Incapacity Benefit claims.

### **Employment and Support Allowance**

9.10 New customers go onto an assessment phase rate of ESA for 13 weeks while their capability for work is assessed. Whilst on the assessment phase they are paid the same rate as basic Jobseeker's Allowance of £64.30 a week. Alongside ESA we have introduced a new more robust medical assessment - the Work Capability Assessment, which focuses on what people can do, as well as what they cannot. The Work Capability Assessment is conducted during the assessment phase.

9.11 Following the completion of the assessment phase, customers pass to the main phase of ESA and are placed in either the Work- Related Activity Group or the Support Group. In the main phase of ESA they all receive the base rate plus either the Work-related Activity Component or the Support component, at the rates specified under Table 9.4. Those who qualify to income-related ESA and are in the Support Group are also passported to the Enhanced Disability Premium. The Work-related Activity Group is for those who, with the right help, should be able to return to work. Those in the Work-related Activity Group can be subject to sanctions (up to the value of the work-related activity component) if the customer does not

engage in the conditionality requirements without good reason. The maximum sanction under ESA is equal to the Work-Related Activity Component. We have a wide range of safeguards in place for vulnerable customers to ensure sanctions are applied in an appropriate way – for instance customers with mental health conditions will be contacted by visit if needed when there is a risk a sanction is to be imposed.

9.12 Those with the most severe health conditions will receive the Support Component. People in the Support Group will be free of any requirement to engage in work-related activities. People receiving the Support Component can volunteer for appropriate support on offer or undertake permitted work if their condition allows. It is important that those in the Support Group do not feel written off by the benefit system. Support Group customers cannot be required to attend interviews – and are not therefore at risk of sanctions for not taking part in them.

**Table 9.4: Employment and Support Allowance**

£ per week	2008/09	2009/10
<b>Personal Allowances</b>		
<i>single</i>		
under 25	£47.95	£50.95
25 or over	£60.50	£64.30
<i>lone parent</i>		
under 18	£47.95	£50.95
18 or over	£60.50	£64.30
<i>couple</i>		
both under 18	£47.95	£50.95
both under 18 with child	£72.35	£76.90
both under 18 (main phase)	£60.50	£64.30
both under 18 with child (main phase)	£94.95	£100.95
one 18 or over, one under 18	£94.95	£100.95
both over 18	£94.95	£100.95
claimant under 25, partner under 18	£47.95	£50.95
claimant 25 or over, partner under 18	£60.50	£64.30
claimant (main phase), partner under 18	£60.50	£64.30
<b>Premiums</b>		
<i>enhanced disability</i>		
single	£12.60	£13.40
couple	£18.15	£19.30
<i>severe disability</i>		
single	£50.35	£52.85
couple (lower rate)	£50.35	£52.85
couple (higher rate)	£100.70	£105.70
carer	£27.75	£29.50
<b>Pensioner</b>		
single with WRAC	£39.55	£40.20
single with support component	£34.55	£34.85
single with no component	£63.55	£65.70
couple with WRAC	£70.40	£72.00
couple with support component	£65.40	£66.65
couple with no component	£94.40	£97.50
<b>Components</b>		
Work-related Activity	£24.00	£25.50
Support	£29.00	£30.85

**Bereavement Benefits**

9.13 Bereavement Benefits are payable to those widowed since 9 April 2001. From 5 December 2005 the scheme was extended to include civil partners. Current and historic rates are shown in Table 9.5a.

### Bereavement Payment

9.14 A non-taxable lump sum of £2,000, based on the contribution record of the late spouse or late civil partner is payable to men and women on bereavement if the person widowed is under state pension age or if the late spouse or late civil partner was not entitled to a Category A Retirement Pension.

### Widowed Parent's Allowance

9.15 Widowed Parent's Allowance is payable to the surviving spouse or civil partner from the Tuesday of, or immediately following, bereavement. Fathers widowed before 9 April 2001 were able to claim Widowed Parent's Allowance from that date as long as they satisfied the entitlement conditions. An increase is paid for each dependent child up to age 16, and for a qualifying young person up to age 20 if in full-time non-advanced education.

9.16 Increases for children (known as Child Dependency Increases (CDIs)) are no longer paid on new claims to Widowed Parent's Allowance, as the Child Tax Credit has replaced them. Individuals in receipt of Widowed Parent's Allowance and Widowed Mother's Allowance on 5 April 2003 have their CDIs transitionally protected.

### Bereavement Allowance

9.17 Bereavement Allowance is payable for 52 weeks to the surviving spouse or civil partner from the Tuesday of, or immediately following, bereavement to those who were 45 or over when their spouse or civil partner died and they were not entitled to Widowed Parent's Allowance. Widows/widowers and surviving civil partners whose entitlement to Widowed Parent's Allowance ends within 52 weeks of widowhood, who are aged 45 or over, will be able to claim Bereavement Allowance for the remainder of the 52 weeks.

9.18 For widows/widowers and surviving civil partners aged 55 or over at widowhood or cessation of Widowed Parent's Allowance, the rate payable is equal to the single person's Retirement Pension (£87.30 from April 2007). For widows/widowers and surviving civil partners between the ages of 45 and 54 the rates range in 7 per cent steps, from 93 per cent of the standard rate for a 54 year old to 30 per cent for a 45 year old.

### **Widow's Benefits**

9.19 Widows' Benefits were replaced by Bereavement Benefits from 9 April 2001. However women widowed before that date will continue to receive Widow's Benefits for as long as they satisfy the entitlement conditions. Current and historic rates are shown in Table 9.5b.

Widowed Mother's Allowance

9.20 For those widowed between 11 April 1988 and 9 April 2001, Widowed Mother's Allowance is payable from the Tuesday of, or immediately following, bereavement. An increase is paid for each dependant child; this is transitionally protected (see paragraph 9.12). Those widowed after 11 April 1988 no longer receive this allowance if their youngest child is aged 16-20 and they are not entitled to Child Benefit.

Widow's Pension

9.21 For widows whose husband died between 11 April 1988 and 9 April 2001, Widow's Pension is payable from the Tuesday of, or immediately following, bereavement to those who were:

- 45 or over when their husband died and they were not entitled to Widowed Mother's Allowance; or
- 45 or over when their Widowed Mother's Allowance ends.

9.22 For widows aged 55 or over at death of husband or cessation of Widowed Mother's Allowance, the rate is equal to the single person's Retirement Pension (£ 87.30 from April 2007); for widows between the ages of 45 and 54 at widowhood or cessation of Widowed Mother's Allowance the rates range in 7 per cent steps, from 93 per cent of the standard rate for the 54 year old widow to 30 per cent for the widow who was 45 at the time of widowhood.

## **B. HISTORY**

### **Sickness Benefit**

9.23 The standard rate of Sickness Benefit and the increases payable in the presence of dependents, were the same as Unemployment Benefit (see Section 7) until November 1983. Increases for children were abolished from November 1984 except for claimants over pension age. The Earnings Related Supplement was payable on the same basis as Unemployment Benefit until 2 January 1982, when it was abolished.

9.24 Sickness Benefit was replaced with IB on 13 April 1995. Prior to this Sickness Benefit was contributory and tax-free. It should not be confused with Statutory Sick Pay (SSP), which most employees receive in the first 28 weeks of sickness (see Section 13), which is taxable. Sickness Benefit was payable regardless of the claimant's capital. The claimant had to be incapable of work because of illness or disablement (established by self-certification for the first week of incapacity) and thereafter with proof of incapacity –usually a medical statement and must then satisfy contribution conditions. (See Section 6).

9.25 Since April 1986, when SSP was extended from 8 weeks to 28 weeks and prior to 13 April 1995, most employees would go directly on to IVB if still sick when SSP ended provided that they satisfied the contribution conditions. If SSP ended before the completion of 28 weeks, Sickness Benefit was payable for the remaining weeks (provided that the contribution conditions were satisfied). Sickness Benefit was also paid to those who did not qualify for SSP, such as the self-employed and unemployed. The benefit could not be paid if the claimant also received Unemployment Benefit or Maternity Allowance.

9.26 Rates of Sickness Benefit are contained in Table 9.8.

### **Invalidity Benefit**

9.27 Prior to 13 April 1995, when IVB was replaced with IB, claimants who had been entitled to Sickness Benefit or SSP (with underlying entitlement to Sickness Benefit) for 28 weeks went on to IVB. IVB consisted of the basic invalidity pension payable in all cases, with increases for dependants; an Invalidity Allowance payable where incapacity began more than 5 years below state pension age; and an earnings-related Additional Pension. Invalidity Allowance was payable at one of three rates depending on the claimant's age when their incapacity began. Additional Invalidity Pension depends upon the claimant's record of earnings, on which national insurance was paid, in the tax years 1978/79 to 1990/91 (both years included). Since 16 September 1985, where both the Invalidity Allowance and Additional Pension are payable, a beneficiary could only receive an amount equal to the larger of the Invalidity Allowance or Additional Pension. IVB was not taxable.

9.28 Rates of IVB are contained in Table 9.9.



### **Incapacity Benefit**

9.29 Short-term IB replaced Sickness Benefit on 13 April 1995. Incapacity Benefit for new customers was replaced by Employment and Support Allowance on 27<sup>th</sup> October 2008.

9.30 Occupational and personal pensions paid by employers in excess of £85 a week have been taken into account when assessing IB for new claimants since April 2001 (see paragraph 9.3).

9.31 Long-term IB replaced IVB on 13 April 1995. Former IVB recipients were transferred to the long-term rate of IB on 13 April 1995. Their benefit is transitionally protected and all elements apart from the former additional pension will continue to be uprated. In addition their benefit remains tax-free. If a person was over State Pension age and in receipt of IVB on 13 April 1995, they continued to receive long-term IB until five years past State Pension age (65 for women, 70 for men). IB for new claimants has ceased in the 27<sup>th</sup> of October 2008 and has been replaced by ESA.

9.32 Rates of IB are contained in Table 9.4.

### **Widow's Payment**

9.33 For women widowed between 11 April 1988 and 9 April 2001. Widow's Payment was a non-taxable lump sum of £1,000, introduced to replace the previous Widow's Allowance (see below). It was paid on bereavement if widowed under age 60 or if the husband was not entitled to a Category A Retirement Pension.

### **Widow's Allowance**

9.34 Women widowed before 11 April 1988 were entitled to Widow's Allowance. This was paid for the first 26 weeks of widowhood if the widow was under 60; or if her husband was not entitled to Retirement Pension. An increase was payable for each dependent child. An earnings-related addition was also payable (related to the late husband's earnings) to those who were widowed before 3 January 1982; no further awards of earnings-related addition were made for those widowed on or after that date. Entitlement ceased if the widow remarried or cohabited and was reduced if she received any other weekly benefit.

### **Widowed Mother's Allowance**

9.35 For women widowed before 11 April 1988, Widowed Mother's Allowance (WMA) was payable when payment of Widow's Allowance ceased (or if Widow's Allowance was not payable). At least one of the following conditions had to be satisfied:

- the widow had at least one dependent child for whom she was entitled to Child Benefit;
- the widow had a young person under 19 living with her in respect of whom she would have been entitled to an increase of WMA; or
- she was expecting her late husband's baby.

9.36 An increase was payable for each dependent child.

9.37 See Table 9.5b and 9.10 for rates of Widow's and Widowed Mother's Allowances.

### **Death Grant**

9.38 A Death Grant was based on the contributions of the deceased; or of a living husband or wife; or of a predeceased husband or wife. Death Grant was a national insurance benefit, paid as a lump sum on death and was not taxable. Death Grant was not payable in the case of a stillborn baby. (See Table 9.6).

9.39 The Death Grant was not payable in respect of men born before 4 July 1883 and women born before 4 July 1888. The higher rate of Death Grant was paid on the death of men born after 4 July 1893 and women born after 4 July 1898.

9.40 Death Grants were abolished from 6 April 1987 and replaced by the Social Fund Funeral payment Scheme (see Section 10).

**C. HISTORICAL TABLES post 1990**

**Table 9.5: Rates of Incapacity Benefit**

£ per week (from April each year)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Short-term Incapacity Benefit</b>													
<u>Lower rate:</u>													
Personal benefit	47.10	48.80	50.35	50.90	52.60	53.50	54.50	55.90	57.65	59.20	61.35	63.75	67.75
Increase for:													
adult dependant	29.15	30.20	31.15	31.50	32.55	33.10	33.65	34.60	35.65	36.60	37.90	39.40	41.35
<u>Higher rate:</u>													
Personal benefit	55.70	57.70	59.55	60.20	62.20	63.25	64.35	66.15	68.20	70.10	72.55	75.40	80.15
Increase for:													
adult dependant	29.15	30.20	31.15	31.50	32.55	33.10	33.65	34.60	35.65	36.60	37.90	39.40	41.35
first child	9.90	9.90	9.90	9.85	9.70	9.65	9.55	9.55	9.40	9.25	9.00	8.75	8.20
each other child	11.20	11.30	11.35	11.35	11.35	11.35	11.35	11.35	11.35	11.40	11.35	11.35	11.25
<u>Over Pension Age</u>													
Personal benefit	59.90	62.05	64.05	64.75	66.90	68.05	69.20	71.15	73.35	78.50	78.05	81.10	86.20
Increase for:													
adult dependant	35.90	37.20	38.40	38.80	40.10	40.80	41.50	42.65	43.95	47.00	46.80	48.65	51.10
first child	9.90	9.90	9.90	9.85	9.70	9.65	9.55	9.55	9.40	9.25	9.00	8.75	8.20
each other child	11.20	11.30	11.35	11.35	11.35	11.35	11.35	11.35	11.35	11.40	11.35	11.35	11.35
<b>Long-term Incapacity Benefit</b>													
Personal benefit	62.45	64.70	66.75	67.50	69.75	70.95	72.15	74.15	76.45	78.50	81.35	84.50	89.80
Increase for:													
adult dependant	37.35	38.70	39.95	40.40	41.75	42.45	43.15	44.35	45.70	47.00	48.65	50.55	53.10
first child	9.90	9.90	9.90	9.85	9.70	9.65	9.55	9.55	9.40	9.25	9.00	8.75	8.20
each other child	11.20	11.30	11.35	11.35	11.35	11.35	11.35	11.35	11.35	11.40	11.35	11.35	11.35
<u>Age addition:</u>													
Incapacity began before age 35	13.15	13.60	14.05	14.20	14.65	14.90	15.15	15.55	16.05	16.50	17.10	17.75	15.65
Incapacity began between ages 35 & 4	6.60	6.80	7.05	7.10	7.35	7.45	7.60	7.80	8.05	8.25	8.55	8.90	6.55

**Table 9.6a: Rates of Bereavement Benefit**

£ per week	Bereavement payment <sup>1</sup>	Widowed Parent's Allowance	Increase for each child		Bereavement Allowance <sup>2</sup>
			first	each other	
04/2001	2,000	72.50	9.70	11.35	72.50
04/2002	2,000	75.50	9.65	11.35	75.50
04/2003	2,000	77.45	9.55	11.35	77.45
04/2004	2,000	79.60	9.55	11.35	79.60
04/2005	2,000	82.05	9.40	11.35	82.05
04/2006	2,000	84.25	9.55	11.35	84.25
04/2007	2,000	87.30	9.00	11.35	87.30
04/2008	2,000	90.70	8.75	11.35	90.70
04/2009	2,000	95.25	8.20	11.35	95.25

<sup>1</sup> On 9 April 2001, Widow's Payment was replaced by a tax-free lump sum payment of

£2,000, for widows and widowers whose spouse died on or after 9 April 2001.

<sup>2</sup> Standard rate, lower rates for those below 55.

Section 9: Other contributory benefits

**Table 9.6b: Rates of Widow's Benefit**

£ per week	Widow's payment <sup>1</sup>	Widowed Mother's Allowance	Increase for each child		Widow's Pension <sup>2</sup>
			first	each other	
04/1990	1,000	46.90	9.65	9.65	46.90
04/1991	1,000	52.00	9.70	10.70	52.00
04/1992	1,000	54.15	9.75	10.85	54.15
04/1993	1,000	56.10	9.80	10.95	56.10
04/1994	1,000	57.60	9.80	11.00	57.60
04/1995	1,000	58.85	9.85	11.05	58.85
04/1996	1,000	61.15	9.90	11.15	61.15
04/1997	1,000	62.45	9.90	11.20	62.45
04/1998	1,000	64.70	9.90	11.30	64.70
04/1999	1,000	66.75	9.90	11.35	66.75
04/2000	1,000	67.50	9.85	11.35	67.50
04/2001		72.50	9.70	11.35	72.50
04/2002		75.50	9.65	11.35	75.50
04/2003		77.45	9.55	11.35	77.45
04/2004		79.60	9.55	11.35	79.60
04/2005		82.05	9.40	11.35	82.05
04/2006		84.25	9.25	11.35	84.25
04/2007		87.30	9.00	11.35	87.30
04/2008		90.70	8.75	11.35	90.70
04/2009		95.25	8.2	11.35	95.25

<sup>1</sup> On 11 April 1988, Widow's Allowance was replaced by a tax-free lump sum payment of £1,000 for widows whose husband died on or after 11 April 1988.

<sup>2</sup> Standard rate, lower rates for those below 55.

**D. HISTORICAL TABLES pre-1990**

**Table 9.7: Rates of death grant**

£ per week	Under 18			18 and over at date of death	
	Under 3	3-5	6-17	Lower rate	Higher rate
05/07/1949	6.00	10.00	15.00	10.00	20.00
27/01/1958	7.50	12.50	18.75	12.50	25.00
30/10/1967	9.00	15.00	22.50	15.00	30.00

**Table 9.8: Maternity Grant rates**

£ per week	
05/07/1948	4.00
26/10/1953	9.00
16/05/1955	10.00
03/02/1958	12.50
03/04/1961	14.00
11/03/1963	16.00
25/01/1965	22.00
03/11/1969	25.00

**Table 9.9: Rates of Sickness Benefit**

£ per week	Nov 1983	Nov 1984	Nov 1985	Jul 1986	Apr 1987	Apr 1988	Apr 1989	Apr 1990	Apr 1991	Apr 1992	Apr 1993	Apr 1994
<b>Under pension age</b>												
Personal benefit <sup>1</sup>	25.95	27.25	29.15	29.45	30.05	31.30	33.20	35.70	39.60	41.20	42.70	43.45
Increase for:												
adult dependant <sup>1</sup>	16.00	16.80	18.00	18.20	18.60	19.40	20.55	22.10	24.50	25.50	26.40	26.90
each child	0.15	-	-	-	-	-	-	-	-	-	-	-
<b>Over pension age</b>												
Personal benefit		34.25	36.65	37.05	37.85	39.45	41.80	45.00	49.90	51.95	53.80	55.25
Increase for:												
adult dependant		20.55	22.00	22.25	22.70	23.65	25.10	27.00	29.95	31.20	32.30	33.10

<sup>1</sup> Before 5th October 1986 reduced rates at  $\frac{3}{4}$  and  $\frac{1}{2}$  rate may have been payable if contribution conditions were not fully satisfied. (See Section 5 on contribution conditions.)

**Table 9.10: Rates of Invalidity Benefit**

£ per week	Personal Benefit	Invalidity Pension increase for dependant			Invalidity Allowance <sup>1</sup>		
		adult	Child		Higher Rate <sup>2</sup>	Middle Rate <sup>2</sup>	Lower Rate <sup>2</sup>
			first	each other			
11/78	19.50	11.70	6.35 <sup>3</sup>	6.35 <sup>3</sup>	4.15	2.60	1.30
11/79	23.30	14.00	7.10	7.10	4.90	3.10	1.55
11/80	26.00	15.60	7.50	7.50	5.45	3.45	1.75
11/81	28.35	17.00	7.70	7.70	6.20	4.00	2.00
11/82	31.45	18.85	7.95	7.95	6.90	4.40	2.20
11/83	32.60	19.55	7.60	7.60	7.15	4.60	2.30
11/84	34.25	20.55	7.65	7.65	7.50	4.80	2.40
11/85	38.30	23.00	8.05	8.05	8.05	5.10	2.55
07/86	38.70	23.25	8.05	8.05	8.15	5.20	2.60
04/87	39.50	23.75	8.05	8.05	8.30	5.30	2.65
04/88	41.15	24.75	8.40	8.40	8.65	5.50	2.75
04/89	43.60	26.20	8.95	8.95	9.20	5.80	2.90
04/90	46.90	28.20	9.65	9.65	10.00	6.20	3.10
04/91	52.00	31.25	9.70	10.70	11.10	6.90	3.45
04/92	54.15	32.55	9.75	10.85	11.55	7.20	3.60
04/93	56.10	33.70	9.80	10.95	11.95	7.50	3.75
04/94	57.60	34.50	9.80	11.00	12.15	7.60	3.80
04/95	58.85	35.25	9.85	11.05	12.40	7.80	3.90 <sup>4</sup>

<sup>1</sup> Since 16 September 1983, where both the Invalidity Allowance and Additional Pension are payable, a beneficiary can only receive an amount equal to the larger of the two. The Additional Pension is earnings-related. The average amount in payment in 1992-93 was £14.03.

<sup>2</sup> Rate depends on age at onset of incapacity. Higher rate payable if incapacity began before age 40 (35 prior to April 1979).

<sup>3</sup> From 2 April 1979 to 14 November 1979: each child £5.35.

<sup>4</sup> Applicable rates for transitionally protected cases. Incapacity Benefit replaced Invalidity Benefit on 13 April 1995.

**Table 9.11: Rates of Widow's Benefit**

£ per week	Widow's Allowance	Widow's payment	Widowed Mother's Allowance	Increase for each child	Widow's Pension <sup>4</sup>
11/1978	27.30	-	19.50	6.35 <sup>3</sup>	19.50
11/1979	32.60	-	23.30	7.10	23.30
11/1980	38.00	-	27.15	7.50	27.15
11/1981	41.40	-	29.60	7.70	29.60
11/1982	45.95	-	32.85	7.95	32.85
11/1983	47.65	-	34.05	7.60	34.05
11/1984	50.10	-	35.80	7.65	35.80
11/1985	53.60	-	38.30	8.05	38.30
06/1986	54.20	-	38.70	8.05	38.70
04/1987	55.35	-	39.50	8.05	39.50
04/1988	57.65 <sup>1</sup>	1000.00 <sup>2</sup>	41.15	8.40	41.15
04/1989	-	1000.00	43.60	8.95	43.60

<sup>1</sup> Payable only to widow's whose husband died before 11 April 1988.

<sup>2</sup> On 11 April 1988, widow's allowance was replaced by a tax-free lump sum payment of £1,000, for widows whose husband died on or after 11 April 1988.

<sup>3</sup> £5.35 from 3 April 1979 to 11 November 1979.

<sup>4</sup> Standard rate, lower rates for those below 50 (55 from April 1988).





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## **Section 10: Income Support**

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**A. CURRENT SYSTEM****Summary**

Income Support is a means-tested non-taxable benefit to provide for basic living expenses, and is paid to people out of work as well as to top up a low income from either benefits or part-time work. The target group is people who are not required to be available for work - the main eligibility criteria for claiming is that they must have a long-term sickness or disability, have caring responsibilities (for a disabled person) or be a lone parent. In addition, they must have few assets. Those claiming Income Support on the basis of being long-term sick or disabled will be claiming Incapacity Benefit (Income Related) if their claim dates from prior to October 2008. New claims for out of work disability benefits after October 2008 will be for Employment Support Allowance; which like Incapacity Benefit can be claimed for on an income or contributory basis. The rules for ESA on income grounds are the same as IB on income grounds.

**Table 10.1: Income Support key figures**

			Outturn			Estimate	Plans
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<i>Average number of beneficiaries over the financial year</i>							
Income Support (aged under 60) (excluding Jobseeker's Allowance income based) <sup>1</sup>	2,231	2,175	2,152	2,144	2,157	2,116	1,904
Minimum Income Guarantee/ Pension Credit <sup>2</sup>	1,980	2,594	2,700	2,729	2,732	2,718	2,746
<i>Annual expenditure</i>							
Income Support <sup>1</sup> (aged under 60) (excluding Jobseeker's Allowance income based)	10,344	10,029	9,150	8,839	8,948	8,687	7,856
Minimum Income Guarantee/ Pension Credit	4,529	5,016	5,424	5,758	6,271	6,533	6,820
Total	14,873	15,045	14,574	14,597	15,219	15,221	14,676

(1) Figures include caseloads and expenditure for Income Support, paid for children, which is due to migrate to the Tax Credit System.

(2) Pension Credit replaced Minimum Income Guarantee from October 2003.

Source: Department for Work and Pensions.

10.1 The following are the main features of the Income Support system – other income-related benefits (income-based Employment and Support Allowance, income based Jobseeker's Allowance, Housing Benefit and Council Tax Benefit) are calculated using the same basic rules:

- it is non-contributory and income-related;
- claimants must normally be aged 16 or over and aged under 60 (the upper age limit applies for Income Support only) and not required to be available for work because they are a lone parent with a child under 12 (under 10 from October 2009 and under seven from October 2010) or required to care for somebody at home, or are aged 16 to 19 in relevant education and estranged from parents or guardian(s). People who are required to be available for work claim Jobseeker's Allowance rather than Income Support; and those aged over 60 can claim Pension Credit.

- claimants must not be subject to immigration control and must be habitually resident, or treated as habitually resident in the UK, republic of Ireland, Isle of Man or the Channel Islands;
  - it is not normally payable if claimants are in remunerative work for 16 hours or more each week, or if their partner is in remunerative work for 24 hours or more a week; and
  - the general possession of capital and/or savings with a net value of over £16,000 removes all entitlement to Income Support, income-based Jobseeker's Allowance, Housing Benefit and Council Tax Benefit. Savings of £6,000 or less do not affect Income Support; above this level a tariff income of £1 is assumed for every £250 or part thereof between £6,000 and £16,000. Actual income from capital is ignored. For people living permanently in a care home, the upper and lower limits are £16,000 and £10,000 respectively (there are some exceptions to this rule).
- From October 2008, Employment and Support Allowance has replaced Income Support paid on the grounds of incapacity or sickness for new claimants.
  - From 26th October 2009 lone parents whose youngest child is aged 10 or over will no longer be entitled to Income Support solely on the grounds of being a lone parent.

### Personal allowances and Premiums

10.2 Income Support is assessed on the basis of personal allowances for claimant/partner and any dependent children in respect of whom Child Tax Credit is not in payment, plus premiums for people in groups with special needs such as families and the disabled, and an amount towards certain types of housing costs. Personal allowances for recent years are shown in Table 10.2, while the current rates of premiums are shown in Table 10.3.

**Table 10.2: Income support personal allowances**

£ per week		April 2008	April 2009
Couple	both aged 18+	94.95	100.95
	both under 18 with responsibility for a child	72.35	76.90
Lone parent	aged 18+	60.50	64.30
	under 18	47.95	50.95
Single claimant <sup>1</sup>	aged 25+	60.50	64.30
	18-24	47.95	50.95
	under 18	47.95	50.95
Dependent Children <sup>2</sup>	From April 1997		
	Birth to September following 16th birthday	52.59	56.11
	September following the 16th to day before the 19th birthday <sup>3</sup>	52.59	56.11

<sup>1</sup> Single claimants and lone parents aged 16-17 who get Income Support and have no option but to live apart from their parental home are entitled to the higher rate. All disabled 16-17 year olds will receive the higher rate. From April 2008 all 16-17 year olds receive the higher rate.

<sup>2</sup> Allowances for dependent children were increased in October 2002 to £37.00 and £37.80.

<sup>3</sup> To day before their 20th birthday from April 2006.

**Table 10.3: Income Support weekly premiums from April 2009**

£ per week	Single	Couples
Disability Premium	27.50	39.15
Pensioner Premium( couples only)		97.50
Lone Parent Premium		17.30

10.3 It is not possible to receive more than one of the premiums in Table 10.3.

10.4 Claimants who have been receiving Income Support since 6 April 2003 with one or more dependent children also receive a family premium (currently £17.30). Claimants with a disabled child/children receive an additional premium of £51.24 for each such child. These premiums are payable in addition to all other premiums. New claimants with children are provided with financial support for children through Tax Credits.

10.5 The process of moving families from child allowances in Income Support onto Child Tax Credit began in April 2004. From this date, families on Income Support who are already receiving Child Tax Credit start to receive support for their children solely through Child Tax Credit. Any new claimants to Income Support from this date are no longer awarded child allowances or premiums from Income Support but will receive Child Tax Credit instead. There is no date for the automatic phased transfer to Child Tax Credit for the remaining families with children receiving Income Support but in the meantime, families will continue to receive the same level of support through Income Support as they would from Child Tax Credit.

10.6 There are provisions that allow for a 'severe disability premium' of £52.85 and a 'carer premium' of £29.50 to be included in an award of Income Support, but this is conditional upon the circumstances of the claimant. These two premiums can be paid in addition to any other premium awarded. If both members of a couple qualify for the severe disability premium or the carer premium, the amounts are doubled.

10.7 The Enhanced Disability Premium is payable where the claimant or a member of the family is in receipt of the highest rate of care component of Disability Living Allowance. The current rates are £20.65 a week for a child, £13.40 for a single person and £19.30 where the qualifying benefit is paid to a member of a couple or polygamous marriage and both are aged under 60. An Enhanced Disability Premium is not payable when a Pensioner Premium, Enhanced Pensioner Premium or a Higher Pensioner Premium is payable.

### Housing Costs

10.8 From 5<sup>th</sup> January 2009, Income Support can help with interest on mortgages/loans, worth up to a total of £200,000, which are taken out for the purchase of the home or for essential repairs or improvements that are needed to maintain the fitness of the home for human habitation. Loans taken out to adapt the home for the special needs of a disabled person are exempt from this limit. Help may also be available with service charges, ground rent and some other housing costs that Housing Benefit cannot help with.

10.9 Borrowers with loans taken out after 1 October 1995 have to serve a waiting period of 39 weeks before they can receive any help with their mortgage interest. For borrowers with loans taken out before 2 October 1995 there is a waiting period of 8 weeks; from week 9 they can receive help with 50 per cent of their mortgage interest rising to 100 per cent from week 27. If these borrowers re-mortgage their home with the same lender for the same amount or less, they continue to be treated as pre-2 October 1995 borrowers. Some borrowers who have taken out loans after 1 October 1995 are treated as if they have existing housing costs; for example, carers who are not required to be available for work, or lone parents who have made a claim due to the death of their partner or because of abandonment by their partner.

10.10 On 5<sup>th</sup> January 2009 a temporary package of measures was introduced to help new claimants during the economic downturn:

- New claimants are eligible for 100 per cent of eligible mortgage interest after a waiting period of 13 weeks.
- The capital limit up to which mortgage interest can be met is £200,000
- There is a two year time limit on payment of mortgage interest, but only for new Jobseekers Allowance claims.

10.11 Mortgage interest is calculated using a standard interest rate. The rate is usually 1.58 per cent above the Bank of England base rate, but the Government has held it at 6.08 per cent until December 2009. Help with mortgage interest is normally paid directly to the lender. The standard interest rate may not cover all of a customer's mortgage interest liabilities. In such circumstances, it is the responsibility of the customer to make up any shortfall.

10.12 The amount of Income Support payable is calculated by offsetting a claimant's resources against the applicable amount (the total of the personal allowances, premiums and housing costs).

### Income and Disregards

10.13 The first £5 of a claimant's net weekly earnings (after tax and national insurance and half of any pension fund contribution) does not affect Income Support levels. Couples are entitled to a joint £10 disregard. A £20 a week earnings disregard applies to certain groups including: lone parents, long-term sick, disabled people, carers, and members of certain specialist forces (e.g. part-time fire-fighters). Most Social Security Benefits and pensions are fully taken into account, as are occupational and private pensions. Disability Living Allowance and Attendance Allowance are disregarded. Some other income types are fully or partially disregarded. For example, some specified payments that are both intended and used for items other than normal daily living expenses can be fully disregarded; the first £10 of a war pension is disregarded.

### Up-rating

10.14 Income Support rates are normally up-rated by the ROSSI Index that is based on the Retail Prices Index less housing costs such as mortgage interest or rent.

### Passport to other benefit entitlements

10.15 Receipt of Income Support usually acts as a passport to other benefits. Recipients also receive free NHS prescriptions and dental treatment, help with the costs of glasses and may be able to receive assistance via the Social Fund. They are also normally entitled to maximum Housing Benefit and Council Tax Benefit. Recipients with young children will also be entitled to the Healthy Start vouchers and older children will be entitled to Free School Meals (see section 12 for more details).

## Numerical examples of Income Support

**Example 10.1: Couple both aged 18+ with children aged 6 and 12, no income other than Child Benefit. Receiving Income Support since April 2004 and not receiving Child Tax Credit**

	April 2007 £	April 2008 £	April 2009 £
<u>Personal Allowance</u>			
Couple	92.80	94.95	100.95
Child aged 6	47.45	52.59	56.11
Child aged 12	47.45	52.59	56.11
<u>Premiums</u>			
Family Premium	<u>16.25</u>	<u>16.75</u>	<u>17.30</u>
Total allowances and premiums	203.95	216.88	230.47
<u>Less Income</u>			
Child Benefit	<u>30.20</u>	<u>31.35</u>	<u>33.20</u>
<b>Income Support</b>	<b>173.75</b>	<b>185.53</b>	<b>197.27</b>

**Example 10.2: Lone Parent aged 18+ with one child aged 11, only income is net part-time earnings of £20 a week + Child Benefit. Receiving Income Support since April 2004 and not receiving Child Tax Credit**

	April 2007 £	April 2008 £	April 2009 £
<u>Personal Allowance</u>			
Lone parent 18+	59.15	60.50	64.30
Child aged 11	47.45	52.59	56.11
<u>Premiums</u>			
Family Premium	<u>16.43</u>	<u>16.75</u>	<u>17.30</u>
Total allowances and premiums	123.03	129.84	137.71
<u>Less Income</u>			
Child Benefit	18.10	18.80	20.00
Part-time earnings	20.00	20.00	20.00
Less disregard	20.00	20.00	20.00
<b>Income Support</b>	<b>104.93</b>	<b>111.04</b>	<b>117.71</b>

*N.B. From 26 October 2009 lone parents whose youngest child is 11 will not qualify for Income Support on the grounds of being a lone parent as the qualifying age limit for the youngest child will reduce to age 10*



## Social Fund

10.16 Provision is made on both a regulated and a discretionary basis.

### Regulated provision

10.17 Regulations provide for help while expecting a baby or help with the immediate needs of a new born or adopted baby if the claimant (or their partner) is receiving Income Support, Pension Credit, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, income-based Jobseeker's Allowance, Working Tax Credit where the disability or severe disability element is included in the award or Child Tax Credit payable at a rate higher than the family element.

10.18 The **Sure Start Maternity Grant** is payable for each child that is expected, born, adopted, the subject of a parental order (following a surrogate birth) or, in certain circumstances, the subject of a residence order. A payment can be claimed for an adopted baby or a baby the subject of a residence order only if the child is not more than 12 months old at the date of claim. See section 2 for further details on maternal/paternal benefits and grants.

10.19 **Cold Weather Payments** are intended to give extra help to vulnerable people towards additional heating costs as a result of a sustained period of very cold weather in their area. A payment of £8.50 is made from the Social Fund when the average temperature was recorded as, or forecast to be, 0 degrees Celsius or below over 7 consecutive days. People who receive Pension Credit are eligible, as are those who receive Income Support, income-related Employment and Support Allowance or income-based Jobseeker's Allowance and who have a child aged under 5 or a disabled child or whose benefit includes a pensioner or disability premium. There is no need to make a claim - payments are made automatically. Savings are not taken into account.

10.20 **Winter Fuel Payments** are annual tax-free payments made to eligible households to help with winter fuel costs. Unlike Cold Weather Payments, entitlement is not dependent on the weather. Entitlement to a payment is based on being aged 60 or over and ordinarily a resident in Great Britain during a specified qualifying week. Savings are not taken into account. The vast majority of payments are made automatically without the need to claim. Payments are £200 for eligible households with someone aged 60-79 and £300 for eligible households with someone aged 80 or over. The Chancellor announced in Budget 2009 an additional payment for winter 2009/10. Eligible households with someone aged 60-79 will receive an additional £50 and eligible households with someone aged 80 or over will receive an additional £100 making their total payment for winter 2009/10 £250 and £400 respectively.

10.21 The Social Fund **Funeral Payment** scheme provides help to those with good reason for taking responsibility for funeral expenses but there are insufficient funds (apart from personal savings) available to meet for such a large expense. Help is available to people awarded Income Support, Pension Credit, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or Working Tax Credit where the disability or severe disability element is included in the award, Child Tax Credit payable at a rate higher than the family element, Housing Benefit or Council Tax Benefit. The amount allowable covers the necessary cost of specified expenses including burial or cremation fees, plus up to £700 for any other funeral expenses such as the funeral director's fees, the coffin or flowers. Where burial is chosen, the amount allowed includes for the necessary cost of purchasing a new burial plot with exclusive right of burial. Funeral Payments are recoverable from the estate of the deceased.

#### Non-regulated provision

10.22 The Social Fund also provides three types of discretionary payments:

- Budgeting Loans;
- Crisis Loans; and
- Community Care Grants.

10.23 **Budgeting Loans** are available to people who have received Income Support, Pension Credit, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or received payment on account of such benefits for each of the last 26 weeks (or lived with someone who has done so). One break of 28 days or less does not affect eligibility Budgeting Loans are interest free and intended to help spread the cost of a range of occasional lump sum expenses over a longer period.

10.24 The minimum amount that may be awarded is £100; the maximum Social Fund debt (including any Crisis Loan debt) that can be outstanding at any time is £1500. Budgeting Loans are repayable, usually by deduction from the customer's social security benefit. The Decision Maker must be sure that the customer can afford to repay the loan.

10.25 If the applicant and partner have capital of more than £1,000, (or £2,000 if the applicant or partner is aged 60 or over), a BL is reduced by the amount of any capital over £1,000, (or £2,000 if the applicant or partner is aged 60 or over).

10.26 **Crisis Loans** are to meet expenses that arise in an emergency or as a consequence of a disaster. They must be the only means by which serious damage or serious risk to the applicant's (or dependant's) health or safety can be avoided. Any capital readily available to the applicant is taken fully into account.

10.27 Crisis Loans are not restricted to people on Income Support or other social security benefits. Like Budgeting Loans they are repayable.

**10.28 Community Care Grants** are designed primarily to help people to remain in (or return to) the community rather than enter (or stay in) institutional or residential care; and to set up home in the community as part of a planned programme of resettlement. Such payments may, however, also be made to ease exceptional pressures on families, to care for prisoners on release on temporary licence and to help with certain travelling expenses. Community Care Grants can only be made to people receiving Income Support, Pension Credit, income-based Jobseeker's Allowance or income-related Employment and Support Allowance or payment on account of one of them (or likely to receive it on discharge from institutional or residential care which is planned to occur in less than 6 weeks). These payments are not repayable.

10.29 If the applicant (or partner) has more than £500 capital the maximum Community Care Grant will be for the difference between the amount which would otherwise have been awarded and the excess capital over £500 (£1000 for those aged 60 or over).

## **B. HISTORY**

### **Supplementary Benefit**

10.30 Supplementary Benefit (SB) was introduced on 28 November 1966. Previously financial help for people on low incomes was provided under National Assistance, which was introduced on 5 July 1948. Supplementary Benefit ceased on 10 April 1988 and was replaced by Income Support.

10.31 SB was an income related, non-contributory benefit. To be eligible, claimants had to be aged 16 or over, not in full-time education or full-time work, and with savings below a certain limit (see Table 10.6). Claimants whose 'resources' fell short of 'requirements' (both terms defined below) received the amount necessary to bring the claimant's resources up to his/her requirements (ie the level of 'requirements' minus the level of 'resources').

10.32 SB was of two types: Supplementary Pension (for those over State Pension age (65 men, 60 women)) and Supplementary Allowance (for those below pension age).

10.33 SB claims were based on an 'assessment unit'. This aggregated the requirements and resources of a married couple, or a couple living together as man and wife and any dependent children living with them. (For SB purposes dependent children were either under 16 or between 16 and 19 and in full-time education). Claims for a couple (married or unmarried) could be made by either partner provided he/she satisfied certain conditions showing contact with the job market during the previous 6 months or reasons for being excluded from it.

10.34 Benefit could not be awarded to a claimant in remunerative full-time work (i.e. normally working more than 30 hours a week, or 35 hours for certain disabled people) or to anyone in full-time education (A young person still at school was treated as a dependant in the calculation of a family's requirements). Benefit was not paid in respect of anyone involved in a trade dispute, but could be paid in respect of the dependants of such a person.

10.35 From 5 July 1982 SB, (in respect of claimants and adult dependants) paid in lieu of Unemployment Benefit, was taxable - in the same way as Unemployment Benefit.

### Entitlement to other social security benefits

10.36 Those in receipt of SB were not normally able to claim FIS, as the hours of work conditions for the two benefits were, in most cases, mutually exclusive (though this was not the case for single parents working between 24 and 30 hours per week or certain disabled persons working between 30 and 35 hours

per week). However a person receiving Family Income Supplement could claim SB if he/ she became unemployed. SB and Housing Benefit Supplement recipients were automatically entitled to the in-kind benefits discussed in Section 12.

### Resources

10.37 These included both income and capital. A claimant's income consisted of total household income, subject to the following modifications:

- earnings. The following were deducted from earnings: income tax, national insurance contributions and payments to an occupational pension scheme; reasonable work expenses (including travel) unless reclaimed as expenses; reasonable payments to look after a child or disabled person while the claimant was at work; 15 pence towards the cost of each meal during working hours; and any Christmas bonus up to £10;
- earnings disregard. From November 1980 the first £4 (previously £2) of the claimant's earnings - and of those of his/her partner - was disregarded. For lone parents, fifty per cent of earnings between £4 and £20 were also disregarded. Earnings of dependent children were disregarded - except where the child began full-time work after leaving school but before becoming a non-dependant. In this case his/her earnings were counted (subject to the £4 disregard) against the SB addition that would otherwise have been payable in respect of that child (but not against any other component of SB). There were special rules covering the treatment of earnings of seasonal workers, and part-time emergency services workers;
- social security benefits and pensions were normally regarded as 'resources' although Death and Maternity Grants, Mobility Allowance, War Pensioners Mobility Supplement and Resettlement Benefit (payable following a reduction of benefit whilst in hospital) were ignored. Attendance Allowance was also ignored unless the claimant was in a residential care or nursing home. War Disablement, War Widows, Industrial Injuries and Industrial Widows Pensions were treated as 'other income' (see below);
- occupational pensions, counted in full;
- maintenance payments, whether made voluntarily or under a court order, counted in full;
- sick pay from an employer counted in full;
- income from capital. Any income from capital assets of £3,000 or less was disregarded - but see below; and
- other income. In general, the first £4 of any other income was not counted. The excess was counted in full.

10.38 Assessment of capital resources was based on the total capital of the claimant and his/her dependants (the 'assessment unit'). The value of a claimant's home was disregarded, as was the first

£1,500 of the total surrender value of any life assurance policies. Subject to these and certain other specified disregards, possession of capital worth more than £3,000 removed all entitlement to SB. Where a child's capital brought total capital resources to over £3,000 SB entitlement was not precluded, but all normal and additional requirements in respect of that child were removed. Table 10.6 shows how these rules changed after November 1980.

### Requirements

#### *Normal requirements*

10.39 The basic requirements (shown in Table 10.5) depended on family type and the number of children. They did not include requirements for housing costs or certain other additional requirements, such as for extra heating (see 'Additional Requirements' below).

10.40 The 'ordinary scale' columns show the main scale rates for normal weekly requirements; under the Social Security Act 1966, a standard sum known as the 'long term addition' (see Table 10.5) was added to the requirements of supplementary pensioners and of those under pensionable age - other than the unemployed - who had received SB continuously for two years or more. From 1 October 1973, the long-term addition was consolidated into the 'long-term rate': the qualifying conditions were unchanged. On 24 November 1980, the qualifying period was reduced to one year; from June 1983, claimants aged 60 or over qualified immediately for the long-term rate. From November 1983 periods in receipt of long-term Incapacity Benefits have also counted towards the qualifying period for the long-term rate. From September 1971 pensioners aged 80 or over received an extra 25p.

#### *Housing costs*

10.41 Pre-April 1983; where the claimant was a householder who was responsible - or whose wife was responsible - for housing costs, a housing requirement was added. This was calculated by taking the weekly housing costs (rent, mortgage interest (but not capital repayments), rates, and an allowance for repairs and insurance) and deducting:

- charges for services that are already provided for in the SB scale rates (eg heating and lighting);
- any proceeds from subletting;
- any rent or rates rebates allowed; and
- a reduction in respect of any non-dependant living in the household.

10.42 The resulting figure, or such part considered reasonable, constituted the housing requirement. In effect, this meant that SB recipients received 100 per cent rent and rates rebates - after deductions from

services not strictly considered part of the housing costs - unless it was only because of housing costs that the claimant qualified for SB.

10.43 From April 1983, help with rent and rates were provided through Housing Benefit (see Section 11). The majority of householders who qualified for SB received 100 per cent rebate/ allowances from the local authority. Where there were non-dependants living in the household or the rent included an amount for amenities such as heating/lighting etc, Housing Benefit was awarded at a reduced rate.

10.44 Where the claimant shared the house with non-dependants he or she might be regarded as receiving a contribution from each non-dependant towards his housing costs, irrespective of whether any such payment was actually made (see Table 10.7). Children aged under 16 were ignored and a couple, with or without children, counted as one non-dependant. No deduction was made if:

- an equivalent deduction was being made against the claimant's Housing Benefit;
- the claimant, or his or her spouse or unmarried partner, was blind;
- the non-dependant was providing needed domestic help for which an additional requirement might be claimed;
- the non-dependant was not receiving benefit and his or her usual home were somewhere else;
- the non-dependant was receiving a training allowance under the Youth Training Scheme;
- the non-dependant was aged 16-17 years and receiving a Severe Disablement Allowance.

10.45 As Housing Benefit was considerably more generous for SB recipients; a person's resources after paying housing costs could have been below SB requirements although they were not entitled to SB. Housing Benefit supplement (paid by local authorities) was designed to remedy this. It was calculated as the difference between the rent and rates (net of Housing Benefit) and the amount by which resources exceed SB requirements (see the example in Section 11).

10.46 SB continued to provide help with water charges and, in the case of owner-occupiers, mortgage interest (but not capital repayments) and any ground rent, (but the Housing Benefit non-dependant deductions applied). Water charges might have been paid with Housing Benefit where the claimant was a tenant of a local authority that collects the water charges on behalf of the water authority; or a tenant of a private landlord who paid an inclusive rent; or in most cases in Scotland.

10.47 SB also helped with maintenance and insurance payable by an owner-occupier or a tenant obliged under his tenancy agreement to make such payments. A fixed amount per week applied (see Table 10.6) but if the actual cost of insurance was higher this might have been paid.

10.48 Any person aged 21 or over who lived as a member of another person's household received financial help for housing costs in addition to the non-householder scale rate (see Table 10.6 for rates).

*Additional requirements*

10.49 Additions to weekly benefits were paid in respect of certain specified additional expenses such as extra heating where the claimant, his partner or a dependant was in poor health or where the accommodation was damp or difficult to heat. In practice, pensioner householders over the age of 65 (70 before November 1984), and households where there was at least one dependent child of 5 or under automatically received the heating addition (see Table 10.6 for rates).

10.50 Householders (or their partners) over the age of 85 automatically received a higher rate heating addition (also shown in Table 10.6). Amounts of other awards (e.g. for special diets, domestic assistance and for blind people) were set out in the regulations and in many cases reflected the actual cost involved. For those in receipt of the long-term scale rate the total of these additions - excluding those for children or awarded on grounds of age or blindness (and heating up to November 1984) - was reduced by an amount termed the available scale margin since this was already accounted for in the long term rate. The 1987-88 available scale margin was £1.00 (50 pence before November 1984 - see Table 10.6)



Examples of Supplementary Benefit

**Example 10.2: December 1982 (Pre-Housing Benefit) Single pensioner aged 65-69, £32.85 per week state retirement pension, no other income**

Rent	=	£5.00	
Requirement	=	£37.70	(£32.70+ £5.00)
Resources	=	£32.85	
Shortfall	=	£4.85	
Supplementary pension of £4.85 payable			

**Example 10.3: From 6 April 1987, single householder aged 18-65, Part-time earnings £25 (travel expenses £3), rent £20, general rates £8, water charges £1.50**

Requirements	=	Scale rate and water charges	=	£30.40 + £1.50
			=	£31.90
Resources	=	Earnings – expenses	=	£25 - £3
			=	£22
Earnings Disregard			=	£4
Resources taken into account			=	£18
Shortfall			=	£13.90
Supplementary benefit of £13.90 payable.				

On receipt of a certificate showing entitlement to SB, the local authority awarded 100 per cent rent rebate/allowance and rate rebate.

**Example 10.4: From 6 April 1987, pensioner couple (both over 65), £63.25 state retirement Pension, rent and rates £31.50, Water charges £2.30.**

Requirements	=	Long term scale rate	=	£61.85
		Water charges	=	£2.30
		Heating addition	=	£2.20
		Available scale margin	=	£1.00
Total requirements				£65.35
Resources	=	pension	=	£63.25
Shortfall			=	£2.10
Supplementary Benefit of £2.10 payable.				

On receipt of a certificate showing entitlement to SB, the local authority awarded 100 per cent rent rebate/allowance and rate rebate.

## **Income Support**

10.51 Income Support was introduced on 11 April 1988.

10.52 In April 1989, the Income Support levels implicitly included an amount in respect of the minimum 20 per cent contribution that recipients were expected to pay towards their Community Charge. In April 1993 the Community Charge was replaced by council tax and Income Support recipients were entitled to 100 per cent help with the new tax. Income Support rates were not reduced to take account of this change.

10.53 In 1994-95, an extra 0.4 per cent was added to ROSSI to provide help in advance towards VAT on fuel.

10.54 As from 2 October 1995, new borrowers (those with loans taken out after 1 October 1995) receive no help with mortgage interest for 9 months. For those with loans taken out before that point, no help is given with mortgage interest for 8 weeks, and at 50 per cent for the next 18 weeks. From this date, mortgage interest is calculated using a standard rate of interest – based on variable rates of mortgage interest charged by the main building societies. From November 2004, the standard rate of interest was based on the Bank of England Base Rate + 1.58 per cent

10.55 Prior to April 1997 lone parents received a Lone Parent Premium in addition to the Family Premium. From April 1997 the Lone Parent Premium was abolished but lone parents who were continuously in receipt of Income Support were paid a Family Premium (lone parent rate). This cannot be paid in addition to any of the premiums mentioned in Table 10.3. From April 2004 the Family Premium (lone parent rate) was paid at the same rate as the Family Premium.

10.56 In April 2001, the capital limits for people aged 60 or over were increased – the lower capital limit was increased from £3,000 to £6,000 and the upper capital limit was increased from £8,000 to £12,000.

10.57 Also in April 2001, a new Enhanced Disability Premium was introduced, which is not payable when a Pensioner Premium, Enhanced Pensioner Premium or a Higher Pensioner Premium is payable. This is payable where the claimant or a member of the family is in receipt of the highest rate of care component of the Disability Living Allowance.

## **Social Fund**

10.58 The Social Fund succeeded Supplementary Benefit single payments and the old universal Maternity and Death Grants. (See Chapter 3 for details on maternity benefits and grants).

10.59 For the Social Fund Funeral Payment, savings in excess of £500 (£1000 for those aged 60 or over) used to be taken into account. On 8 October 2001 this capital rule was abolished.

10.60 In April 2006 the level at which capital starts to have an effect on the amount of Budgeting Loan awards increased from £500 to £1000 (from £1000 to £2000 for those aged 60 or over).

## C. HISTORICAL TABLES Post 1988

Table 10.4: Income Support

£ per week	1988-89	1989-90	Oct-89	1990-91	1991-92	Oct-91	1992-93	Oct-92
<b>Rates</b>								
Couple one aged 18+	51.45	54.80	54.80	57.60	62.25	62.25	66.60	66.60
both under 18	38.80	41.60	41.60	43.80	47.30	47.30	50.60	50.60
Lone Parent aged 18+	33.40	34.90	34.90	36.70	39.65	39.65	42.45	42.45
under 18 (higher rate from 1991-92)	19.40	20.80	20.80	21.90	31.15	31.40	33.60	33.60
Single claimant: 25+	33.40	34.90	34.90	36.70	39.65	39.65	42.45	42.45
18-24	26.05	27.40	27.40	28.80	31.15	31.40	33.60	33.60
under 18	19.40	20.80	20.80	21.90	23.65	23.90	25.55	25.55
under 18 higher rate <sup>1</sup>	-	-	-	28.80	31.15	31.40	33.60	33.60
Dependant child: under 11	10.75	11.75	11.75	12.35	13.35	13.60	14.55	14.55
11-15	16.10	17.35	17.35	18.25	19.75	20.00	21.40	21.40
16-17	19.40	20.80	20.80	21.90	23.65	23.90	25.55	25.55
18	26.05	27.40	27.40	28.80	31.15	31.40	33.60	33.60
<b>Additional Payments:</b>								
<b>Disability premium:<sup>2</sup></b>								
single	13.05	13.70	13.70	15.40	16.65	16.65	17.80	17.80
couple	18.60	19.50	19.50	22.10	23.90	23.90	25.55	25.55
<b>Severe disability premium:</b>								
single	24.75	26.20	26.20	28.20	31.25	31.25	32.55	32.55
couple	49.50	52.40	52.40	56.40	62.50	62.50	65.10	65.10
Disabled child premium	6.15	6.50	6.50	15.40	16.65	16.65	17.80	17.80
Carer premium <sup>3</sup>	-	-	-	10.00	10.80	10.80	11.55	11.55
<b>Pensioner premium (60-74)<sup>4</sup>:</b>								
single	10.65	11.20	11.20	11.80	13.75	13.75	14.70	16.70
couple (both qualify)	16.25	17.05	17.05	17.95	20.90	20.90	22.35	25.35
<b>Enhanced pensioner premium (75-79):</b>								
single	-	-	13.70	14.40	15.55	15.55	16.65	18.65
couple (both qualify)	-	-	20.55	21.60	23.35	23.35	25.00	28.00
<b>Higher pensioners premium (80+ or disabled):</b>								
single	13.05	13.70	16.20	17.05	18.45	18.45	20.75	22.75
couple (both qualify)	18.60	19.50	23.00	24.25	26.20	26.20	29.55	32.55
Lone parent premium	3.70	3.90	3.90	4.10	4.45	4.45	4.75	4.75
Family premium	6.15	6.50	6.50	7.35	7.95	8.70	9.30	9.30
<b>Capital</b>								
upper limit	6,000	6,000	6,000	8,000	8,000	8,000	8,000	8,000 <sup>5</sup>
amount disregarded	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000 <sup>6</sup>
child's limit	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000

Section 10: Income Support

**Table 10.4: Income Support - continued**

£ per week	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
<b>Rates</b>							
Couple one aged 18+	69.00	71.70	73.00	75.20	77.15	79.00	80.65
both under 18	52.40	54.55	55.55	57.20	58.70	60.10	61.35
Lone Parent aged 18+	44.00	45.70	46.50	47.90	49.15	50.35	51.40
under 18 (higher rate)	34.80	36.15	36.80	37.90	38.90	39.85	40.70
Single Claimant: 25+	44.00	45.70	46.50	47.90	49.15	50.35	51.40
18-24	34.80	36.15	36.80	37.90	38.90	39.85	40.70
under 18	26.45	27.50	28.00	28.85	29.60	30.30	30.95
under 18 higher rate <sup>1</sup>	34.80	36.15	36.80	37.90	38.90	39.85	40.70
Dependent Child: under 11	15.05	15.65	15.95	16.45	16.90	17.30	20.20
11-15	22.15	23.00	23.40	24.10	24.75	25.35	25.90
16-17	26.45	27.50	28.00	28.85	29.60	30.30	30.95
18	34.80	36.15	36.80	37.90	38.90	39.85	40.70
<b>Additional Payments:</b>							
<b>Disability premium<sup>2</sup>:</b>							
single	18.45	19.45	19.80	20.40	20.95	21.45	21.90
couple	26.45	27.80	28.30	29.15	29.90	30.60	31.25
<b>Severe disability premium:</b>							
single	33.70	34.30	35.05	36.40	37.15	38.50	39.75
couple	67.40	68.60	70.10	72.80	74.30	77.00	79.50
Disabled child premium	18.45	19.45	19.80	20.40	20.95	21.45	21.90
Carer premium <sup>3</sup>	11.95	12.40	12.60	13.00	13.35	13.65	13.95
<b>Pensioner premium (60-74)<sup>4</sup>:</b>							
single	17.30	18.25	18.60	19.15	19.65	20.10	23.60
couple	26.25	27.55	28.05	28.90	29.65	30.35	35.95
<b>Enhanced pensioner premium (75-79):</b>							
single	19.30	20.35	20.70	21.30	21.85	22.35	25.90
couple	29.00	30.40	30.95	31.90	32.75	33.55	39.20
<b>Higher pensioners premium (80+ or disabled):</b>							
single	23.55	24.70	25.15	25.90	26.55	27.20	30.85
couple	33.70	35.30	35.95	37.05	38.00	38.90	44.65
Lone parent premium	4.90	5.10	5.20	5.20	-	-	-
Family premium	9.65	10.05	10.25	10.55	10.80	11.05	13.90
Family premium - lone parent	-	-	-	-	15.75 <sup>7</sup>	15.75	15.75
<b>Capital</b>							
upper limit <sup>5</sup>	8,000	8,000	8,000	8,000	8,000	8,000	8,000
amount disregarded <sup>6</sup>	3,000	3,000	3,000	3,000	3,000	3,000	3,000
child's limit	3,000	3,000	3,000	3,000	3,000	3,000	3,000

## Section 10: Income Support

**Table 10.4: Income Support - continued**

£ per week	2000-01	Oct-00	Apr-01	Oct-01	Apr-02	Oct-02	Apr-03
<b>Rates</b>							
Couple one aged 18+ both under 18	81.95	81.95	83.25	83.25	84.65	84.65	85.75
Lone Parent aged 18+ under 18 (higher rate)	52.20	52.20	53.05	53.05	53.95	53.95	54.65
Single Claimant: 25+ 18-24	41.35	41.35	42.00	42.00	42.70	42.70	43.25
under 18	52.20	52.20	53.05	53.05	53.95	53.95	54.65
under 18 higher rate <sup>1</sup>	41.35	41.35	42.00	42.00	42.70	42.70	43.25
<b>Dependent Child:</b>							
From birth to sept following 16th birthday	26.60	30.95	31.45	32.95	33.50	37.00	38.50
From sept following 16th birthday to day before 19th birthday <sup>2</sup>	31.75	31.75	32.25	33.75	34.30	37.80	38.50
<b>Additional Payments:</b>							
<b>Disability premium<sup>3</sup>:</b>							
single	22.25	22.25	22.60	22.60	23.00	23.00	23.30
couple	31.75	31.75	32.25	32.25	32.80	32.80	33.25
<b>Severe disability premium:</b>							
single	40.20	40.20	41.55	41.55	42.25	42.25	42.95
couple	80.40	80.40	83.10	83.10	84.50	84.50	85.90
Disabled child premium	22.25	22.25	30.00	30.00	35.50	35.50	41.30
Carer premium <sup>4</sup>	14.15	14.15	24.40	24.40	24.80	24.80	25.10
<b>Pensioner premium (60-74)<sup>5</sup>:</b>							
single	26.25	26.25	39.10	39.10	44.20	44.20	47.45
couple	40.00	40.00	57.30	57.30	65.15	65.15	70.05
<b>Enhanced pensioner premium (75-79):</b>							
single	28.65	28.65	39.10	39.10	44.20	44.20	47.45
couple	43.40	43.40	57.30	57.30	65.15	65.15	70.05
<b>Higher pensioners premium (80+ or disabled):</b>							
single	33.85	33.85	39.10	39.10	44.20	44.20	47.45
couple	49.10	49.10	57.30	57.30	65.15	65.15	70.05
<b>Lone parent premium<sup>6</sup></b>							
Family premium	14.25	14.25	14.50	14.50	14.75	14.75	15.75
Family premium - lone parent	15.90	15.90	15.90	15.90	15.90	15.90	15.90
<b>Capital</b>							
upper limit <sup>7</sup>	8,000	8,000	8,000 <sup>9</sup>	8,000 <sup>9</sup>	8,000 <sup>9</sup>	8,000 <sup>9</sup>	8000 <sup>9</sup>
amount disregarded <sup>8</sup>	3,000	3,000	3,000 <sup>9</sup>	3,000 <sup>9</sup>	3,000 <sup>9</sup>	3,000 <sup>9</sup>	3000 <sup>9</sup>
child's limit	3,000	3,000	3,000	3,000	3,000	3,000	3,000

<sup>1</sup> Living away from home in certain circumstances.

<sup>2</sup> To day before their 20th Birthday from April 2006.

<sup>3</sup> For details of the Enhanced Disability Premium, which was introduced in April 2001, see paragraph 9.8.

<sup>4</sup> Introduced in October 1990. Rate doubled for couples when both qualify.

<sup>5</sup> Before October 1989 age range was 60-70.

<sup>6</sup> Lone Parent Premium abolished from April 1997.

<sup>7</sup> £16,000 for those permanently in residential care or nursing homes.

<sup>8</sup> £10,000 for those permanently in residential care or nursing homes.

<sup>9</sup> From April 2001, people aged over 60 have increased capital limits of £12,000 and £6,000

Section 10: Income Support

**Table 10.4: Income Support - continued**

£ per week	Apr-04	Apr-05	Apr-06	Apr-07	Apr-08	Apr-09
<b>Rates</b>						
Couple one aged 18+ both under 18	87.30	88.15	90.10	92.80	94.95	100.95
	<i>Depends on circumstances</i>				47.95	50.95
Lone Parent aged 18+ under 18 (higher rate)	55.65	56.20	57.45	59.15	60.15	64.30
Single Claimant: 25+ 18-24	44.05	44.50	45.50	46.85	47.95	50.95
under 18	55.65	56.20	57.45	59.15	60.50	64.30
under 18 higher rate <sup>1</sup>	44.05	44.50	45.50	46.85	47.95	n/a
<b>Dependent Child:</b>						
From birth to sept following 16th birthday	42.27	43.88	45.58	47.45	52.29	56.11
From sept following 16th birthday to day before 19th birthday <sup>2</sup>	42.27	43.88	45.58	47.45	52.29	56.11
<b>Additional Payments:</b>						
<b>Disability premium<sup>3</sup>:</b>						
single	23.70	23.95	24.50	25.25	25.85	27.50
couple	33.85	34.20	34.95	36.00	36.85	39.15
<b>Severe disability premium:</b>						
single	44.15	45.50	46.75	48.45	50.35	52.85
couple	88.30	91.00	93.50	96.90	100.70	105.70
Disabled child premium	42.49	43.89	45.08	46.69	48.72	51.24
Carer premium <sup>4</sup>	25.55	25.80	26.35	27.15	27.75	29.50
<b>Pensioner premium (60-74)<sup>5</sup>:</b>						
single						
couple	73.65	78.90	83.95	88.90	94.40	97.50
<b>Enhanced pensioner premium (75-79):</b>						
single						
couple	73.65	78.90	83.95	88.90	94.40	97.50
<b>Higher pensioners premium (80+ or disabled):</b>						
single						
couple	73.65	78.90	83.95	88.90	94.90	97.50
<b>Lone parent premium<sup>6</sup></b>						
Family premium	15.95	16.10	16.25	16.43	16.75	17.30
Family premium - lone parent	15.95	16.10	16.25	16.43	16.75	17.30
<b>Capital</b>						
upper limit <sup>7</sup>	8000 <sup>9</sup>	8000	16,000	16,000	16,000	16,000
amount disregarded <sup>8</sup>	3000 <sup>9</sup>	3000	6,000	6,000	6,000	6,000
child's limit	3,000	3,000	3,000	3,000	3,000	3,000

<sup>1</sup> Living away from home in certain circumstances.

<sup>2</sup> To day before their 20th Birthday from April 2006.

<sup>3</sup> For details of the Enhanced Disability Premium, which was introduced in April 2001, see paragraph 9.8.

<sup>4</sup> Introduced in October 1990. Rate doubled for couples when both qualify.

<sup>5</sup> Before October 1989 age range was 60-70.

<sup>6</sup> Lone Parent Premium abolished from April 1997.

<sup>7</sup> £16,000 for those permanently in residential care or nursing homes.

<sup>8</sup> £10,000 for those permanently in residential care or nursing homes.

<sup>9</sup> From April 2001, people aged over 60 have increased capital limits of £12,000 and £6,000

**D HISTORICAL TABLES Pre 1988**

**Table 10.5: Supplementary Benefit and National Assistance: scale rate**

£ per week	Single householder		Married couple		Single non-householder			Dependent Child <sup>2</sup>				
	Ordinary scale	Long term addition <sup>1</sup>	Ordinary scale	Long term addition	Long scale			Long term addition <sup>1</sup>	13-15	11-12	5-10	Under 5
					Over 20	18-20	16-17					
05/07/48	1.20	-	2.00	-	1.00	0.88	0.75	-	0.53	0.53	0.45	0.38
12/06/50	1.30	-	2.18	-	1.10	0.95	0.80	-	0.60	0.60	0.50	0.40
03/09/51	1.50	-	2.50	-	1.30	1.10	0.93	-	0.68	0.68	0.58	0.48
16/06/52	1.75	-	2.95	-	1.55	1.30	1.08	-	0.80	0.80	0.68	0.55
07/02/55	1.88	-	3.15	-	1.68	1.38	1.13	-	0.85	0.85	0.73	0.60
23/01/56	2.00	-	3.35	-	1.80	1.45	1.18	-	0.90	0.90	0.78	0.65
27/01/58	2.25	-	3.80	-	2.05	1.58	1.30	-	1.00	1.00	0.85	0.73
07/09/59	2.50	-	4.25	-	2.30	1.80	1.50	-	1.15	1.15	0.95	0.80
03/04/61	2.68	-	4.50	-	2.48	1.90	1.60	-	1.20	1.20	1.00	0.85
24/09/62	2.88	-	4.78	-	2.58	2.00	1.70	-	1.28	1.28	1.05	0.90
27/05/63	3.18	-	5.23	-	2.75	2.15	1.85	-	1.40	1.40	1.15	0.98
29/03/65	3.80	-	6.28	-	3.38	2.58	2.23	-	1.68	1.68	1.35	1.13
28/11/66	4.05	0.45	6.65	0.45	3.45	2.75	2.35	0.45	1.75	1.75	1.40	1.18
30/10/67	4.30	0.45	7.05	0.45	3.55	2.90	2.50	0.45	1.85	1.85	1.50	1.25
07/10/68	4.55	0.50	7.45	0.50	3.70	3.05	2.65	0.50	2.05	1.95	1.60	1.35
03/11/69	4.80	0.50	7.85	0.50	3.85	3.20	2.80	0.50	2.20	2.05	1.65	1.40
02/11/70	5.20	0.50	8.50	0.50	4.15	3.50	3.05	0.50	2.40	2.20	1.80	1.50
20/09/71	5.80	0.50	9.45	0.50	4.60	4.05	3.60	0.50	3.00	2.45	2.00	1.70
02/10/72	6.55	0.60	10.65	0.60	5.20	5.20	4.05	0.60	3.40	2.75	2.25	1.90
					18 or over		16-17					
					Ordinary scale	Long term addition	Ordinary scale	Long term addition				
01/10/73	7.15	8.15	11.65	12.85	5.70	6.60	4.40	-	3.70	3.00	2.45	2.05
22/07/74	8.40	10.40	13.65	16.35	6.70	8.40	5.15	-	4.35	3.55	2.90	2.40
07/04/75	9.60	12.00	15.65	18.85	7.65	9.65	5.90	-	4.95	4.05	3.30	2.75
17/11/75	10.90	13.70	17.75	21.55	8.70	11.00	6.70	-	5.60	4.60	3.75	3.10
15/11/76	12.70	15.70	20.65	24.85	10.15	12.60	7.80	-	6.50	5.35	4.35	3.60
14/11/77	14.50	17.90	23.55	28.35	11.60	14.35	8.90	-	7.40	6.10	4.95	4.10
13/11/78	15.55	19.90	25.25	31.55	12.45	15.95	9.55	-	7.95	6.55	5.30	4.40
12/11/79	18.30	23.70	29.70	37.65	14.65	18.95	11.25	-	9.35	7.70	6.25	5.20
									11-15	under 11		
24/11/80	21.30	27.15	34.60	43.45	17.05	21.70	13.10	16.65	10.90	7.30		
23/11/81	23.25	29.60	37.75	47.35	18.60	23.65	14.30	18.15	11.90	7.90		
22/11/82	25.70	32.70	41.70	52.30	20.55	26.15	15.80	20.05	13.15	8.75		
21/11/83	26.80	34.10	43.50	54.55	21.45	27.25	16.50	20.90	13.70	9.15		
26/11/84	28.05	35.70	45.55	57.10	22.45	28.55	17.30	21.90	14.35	9.60		
25/11/85	29.50	37.50	47.85	60.00	23.60	30.00	18.20	23.00	15.10	10.10		
28/07/86	29.80	37.90	48.40	60.65	23.85	30.35	18.40	23.25	15.30	10.20		
06/04/87	30.40	38.65	49.35	61.85	24.35	30.95	18.75	23.70	15.60	10.40		

<sup>1</sup> Under the Ministry of Social Security Act 1966, the "Long term addition" was added to the requirements of those (other than the unemployed) who had received SB for a continuous period of 2 years or more. When, on 1 October 1973, the long-term scale was introduced, the same qualifying conditions applied.

<sup>2</sup> Dependant additions for children over 15 were at the same rate as the ordinary scale for a single non-householder of the dependant's age.



**Table 10.6: Capital resources and rates for Supplementary Benefit calculation**

	Savings limits £	Limits of disregard on surrender value of life assurance policies £	Maintenance and insurance rate £ (weekly)	(over 21) Householder scale rate £ (weekly)	Householder heating addition £ (weekly)	Householder higher rate (85+) heating addition £ (weekly)	Available scale margin £ (weekly)
24/11/80	2,000	ALL	1.25	1.70	1.40	3.40	0.50
23/11/81	2,000	TAKEN INTO	1.50	2.15	1.65	4.05	0.50
22/11/82	2,500	ACCOUNT	1.65	2.55	1.90	4.65	0.50
21/11/83	3,000	1,500	1.70	3.10	2.05	5.05	0.50
26/11/84	3,000	1,500	1.80	3.30	2.10	5.20	1.00
25/11/85	3,000	1,500	1.85	3.90	2.20	5.55	1.00
28/07/86	3,000	1,500	1.85	3.90	2.20	5.55	1.00
06/04/87	3,000	1,500	1.95	4.05	2.20	5.55	1.00

**Table 10.7: Non-dependant deductions for Supplementary Benefit (SB)<sup>1</sup>**

£ per week	Nov-81	Nov-82	Apr-83	Nov-84	Nov-85	Jul-86	Apr-87
	Nov-82	Apr-83	Nov-84	Nov-85	Jul-86	Apr-87	Apr-88
	-	-	-	-	-	-	-
16-17	2.55	3.10	-	2.35	2.80	2.80	2.90
18-20	5.40	6.55	3.95	6.60	7.80	7.80	8.05
21-pensionable age	5.40	6.55	4.70	6.60	7.80	7.80	8.05
pensionable age and over	5.40	6.55	2.20	2.35	2.80	2.80	2.90
16 and over and receiving supplementary allowance	2.55	3.10	-	2.35	2.80	2.80	2.90
18-20 in receipt of SB	2.55	3.10	2.20	3.95	2.80	2.80	2.90
21-pensionable age in receipt of SB	2.55	3.10	2.20	2.35	2.80	2.80	2.90

<sup>1</sup> Deducted from the claimant's total housing requirements



## Section 11: Housing Benefits

### Section 11: Housing and Council Tax Benefits

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## Section 11: Housing Benefits

### A. CURRENT SYSTEM

**Table 11.1: Housing and Council Tax Benefits key figures**

	Outturn					Provisional	Forecast	
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<i>Average number of beneficiaries over the financial year</i>	<i>Thousands</i>							
Housing Benefit								
- Rent Rebate	1,993	1,824	1,808	1,753	1,674	1,567	1,474	1,519
- Rent allowance	1,814	1,988	2,132	2,233	2,347	2,466	2,654	2,901
Council Tax Benefit	4,625	4,693	4,915	5,029	5,080	5,066	5,141	5,437
<i>Annual expenditure</i>	<i>£Millions</i>							
Housing Benefit								
- Rent Rebate	5,405	5,027	5,200	5,263	5,371	5,452	5,427	5,816
- Rent allowance	7,231	7,314	7,957	8,666	9,469	10,280	11,754	13,816
Council Tax Benefit	2,834	3,223	3,557	3,774	3,943	4,023	4,230	4,648

Source: Department for Work and Pensions

### Housing Benefit

11.1 People on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance (from October 2008) or the guarantee element of Pension Credit with responsibility for rent qualify for maximum Housing Benefit. Other people with income above Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or the guarantee element of Pension Credit levels may also qualify. Their entitlement depends on the claimant's age and status, the number and age of dependent children, the level of rent payable (and eligible for benefit), and on the claimant's and dependants' capital and income. Full-time students are not eligible for Housing Benefit, with a few exceptions (e.g. disabled students, and student lone parents). Part-time students, and partners of students are eligible to claim Housing Benefit.

11.2 Housing Benefit is either a rebate (deduction from rent payable) for council tenants or an allowance (cash payment) for tenants of private and housing association landlords. Maximum entitlement is the full amount of 'eligible rent', defined below.

11.3 Claimants in receipt of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance (from October 2008) or the guarantee element of Pension Credit receive maximum benefit, which is 100 per cent of the eligible rent less deductions to reflect a contribution made by non-dependants to housing costs. Most tenants in the private rented sector either making a new claim for benefit or already receiving benefit and change address after 7 April 2008 will have their Housing Benefit paid under the Local Housing Allowance (LHA) rules.

11.4 LHA is a flat rate allowance based on the size of the household and the area in which a person lives. Payment will normally be to the tenant, who will then pay the landlord. LHA rents are set according to Broad Rental Market Areas (BRMAs), which, as their name suggests, relate to housing market areas. Rent Officers

## Section 11: Housing Benefits

will set individual LHA rates for each BRMA. These are published by the local authority so that landlords and prospective LHA customers can be clear about the maximum amount of rent that LHA will cover.

11.5 Prospective tenants will be able to shop around with their allowance. If they find a property they like with a rent that exceeds their LHA they will need, as they do now, to make up the difference themselves. But if they find somewhere to live with a rent below their allowance, they will be able to keep the difference up to a maximum of £15.00.

11.6 Those tenants in the private rented sector already receiving benefit on 7 April 2008 will continue to have their eligible rent limited to either the claim related rent (CRR) or the local reference rent (LRR), which represents the general level of rents in the vicinity, neighbourhood or locality for the appropriate size of household. For most single people aged under 25 in the private rented sector the eligible rent is restricted to the single room rent (SRR), which represents the general level of local rents for a single room with shared use of a living room, bathroom, toilet, and kitchen facilities. Where Housing Benefit is restricted under the CRR, LRR or SRR, local authorities have discretion to pay more from a separate fund, which is subject to an annual overall cash limit, where they consider that the claimant is in need of further financial assistance.

11.7 These limits do not apply to tenants in housing association properties or to those who began claiming before 2 January 1996. For housing association claimants the eligible rent can only be restricted if the accommodation is either unreasonably expensive or overlarge for the claimant's needs. From April 2003, Housing Benefit expenditure on lower level support costs was transferred to the "Supporting People" Fund, administered by local authorities.

11.8 The Housing Benefit scheme makes deductions for non-dependants on the basis that it is reasonable to expect that adult non-dependants sharing the claimant's household make a contribution to the household's costs. A four-tier structure of deductions applies, which is based on the level of the non-dependant's gross income whether or not he/she is in remunerative work. From October 2003, claimants (or the claimant's partners if there is one) aged 65 and over may have the deduction deferred for 26 weeks, in certain circumstances. The Housing Benefit deductions from April 2009 are shown in Table 11.2.

**Table 11.2: Housing Benefit deductions**

Deduction	Gross weekly income bands from April 2009
£7.40	Under £120 and not in remunerative work
£17.00	£177.99 - £120.00
£23.35	£178.00 - £230.99
£38.20	£231.00 - £305.99
£43.50	£306.00 - £381.99
£47.75	£382.00 or more

*Note: Over 18, in work and not receiving Pension Credit*

11.9 Certain groups are exempt from deductions: no deduction is made if the claimant or their partner is blind, or gets Attendance Allowance (AA) or care component of the Disability Living Allowance (DLA); no deduction is made if the non-dependant is on Youth Training (YT) scheme, a full-time student during a period

## Section 11: Housing Benefits

of study, a full-time student during vacation period who is not in remunerative work, a patient, a prisoner, or if they are under 25 and get Income Support or income-based Jobseeker's Allowance, or if they are receiving Pension Credit. Where a non-dependant is in receipt of income-related Employment & Support Allowance (since October 2008), no deduction will be made until they satisfy their work capability assessment at which point the 25+ personal allowance rate becomes payable regardless of the person's age. The deduction will be the lowest rate.

11.10 Claimants who are not on Income Support or income-based Jobseeker's Allowance, income-related Employment and Support Allowance or the guarantee element of Pension Credit are subject to a test that compares their weekly income with their personal allowances and needs (known as applicable amounts). At net incomes less than or equal to the applicable amounts, the claimant receives maximum Housing Benefit. At net incomes greater than applicable amounts, Housing Benefit is reduced by 65 per cent of the 'excess income' - this is known as the Housing Benefit taper.

11.11 Applicable amounts where the claimant (and partner) are aged under 60 are calculated on the same basis as for Income Support or income-based Jobseeker's Allowance (see Section 10, part A) except for the Family Premium (Lone Parent), which is set at a higher level in Housing Benefit. If the claimant (or partner) is aged over 60 but under 65, the applicable amounts are calculated on the same basis as for Pension Credit. If the claimant (or partner) is aged 65 or more, the applicable amounts have been increased to reflect the maximum savings credit element of Pension Credit.

11.12 Earnings disregards range from £5 to £25 per week. £20 is disregarded for people who qualify for the disability premium, carer premium, a work-related activity component or a support component (payable to certain Housing Benefit recipients also claiming Employment and Support Allowance) and for those undertaking some special jobs (e.g. part-time fire-fighters, auxiliary coastguards). Otherwise, £5 of a single person's earnings is disregarded, or £10 of the earnings of a couple. The earnings disregard for lone parents is £25 per week. Those people who are eligible for Working Tax Credit (WTC) have an extra disregard from earnings of £16.85. Additionally, there can be a childcare costs earnings disregard of up to £175 per week of earnings per family when childcare charges are paid for one child, or up to £300 per week when charges are paid for two or more children – this applies to those who are eligible for WTC and who use childcare that meets certain conditions. Budget 2008 announced that from October 2009 a child benefit disregard would be introduced in housing and council tax benefit.

11.13 People who are not receiving the guarantee element of Pension Credit and who have more than £16,000 of savings are not entitled to Housing Benefit. If the claimant (and partner) is aged less than 60, income of £1 per week is assumed for each £250 (or part thereof) of savings above £6,000. If the claimant (or partner) is aged 60 or over, income of £1 per week is assumed for each £500 (or part thereof) of savings above £6,000. From November 2009, the capital threshold at which assumed income from capital is calculated will be increased from £6,000 to £10,000 in Pension Credit and pension age Housing Benefit and Council Tax Benefit.

## Section 11: Housing Benefits

### Housing Benefit - how it is calculated

11.14 The basic formula for the calculation of Housing Benefit is:

$$HB = R - (65\% \times (I - A))$$

Where: HB = Housing Benefit entitlement  
R = Eligible rent  
I = Net income for HB purposes  
A = Applicable amount.

The amount of benefit for people above Income Support or Pension Credit levels is determined by the taper, by which benefit is reduced by 65p for every £1 of income above the applicable amount.



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### Example 11.1a: Housing Benefit 2009/10

Married couple, both aged under 60 where the husband earns £140 net per week working 28 hours a week, with two children aged 13 and 16, paying rent of £60 per week.

Applicable amount:

Couple's Allowance	100.95	
Child aged 13	56.11	
Child aged 16	56.11	
Family Premium	17.30	
<b>Total applicable amount</b>	<b>230.47</b>	(A)

Income:

Net earnings	140.00	
- disregard	10.00	
=	130.00	
Child Benefit	33.20	
Working Tax Credits	123.06	
- disregard	16.85	
<b>Total income for HB</b>	<b>269.41</b>	(I)

**Excess of income over applicable amount:** **38.94** (I-A)

Housing Benefit:

Eligible rent	60.00	
Max 100% of eligible rent	60.00	
less 65% of excess income	25.31	(65% x I-A)
<b>Total Housing Benefit</b>	<b>34.69</b>	

### Example 11.1b: Housing Benefit 2009/10

Single person aged 70 with a weekly income of £150, of which £110 is from State Retirement Pension, £30 is from a private pension and £10 is assumed income from capital, paying rent of £50.

Applicable amount: 150.40  
**Total applicable amount** **150.40** (A)

Income:

State Retirement Pension	110.00	
Private Pension	30.00	
Assumed income from capital	10.00	
<b>Total income for HB</b>	<b>150.00</b>	(I)

**Excess of income over applicable amount:** **0.40** (I-A)

Housing Benefit:

Eligible rent	50.00	
Max 100% of eligible rent	50.00	
less 65% of excess income	0.26	(65% x I-A)
<b>Total Housing Benefit</b>	<b>49.74</b>	

## Section 11: Housing Benefits

### Council tax

11.15 The tax is based on property values and assumes that two adults occupy the property. Sole residents are entitled to a 25 per cent discount.

11.16 The main provisions of council tax are:

- council tax is payable for chargeable dwellings, which includes most domestic properties, occupied houseboats and mobile homes;
- the residents of the property (owner-occupiers or tenants) are normally liable if the property is their sole or main residence. A billing authority will determine which property should be treated as sole or main residence. In certain cases, such as hostels, liability for payment falls on the owner instead of the residents;
- discounts of 25 per cent are available for single person households. Certain groups such as students, student nurses, apprentices and YT trainees are disregarded when counting the number of adults in a household. These groups are defined in the Local Government Finance Act 1992;
- rebates of up to 100 per cent are available for people on low incomes. People with disabilities qualify for rebates at higher levels of income than other people;
- councillors in arrears of council tax are barred from voting on financial matters;
- the rules for valuing dwellings ensure that disabled people do not pay more on account of certain special adaptations to their home; and
- student halls of residence and other dwellings where all the adult residents are students or student nurses on the Project 2000 Scheme are exempt from council tax.

### Council Tax Benefit

11.17 Council Tax Benefit (CTB) is the means by which people on low incomes are helped to discharge their local tax liability.

11.18 Billing and levying authorities, which rebate council tax bills accordingly, administer the CTB system. It broadly follows the rules of the reformed system of income-related benefits, and maintains the policy of structural alignment across all the income-related benefits.

#### Benefit entitlement and liability

11.19 Entitlement to CTB is restricted to those people who are personally liable to pay council tax. Benefit entitlement is restricted to the liable person's sole or main residence. A liable person, as determined by rules specified in the Local Government Finance Act 1992, is generally entitled to benefit if:

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- he or she is on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, the guarantee element of Pension Credit or is on a low income; or
- certain other persons sharing his or her dwelling are on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit or have low incomes.

11.20 All liable persons are entitled to claim benefit, with the exception of most student householders. Full-time students in vulnerable groups (e.g. disabled students, single parents and students with dependent children) are eligible to claim benefit. Part-time students and partners of students are also eligible to claim benefit. Full time students can claim second adult rebate (see below).

11.21 Maximum benefit for a liable person on a low income is 100 per cent of his or her council tax liability, net of any discounts and of any transitional relief to which he or she might be entitled and less deductions to reflect a contribution made by non-dependants to housing costs. Maximum benefit can be awarded to people on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, the guarantee element of Pension Credit or on equivalent levels of income. Benefit entitlement for persons with income above Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or the guarantee element of Pension Credit levels is calculated using the same rules for applicable amounts, earnings, income and capital as are used for Housing Benefit. Maximum CTB is reduced by 20 per cent of the excess income over the applicable amount - known as the CTB taper.

### 'Second adult' rebates

11.22 In addition to the 'status discounts' that are awarded to single person households, there is a maximum rebate of up to 25 per cent of the bill (or up to 100 per cent for student households) that may be available to a liable individual, sharing his or her dwelling on a non-commercial basis with a person or persons on low incomes. Students are eligible to claim a second adult rebate (SAR).

11.23 In response to the concerns of the Local Authority Associations to minimise the administrative complexity of the new scheme, rebates for second adults are assessed on a similar basis to non-dependant deductions. A maximum 25 per cent rebate may be awarded in respect of a second adult or adults on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or Pension Credit. In certain circumstances, if the Second Adult receives either IS, JSA(IB), ESA(IR) or Pension Credit and lives with a full time student householder a maximum rebate of upto a 100 per cent may be awarded. Lower levels of rebate apply in respect of second adults with gross incomes above prescribed levels. The rebates are as shown in table 11.3 (below).

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**Table 11.3: Housing Benefit deductions**

Income level	Rebate
Second adults with combined income less than £175 a week	15 per cent rebate
Second adults with combined income between £175 and £227.99 a week	7½ per cent rebate
Second adults with combined income of £228 a week or more	No rebate

### Non-dependant deductions

CTB makes deductions for non-dependants on the basis that it is reasonable that 'non-dependant' adults sharing the liable person's dwelling should make some contribution towards the council tax bill. Therefore, maximum benefit is reduced by flat-rate non-dependant deductions broadly along the lines of the arrangements that apply to Housing Benefit, (including the 26 week deferral for certain claimants/ partners 65 and over). However, unlike Housing Benefit, there are no deductions made in respect of non-dependants of any age on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or Pension Credit, or other groups such as students and the severely mentally impaired who are disregarded for the purposes of discount under Schedule 1 of the Local Government Finance Act. The deductions from April 2009 are shown in Table 11.4.

**Table 11.4: Council Tax Benefit deductions**

Deduction	Gross weekly income bands from April 2009
£2.30	Under £178.00
£4.60	£178.00 - £305.99
£5.80	£306.00 - £381.99
£6.95	£382.00 or over

### Main features of Council Tax Benefit

11.24 The main features of CTB include:

- applicable amounts: the personal allowances awarded to claimants, the components awarded to Employment and Support Allowance claimants and the premiums awarded to pensioners, disabled people and their carers, families, children and to lone parents;
- earnings: the way in which a claimant's earnings are assessed under the scheme: earnings disregards of, for example, £5 a week for single people, £10 a week for couples, and £25 for lone parents, are also left unchanged. There is an extra disregard worth £16.85 for those people who are eligible for WTC. Additionally, there can be a childcare costs earnings disregard of up to £175.00 per week of earnings per family when childcare charges are paid for one child, or up to £300 per week when charges are paid for two or more children – this applies to those who are eligible for WTC and who use childcare that meets certain conditions;
- income: like the other income-related benefits, the CTB scheme for people aged less than 60 takes into account all other sources of income, unless they are disregarded specifically. Like Pension Credit, CTB for people aged 60 or over, takes into account only items which are listed as income. Contributory benefits, such as Retirement Pensions, contributory Employment and Support

## Section 11: Housing Benefits

Allowance and Incapacity Benefits, are taken into account when assessing claims for CTB, Attendance Allowance and Disability Living Allowance are disregarded completely. The existing statutory disregard of £10 a week for War Widows' and War Disablement Pensions has been retained. Councils have also retained their discretionary powers to disregard up to the full amount of any War Widow's, War Widower's or War Disablement Pension; The same disregards apply to Guarantee Income Payments under the Armed Forces and Reserves Compensation Scheme;

- capital: like the other income-related benefits, the claimant's capital is taken into account by means of tariff income. Unless the claimant (or partner) is receiving the guarantee element of Pension Credit, there is no entitlement to CTB where a claimant has capital of more than £16,000. If the claimant (and partner) is aged under 60, tariff income of £1 per week is taken into account for every £250 of capital, or part thereof, above the lower limit of £6,000, up to £16,000. If the claimant or partner is aged 60 or over, tariff income of £1 per week is taken into account for every £500 of capital, or part thereof, above the lower limit of £6,000 up to £16,000;
- benefit claims: benefits have to be claimed before they can be awarded. Couples make a single claim for benefits. Benefit claims from couples are assessed from their shared income and capital, taking account of any disregards. Personal allowances for couples, which are common to other income-related benefits, are used to assess their entitlement to benefit; and
- benefit uprating: the personal allowances and premiums are considered for uprating each year together with, and on the same basis as, all the other income-related benefits.

### Boarders and sub-tenants

11.25 Some people will not be personally liable for council tax but will be making a contribution to this tax through an inclusive rent paid to the liable person under a contractual rent agreement. This includes boarders and sub-tenants. Housing Benefit is awarded on the inclusive rent/council tax payment, in order to help boarders and lodgers on low incomes to meet their contribution towards their landlord's council tax liability.

### Minimum benefit rule

11.26 There is no minimum benefit rule for CTB.

### Administration

11.27 Local authorities are responsible for the day-to-day administration of CTB, including the assessment of claims, and publicity, for which the Local Government Finance Act provides them with appropriate powers. Local authorities receive a subsidy towards their administration costs.

## Section 11: Housing Benefits

### Example 11.2a: Council Tax Benefit 2009/10

Married couple, both under 60 husband earning £160 net per week working 36 hours a week, with two children aged under 16. Weekly council tax liability of £20.00

#### Applicable amount:

Couple's allowance	100.95	
Child under 16	56.11	
Child under 16	56.11	
Family Premium	17.30	
<b>Total</b>	<b>230.47</b>	(A)

#### Income:

Child Benefit	33.20	
net earnings	160.00	
less disregard	-10.00	
Working Tax Credits	112.05	
less disregard	- 16.85	
<b>Total</b>	<b>278.40</b>	(I)

**Excess of income over applicable amount:** 47.93 (I-A)

#### Council Tax Benefit:

Council tax liability	20.00	
less 20% of excess income	9.58	
<b><u>Total Council Tax Benefit</u></b>	<b>10.42</b>	

### Example 11.2b: Council Tax Benefit 2009/10

Single person aged 70, weekly income of £150, which is composed of £110 State Retirement Pension, £30 private pension and £10 assumed income from capital. Weekly council tax liability of £15.00

**Applicable amount:** 150.40 (A)

#### Income:

State Retirement Pension	110.00	
Private pension	30.00	
Assumed income from capital	10.00	
<b>Total</b>	<b>150.00</b>	(I)

**Excess of income over applicable amount:** 0.40 (I-A)

#### Council Tax Benefit:

Council tax liability	15.00	
less 20% of excess income (I-A)	0.08	
<b><u>Total Council Tax Benefit</u></b>	<b>14.92</b>	

## Section 11: Housing Benefits

### B. HISTORY

#### System before 1983

11.28 Until 1983 people on low income could receive assistance with housing costs through National Assistance (from 1948 to 1966), Supplementary Benefit (from 1966) and through rent rebates, allowances and rate rebates.

11.29 In this period housing costs were a requirement in calculating National Assistance or Supplementary Benefit. Assistance with housing costs covered actual rates plus rent (or mortgage interest payments for owner occupiers), water charges and an allowance for repairs and insurance. In some circumstances payments were reduced (for example to take account of non-dependants' contribution towards housing costs (see Section 10 for further details)). Those people whose 'resources' for National Assistance or Supplementary Benefit purposes were below requirements before adding in housing costs, were effectively paid 100 per cent of allowed housing costs. People for whom requirements excluding housing costs were above resources (and were otherwise eligible to apply for National Assistance or claim Supplementary Benefit) received less than 100 per cent of their allowed housing costs.

11.30 Some local authorities gave rent rebates to council house tenants, without central guidance, throughout the period 1948 to 1972. By 1972, 75 per cent of authorities were running some form of rent rebate scheme. In 1972, a national rent rebate and allowance scheme was introduced to standardise the system of rent rebates between authorities and to extend assistance to private tenants.

11.31 Rate rebates were also at the discretion of local authorities until 1966, when a national scheme was introduced. This was replaced by a new national scheme (described below) in 1974.

11.32 The existence of two separate schemes led to a number of problems. Definitional differences produced unnecessary complexity. Arguably the most serious problem faced people who qualified for Supplementary Benefit only because of their rent and general rates. Such people could either claim Supplementary Benefit or rent rebates/allowances and rate rebates. Which of the two gave the higher benefit depended on the claimant's precise circumstances and varied as rates of benefit changed. It is thought that the complexities of the schemes led many people to make the wrong choice. This became known as the 'better off' problem.

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### Unified Housing Benefits

11.33 Unified Housing Benefits harmonised some of the rules used in the two schemes. It also overcame the 'better off' problem by removing rent and general rates from the Supplementary Benefit assessment, and allowing all those who still qualified for Supplementary Benefit to receive 100 per cent assistance towards rent and rates via 'Certificated Housing Benefit'. In this way, it prevented people from qualifying for Supplementary Benefit only because of their rent and general rates. The people who no longer qualified for Supplementary Benefit received help towards their rent and rates via 'Standard' Housing Benefit, which was similar to the old system of rent rebates/ allowances and rate rebates. Housing Benefit Supplement was introduced to ensure that those who received assistance with housing costs through Supplementary Benefit did not lose because of the change.

11.34 Housing Benefit was introduced in two stages. In November 1982 Supplementary Benefit claimants who were local authority tenants and entitled to 100 per cent of rent and rates were transferred to 'certificated' Housing Benefit under which they would continue to receive 100 per cent of rent and rates. In April 1983 other claimants entitled to 100 per cent of rent and rates (or 100 per cent less non-dependant deductions) were also transferred to 'Certificated Housing Benefit'. At the same time 'Standard' Housing Benefit was introduced (see below). Certificated Housing Benefit was automatically payable to claimants who received Supplementary Benefit. It covered 100 per cent of their eligible rent and/ or rates less deductions in respect of non-dependants.

11.35 Eligible rent equalled actual rent, less any amounts included in the rent for:

- rates (these were covered by rate rebates);
- heating, hot water, cooking and lighting subject to maximum deductions shown in table 11.5;
- water charges;
- board;
- service charges, other than inescapable ones; and
- rent paid by a sub-tenant or lodger.

**Table 11.5 The maximum deducted in certificated cases in respect of fuel charges<sup>1</sup>**

£ per week	Heating	Hot water	Cooking	Lighting
Nov-80	4.35	0.50	0.50	0.35
Nov-81	5.10	0.60	0.60	0.40
Nov-82	5.60	0.65	0.65	0.45
Nov-83	6.05	0.70	0.70	0.50
Nov-84	6.25	0.75	0.75	0.50
Nov-85	6.55	0.80	0.80	0.50
Jul-86	6.70	0.80	0.80	0.50

<sup>1</sup> Any fixed fuel charge in excess of the specified amounts was met by Housing Benefit.

11.36 Eligible rates were the rates payable for the accommodation, less any rates paid by a tenant or sub-tenant of the claimant. They did not include water or sewerage charges, except in Scotland.



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11.37 Eligible rent and rates could be further restricted if the dwelling was unnecessarily large or expensive, and it was deemed 'reasonable' for the claimant to move to alternative cheaper accommodation.

11.38 Non-dependant deductions were amounts deducted from Housing Benefit in respect of adult non-dependants, such as grown-up children or parents, living with the claimant. These are shown in Table 11.7.

11.39 Housing Benefit gave no assistance with mortgage payments (interest or capital) or with water charges. Help with mortgage interest payments and water charges was available only to people who qualified for Supplementary Benefit.

### **Example 11.3: Certificated Housing Benefit (from 6 April 1987)**

Single pensioner on Supplementary Pension, whose 30-year-old son in full-time work lived with her

	£ per week
Rent (including £10 heating charge)	35.00
Eligible rent 35-6.70 (maximum heating deduction)	28.30
Non-dependant deduction	-8.05
Rent rebate/allowance	20.25
Eligible rates	6.00
Less non-dependant deduction	-2.70
Rate rebate	3.30
Total Housing Benefit	23.55

### **Rent rebates/ allowances, rate rebates and 'standard' Housing Benefit**

11.40 The introduction of Housing Benefit in April 1983 did not change the mechanics of the calculation of rent rebates/ allowances and rate rebates but brought them together in one system. The following discussion therefore applies to rent rebates/allowances since July 1972 and to rate rebates since April 1974 (although before April 1983 the rebates/allowances were subject to a maximum which has never applied to standard Housing Benefit).

11.41 Standard Housing Benefit depended on gross income, eligible rent and/or rates, a needs allowance (reflecting family size) and whether there were any non-dependants living with the claimant. Subject to changes in circumstances, benefit was awarded for a fixed period (normally 12 months for pensioners and 7 months for most other claimants), at the end of which time a new application was invited.

11.42 Income was calculated on the basis of gross weekly total income (i.e. earnings, pensions, benefits, investment income etc). For these purposes weekly earnings were normally averaged over 5 weeks, and

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monthly earnings over two months. Certain items of income were disregarded - there was an earnings disregard for claimant's earnings (from November 1979), while spouses' earnings attracted a limited disregard from 1972. Table 11.6 gives the annual amounts of earnings disregards.

11.43 The 'needs allowance' was calculated by taking the appropriate Supplementary Benefit long-term scale rate, plus 40 per cent of the national average council house rent, plus 40 per cent of the national average domestic rate, plus the national average water and sewerage charges, plus additions for work expenses, tax and national insurance. Table 11.6 shows changes in the needs allowance over time.

11.44 Eligible rent and rates were calculated in the same way as for certificated cases, except that actual charges for heating, hot water etc were deducted from eligible rent, even when these exceeded the maxima set for certificated cases.

11.45 For grant-aided students, a deduction was made from eligible rents when assessing entitlements to student Housing Benefit, because student grants include an element for accommodation. Different deduction rates applied to student attending courses in London from 1983. The deductions are shown in Table 11.6.

**Table 11.6: Student Housing Benefit rent deductions**

£ per week	London	Other
24 November 1980	8.75	8.75
23 November 1981	10.00	10.00
22 November 1982	10.85	10.85
1 April 1983	18.65	14.10
21 November 1983	19.45	14.70
26 November 1984	20.20	15.30
25 November 1985	20.80	15.75
1 September 1986 <sup>1</sup>	17.70	13.60
1 September 1987	17.80	13.60

<sup>1</sup> Housing Benefit regulations with regard to the eligibility and entitlement of students were changed with effect from the academic years 1986-87 and 1987-88.

11.46 Non-dependant deductions were the same as for certificated cases. (See Table 11.7.)

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### Calculation of entitlement to standard Housing Benefit

11.47 To calculate the amount of Housing Benefit payable in each case, the relevant needs allowance was compared to total gross income. If they were the same, benefit was awarded at 60 per cent of eligible rent and/or rates. If income was higher than the needs allowance, the benefit was reduced by a fixed percentage (known as the 'upper taper' or 'taper deduction') of the excess income. However if income was below the needs allowance the benefit was increased by a fixed percentage (known as the 'lower taper' or 'taper addition') of the shortfall. The values of the tapers are shown in Table 11.8. There were different tapers for rent and rates and, from April 1983, the lower taper on both rent and rates was set at an enhanced level for pensioners. If a rebate or allowance was less than a minimum amount it was not paid. The examples below show how the system worked from 6 April 1987.

#### Example 11.4 (i): Single parent, 2 dependent children

	£ per week
<b>Income</b>	
£110 earnings less £17.30 disregard	92.70
Child Benefit	14.50
One Parent Benefit	4.70
	<b>111.90</b>
<b>Needs allowance</b>	
Single parent	72.15
1st child	14.75
2nd child	14.75
	<b>101.65</b>
Income above needs allowance	
Eligible rent	20.00
Eligible rates	5.00
<u>Rent rebate allowance</u> = £20 x 60 per cent	12.00
less (£111.90 - 101.65) x 33 per cent	-3.38
	<b>8.62</b>
<u>Rate rebate</u> = £5 x 60 per cent	3.00
less (£111.90 - 101.65) x 13 per cent	-1.33
	<b>1.67</b>
<b>Total Standard Housing Benefit</b>	<b>10.29</b>

11.48 The system between 1983 and 1988 can be summarised as follows.

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I. If income = needs allowance

Rent rebate/allowance	=	60 per cent eligible rent
Rate rebate	=	60 per cent eligible rates

II. If income > needs allowance (upper taper):

Rent rebate/allowance	=	60 per cent eligible rent minus 33 <sup>1</sup> per cent of (income minus needs allowance)
Rate rebate	=	60 per cent eligible rates minus 13 <sup>2</sup> per cent of (income minus needs allowance)

A full list of the upper tapers is given in Table 11.8

III If income < needs allowance (lower taper)

Rent rebate/allowance	=	60 per cent eligible rent + 25 per cent <sup>3</sup> of (needs allowance minus income)
Rate rebate	=	60 per cent eligible rates + 8 per cent <sup>4</sup> of (needs allowance minus income)

<sup>1</sup>Applied only from April 1987 to March 1988.

<sup>2</sup>Applied only from November 1985 to March 1988.

<sup>3</sup>50 per cent in pensioner cases.

<sup>4</sup>20 per cent in pensioner cases.

### Example 11.4 (ii): Pensioner couple

	£ per week
Income: State Retirement Pension	63.25
Needs allowance	72.15
Pensioner addition	0.85
Total needs allowance	73.00
Needs allowance was above income	
Eligible rent	18.00
Eligible rates	5.00
Rent rebate = £18.00 x 60 per cent	10.80
plus £(73.00 - 63.25) x 50 per cent	4.88
	<b>15.68</b>
Rate rebate = £5.00 x 60 per cent	3.00
plus £(73.00 - 63.25) x 20 per cent	1.95
	<b>4.95</b>
Total Standard Housing Benefit	20.63

## Section 11: Housing Benefits

### Housing Benefit supplement

11.49 The introduction of Housing Benefit resulted in a number of people who had previously qualified for Supplementary Benefit becoming ineligible (because it was only rent and general rates which caused their requirements to be greater than their resources). Some of these would have become worse-off by having to claim assistance with housing costs via standard Housing Benefit (i.e. those who after payment of eligible rent and rates - net of standard Housing Benefit - were left with residual income below Supplementary Benefit requirements). Housing Benefit Supplement (HBS) was introduced to compensate these losers. It was calculated as the size of the shortfall:

$$\begin{aligned} \text{HBS} &= \text{Requirements} - \text{Residual Income} \\ &= \text{Requirements} - (\text{Income} - \text{Eligible rent and rates} + \text{standard HB}) \\ &= (\text{Requirements} - \text{Income}) + (\text{Eligible rent and rates} - \text{standard HB}) \\ &= \text{Net housing costs} - \text{excess income} \end{aligned}$$

11.50 Although HBS was calculated by local authorities and paid with standard Housing Benefit it was a special payment of Supplementary Benefit and therefore gave automatic entitlement to the 'passport benefits' discussed in Section 12. The example below illustrates how HBS was calculated.

#### Example 11.4 (iii): (pre-1988)

For the pensioner couple in Example (ii), if the couple's SB requirement was £61.85 and their income £63.25 then they had an 'excess income' of £1.40 and would not have received SB. They may, however, have qualified for HBS:

	£ per week
Eligible rent and rates	23.00
less Standard Housing Benefit	-20.63
Net housing costs	2.37
less excess income	-1.40
Housing Benefit Supplement	0.97

## Section 11: Housing Benefits

### Housing Benefit from 1988

11.51 A new Housing Benefit system was introduced on 1 April 1988. A main objective of the change was simplification. This was achieved, principally by aligning the financial criteria with those for the Family Credit and Income Support systems.

11.52 Transitional protection existed from the start of the 1988 scheme until April 1995. This was to ensure that people in certain vulnerable groups - pensioners, lone parents, widows, people qualifying for disability premium and those receiving Industrial Injuries benefits - did not lose more than £2.50 a week. The protection was never intended to be permanent and was reduced (downrated) each year until April 1995 when potential remaining payments were computed and recipients were paid lump sums based on estimated future entitlements.

11.53 The following is an example of the combined rates/ rent Housing Benefit scheme introduced in 1988.

11.54 Until March 1990, Housing Benefit covered both rent and rates (and for the year 1 April 1989 to 31

<b>Example 11.4 (iv): (1988)</b>	
Married couple, husband earning £120 net per week, with two children ages 13 and 16, paying rent of £45 per week and rates of £8 per week.	
	£ per week
<b>Applicable Amount</b>	
Couple's allowance	54.80
Child aged 13	17.35
Child aged 16	20.80
Family Premium	6.50
<b>Total</b>	<b>99.45</b>
<b>Income</b>	
Net Earnings	120.00
Less disregard	-10.00
Earnings for HB	110.00
Child Benefit	14.50
Family Credit	17.21
<b>Total HB income</b>	<b>141.71</b>
<b>Excess of income over applicable amount</b>	<b>42.26</b>
<b>Rent rebate/allowance</b>	
Eligible rent	45.00
Maximum 100% of eligible rent	45.00
Less 65% of excess income	-27.47
<b>Total</b>	<b>17.53</b>
<b>Rate Rebate</b>	
Eligible rates	8.00
Maximum 80%	6.40
Less 20% of excess income	-8.45
<b>Total (tapered excess income exceeds eligible rates)</b>	<b>0.00</b>
<b>Total Housing Benefit</b>	<b>17.53</b>

March 1990, Community Charge Rebates in Scotland). Since April 1990, with the introduction of Community

## Section 11: Housing Benefits

Charge and subsequently council tax (see below), Housing Benefit has provided help only with rent, and is either a rebate (deduction from rent payable) for council tenants or an allowance (cash payment) for tenants of private landlords.

11.55 Full-time students ceased to be eligible for Housing Benefit from the academic year 1990-91, with a few exceptions (e.g. disabled students and student lone parents).

11.56 The earnings disregard for lone parents was increased from £15 to £25 per week in October 1990.

11.57 The four-tier structure of deductions was introduced in April 1992, based on the level of non-dependant's gross income whether or not she/ he is in remunerative work. The current deductions are shown in Table 11.2.

11.58 Eligible rent was limited to either the CRR or the LRR, which represents the general level of rents in the vicinity, neighbourhood or locality for the appropriate size of property, from 2 January 1996. These limits do not apply to tenants in housing association properties or to those who began claiming before this date. For housing association properties the eligible rent can only be restricted if the accommodation is either unreasonably expensive or overlarge for the claimant's needs. However, from 18 August 1997, special rules allowed Housing Benefit to continue to meet reasonable charges for personal support in certain supported accommodation. Where HB had previously met ineligible charges for support, local authorities could, up to April 2000, apply for continuing help under a Compensation Scheme. New rules were introduced from 1 April 2000, which extended the scope of the previous arrangements to include support charges in both new provision and certain private sector provision – known as the Transitional Housing Benefit Scheme. From April 2003 Housing Benefit expenditure on lower level support costs was transferred to the 'Supporting People' Fund, to be administered by local authorities.

11.59 When Family Credit was replaced with the Working Families' Tax Credit (see Section 2), an additional earnings disregard was introduced for Housing Benefit, equal to the size of the 30-hour premium, which applied to those who worked 30 hours a week or more and had children or who were disabled. This disregard was extended to those who were eligible for Working Tax Credit (i.e. who worked at least 16 hours) from 2004-05.

### **Capital ceilings in Housing Benefit**

## Section 11: Housing Benefits

11.60 People with savings that are higher than the capital ceiling are not entitled to HB. The original capital ceiling was £6,000; the figure was revised to £8,000 from 30 May 1988; and to £16,000 from April 1990.

### **Community Charge Benefit**

11.61 In Scotland the Community Charge was introduced on 1 April 1989. In England and Wales the charge was introduced on 1 April 1990. The Community Charge replaced domestic rates as a source of revenue for local authorities.

11.62 Until March 1990, help with rates was usually in the form of a reduced rates bill, or rebate. Maximum entitlement was 80 per cent of 'eligible rates'. This was because the applicable amounts for Housing Benefit and Income Support included an element allowing for 20 per cent of the national average rates bill.

11.63 The Community Charge Benefit scheme was introduced throughout Great Britain on 1 April 1990 to assist with Community Charge payments. The Council Tax replaced the Community Charge in April 1993 and consequently Council Tax Benefit replaced Community Charge Benefit at the same time.

11.64 Anyone liable to pay a full personal Community Charge or full collective Community Charge contributions could claim Community Charge Benefit. Registered students, who were exempt from paying 80 per cent of the Community Charge, could not claim Community Charge Benefit. If a student had a partner who had to pay the full Community Charge, either the student or the partner was able to claim Community Charge Benefit for the partner.

11.65 The maximum Community Charge Benefit was 80 per cent of the Community Charge liability. Claimants who received full Income Support got maximum Community Charge Benefit.

11.66 For Claimants who were not receiving Income Support, the amount of Community Charge Benefit payable depended on four things:

- the amount of savings;
- the amount of net weekly income;
- personal circumstances (for example, the claimant's age, the number and ages of any children, or whether or not they are disabled); and
- the amount of Community Charge payable.

11.67 The procedure used by the local authority to assess benefit entitlement was similar to the procedure used to assess entitlement to Housing Benefit:

- net weekly income (including any assumed income from savings) is compared with the appropriate 'applicable amount';



## Section 11: Housing Benefits

- if net weekly income is the same as, or less than the 'applicable amount', maximum Community Charge Benefit is payable. If the net weekly income is greater than the 'applicable amount', the local authority calculates 15 per cent of this 'excess income' figure;
- the resulting amount is then deducted from the maximum Community Charge Benefit figure; and
- the result is the Community Charge Benefit payable.

11.68 There was no minimum benefit in Community Charge Benefit.

11.69 In the case of couples, one partner had to claim on behalf of both. This could be either partner. The couple's two Community Charge liabilities were aggregated. Capital and net weekly income were assessed jointly, and the 'applicable amount' for the couple was used. The benefit entitlement for the couple was divided between the two partners in proportion to their liability. (This normally meant that benefit was divided equally.)

11.70 Benefit was normally paid to claimants in the form of a reduction in the amount of personal Community Charge they had to pay, though there were other arrangements for payment where this was not feasible. Benefit awarded to those liable for collective Community Charge contributions was paid either directly to the claimants, or by voucher or, where the claimant agreed, directly to the landlord.

11.71 Most administrative arrangements for assessing, paying and enforcing rules governing CCB were virtually the same as those for Housing Benefit. The calculation of capital, net weekly income and applicable amounts are as those for Housing Benefit.

11.72 An example of Housing Benefit and Community Charge Benefit (as at April 1992) is given below.

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### Example 11.5: Housing Benefit and Community Charge Benefit (as at April 1992)

Married couple, husband earning £130 net per week, with two children aged 13 and 16, paying rent of £48 per week. Community Charge liability £282 per person (average in England in 1992).

	£ per week
<b>Applicable Amount:</b>	
Couple's Allowance	66.60
Child Aged 13	21.40
Child Aged 16	25.55
Family Premium	9.30
<b>Total</b>	<b>122.85</b>
<b>Income:</b>	
Net Earnings	130.00
Less disregard	10.00
Earnings for HB/CCB	120.00
Child Benefit	17.45
Family Credit	35.32
<b>Total</b>	<b>172.77</b>
Excess of income over applicable amount	49.92
<b>Rent rebate/allowance</b>	
Eligible Rent	48.00
Maximum 100% of eligible rent	48.00
Less 65% of excess income	32.45
<b>Total</b>	<b>15.55</b>
Community Charge Benefit	
Community Charge liability £282 per year per person	
Weekly liability per person	5.41
Maximum 80% of liability per person	4.33
Maximum CCB for claim (2 adults)	8.66
less 15% of excess income	-7.49
<b>Total</b>	<b>1.17</b>

### Council tax

11.73 Schedule 1 of the Local Government Finance Act 1992 replace the Community Charge with council tax from 1 April 1993.

11.74 Council Tax Benefit (CTB) replaced Community Charge Benefit from April 1993 as the means by which people on low incomes are helped to discharge their local tax liability.

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### C. HISTORICAL TABLES

**Table 11.7: Housing Benefit needs allowances and earnings disregards**

£ per week	Single person	Single parent or couple	Single disabled Person	Couple one disabled	Couple both disabled	Pensioner addition	Dependent child addition	Principal earner's disregard	Partner's earnings disregard
27/07/72	10.50	14.75	11.75	16.00	16.75	-	2.75	-	2.50
30/03/73	14.00	18.25	15.25	19.50	20.25	-	2.75	-	2.50
04/09/73	15.50	20.75	16.75	22.00	22.75	-	3.00	-	2.50
02/09/74	17.75	24.25	19.25	25.75	26.65	-	3.55	-	2.50
31/03/75	19.35	26.75	20.85	28.25	29.15	-	4.05	-	5.00
30/09/75	21.05	29.45	22.95	31.35	32.45	-	4.60	-	5.00
30/09/76	23.05	32.75	24.95	34.65	35.75	-	5.35	-	5.00
30/09/77	25.25	36.25	27.85	38.85	40.35	-	6.10	-	5.00
30/09/78	27.25	39.45	30.15	42.35	44.00	-	6.55	-	5.00
12/11/79	31.05	45.55	34.60	49.10	50.80	-	7.70	5.00	5.00
07/11/80	34.90	51.70	38.90	55.70	57.65	-	9.60	9.60	5.00
23/11/81	37.35	55.60	41.65	59.90	62.00	-	10.35	15.25	5.00
22/11/82	41.40	61.00	46.15	65.75	68.00	0.75	11.40	18.00	5.00
21/11/83	43.05	63.50	48.00	68.45	70.80	0.75	11.90	17.45	5.00
26/11/84	45.10	66.50	50.30	71.70	74.15	0.80	12.85	17.00	5.00
25/11/85	47.70	70.20	53.20	75.70	78.25	0.85	14.50	17.30	5.00
28/07/86	48.10	70.85	53.65	76.40	79.00	0.85	14.60	17.30	5.00
06/04/87	48.90	72.15	54.50	77.75	80.45	0.85	14.75	17.30	5.00

**Table 11.8: Non-dependant deductions from rent rebate allowance**

£ per week	Aged 16-17 not in receipt of SB <sup>1</sup>		Aged 18-20 not in receipt of SB <sup>2</sup>		Aged 21 to pensionable age not in receipt of SB <sup>2</sup>		Over 21 in receipt of SB or pensionable age		Under 21 in receipt of SB	
	Rent Rebate	Rate Rebate	Rent Rebate	Rate Rebate	Rent Rebate	Rate Rebate	Rent Rebate	Rate Rebate	Rent Rebate	Rate Rebate
	Nov 80 - Nov 81	-	-	2.15	0.75	3.25	1.10	1.30	0.45	1.30
Nov 81 - Nov 82	-	-	2.35	0.80	3.50	1.20	1.45	0.50	1.45	0.50
Nov 82 - Apr 83	-	-	3.30	1.25	4.30	1.60	1.90	0.75	1.90	0.75
Apr 83 - Apr 84	-	-	3.95	1.60	4.70	1.85	2.20	0.90	2.20	0.90
Apr 84 - Nov 84	-	-	6.15	2.05	6.15	2.05	2.20	0.90	-	-
Nov 84 - Nov 85	2.35	0.95	6.60	2.20	6.60	2.20	2.35	0.95	-	-
Nov 85 - Jul 86	2.80	1.10	7.80	2.60	7.80	2.60	2.80	1.10	-	-
28th July 1986	2.80	1.10	7.80	2.60	7.80	2.60	2.80	1.10	-	-
6th April 1987	2.90	1.15	8.05	2.70	8.05	2.70	2.90	1.10	-	-

<sup>1</sup> Nil for those in receipt of Severe Disablement Allowance.

<sup>2</sup> Did not apply to dependants in receipt of Unemployment Benefit, Sickness Benefit, Maternity Allowance or Child Benefit for more than 56 days, for whom "over 21 in receipt of SB" rates apply.

## Section 11: Housing Benefits

**Table 11.9: Housing Benefit tapers**

Per cent	Lower Taper				Upper Taper	
	Rent	Rates	Pensioners		Rent	Rates
			Rent	Rates		
Jul 1972 - Apr 1974	25	-	25	-	17	-
Apr 1974 - Nov 1982	25	8	25	8	17	6
Nov 1982 - Apr 1983	25	8	25	8	21	7
Apr 1983 - Nov 1984	25	8	50	20	26	9
Nov 1984 - Nov 1985	25	8	50	20	29	9
Nov 1985 - Apr 1987	25	8	50	20	29	13
Apr 1987	25	8	50	20	33	13

**Section 12: In-kind benefits**

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## A. CURRENT SYSTEM

### Introduction

12.1 The 'in-kind' benefits discussed in this section can be broken down into three categories:

- free school meals are available only to families who are considered as 'non-working' families, i.e. where the claimant (s) work for less than 16 hours per week;
- Healthy Start vitamins and vouchers to spend on milk, fresh fruit and vegetables or infant formula are available to pregnant women or families with children under 4 years old receiving Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, or Child Tax Credit (without Working Tax Credit unless the run-on only is in payment) combined with a low family income. This scheme also supports any pregnant woman under 18 years old;
- help with health costs is available to people getting Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit guarantee element and, in addition, those people entitled to or named on an NHS Tax Credit Exemption Certificate. Information about the extensive arrangements for providing help with health costs are described in Leaflet HC11. This leaflet is available from Jobcentre Plus Offices, NHS hospitals and on the Department of Health's website at: [www.dh.gov.uk/helpwithhealthcosts](http://www.dh.gov.uk/helpwithhealthcosts).

12.2 Help with NHS prescription and dental charges, optical costs and travel to receive NHS treatment under the care of a NHS doctor or dentist is also available on grounds of low income under the NHS Low Income Scheme. Claims are assessed on a similar basis to that used for Income Support by comparing a person's income and requirements. Net weekly income (i.e. resources) is broadly as defined for Income Support purposes (see Section 10). The calculation of requirements (needs) is also broadly similar to that used for Income Support, plus eligible housing costs net of any Housing Benefit received, plus council tax payments net of all discounts and Council Tax Benefit. Capital totalling £6,000 or less will be ignored. Any capital between £6,000 and £16,000 is assumed to attract a 'tariff' income of £1 for each whole or part of £250. No help is available to people with capital of more than £16,000 or £23,000 for someone who lives permanently in a care home.

12.3 In England and Scotland, claimants whose incomes exceed their assessed weekly requirements by 50 per cent of the prescription charge or less are entitled to full help with all NHS charges and are sent a certificate HC2. Claimants whose resources are above this level may be entitled to limited help with health costs and are sent a certificate HC3. This shows how much they are expected to pay towards their health costs. They have to pay prescription charges. (Except in Wales where the prescription charge has been abolished.)

12.4 Current and recent NHS charges for England are shown in Table 12.1.

**Table 12.1: NHS charges for 2008-09 and 2009-10**

<i>Item</i>	Charge, £	
	From 1 April 2008	From 1 April 2009
Prescription charge	7.10	7.20
12 month PPC	102.50	104.00
4 month PPC (3 month from 01/07/08)	27.85	28.25
Surgical brassiere	24.00	24.35
Abdominal or spinal support	36.30	36.80
Stock modacrylic wig	59.20	60.00
Partial human hair wig	156.60	158.90
Full bespoke human hair wig	229.05	232.45
Maximum dental charge	198.00	198.00

12.5 There are some other ways of qualifying for the individual benefits, which are described below.

### Free school meals

12.6 Individual local authorities (LAs) or, where a budgetary element for school lunches is delegated to them, a school's governing body set the charge for school meals. Pupils whose parents are in receipt of: Income Support; Income Based Jobseekers Allowance; an income-related Employment and Support Allowance; support under part VI of the Immigration and Asylum Act 1999; Child Tax Credit, provided they are not entitled to Working Tax Credit<sup>1</sup> and have an annual income (as assessed by HM Revenue and Customs) that does not exceed £16,049 (6 April 09 - 5 April 2010); the Guarantee element of State Pension Credit, are eligible to receive free school meals. Children who receive Income Support or Income Based Jobseekers Allowance in their own right are also eligible to receive free school meals. These rules apply to England.

### Healthy Start

12.7 Healthy Start operates across the UK and provides nutritional support as well as encouragement for breastfeeding and a healthy diet to qualifying low-income and disadvantaged pregnant women and families with children under 4 years old.

12.8 Pregnant women and families with children under 4 are eligible for support from Healthy Start if they are in receipt of one or more of the current qualifying benefits or tax credits. For 2009/10 these are Income Support, Income Based Jobseekers Allowance, income-related Employment and Support Allowance, or Child Tax Credit (without Working Tax Credit unless the run-on only is in payment) and an

<sup>1</sup> From 1 May 2009 where a parent is entitled to Working Tax Credit during the four-week period immediately after their employment ceases, or after they start to work less than 16 hours per week, their children are entitled to free school lunches



annual family income at the time of the tax credits award of £16,040 or less. Pregnant women under 18 years old are also eligible until the baby's birth even if they are not getting any of the qualifying tax credits or benefits. They must, however, meet the other qualifying criteria in order to continue receiving support afterwards.

12.9 Those eligible for help from the scheme must apply for it using a short application form that is included in the Healthy Start application leaflet (HS01). This leaflet is available via a number of GP surgeries and child health clinics and may also be stocked by Jobcentre Plus offices and other premises. Copies can also be ordered by telephone from the Healthy Start Issuing Unit on 0845 697 6823 (or in bulk for the NHS and other organisations from the Department of Health's orderline on 0300 123 1002). A website – [www.healthystart.nhs.uk](http://www.healthystart.nhs.uk) – provides additional information about the scheme.

12.10 The form must be completed by the applicant and then countersigned by a registered midwife, nurse or medical practitioner – usually their local midwife or health visitor – who will offer advice on healthy eating and signpost relevant local services when signing the form. Forms are then sent freepost to the Healthy Start Issuing Unit which verifies eligibility against information held in the tax credits and benefits system.

12.11 The Healthy Start Issuing Unit issues Healthy Start vouchers 4-weekly by post to participating women and families. Each voucher is worth £3.10 and may be spent on or put towards the cost of liquid cow's milk, fresh fruit and vegetables, or cow's milk based infant formula. Babies under one year old (or within one year of their Expected Date of Delivery if born early) receive two vouchers per week. Pregnant women and other children under 4 years old receive one voucher a week. The vouchers can be used in one of around 30,000 individual retail outlets across the UK that are registered to participate. Pregnant women and children receiving vouchers, and women with a child under one year old receiving vouchers, may also claim free Healthy Start vitamin supplements via the NHS without a prescription. These supplements meet in full the Government's recommendations for vitamin supplementation during pregnancy, breastfeeding and early childhood.

### **Prescription charges**

12.12 The NHS prescription charge from 1 April 2009 is £7.20 per item in England. Prescription charges have been abolished in Wales and the charge is different in Scotland (£4) and Northern Ireland (£3). Prescription Prepayment certificates (PPCs) are available for a fixed fee. These exempt the purchaser from any further NHS prescription charges for a specified period. Three-month prepayment certificates from 1 April 2009 in England cost £28.25; and 12-month prepayment certificates are £104. Charges for PPCs in Northern Ireland and Scotland are different. The 12-month PPC is £25 in NI and £38 in Scotland. NI and Scotland still have the 4month certificate (costing £13 in Scotland and £9 in NI), this

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was replaced in England by the 3 month certificate on 1 July 2007. In England 12 month, PPCs can now be purchased by direct debit payments.

12.13 The following categories of people are exempt from charges:

- people registered with a GP in Wales, or resident in Wales but have a GP in England and have an accompanying entitlement card;
- children aged under 16;
- young people aged 16, 17 or 18 years of age who are in full-time education;
- people aged 60 and over;
- pregnant women and women who have given birth within the last twelve months (including a child registerable as still born) who have a maternity exemption certificate;
- people suffering from certain specified medical conditions who have a medical exemption certificate (From 1 April 2009, anyone receiving ongoing treatment for cancer, including the effects of cancer or the effects of current or previous cancer treatment are entitled to apply for a medical exemption certificate);
- war pensioners for treatment of their accepted disablement, who have a war pension exemption certificate;
- people and their partners getting Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit guarantee credit and people who are entitled to or named on an NHS Tax Credit exemption certificate; and
- people entitled to full help under NHS Low Income Scheme and named on an NHS charges certificate HC2.

### Dental charges

12.14 The system of dental charges was greatly simplified for England from 1 April 2006. The new charge system replaced over 400 individual items of treatment charges with three standard charges. The amount will depend on the treatment required to keep teeth and gums healthy. This will be one of the three charges below (at charge rates applicable from 1 April 2009):

- **£16.50** – This charge will include an examination, diagnosis and preventive care. If necessary, this will include X-rays, scale and polish, and planning for further treatment.

Urgent and out of hours care will also cost £16.50.

OR

- **£45.60** – This charge includes all necessary treatment covered by the £16.50 charge; Plus additional treatment such as fillings, root canal treatment or extractions.

OR

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- 
- **£198** –This charge includes all necessary treatment covered by the £16.50 and £45.60 charges Plus more complex procedures such as crowns, dentures or bridges.
  - There will only be one charge even if more than one visit is required to complete a course of treatment.

12.15 Current and historical figures for the amount of the charge for routine treatment such as fillings, together with the maximum charge for any treatment are shown in Table 12.2. The following categories are exempt if, when accepted for treatment, they are:

- expectant mothers or women who have borne a child in the past 12 months;
- children and young people under 18; and
- young people aged 18 who are in full-time education;

12.16 The following categories are entitled to charge remission if, when accepted for treatment or when the charge is made, they are:

- people or partners getting Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit guarantee element and people who are entitled to or named on an NHS Tax Credit exemption certificate;
- people entitled to full help under the NHS Low Income Scheme and named on an NHS charges certificate HC2;
- people who are named on an NHS charges certificate HC3 may be eligible for limited help; and
- war pensioners for treatment of their accepted disablement, who have a war pension exemption certificate may be able to claim back some or all of the cost from The Veterans Agency, Norcross, Blackpool FY5 3WP. They should send their receipt.

Outpatients attending hospital for dental treatment are not subject to any charges for treatment. However, they may be charged for the supply of dentures or bridges unless they are in one of the groups described above. This is subject to a charge of £198 from 1 April 2009.

## **Optical costs**

### Sight tests

12.16 Only certain groups of people are entitled to free NHS sight tests. They are: children under 16; young people aged 16, 17 and 18 in full time education; people aged 60 and over; people and their partners getting Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, those entitled to, or named on, a valid NHS Tax Credit Exemption Certificate, people entitled to full help under the NHS Low Income Scheme; people who need certain complex lenses; people who are registered blind or partially sighted; people who have diagnosed diabetes or glaucoma and people who are

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aged 40 or over and are the parent, brother, sister, or child of diagnosed glaucoma sufferer, and patients of the Hospital Eye Service.

### Optical appliances

12.17 NHS glasses have been replaced by a scheme providing a voucher towards the cost of glasses. These are given to children under 16, young people aged 16, 17 and 18 in full time education, people on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, those entitled to, or named on, a valid NHS Tax Credit Exemption Certificate, people entitled to full help under the NHS Low Income Scheme, and people needing complex lenses. From 1 April 2009, the voucher is worth between £36.20 and £200.10 depending on type and optical prescription. People entitled to limited help under the NHS Low Income Scheme may have the value of their voucher reduced.

12.18 War pensioners who require sight tests or glasses as a result of their accepted disablement and who are not already entitled to help under current NHS arrangements may be able to claim back some or all of the cost from The Veterans Agency, Norcross, Blackpool FY5 3WP. They should send their optical prescription and receipt for their glasses and/or the receipt for their sight test.

### **Wig and fabric supports charges**

12.19 The following categories are exempt:

- in-patients at the date of supply;
- children aged under 16;
- young people aged 16, 17 and 18 in full-time education;
- war pensioners if the wig or fabric support is for the treatment of accepted disablement and they hold a war pensioners exemption certificate;
- people and their partners getting Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit guarantee credit, and people who are entitled to or named on an NHS Tax Credit exemption certificate; and
- people entitled to help under the NHS Low Income Scheme. They may be named on an NHS charges certificate HC2 for full help or an NHS charges certificate HC3 for limited help.

### **Healthcare Travel Costs Scheme (HTCS)**

12.20 The Healthcare Travel Costs Scheme provides financial assistance to those patients who do not have a medical need for ambulance transport, but who nevertheless, require assistance in meeting the cost of travel to non-primary medical or non-primary dental NHS services under the care of a consultant or through referral by a doctor or dentist, regardless of setting in the UK.

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12.21 The Healthcare Travel Costs Scheme is part of the NHS Low Income Scheme and operates under the provisions of the National Health Service (Travelling Expenses and Remission of Charges) Regulations 2003, No 2382. These are regulations made under powers conferred by section 83A of the National Health Service Act 1977.

12.22 The Scheme is designed to enable patients on low incomes or qualifying benefits to be reimbursed in part or in full for fares incurred in travel for NHS treatment under the care of a consultant or through referral by a doctor or dentist, by the cheapest means of travel available and appropriate to the patient. All NHS Trusts and Primary Care Trusts must provide full or partial reimbursement for patient travel costs to appointments for the patient and, where medically necessary, an escort, under the Healthcare Travel Costs Scheme, for those who are eligible. Individuals, and their dependants, in receipt of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Pension Credit guarantee element and people who are entitled to or named on an NHS Tax Credit exemption certificate are entitled to help under the Healthcare Travel Cost Scheme. Others may be entitled to full or limited help under the NHS Low Income Scheme. The Healthcare Travel Costs Scheme is only available to patients and, where deemed medically necessary, an escort; it is not available to visitors.

## **B. HISTORY**

### **Introduction**

12.24 FIS recipients were 'passport' on to the 'in-kind' benefits discussed in this section until 1988: When Family Credit replaced FIS in April 1988, the 'passport' to free school meals, welfare milk and vitamins was replaced by cash help included in child credit rates.

### **Free school meals**

12.25 Immediately after the war the charge for meals and the provision of free school meals was left to the discretion of each local education authority, (subject to ministerial approval). Free meals were given to the children of those considered to be on low incomes as determined by 'income scales' drawn up by each local education authority. As a result scales, and hence provision of free school meals, differed widely between LEAs.

12.26 In 1950 a uniform national charge was introduced. The provision of free school meals remained at the discretion of the LEA until July 1964 when the separate income scales were superseded by the national remission scale. This ensured that the same definition of low income was used in each area. The national remission scale was updated by various governments with particularly large increases in 1971 (at the same time as a 33 per cent increase in the price of school meals) and 1977. The 1969 Provision of Milk and Meals Regulations (as amended) gave entitlement to free school meals for the children of parents in receipt of Supplementary Benefit and Family Income Supplement. The uniform national charge for school meals was abolished on 14 April 1980.

12.27 The type of support provided to families by the Government differs depending on whether the family are considered as 'working' or 'non-working'. Income Support, Income Based Job Seekers Allowance, and support under part VI of the Immigration and Asylum Act 1999, are paid only to families who are considered as 'non-working' families, i.e. where the claimant (s) work for less than 16 hours per week. The Government's Working Tax Credit provides additional financial support to all 'working families' that have low incomes. The Government believe that free school meals should be available to 'non-working' families, who are considered most in need of this additional help.

12.28 Latest provisional figures from the Schools Census released by DCSF show that in 2009 5.9per cent of Nursery and Primary School pupils, 13.4per cent of Secondary school pupils, and 32.1per cent of Special School pupils are known to be eligible for free school meals.

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### **The Welfare Food Scheme and Healthy Start**

12.29 A Welfare Food Scheme was first introduced in 1940 to ensure that all expectant mothers and young children were properly nourished in wartime conditions. The scheme was retained after the war on the advice of the then Standing Committee on Nutritional Problems and continued to exist until November 2006, when its means tested elements were replaced throughout the UK by a new scheme called Healthy Start. Healthy Start had already been introduced on a small scale in Devon and Cornwall in November 2005

12.30. At the time it was replaced, weekly tokens provided through the Welfare Food Scheme could be exchanged for 7 pints of ordinary liquid milk or 900g of one of 10 named varieties or infant formula. They were issued only to pregnant women and young children in families on Income Support, Income Based Jobseeker's Allowance or Child Tax Credit (without Working Tax Credit) combined with an annual family income of £14,155 or less. Healthy Start adopted these qualifying criteria and expanded them to include any pregnant woman under 18 years old until the end of her pregnancy.

12.31 On 6 April 2008, pregnant women and children under 4 in families in receipt of Working Tax Credit run-on became eligible to access Healthy Start. On 27 October 2008, those in families getting income – related Employment and Support Allowance also became eligible.

12.32 Healthy Start vouchers were each worth £2.80 towards the cost of milk, fruit, vegetables or infant formula when the scheme was introduced. On 6 April 2008 this was increased to £3.00 per voucher in light of price rises and trends in the benefits system and on 6 April 2009 it was increased again to £3.10 per voucher. The value of vouchers is reviewed annually and increased if appropriate. The income threshold applying to families qualifying through receipt of Child Tax Credits has also increased annually in line with increases in the first threshold for receipt of Child Tax Credit only.

12.33 Healthy Start is designed to offer effective nutritional support and encouragement for breastfeeding and healthy eating to those families most in need of it, in a way that is consistent with today's public health priorities and modern delivery mechanisms. The policy decision to introduce Healthy Start as a replacement for the Welfare Food Scheme was taken after a review carried out by the Committee on the Medical Aspects of Food and Nutrition (COMA). It concluded that a number of changes could be made to the Welfare Food Scheme to improve its effectiveness – in particular that the range of food should be broadened. Proposals for reform were tested through public consultation in 2002, and the scheme itself was introduced in two phases, beginning with its implementation in Devon and Cornwall only for one year beginning November 2005. The phased approach gave opportunity for early qualitative evaluation of the new scheme's impact on beneficiaries, health professionals and retailers.

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### **Prescription charges**

12.32 No charge was made for NHS prescriptions until 1 June 1952. Between 1 December 1956 and 1 February 1965 prescription charges rose from 5p to 10p per item. On 1 February 1965, the charges were abolished. They were reintroduced on 10 June 1968, at 12½p for each drug or appliance supplied. A charge has been made ever since at the rates shown in Table 12.3. The prepayment certificates were introduced in November 1968.

12.33 Until 8 April 1987, children under 15 (not 16) were exempt from prescription charges, as were women aged 65 and over (not 60 and over). On 1 January 1982 the automatic exemption was extended to include women who had had a child who was still born. Young people aged 16, 17 or 18 receiving full-time education were not exempt until 1 April 1988. Men aged 60 or over became exempt on 20 October 1995.

### **Dental charges**

12.34 Dental charges were first introduced in 1951. Current and historical charges for routine treatment, together with the maximum charge for any treatment, are shown in Table 12.2.

### **Optical costs**

12.35 Since 1 July 1986 NHS glasses have been replaced by a scheme providing a voucher towards the cost of glasses.

12.36 Since 1 April 1989, only certain groups of people have been entitled to free eye tests.

12.37 With effect from 1 April 1999 eligibility for free NHS sight tests was restored to everyone aged 60 or over, regardless of income or predisposition to eye disease.

12.38 Until 1 July 1986 the arrangements for exemption and remission set out in paragraph 12.15 applied to the supply, repair or replacement of glasses. But only one kind of NHS frame was available free. If any other NHS frame was chosen the cost above £2.05 had to be paid.

12.39 Children under the age of 16 years or young people aged 16 or over but under 19 undergoing full-time education were entitled to standard NHS lenses in a children's standard NHS frame free of charge. Children aged 10 or over were entitled to standard NHS lenses with any other NHS frame on payment of a charge for the frame only. Children and young people were also entitled to free repair or replacement (to the same prescription) of such glasses.



### **Wigs and fabric support charges**

12.40 Charges for wigs, elastic hosiery and fabric supports were introduced in 1971, and have been increased generally in line with inflation each year.

### **Healthcare Travel Costs Scheme**

12.41 The Hospital Travel Costs Scheme was set up in its present form in 1988 as part of the NHS Low Income Scheme, to provide financial assistance to those patients who do not have a medical need for hospital patient transport, but who nevertheless, require assistance in meeting the cost of travel to hospital for NHS treatment under the care of a consultant.

12.42 The Scheme was extended in 2008 to include referrals to non-primary medical and non-primary dental NHS services made by GPs and dentists. The scheme, renamed the Healthcare Travel Costs Scheme, continues to be part of the NHS Low Income Scheme and operates under the provisions of the National Health Service (Travel Expenses and Remission of Charges) Regulations 2003, No 2382. These are regulations made under powers conferred by section 83A of the National Health Service Act 1977.

12.43 Prior to 1988, the scheme operated under the National Health Service (Expenses in Attending Hospitals) Regulations 1950, No 1222. These are regulations made under powers conferred by section 3 of the National Health Service Act 1946(a).

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**C. HISTORICAL TABLES**
**Table 12.2: Historic dental NHS charges**

	Routine treatment	Maximum charge for any treatment
10/05/1951	4.25	4.25
22/05/1952	Full cost up to 1.00	4.25
16/05/1961	Full cost up to 1.00	5.00
01/05/1968	Full cost up to 1.50	5.00
11/08/1969	Full cost up to 1.50	6.25
01/04/1971	Half the cost up to 10.00	10.00
01/01/1976	Full cost up to 3.50	12.00
01/04/1977	Full cost up to 5.00	30.00
16/07/1979	Full cost up to 7.00	36.00
01/04/1980	Full cost up to 8.00	54.00
01/04/1981	Full cost up to 9.00	60.00
01/04/1982	Full cost up to 13.00	90.00
01/04/1983	Full cost up to 13.50	95.00
01/04/1984	Full cost up to 14.50	110.00
01/04/1985	Full cost up to 17.00 and 40 per cent of excess	115.00
01/04/1986	Full cost up to 17.00 and 40 per cent of excess	115.00
01/04/1987	Full cost up to 17.00 and 40 per cent of excess	115.00
01/04/1988	75% of the cost of treatment	150.00
01/04/1989	75% of the cost of treatment	150.00
01/04/1990	75% of the cost of treatment	150.00
01/04/1991	75% of the cost of treatment	200.00
01/04/1992	75% of the cost of treatment	225.00
01/04/1993	80% of the cost of treatment	250.00
01/04/1994	80% of the cost of treatment	275.00
01/04/1995	80% of the cost of treatment	300.00
01/04/1996	80% of the cost of treatment	325.00
01/04/1997	80% of the cost of treatment	330.00
01/04/1998	80% of the cost of treatment	348.00
01/04/1999	80% of the cost of treatment	348.00
01/04/2000	80% of the cost of treatment	354.00
01/04/2001	80% of the cost of treatment	360.00
01/04/2002	80% of the cost of treatment	366.00
01/04/2003	80% of the cost of treatment	372.00
01/04/2004	80% of the cost of treatment	378.00
01/04/2005	80% of the cost of treatment	384.00
01/04/2006	Band 2 charge 42.40	189.00
01/04/2007	Band 2 charge 43.60	194.00
01/04/2008	Band 2 charge 44.60	198.00
01/04/2009	Band 2 charge 45.60	198.00

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Section 12: In-kind benefits

**Table 12.3: Historic prescription charges and prepayment certificate fees**

	Prescription charge (per item unless stated)	Prepayment certificate fee	
		6 months	1 year
01/06/1952	0.050 <sup>1</sup>		
01/12/1956	0.050		
01/03/1961	0.100		
01/02/1965	Charge abolished		
10/06/1968	0.125		
01/11/1968	0.125	1.50	2.75
01/04/1971	0.200	2.00	3.50
16/07/1979	0.450	4.50	8.00
		<b>4 months</b>	<b>1 year</b>
01/04/1980	0.70	4.50	12.00
01/12/1980	1.00	5.50	15.00
01/04/1982	1.30	7.00	20.00
01/04/1983	1.40	7.50	21.50
01/04/1984	1.60	8.50	24.00
01/04/1985	2.00	11.00	30.50
01/04/1986	2.20	12.00	33.50
01/04/1987	2.40	12.50	35.00
01/04/1988	2.60	13.50	37.50
01/04/1989	2.80	14.50	40.00
01/04/1990	3.05	15.80	43.50
01/04/1991	3.40	17.60	48.50
01/04/1992	3.75	19.40	53.50
01/04/1993	4.25	22.00	60.60
01/04/1994	4.75	24.60	67.70
01/04/1995	5.25	27.20	74.80
01/04/1996	5.50	28.50	78.40
01/04/1997	5.65	29.30	80.50
01/04/1998	5.80	30.10	82.70
01/04/1999	5.90	30.10	84.60
01/04/2000	6.00	31.40	86.20
01/04/2001	6.10	31.50	87.60
01/04/2002	6.20	32.40	89.00
01/04/2003	6.30	32.90	90.40
01/04/2004	6.40	33.40	91.80
01/04/2005	6.50	33.90	93.20
01/04/2006	6.65	34.65	95.30
01/04/2007	6.85	35.85	98.70
		<b>3 months</b>	
01/07/2008		26.85	
		<b>3 months</b>	<b>1 year</b>
01/04/2008	7.10	27.85	102.50
01/04/2009	7.20	28.25	104.00

<sup>1</sup> Charge per form.



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**Section 13: Other non-contributory benefits**

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## A. Current system

**Table 13.1: Some key figures**

	Outturn				Forecast	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<i>Average number of beneficiaries over the financial year</i>						
	<i>Thousands</i>					
Attendance Allowance	1,400	1,445	1,489	1,529	1,567	1,601
Carer's Allowance (previously Invalid Care Allowance)	429	448	458	471	482	505
Severe Disablement Allowance	301	288	275	263	251	239
Disability Living Allowance	2,681	2,756	2,830	2,918	3,015	3,114
Statutory Sick Pay	n/a	n/a	n/a	n/a	n/a	n/a
Industrial Injuries Disablement Benefit	267	266	265	259	256	253
<i>Annual expenditure</i>						
	<i>£Millions</i>					
Attendance Allowance	3,674	3,924	4,149	4,444	4,739	5,093
Carer's Allowance (previously Invalid Care Allowance)	1,096	1,149	1,181	1,280	1,367	1,499
Severe Disablement Allowance	918	900	904	898	887	888
Disability Living Allowance	8,079	8,618	9,155	9,867	10,527	11,394
Statutory Sick Pay	43	40	45	48	49	51
Industrial Injuries Disablement Benefit	750	746	750	759	781	806

Source: Department for Work and Pensions.

### Attendance Allowance

13.1 Attendance Allowance is a non-contributory, non-means tested and non-taxable benefit payable to disabled people aged over 65 who have needed help with personal care for at least six months. However, under special rules, people who are not expected to live longer than six months because of a progressive disease qualify automatically for the higher rate of benefit without having to serve this qualifying period. See Table 13.5 for current and historical rates.

13.2 To qualify for benefit a person must satisfy at least one of the following conditions. They must either, throughout the day, require frequent attention in connection with their bodily functions, or require continual supervision in order to avoid substantial danger to themselves or others. Or, at night, require from another person either prolonged or repeated attention in connection with their bodily functions or, in order to avoid substantial danger to themselves or others, require another person to be awake for a prolonged period or at frequent intervals for the purpose of watching over them. Or they must have someone with them when on dialysis.

13.3 Payment of Attendance Allowance ceases after 28 days in hospital, unless the person is either a private patient paying for their accommodation and treatment or paid under special rules and in a hospice. Separate spells in hospital are linked together and count as one continuous spell if the gaps between them are 28 days or less.

13.4 Payment of Attendance Allowance ceases after 28 days if a person goes into a care home and receives funding from the local authority or other public body.

13.5 There are two rates of Attendance Allowance: a higher rate for people requiring day and night care; and a lower rate for people needing either day or night care.

13.6 From April 1992, Disability Living Allowance replaced and extended the help previously given by Attendance Allowance to people under age 65.

### **Carer's Allowance**

13.7 Carer's Allowance is non-contributory and taxable. Before 1 April 2003, it was called Invalid Care Allowance. Current and historical rates are shown in Table 13.5. It is payable to those aged 16 or over who are not in full-time education, and who regularly spend at least 35 hours a week caring for a severely disabled person receiving the highest or middle rate care component of Disability Living Allowance, or Attendance Allowance (or Constant Attendance Allowance, at or above the normal maximum rate, paid with Industrial Disablement Benefit or War Disablement Pension). Entitlement is not affected by earnings of £95 a week or less after allowable expenses, but payment is reduced or extinguished where the claimant receives other benefits such as Employment and Support Allowance, Incapacity Benefit, contributory Jobseeker's Allowance, State Pension, Widows' Pension and Maternity Allowance. The allowance is taken fully into account when assessing entitlement to Employment and Support Allowance, Income Support and all other income-related benefits and to Pension Credit, and a carer premium or extra amount, currently £29.50 a week, added back. The rules allow for carers to have breaks in care without the carer losing benefit.

### **Severe Disablement Allowance**

13.8 Current and historical rates of Severe Disablement Allowance (SDA) are shown in Table 13.2. SDA ceased to be available to new claimants from 2001. Existing recipients continue to receive the benefit for as long as they satisfy the conditions of entitlement for the benefit, which are:

- a person must continue to meet the threshold of incapacity and evidence of this is normally provided in the form of a statement from the claimant's doctor or by meeting the incapacity threshold under the Personal Capability Assessment. In addition, someone whose period of incapacity began after their 20th birthday must also continue to be assessed as 80 per cent disabled;
- people who are in receipt of certain benefits, such as those receiving the highest rate care component of Disability Living Allowance, or people who are registered blind, are automatically accepted as satisfying the disablement condition. Otherwise a medical examination by an approved health care professional may be necessary in order to re-assess the degree of disablement; and
- age related additions are currently £15.65 (for people who became incapable of work before age 40), £9.10 (for people who became incapable of work between ages 40 and 49) and £5.35 (for



people becoming incapable of work between ages 50 and 59). The tax-free allowance is paid regardless of unearned income or resources apart from overlapping with certain other benefits.

### **Disability Living Allowance**

13.9 Disability Living Allowance (DLA) is non-contributory, non-means tested and non-taxable. Current and historical rates are shown in Table 13.5. It is payable to severely disabled people who have mobility and/or care needs that arise before the age of 65. It has two components: one for mobility needs, payable at two rates, and one for care needs, payable at three rates.

13.10 The care component is payable to people aged months and over who: require attention with three functions for a significant portion of the day; are aged over 16 and would be unable to prepare a main cooked meal; require frequent attention with bodily functions throughout the day; require continual supervision throughout the day, or prolonged or repeated attention at night; or require someone to watch over them at night; or they must have someone with them when on dialysis. For those aged 16 and below, care requirements must be substantially in excess of the normal requirements of persons of the same age. The care component has three rates: the highest rate for people requiring day and night care, supervision or watching over; the middle rate for those requiring frequent attention or continual supervision throughout the day, or prolonged or repeated attention at night; and a lower rate for people who are aged 16 or over and are unable to prepare a cooked main meal or need help with their personal care for a significant portion of the day.

13.11 The mobility component is payable to people who: are unable or virtually unable to walk; have had both legs amputated; were born without legs or feet; are assessed to be both 100 per cent disabled because of loss of eyesight and not less than 80 per cent disabled because of deafness and they need someone with them when outdoors; are severely mentally impaired and display severe behavioural problems and qualify for the highest rate of the care component; or who can walk but need someone to provide them with guidance or supervision for most of the time when outdoors in unfamiliar areas. The mobility component has two rates: the lower rate is paid to those aged 5 and over who can walk but need guidance or supervision on unfamiliar routes and the higher rate to those aged 3 and over who are unable or virtually unable to walk or are disabled in the other ways described above.

13.12 The allowance has a qualifying period of three months for which they have had these care or supervision needs and/or walking difficulties and a prospective test of six months for which they are likely to continue. Under special rules, people who are not expected to live for six months because of a progressive disease qualify automatically for the highest rate of the care component and do not have to serve the qualifying period. The allowance is not affected by the claimant's income or capital and is normally unaffected by the receipt of other social security benefits.

13.13 Both care and mobility components cease after 28 days for adults and 84 days for children in hospital, unless the person is either a private patient paying for their accommodation and treatment or paid under special rules and in a hospice. Separate spells in hospital are linked together and count as one continuous spell if the gaps between them are 28 days or less.

13.14 The mobility component stays in payment when a person is in a care home. The care component is payable to people in a care home during the first 28 days when the care component is already in payment. The care component will stay be in payment after this 28 day period for people living in a care home for which they are paying the whole cost.

### **Statutory Sick Pay**

13.15 Current and historical rates of Statutory Sick Pay (SSP) are shown in Table 13.4.

#### Liability for SSP

13.16 The SSP scheme is administered and paid for by employers, who have a statutory liability to pay SSP for up to a maximum of 28 weeks. SSP is the minimum employers are required by law to pay their employees where they are incapable of work under their contract of service for four or more days in a row and they satisfy the qualifying conditions for payment. An employee is a person whose earnings attract a liability for employer's National Insurance.

13.17 The employer's liability to pay SSP ends when the employee is no longer sick, or when he has had 28 weeks SSP in that period of incapacity for work, whichever is the earlier.

#### Relationship with state Employment and Support Allowance

13.18 So long as the employer's liability to pay SSP remains, the employee cannot get Employment and Support Allowance (ESA). If liability ends, the employee can claim ESA. Claimants must satisfy contribution and income conditions for ESA. Similarly, if ESA is payable, Statutory Sick Pay is not.

13.19 The Employment and Support Allowance replaced Incapacity Benefit for all new customers from 27 October 2008.

#### Relationship with other state benefits

13.20 The payment of other State Benefits does not affect SSP entitlement. Employees getting SSP may claim Income Support, Housing Benefit and Council Tax Benefit under the usual rules.

Qualifying conditions for SSP

13.22 To qualify for SSP, the employee must:

- have been off sick for four or more days in a row. All days count for this including weekends and bank holidays and any days they do not normally work. This is called a Period of Incapacity for Work; and
- have average earnings of equal to or more than the Lower Earnings Limit for NI contributions purposes. This is currently £95 per week for 2009/10 tax year. Married women and widows who pay the reduced rate Class 1 National Insurance contributions may also qualify for SSP.

13.23 Average weekly earnings are calculated on gross earnings paid in the eight weeks before the period of illness began and includes all earnings on which the employee is liable to pay national insurance contributions. This includes overtime, commission, and bonus payments as well as any payments of Statutory Adoption Pay, Statutory Paternity Pay, Statutory Sick Pay and Statutory Maternity Pay.

When SSP is paid

13.24 SSP is not payable for the first three qualifying days in a period of entitlement; these are known as waiting days. Qualifying days are usually the days on which the employee is required to work under his contract of service. SSP is paid only for qualifying days.

13.25 Periods of incapacity for work with the same employer link together if they are separated by eight weeks (56 calendar days) or less.

Payment of SSP

13.26 SSP is paid at the same time as normal wages and is taxable under normal PAYE procedures and liable to National Insurance Contributions. The weekly rate of SSP is currently £79.15.

When SSP is not payable

13.27 SSP cannot be paid if the employee:

- has received Employment and Support Allowance, Incapacity Benefit Severe Disablement Allowance in the previous 57 days;
- falls sick within 104 weeks of starting work and falls under the Welfare to Work provisions. This means that they received Employment and Support Allowance, Incapacity Benefits or Severe Disablement Allowance for at least 26 weeks;
- is in the disqualifying period. This will be for periods of entitlement to MA/SMP;

- is off sick for a pregnancy-related illness within four weeks of the start of their expected week of childbirth;
- is in the disqualifying period. This will be for a period of 18 where there is no entitlement to MA/SMP;
- is detained in legal custody;
- has average weekly earnings below the Lower Earnings Limit;
- has had linked periods of sickness that have spanned a period of three years;
- is away from work because of a trade dispute.

### Reimbursement

13.28 Partial reimbursement of SSP costs may be available in circumstances where the employer experiences an abnormally high level of staff sickness. The Percentage Threshold Scheme allows any employer to recover the amount of SSP paid in a tax month that exceeds 13 per cent of their gross (i.e. employer and employee) National Insurance Contributions liabilities in the same tax month.

### **Industrial Injuries Disablement Benefit**

13.29 The industrial injuries scheme provides a range of benefits designed to compensate for disablement resulting from an industrial accident or from a prescribed disease due to the nature of a person's employment. The self-employed are not covered by this scheme. The benefit is payable irrespective of the age of the claimant.

13.30 The Industrial Injuries Disablement Benefit is payable 15 weeks (90 days) after the date of the accident or onset of the disease and may be payable for a limited period or for life. A person must be at least 14 per cent disabled (except for certain respiratory diseases) in order to qualify for this benefit. The amount paid depends on the assessed percentage level of disablement. Table 13.2 below provide a guide of amounts paid. The benefit is payable whether the person works or not, and can be paid in addition to other benefits, such as ESA, IB and DLA.

**Table 13.2: Rates of Industrial Injuries Disablement Benefit**

£ per week		
Assessed level of disablement	Aged over 18 or under 18 with dependant	Aged under 18 with no dependants
100%	143.60	88.05
90%	129.24	79.25
80%	114.88	70.44
70%	100.52	61.64
60%	86.16	52.83
50%	71.80	44.03
40%	57.44	35.22
30%	43.08	26.42
20%	28.72	17.61

13.31 It may also be possible to claim the following:

- **reduced earnings allowance** for those who are unable to return to their regular work or work of the same standard and who had their accident (or whose disease started) before 1 October 1990;
- **constant attendance allowance** for those with a disablement of 100 per cent who need constant care. There are four rates of allowance depending on how much care the person needs, and this overlaps with AA and the care component of DLA;
- **exceptionally severe disablement allowance** for those who are entitled to constant care attendance allowance at one of the higher rates and who need constant care permanently.

13.32 Further information can be found in <http://www.dwp.gov.uk/advisers/db1/>

## **B. HISTORY**

### **Attendance Allowance**

13.33 Attendance Allowance was introduced in 1971 for people from age two. In 1990, it was extended to children under two. Since October 1990, people who are not expected to live longer than six months because of an illness qualify automatically for the higher rate of benefit without having to serve the qualifying period. From 1992 it was restricted to those aged over 65, with the introduction of DLA for younger people.

### **Carer's Allowance (previously Invalid Care Allowance)**

13.34 Invalid Care Allowance was introduced in 1976 for men and single women caring for a relative, extended in 1981 to carers of non-relatives, and then to married women in 1986. From 1990 to 1993, the earnings limits increased from £12 to £50 a week; in 2001, it was increased to £72 and linked to the national insurance Lower Earnings Level. However, there is no longer a link with the Lower earnings Limit. The earnings limit currently stands at £95 a week. From 28 October 2002, the age limit of 65 for claiming was removed and entitlement extended for up to eight weeks after the death of the disabled person. In April 2003, the name was changed to Carer's Allowance and Child Dependency increase abolished for new claims (as it was replaced by the Child Tax Credit).

### **Severe Disablement Allowance**

13.35 Severe Disablement Allowance (SDA) replaced both non-contributory invalidity pension (NCIP) [see below] and housewives' non-contributory invalidity pension (HNCIP) from 29 November 1984 (see Table 13.3 for rates of NCIP).

13.36 Age related allowances, paid tax-free regardless of unearned income or resources apart from overlapping with certain other benefits, were first introduced in December 1990.

13.37 The Personal Capability Assessment replaced the all work test on 3 April 2000.

13.38 SDA has not been available to new claimants from 6 April 2001. From that point, disabled people, whose period of incapacity begins before the age of 20 (or 25 if in education or training before the age of 20), may be able to receive IB without having to satisfy the national insurance contribution (NICs) conditions. SDA recipients aged below 20 at the cut-off point transferred on to Incapacity Benefit at the long-term rate in April 2002. Existing recipients continue to receive the benefit for as long as they satisfy the conditions of entitlement for the benefit (see current system for details).

### **Non-contributory invalidity pension**

13.39 Paid to those of working age who were not able to work for at least 28 weeks because of sickness or other incapacity, and did not have enough NI contributions to establish claim to Invalidity Benefit. Introduced in November 1975. Married women could claim only if they were also incapable of doing normal housework (from November 1977). The pension was paid regardless of the person's other income or resources apart from overlapping with certain other benefits. This was replaced by Severe Disablement Allowance from November 1984.

### **Mobility Allowance**

13.40 The Mobility Allowance was replaced by the DLA (mobility component) in April 1992.

13.41 The Mobility Allowance was non-contributory, not means-tested and (since April 1982) tax-free. Paid to severely disabled people between the ages of 5 and 65 who were unable, or virtually unable, to walk because of physical disability and who were likely to remain so for at least 12 months. Anyone who established entitlement before the age of 65 and continued to fulfil the conditions for receipt could keep the allowance until the age of 80. (Before November 1989, the age limit had been 75). The allowance was paid in addition to other benefits for sickness, invalidity or disablement and was not affected by the claimant's other income or capital.

### **Disability Living Allowance**

13.42 DLA was introduced in April 1992. It completely replaced Mobility Allowance and also Attendance Allowance for people under age 65. It has two components: one for mobility needs, at two rates, and one for care needs, at three rates, equivalent to the old Mobility Allowance and Attendance Allowance but with the addition of new lower rates for less severely disabled people who could not qualify previously.

13.43 In 1996, the mobility component was restricted to the first four weeks of hospitalisation (12 weeks for children), in line with the care component and Attendance Allowance. In 1997, people approaching 65 who think they may qualify for DLA have to make a claim before their 65<sup>th</sup> birthday. In 2001, the higher-rate mobility component was extended to three and four year olds.

**C. HISTORICAL TABLES**

**Table 13.3: Rates of Severe Disablement Allowance**

£ per week	Personal benefit	Increases if incapacity began:			Increase for:		
		before age 40	aged 40-49	aged 50-59	adult dependent	first child	each other child
11/1985	23.00				13.75	8.05	8.05
07/1986	23.25				13.90	8.05	8.05
04/1987	23.75				14.20	8.05	8.05
04/1988	24.75				14.80	8.40	8.40
04/1989	26.20				15.65	8.95	8.95
04/1990	28.20				16.85	9.65	9.65
12/1990	28.20	10.00	6.20	3.10	16.85	9.65	9.65
04/1991	31.25	11.10	6.90	3.45	18.70	10.70	10.70
04/1992	32.55	11.55	7.20	3.60	19.45	9.75	10.85
04/1993	33.70	11.95	7.50	3.75	20.15	9.80	10.95
04/1994	34.80	12.15	7.60	3.80	20.70	9.80	11.00
04/1995	35.55	12.40	7.80	3.90	21.15	9.85	11.05
04/1996	36.95	12.90	8.10	4.05	21.95	9.90	11.15
04/1997	37.75	13.15	8.30	4.15	22.40	9.90	11.20
04/1998	39.10	13.60	8.60	4.30	23.20	9.90	11.30
04/1999	40.35	14.05	8.90	4.45	23.95	9.90	11.35
04/2000	40.80	14.20	9.00	4.50	24.20	9.85	11.35
04/2001	42.15	14.65	9.35	4.65	25.00	9.70	11.35
04/2002	42.85	14.90	9.50	4.75	25.45	9.65	11.35
04/2003	43.60	15.15	9.70	4.85	25.80	9.55	11.35
04/2004	44.80	15.55	10.00	5.00	26.65	9.55	11.35
04/2005	46.20	16.05	10.30	5.15	27.50	9.40	11.35
04/2006	47.45	16.50	10.60	5.30	28.85	9.25	11.35
04/2007	49.15	17.10	11.00	5.50	29.25	9.00	11.35
04/2008	51.05	17.75	11.40	5.70	30.40	8.75	11.35
04/2009	57.45	15.65	9.10	5.35	31.90	8.20	11.35

**Table 13.4: Rates of non-contributory invalidity pension**

£ per week	Personal benefit	Increase for:	
		adult dependent	each child
11/1978	11.70	7.05	6.30 <sup>1</sup>
11/1979	14.00	8.40	7.10
11/1980	16.30	9.80	7.50
11/1981	17.75	10.65	7.70
11/1982	19.70	11.80	7.95
11/1983	20.45	12.25	7.60

<sup>1</sup>£5.35 from 2 April 1979 to 14 November 1979



Section 13: Other non-contributory benefits

**Table 13.5: Statutory Sick Pay**

£ per week	Average Weekly Earnings			Amount of SSP paid		
	Lower rate	Middle rate	Higher rate at least <sup>1</sup>	Lower rate	Middle rate	Higher rate
06/04/1983	32.50 - 48.49	48.50 - 64.99	65.00	27.20	33.75	40.25
06/04/1984	34.00 - 50.49	50.50 - 67.99	68.00	28.55	35.45	42.25
06/04/1985	35.50 - 52.99	53.00 - 70.99	71.00	30.00	37.20	44.35
06/04/1986	38.00 - 55.49	55.50 - 74.49	74.50	31.60	39.20	46.75
06/04/1987	39.00 - 76.49	-	76.50	32.85	-	47.20
06/04/1988	41.00 - 79.49	-	79.50	34.25	-	49.20
06/04/1989	43.00 - 83.99	-	84.00	36.25	-	52.10
06/04/1990	46.00 - 124.99	-	125.00	39.25	-	52.50
06/04/1991	52.00 - 184.99	-	185.00	43.50	-	52.50
06/04/1992	54.00 - 189.99	-	190.00	45.30	-	52.50
06/04/1993	56.00 - 194.99	-	195.00	46.95	-	52.50
06/04/1994	56.00 - 199.99	-	200.00	47.80	-	52.50
06/04/1995	-	-	58.00	-	-	52.50
06/04/1996	-	-	61.00	-	-	54.55
06/04/1997	-	-	62.00	-	-	55.70
06/04/1998	-	-	64.00	-	-	57.70
06/04/1999	-	-	66.00	-	-	59.55
06/04/2000	-	-	67.00	-	-	60.20
06/04/2001	-	-	72.00	-	-	62.20
06/04/2002	-	-	75.00	-	-	63.25
06/04/2003	-	-	77.00	-	-	64.35
06/04/2004	-	-	79.00	-	-	66.15
06/04/2005	-	-	82.00	-	-	68.20
06/04/2006	-	-	84.00	-	-	70.05
06/04/2007	-	-	87.00	-	-	72.55
06/04/2008	-	-	90.00	-	-	75.40
06/04/2009	-	-	95.00	-	-	79.15

<sup>1</sup> From 1995 there is a flat rate for all employees earning above the LEL for NICs.

Section 13: Other non-contributory benefits

**Table 13.6: Rates of Disability Benefit**

£ per week	Attendance Allowance		Carers Allowance <sup>1</sup>			Mobility Allowance					
	higher rate	lower rate	standard rate	Increase for:							
				dependent adult	each child						
11/1978	15.60	10.40	11.70	7.05	6.35 <sup>2</sup>	10.00 <sup>3</sup>					
11/1979	18.60	12.40	14.00	8.40	7.10	12.00					
11/1980	21.65	14.45	16.30	9.80	7.50	14.50					
11/1981	23.65	15.75	17.75	10.65	7.70	16.50					
11/1982	26.25	17.50	19.70	11.80	7.95	18.30					
11/1983	27.20	18.15	20.45	12.25	7.60	19.00					
11/1984	28.60	19.10	21.50	12.85	7.65	20.00					
11/1985	30.60	20.45	23.00	13.75	8.05	21.40					
07/1986	30.95	20.65	23.25	13.90	8.05	21.65					
04/1987	31.60	22.10	23.75	14.20	8.05	22.10					
04/1988	32.95	22.00	24.75	14.80	8.40	23.05					
04/1989	34.90	23.30	26.20	15.65	8.95	24.40					
04/1990	37.55	25.05	28.20	16.85	9.65	26.25					
04/1991	41.65	27.80	31.25	18.70	10.70	29.10					
				Eldest child	Additional children	Disability living allowance					
						Care component			Mobility Component		
						Highest	Middle	Lowest	Higher	Lower	
04/1992	43.55	28.95	32.55	19.45	9.75	10.85	43.35	28.95	11.55	30.30	11.55
04/1993	44.90	30.00	33.70	20.15	9.80	10.95	44.90	30.00	11.95	31.40	11.95
04/1994	45.70	30.55	34.50	20.65	9.80	11.00	45.70	30.55	12.15	31.95	12.15
04/1995	46.70	31.20	35.25	21.10	9.85	11.05	46.70	31.20	12.40	32.65	12.40
04/1996	48.50	32.40	36.60	21.90	9.90	11.15	48.50	32.40	12.90	33.90	12.90
04/1997	49.50	33.10	37.35	22.35	9.90	11.20	49.50	33.10	13.15	34.60	13.15
04/1998	51.30	34.30	38.70	23.15	9.90	11.30	51.30	34.30	13.60	35.85	13.60
04/1999	52.95	35.40	39.95	23.90	9.90	11.35	52.95	35.40	14.05	37.00	14.05
04/2000	53.55	35.80	40.40	24.15	9.85	11.05	53.55	35.80	14.20	37.40	14.20
04/2001	55.30	37.00	41.75	24.95	9.70	11.35	55.30	37.00	14.65	38.65	14.65
04/2002	56.25	37.65	42.45	25.35	9.65	11.35	56.25	37.65	14.90	39.30	14.90
04/2003	57.20	38.30	43.15	25.80	9.55	11.35	57.20	38.30	15.15	39.95	15.15
04/2004	58.80	39.95	44.35	26.50	9.55	11.35	58.80	39.95	15.55	41.05	15.55
04/2005	60.60	40.55	45.70	27.30	9.40	11.35	60.60	40.55	16.05	42.30	16.05
04/2006	62.25	41.65	46.95	28.05	9.25	11.35	62.25	41.65	16.50	43.45	16.50
04/2007	64.50	43.15	48.65	29.05	9.00	11.35	64.50	43.15	17.10	45.00	17.10
04/2008	67.00	44.85	50.55	30.20	8.75	11.35	67.00	44.85	17.75	46.75	17.75
04/2009	70.35	47.10	53.10	31.70	8.20	11.35	70.35	47.10	18.65	49.10	18.65

<sup>1</sup> From 1 April 2003 - previously Invalid Care Allowance.

<sup>2</sup> £5.35 from 2 April 1979 to 11 November 1979.

<sup>3</sup> From 5 July 1978.

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**Section 14: Time series**

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### **Description of tables**

14.1 Many of the tables below are constructed using series for mean male earnings, based on figures from the New Earnings Survey, and, since its introduction, the Annual Survey of Hours and Earnings, retail prices' inflation and the GDP deflator. The specimen household tables (Tables 14.6 to 14.9) use multiples of median all-employees earnings, for which reliable estimates only go back to 1983-84.

### **Supplementary Benefit and Income Support**

14.2 Table 14.1 gives financial year averages for Supplementary Benefit at the ordinary scale rate. From 1989-90 the rates quoted are Income Support for couples aged 18+ and single people aged 25+. In constant price terms<sup>1</sup> the level of support has declined slightly since the mid-1990s, but, as a proportion of average earnings, there has been a marked decline since the late 1970s. Further details on Supplementary Benefit and Income Support are shown in Section 10.

### **Unemployment support**

14.3 Table 14.2 shows the levels of Unemployment Benefit (UB) and Jobseeker's Allowance (JSA) for a single person on their own insurance and a married couple claiming on the husband's insurance. The figures for each financial year are shown in current prices, constant prices and as a percentage of average earnings. UB and JSA have fallen slightly in constant prices since the mid-1990s. As a proportion of average earnings, there has been a decline. Further details on UB and JSA are shown in Section 7.

### **Retirement Pension**

14.4 Table 14.3 shows the levels of Retirement Pension for a single person on their own insurance and a married couple claiming on the husband's insurance. The figures for each financial year are shown in current prices, constant prices and as a percentage of average earnings. It shows pensions trending upwards through the 1970s and early 1980s in constant price terms. After a dip in the late 1980s, real terms levels were stable through much of the 1990s before trending upwards again, but as a proportion of average earnings, there has been a decline. Further details on pensions are shown in Section 8.

### **Tax thresholds**

14.5 Table 14.4 shows the level of earnings at which tax becomes payable for a single person and a married man with two children with no other tax allowances or reliefs apart from the standard personal and child allowances. There has been a general downwards trend of thresholds as a percentage of average

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<sup>1</sup> The GDP deflator is used to produce the constant price series

earnings. This is particularly true for those with children, where thresholds fell from over 50 per cent of average earnings in the early 1970s to under 30 per cent at the beginning of the 1990s and currently stand at under 20 per cent.

### **Value of child support**

14.6 As discussed in Sections 1 and 3, the form of child support has changed over the period. Until 1977-78, Child Tax Allowances and Family Allowances were the main method of support. In 1977, Child Benefit replaced Family Allowance and Child Tax Allowances were phased out, finally being abolished in April 1979.

14.7 Additional child support was available for low-income families via the benefit system. Family Income Supplement, introduced in 1971, provided support for families where at least one adult was in full time work. The more generous Family Credit replaced this in 1988. This additional child support was transferred to the tax system and enhanced in October 1999 with the introduction of the Working Families' Tax Credit. In April 2003 Working Tax Credit and Child Tax Credit replaced Working Families Tax Credit (see Section 2 for more details).

14.8 Table 14.5 shows the value of child support for a family with two children on male mean earnings over the last 30 years. This type of family would not have qualified for the additional child support for low-income families described in the previous paragraph. After the abolition of Family Allowance and Child Tax Allowances in 1979, the figures in this table represent Child Benefit alone until 2001-02. The figures for 2001-02 and 2002-03 include the Children's Tax Credit, which replaced the Married Couple's Allowance and which was an additional tax allowance at a flat rate of 10 per cent for families with children. This was available, in full, for all families where the top earner's gross income was below the higher tax rate threshold. The 2003-04 and subsequent figures include Child Tax Credit.

### **Burden of taxation on specimen families**

14.9 Tables 14.6 to 14.9 present measures of the burden of taxes and national insurance contributions (NICs) for specimen families on various multiples of median all-employees earnings. Tax payments and NICs are shown in cash terms and as a percentage of gross income. Table 14.10 shows a longer time series of the tax burden on a single earner couple with two children on male mean earnings. It also gives the median all-employees earnings figures back to 1983-84 for comparison.

### **Number of taxpayers and income tax liabilities**

14.10 The final table shows numbers and types of taxpayers going back to the late 1970s.

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Section 14: Time series

**Table 14.1: Supplementary Benefit / Income Support**

	Single person ordinary scale			Married couple ordinary scale		
	Current prices <sup>1</sup> £ per week	Constant 2009-10 prices £ per week	As a % of male average earnings	Current prices <sup>1</sup> £ per week	Constant 2009-10 Prices £ per week	As a % of male average earnings
1970-71	5.00	56.73	16.2	8.10	91.90	26.3
1971-72	5.50	57.29	16.2	9.00	93.74	26.5
1972-73	6.20	59.51	16.1	10.10	96.95	26.3
1973-74	6.90	61.77	15.9	11.20	100.27	25.8
1974-75	8.00	59.87	15.1	13.10	98.04	24.8
1975-76	10.20	60.85	15.6	16.60	99.03	25.3
1976-77	11.60	60.93	15.7	18.90	99.28	25.5
1977-78	13.40	61.91	16.6	21.80	100.72	27.0
1978-79	14.90	62.02	16.1	24.20	100.74	26.1
1979-80	16.70	59.47	15.3	27.10	96.50	24.8
1980-81	19.40	58.38	14.8	31.50	94.79	24.0
1981-82	22.00	60.39	15.1	37.80	103.76	25.9
1982-83	24.20	62.12	15.4	39.20	100.62	24.9
1983-84	26.10	64.02	15.3	42.40	104.01	24.8
1984-85	27.30	63.57	14.8	44.30	103.15	23.9
1985-86	28.60	63.05	14.4	46.40	102.29	23.4
1986-87	29.70	63.44	13.9	48.20	102.95	22.5
1987-88	30.40	61.41	13.0	49.40	99.80	21.1
1988-89	33.40	63.19	13.0	51.50	97.43	20.1
1989-90 <sup>2</sup>	34.90	61.63	12.5	54.80	96.78	19.6
1990-91	36.70	60.08	12.0	57.60	94.29	18.8
1991-92	39.70	61.36	12.1	62.30	96.28	19.0
1992-93	42.50	63.72	12.2	66.60	99.85	19.2
1993-94	44.00	64.21	12.3	69.00	100.69	19.2
1994-95	45.70	65.66	12.4	71.70	103.02	19.4
1995-96	46.50	64.93	12.2	73.00	101.94	19.2
1996-97	47.90	64.50	12.0	75.20	101.26	18.9
1997-98	49.20	64.56	11.5	77.20	101.30	18.1
1998-99	50.40	64.75	11.3	79.00	101.50	17.7
1999-00	51.40	64.77	11.1	80.65	101.62	17.4
2000-01	52.20	64.92	10.8	81.95	101.92	16.9
2001-02	53.05	64.54	10.4	83.25	101.28	16.3
2002-03	53.95	63.59	10.2	84.65	99.77	15.9
2003-04	54.65	62.63	10.0	85.75	98.27	15.8
2004-05	55.65	62.08	10.0	87.30	97.39	15.6
2005-06	56.20	61.44	9.7	88.15	96.37	15.2
2006-07	57.45	61.13	9.6	90.10	95.87	15.0
2007-08	59.15	61.24	9.6	92.80	96.07	15.0
2008-09	60.50	61.11	9.4	94.95	95.90	14.8
2009-10	64.30	64.30	9.7	100.95	100.95	15.3

<sup>1</sup> Calculated by weighting each rate in force in the financial year by the number of weeks it was in force for. For example, from 1980-81 to 1985-86 this meant 33 weeks at the original rate and 19 weeks at the subsequent rate.

<sup>2</sup> From 1989-90 the rates quoted are Income Support for couples aged 18+ and single people aged 25+.

Section 14: Time series

**Table 14.2: Unemployment Benefit/ Jobseeker's Allowance**

	Single person on own insurance			Married couple on husband's insurance		
	Current prices <sup>1</sup> £ per week	Constant 2009-10 prices £ per week	As a % of male average earnings	Current prices <sup>1</sup> £ per week	Constant 2009-10 Prices £ per week	As a % of male average earnings
1970-71	5.00	56.73	16.2	8.10	91.90	26.3
1971-72	5.54	57.70	16.3	8.96	93.33	26.4
1972-73	6.38	61.24	16.6	10.30	98.87	26.8
1973-74	7.05	63.11	16.2	11.40	102.06	26.3
1974-75	8.22	61.52	15.5	13.28	99.39	25.1
1975-76	10.25	61.15	15.6	16.63	99.21	25.4
1976-77	11.75	61.72	15.9	19.12	100.44	25.8
1977-78	13.59	62.79	16.8	22.02	101.74	27.3
1978-79	15.10	62.86	16.3	24.45	101.78	26.3
1979-80	16.81	59.86	15.4	27.21	96.89	24.9
1980-81	19.24	57.90	14.6	31.14	93.70	23.7
1981-82	21.33	58.55	14.6	34.50	94.70	23.6
1982-83	23.41	60.09	14.9	37.88	97.23	24.1
1983-84	25.75	63.17	15.1	41.66	102.19	24.4
1984-85	27.53	64.10	14.9	44.53	103.69	24.1
1985-86	29.18	64.33	14.7	47.19	104.03	23.8
1986-87	30.69	65.55	14.4	49.62	105.98	23.2
1987-88	31.45	63.54	13.5	50.85	102.73	21.8
1988-89	32.75	61.96	12.8	52.95	100.17	20.7
1989-90	34.70	61.28	12.4	56.10	99.07	20.0
1990-91	37.35	61.14	12.2	60.40	98.87	19.7
1991-92	41.40	63.98	12.6	66.95	103.47	20.4
1992-93	43.10	64.62	12.4	69.70	104.50	20.0
1993-94	44.65	65.16	12.4	72.20	105.36	20.1
1994-95	45.45	65.30	12.3	73.50	105.60	19.9
1995-96	46.45	64.86	12.2	75.10	104.87	19.7
1996-97 <sup>2</sup>	48.25	64.97	12.1	78.00	105.03	19.6
1996-97 <sup>2</sup>	47.90	64.50	12.0	75.20	101.26	18.9
1997-98	49.15	64.49	11.5	77.15	101.23	18.1
1998-99	50.35	64.69	11.3	79.00	101.50	17.7
1999-00	51.40	64.77	11.1	80.65	101.62	17.4
2000-01	52.20	64.92	10.8	81.95	101.92	16.9
2001-02	53.05	64.54	10.4	83.25	101.28	16.3
2002-03	53.95	63.59	10.2	84.65	99.77	15.9
2003-04	54.65	62.63	10.0	85.75	98.27	15.8
2004-05	55.65	62.08	10.0	87.30	97.39	15.6
2005-06	56.20	61.44	9.7	88.15	96.37	15.2
2006-07	57.45	61.13	9.6	90.10	95.87	15.0
2007-08	59.15	61.24	9.6	92.80	96.07	15.0
2008-09	60.50	61.11	9.4	94.95	95.90	14.8
2009-10	64.30	64.30	9.7	100.95	100.95	15.3

<sup>1</sup> Calculated by weighting each rate in force in the financial year by the number of weeks it was in force for. For example, from 1980-81 to 1985-86 this meant 33 weeks at the original rate and 19 weeks at the subsequent rate.

<sup>2</sup> Jobseeker's Allowance replaced Unemployment Benefit on 7 October 1996. The first 1996-97 figure in this table gives the Unemployment Benefit rate, the second the Jobseeker's Allowance rate.



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**Table 14.3: Retirement Pension: standard rate (under 80s)**

	Single person on own insurance			Married couple on husband's insurance		
	Current prices <sup>1</sup> £ per week	Constant 2009-10 prices £ per week	As a % of male average earnings	Current prices <sup>1</sup> £ per week	Constant 2009-10 Prices £ per week	As a % of male average earnings
1970-71	5.00	56.73	16.2	8.10	91.90	26.3
1971-72	5.54	57.70	16.3	8.96	93.33	26.4
1972-73	6.36	61.05	16.6	10.28	98.68	26.8
1973-74	7.27	65.08	16.8	11.73	105.01	27.0
1974-75	9.35	69.97	17.7	14.99	112.18	28.3
1975-76	12.25	73.08	18.7	19.54	116.57	29.8
1976-77	14.07	73.91	19.0	22.47	118.03	30.3
1977-78	16.15	74.62	20.0	25.85	119.43	32.0
1978-79	18.27	76.05	19.7	29.30	121.97	31.6
1979-80	20.96	74.64	19.2	33.55	119.47	30.7
1980-81	24.71	74.35	18.8	39.55	119.01	30.1
1981-82	28.05	77.00	19.2	44.88	123.20	30.8
1982-83	30.79	79.03	19.6	49.25	126.42	31.3
1983-84	33.29	81.66	19.5	52.36	128.44	30.6
1984-85	34.69	80.77	18.8	55.52	129.28	30.0
1985-86	36.71	80.93	18.5	58.76	129.54	29.6
1986-87	38.57	82.38	18.0	61.74	131.87	28.9
1987-88	39.50	79.80	16.9	63.25	127.78	27.1
1988-89	41.15	77.85	16.1	65.90	124.67	25.7
1989-90	43.60	77.00	15.6	69.80	123.27	24.9
1990-91	46.90	76.77	15.3	75.10	122.94	24.5
1991-92	52.00	80.36	15.8	83.25	128.66	25.3
1992-93	54.15	81.18	15.6	86.70	129.98	24.9
1993-94	56.10	81.87	15.6	89.80	131.04	25.0
1994-95	57.60	82.76	15.6	92.10	132.33	25.0
1995-96	58.85	82.18	15.4	94.10	131.40	24.7
1996-97	61.15	82.34	15.4	97.75	131.63	24.6
1997-98	62.45	81.94	14.6	99.80	130.95	23.4
1998-99	64.70	83.13	14.5	103.40	132.85	23.2
1999-00	66.75	84.11	14.4	106.70	134.45	23.1
2000-01	67.50	83.95	13.9	107.90	134.20	22.2
2001-02	72.50	88.20	14.2	115.90	141.01	22.7
2002-03	75.50	88.99	14.2	120.70	142.26	22.7
2003-04	77.45	88.75	14.2	123.80	141.87	22.8
2004-05	79.60	88.80	14.2	127.25	141.96	22.8
2005-06	82.05	89.70	14.1	131.20	143.43	22.6
2006-07	84.25	89.65	14.1	134.75	143.39	22.5
2007-08	87.30	90.38	14.1	139.60	144.52	22.6
2008-09	90.70	91.61	14.2	145.05	146.50	22.7
2009-10	95.25	95.25	14.4	152.30	152.30	23.0

<sup>1</sup> Calculated by weighting each rate in force in the financial year by the number of weeks it was in force for. For example, from 1980-81 to 1985-86 this meant 33 weeks at the original rate and 19 weeks at the subsequent rate.

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**Table 14.4: Income tax thresholds**

	Single person			Married man 2 children		
	Current prices <sup>1</sup> £ per annum	Constant 2009-10 prices £ per annum	As a % of annual male average earnings	Current prices <sup>1</sup> £ per annum	Constant 2009-10 Prices £ per annum	As a % of annual male average earnings
1970-71	418	4,742	26.1	894	10,143	55.8
1971-72	418	4,354	23.7	996	10,374	56.5
1972-73	591	5,673	29.6	1,170	11,231	58.6
1973-74	595	5,327	26.4	1,175	10,519	52.1
1974-75	625	4,677	22.7	1,345	10,066	48.9
1975-76	675	4,027	19.8	1,435	8,561	42.1
1976-77	735	3,861	19.1	1,685	8,851	43.7
1977-78	945	4,366	22.5	1,821	8,413	43.4
1978-79	985	4,100	20.4	1,735	7,222	36.0
1979-80	1,165	4,149	20.5	1,815	6,463	31.9
1980-81	1,375	4,138	20.1	2,145	6,455	31.4
1981-82	1,375	3,774	18.1	2,145	5,888	28.3
1982-83	1,565	4,017	19.1	2,445	6,276	29.9
1983-84	1,785	4,379	20.1	2,795	6,856	31.4
1984-85	2,005	4,669	20.8	3,155	7,346	32.8
1985-86	2,205	4,861	21.4	3,455	7,617	33.5
1986-87	2,335	4,987	21.0	3,655	7,807	32.9
1987-88	2,425	4,899	20.0	3,795	7,667	31.2
1988-89	2,605	4,928	19.5	4,095	7,747	30.7
1989-90	2,785	4,918	19.1	4,375	7,726	30.1
1990-91	3,005	4,919	18.9	4,725	7,735	29.7
1991-92	3,295	5,092	19.3	5,015	7,751	29.3
1992-93	3,445	5,165	19.1	5,165	7,744	28.6
1993-94	3,445	5,027	18.4	5,165	7,537	27.7
1994-95	3,445	4,950	17.9	5,165	7,421	26.9
1995-96 <sup>2</sup>	3,525	4,922	17.8	4,815	6,724	24.3
1996-97 <sup>2</sup>	3,765	5,070	18.2	5,108	6,878	24.7
1997-98 <sup>2</sup>	4,045	5,308	18.2	5,418	7,109	24.4
1998-99 <sup>2</sup>	4,195	5,390	18.1	5,620	7,221	24.2
1999-00 <sup>3</sup>	4,335	5,462	18.0	6,039	7,609	25.1
2000-01 <sup>4</sup>	4,385	5,454	17.4	4,385	5,454	17.4
2001-02 <sup>5</sup>	4,535	5,517	17.1	7,925	9,642	29.8
2002-03 <sup>5</sup>	4,615	5,439	16.7	8,067	9,508	29.2
2003-04 <sup>6</sup>	4,615	5,289	16.3	4,615	5,289	16.3
2004-05	4,745	5,294	16.3	4,745	5,294	16.3
2005-06	4,895	5,351	16.2	4,895	5,351	16.2
2006-07	5,035	5,358	16.2	5,035	5,358	16.2
2007-08	5,225	5,409	16.2	5,225	5,409	16.2
2008-09	6,035	6,095	18.1	6,035	6,095	18.1
2009-10	6,475	6,475	18.8	6,475	6,475	18.8

<sup>1</sup> These are the levels of earnings at which liability to tax arises. Prior to 1973-74 they therefore take account of the availability of earned income relief.

<sup>2</sup> In 1995-96 the tax threshold for a married man went down because the increase in the personal allowance was less than the reduction in the value of the MCA. (From 1995-96 the MCA was only available at 15% so the effective tax threshold is calculated as  $3525 + (15/20 \times 1720) = 4815$ .)

<sup>3</sup> For 1999-2000 the MCA was only available at 10% and the 10p rate affected the threshold.

<sup>4</sup> MCA was abolished for people under 65 from April 2000. The results for a married man are the same as a single person for 2000-01.

<sup>5</sup> The 2001-02 and 2002-03 figures include Children's Tax Credit.

<sup>6</sup> Children's Tax Credit was abolished in April 2003 and replaced with the Child Tax Credit. Child Tax Credit is a direct payment rather than a tax relief, and is therefore not included in the figures.

**Table 14.5: Value of child support for a married couple on male average earnings with two children<sup>1</sup>**

	Current prices £ per week	Constant 2009-10 Prices £ per week	As a % of male average earnings
1973-74	2.59	23.19	6.0
1974-75	3.32	24.85	6.3
1975-76	3.86	23.03	5.9
1976-77	4.66	24.48	6.3
1977-78	4.72	21.81	5.8
1978-79	6.41	26.68	6.9
1979-80	8.00	28.49	7.3
1980-81	8.55	25.73	6.5
1981-82	9.87	27.09	6.8
1982-83	10.94	28.08	7.0
1983-84	12.18	29.88	7.1
1984-85	13.26	30.88	7.2
1985-86	13.81	30.44	7.0
1986-87	14.14	30.20	6.6
1987-88	14.50	29.29	6.2
1988-89	14.50	27.43	5.7
1989-90	14.50	25.61	5.2
1990-91	14.50	23.74	4.7
1991-92	16.13	24.93	4.9
1992-93	17.45	26.16	5.0
1993-94	18.10	26.41	5.0
1994-95	18.45	26.51	5.0
1995-96	18.85	26.32	4.9
1996-97	19.60	26.39	4.9
1997-98	20.05	26.31	4.7
1998-99	20.75	26.66	4.7
1999-00	24.00	30.24	5.2
2000-01	25.00	31.09	5.2
2001-02 <sup>2</sup>	35.85	43.62	7.0
2002-03 <sup>2</sup>	36.47	42.98	6.9
2003-04 <sup>3</sup>	37.23	42.66	6.8
2004-05 <sup>3</sup>	38.05	42.45	6.8
2005-06	38.90	42.53	6.7
2006-07	39.65	42.19	6.6
2007-08	40.65	42.08	6.6
2008-09	41.85	42.27	6.5
2009-10	43.70	43.70	6.6

<sup>1</sup> Both children are assumed to be under the age of 11 for child tax allowance purposes.

<sup>2</sup> Includes Children's Tax Credit.

<sup>3</sup> Includes Child Tax Credit.

**14.6: Single person income tax and NICs**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1983-84</b>										
Gross income	68.63	102.94	137.25	205.88	274.50					
Income tax	10.29	20.58	30.88	51.46	72.05	15.0	20.0	22.5	25.0	26.2
NICs	6.18	9.26	12.35	18.53	21.15	9.0	9.0	9.0	9.0	7.7
Income tax and NICs	16.47	29.85	43.23	69.99	93.20	24.0	29.0	31.5	34.0	34.0
<b>1984-85</b>										
Gross income	73.70	110.55	147.40	221.10	294.80					
Income tax	10.54	21.60	32.65	54.76	76.87	14.3	19.5	22.2	24.8	26.1
NICs	6.63	9.95	13.27	19.90	22.50	9.0	9.0	9.0	9.0	7.6
Income tax and NICs	17.18	31.55	45.92	74.66	99.37	23.3	28.5	31.2	33.8	33.7
<b>1985-86</b>										
Gross income	79.04	118.56	158.09	237.13	316.17					
Income tax	10.99	22.85	34.70	58.42	82.13	13.9	19.3	22.0	24.6	26.0
NICs	6.32	10.67	14.23	21.34	23.85	8.0	9.0	9.0	9.0	7.5
Income tax and NICs	17.31	33.52	48.93	79.76	105.98	21.9	28.3	31.0	33.6	33.5
<b>1986-87</b>										
Gross income	84.68	127.02	169.36	254.04	338.72					
Income tax	11.54	23.81	36.09	60.65	85.21	13.6	18.7	21.3	23.9	25.2
NICs	5.93	11.43	15.24	22.86	25.65	7.0	9.0	9.0	9.0	7.6
Income tax and NICs	17.46	35.25	51.33	83.51	110.86	20.6	27.7	30.3	32.9	32.7
<b>1987-88</b>										
Gross income	91.62	137.43	183.24	274.85	366.47					
Income tax	12.15	24.51	36.88	61.62	86.36	13.3	17.8	20.1	22.4	23.6
NICs	6.41	12.37	16.49	24.74	26.55	7.0	9.0	9.0	9.0	7.2
Income tax and NICs	18.56	36.88	53.37	86.36	112.91	20.3	26.8	29.1	31.4	30.8
<b>1988-89</b>										
Gross income	100.18	150.27	200.36	300.54	400.72					
Income tax	12.52	25.04	37.57	62.61	87.66	12.5	16.7	18.7	20.8	21.9
NICs	7.01	13.52	18.03	27.05	27.45	7.0	9.0	9.0	9.0	6.9
Income tax and NICs	19.53	38.57	55.60	89.66	115.11	19.5	25.7	27.7	29.8	28.7
<b>1989-90</b>										
Gross income	109.67	164.50	219.33	329.00	438.66					
Income tax	14.03	27.73	41.44	68.86	96.28	12.8	16.9	18.9	20.9	21.9
NICs	7.27	13.30	18.23	27.75	27.75	6.6	8.1	8.3	8.4	6.3
Income tax and NICs	21.30	41.03	59.68	96.60	124.02	19.4	24.9	27.2	29.4	28.3
<b>1990-91</b>										
Gross income	119.10	178.64	238.19	357.29	476.38					
Income tax	15.33	30.21	45.10	74.87	107.73	12.9	16.9	18.9	21.0	22.6
NICs	7.50	12.86	18.22	28.28	28.28	6.3	7.2	7.6	7.9	5.9
Income tax and NICs	22.83	43.07	63.32	103.15	136.01	19.2	24.1	26.6	28.9	28.5
<b>1991-92</b>										
Gross income	127.92	191.87	255.83	383.75	511.66					
Income tax	16.14	32.13	48.12	80.09	112.07	12.6	16.7	18.8	20.9	21.9
NICs	7.87	13.63	19.38	30.90	31.46	6.2	7.1	7.6	8.1	6.1
Income tax and NICs	24.01	45.76	67.50	110.99	143.53	18.8	23.8	26.4	28.9	28.1
<b>1992-93</b>										
Gross income	134.54	201.81	269.08	403.61	538.15					
Income tax	15.15	31.97	48.78	82.42	118.47	11.3	15.8	18.1	20.4	22.0
NICs	8.33	14.38	20.44	32.55	32.67	6.2	7.1	7.6	8.1	6.1
Income tax and NICs	23.48	46.35	69.22	114.96	151.14	17.5	23.0	25.7	28.5	28.1
<b>1993-94</b>										
Gross income	138.64	207.96	277.28	415.92	554.56					
Income tax	15.69	33.02	50.35	85.01	124.55	11.3	15.9	18.2	20.4	22.5
NICs	8.56	14.80	21.04	33.51	33.88	6.2	7.1	7.6	8.1	6.1
Income tax and NICs	24.25	47.82	71.39	118.53	158.43	17.5	23.0	25.7	28.5	28.6

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**14.6: Single person income tax and NICs (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1994-95</b>										
Gross income	143.00	214.49	285.99	428.99	571.98					
Income tax	16.30	34.18	52.05	87.80	131.04	11.4	15.9	18.2	20.5	22.9
NICs	9.74	16.89	24.04	38.34	38.44	6.8	7.9	8.4	8.9	6.7
Income tax and NICs	26.04	51.07	76.09	126.14	169.48	18.2	23.8	26.6	29.4	29.6
<b>1995-96</b>										
Gross income	148.00	222.00	296.00	443.99	591.99					
Income tax	16.98	35.48	53.97	90.97	136.51	11.5	16.0	18.2	20.5	23.1
NICs	10.16	17.56	24.96	39.36	39.36	6.9	7.9	8.4	8.9	6.6
Income tax and NICs	27.14	53.03	78.93	130.33	175.87	18.3	23.9	26.7	29.4	29.7
<b>1996-97</b>										
Gross income	153.98	230.97	307.96	461.94	615.92					
Income tax	16.58	35.06	53.53	90.49	135.94	10.8	15.2	17.4	19.6	22.1
NICs	10.52	18.22	25.92	40.62	40.62	6.8	7.9	8.4	8.8	6.6
Income tax and NICs	27.10	53.27	79.45	131.11	176.56	17.6	23.1	25.8	28.4	28.7
<b>1997-98</b>										
Gross income	163.85	245.78	327.70	491.55	655.40					
Income tax	17.43	36.27	55.11	92.80	143.35	10.6	14.8	16.8	18.9	21.9
NICs	11.43	19.62	27.81	41.54	41.54	7.0	8.0	8.5	8.5	6.3
Income tax and NICs	28.85	55.89	82.92	134.34	184.89	17.6	22.7	25.3	27.3	28.2
<b>1998-99</b>										
Gross income	170.10	255.15	340.20	510.30	680.40					
Income tax	18.09	37.65	57.21	96.33	148.81	10.6	14.8	16.8	18.9	21.9
NICs	11.89	20.40	28.90	43.38	43.38	7.0	8.0	8.5	8.5	6.4
Income tax and NICs	29.98	58.04	86.11	139.71	192.19	17.6	22.7	25.3	27.4	28.2
<b>1999-00</b>										
Gross income	176.15	264.23	352.30	528.45	704.60					
Income tax	17.59	37.85	58.10	98.62	153.21	10.0	14.3	16.5	18.7	21.7
NICs	11.02	19.82	28.63	43.40	43.40	6.3	7.5	8.1	8.2	6.2
Income tax and NICs	28.61	57.67	86.73	142.02	196.61	16.2	21.8	24.6	26.9	27.9
<b>2000-01</b>										
Gross income	183.75	275.63	367.50	551.25	735.00					
Income tax	18.37	38.58	58.79	99.22	158.45	10.0	14.0	16.0	18.0	21.6
NICs	10.78	19.96	29.15	45.90	45.90	5.9	7.2	7.9	8.3	6.2
Income tax and NICs	29.15	58.54	87.94	145.12	204.35	15.9	21.2	23.9	26.3	27.8
<b>2001-02</b>										
Gross income	196.70	295.05	393.40	590.10	786.80					
Income tax	19.75	41.39	63.02	106.30	173.73	10.0	14.0	16.0	18.0	22.1
NICs	10.97	20.81	30.64	48.80	48.80	5.6	7.1	7.8	8.3	6.2
Income tax and NICs	30.72	62.19	93.66	155.10	222.53	15.6	21.1	23.8	26.3	28.3
<b>2002-03</b>										
Gross income	198.75	298.13	397.50	596.25	795.00					
Income tax	19.77	41.63	63.49	107.22	174.57	9.9	14.0	16.0	18.0	22.0
NICs	10.98	20.91	30.85	49.60	49.60	5.5	7.0	7.8	8.3	6.2
Income tax and NICs	30.75	62.54	94.34	156.82	224.17	15.5	21.0	23.7	26.3	28.2
<b>2003-04</b>										
Gross income	205.90	308.85	411.80	617.70	823.60					
Income tax	21.25	43.90	66.55	111.85	183.84	10.3	14.2	16.2	18.1	22.3
NICs	12.86	24.18	35.51	55.89	57.95	6.2	7.8	8.6	9.0	7.0
Income tax and NICs	34.11	68.08	102.06	167.74	241.79	16.6	22.0	24.8	27.2	29.4

**14.6: Single person income tax and NICs (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>2004-05</b>										
Gross income	212.70	319.05	425.40	638.10	850.80					
Income tax	22.06	45.45	68.85	115.65	190.47	10.4	14.2	16.2	18.1	22.4
NICs	13.39	25.09	36.78	57.37	59.50	6.3	7.9	8.6	9.0	7.0
Income tax and NICs	35.45	70.54	105.63	173.02	249.97	16.7	22.1	24.8	27.1	29.4
<b>2005-06</b>										
Gross income	219.58	329.36	439.15	658.73	878.30					
Income tax	22.77	46.93	71.08	119.39	196.69	10.4	14.2	16.2	18.1	22.4
NICs	13.81	25.89	37.97	59.25	61.44	6.3	7.9	8.6	9.0	7.0
Income tax and NICs	36.59	72.82	109.05	178.63	258.13	16.7	22.1	24.8	27.1	29.4
<b>2006-07</b>										
Gross income	225.95	338.93	451.90	677.85	903.80					
Income tax	23.45	48.30	73.15	122.86	202.56	10.4	14.3	16.2	18.1	22.4
NICs	14.18	26.61	39.04	60.61	62.87	6.3	7.9	8.6	8.9	7.0
Income tax and NICs	37.63	74.91	112.19	183.47	265.43	16.7	22.1	24.8	27.1	29.4
<b>2007-08</b>										
Gross income	233.85	350.78	467.70	701.55	935.40					
Income tax	24.20	49.92	75.64	127.09	209.05	10.3	14.2	16.2	18.1	22.3
NICs	14.72	27.59	40.45	63.02	65.35	6.3	7.9	8.6	9.0	7.0
Income tax and NICs	38.92	77.50	116.09	190.10	274.41	16.6	22.1	24.8	27.1	29.3
<b>2008-09</b>										
Gross income	242.00	363.00	484.00	726.00	968.00					
Income tax	25.19	49.39	73.59	121.99	200.01	10.4	13.6	15.2	16.8	20.7
NICs	15.07	28.38	41.69	68.31	75.13	6.2	7.8	8.6	9.4	7.8
Income tax and NICs	40.26	77.77	115.28	190.30	275.14	16.6	21.4	23.8	26.2	28.4
<b>2009-10</b>										
Gross income	250.00	375.00	500.00	750.00	1000.00					
Income tax	25.10	50.10	75.10	125.10	206.35	10.0	13.4	15.0	16.7	20.6
NICs	15.40	29.15	42.90	70.40	82.30	6.2	7.8	8.6	9.4	8.2
Income tax and NICs	40.50	79.25	118.00	195.50	288.65	16.2	21.1	23.6	26.1	28.9

Section 14: Time series

**Table 14.7: One-earner married couple, with no children, income tax and NICs**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1983-84</b>										
Gross income	68.63	102.94	137.25	205.88	274.50					
Income tax	4.46	14.76	25.05	45.64	66.23	6.5	14.3	18.3	22.2	24.1
NICs	6.18	9.26	12.35	18.53	21.15	9.0	9.0	9.0	9.0	7.7
Income tax and NICs	10.64	24.02	37.40	64.17	87.38	15.5	23.3	27.3	31.2	31.8
<b>1984-85</b>										
Gross income	73.70	110.55	147.40	221.10	294.80					
Income tax	3.91	14.96	26.02	48.13	70.24	5.3	13.5	17.7	21.8	23.8
NICs	6.63	9.95	13.27	19.90	22.50	9.0	9.0	9.0	9.0	7.6
Income tax and NICs	10.54	24.91	39.28	68.03	92.74	14.3	22.5	26.7	30.8	31.5
<b>1985-86</b>										
Gross income	79.04	118.56	158.09	237.13	316.17					
Income tax	3.78	15.64	27.49	51.21	74.92	4.8	13.2	17.4	21.6	23.7
NICs	6.32	10.67	14.23	21.34	23.85	8.0	9.0	9.0	9.0	7.5
Income tax and NICs	10.10	26.31	41.72	72.55	98.77	12.8	22.2	26.4	30.6	31.2
<b>1986-87</b>										
Gross income	84.68	127.02	169.36	254.04	338.72					
Income tax	4.17	16.45	28.73	53.29	77.85	4.9	13.0	17.0	21.0	23.0
NICs	5.93	11.43	15.24	22.86	25.65	7.0	9.0	9.0	9.0	7.6
Income tax and NICs	10.10	27.88	43.97	76.15	103.50	11.9	22.0	26.0	30.0	30.6
<b>1987-88</b>										
Gross income	91.62	137.43	183.24	274.85	366.47					
Income tax	5.03	17.40	29.77	54.51	79.24	5.5	12.7	16.2	19.8	21.6
NICs	6.41	12.37	16.49	24.74	26.55	7.0	9.0	9.0	9.0	7.2
Income tax and NICs	11.45	29.77	46.26	79.24	105.79	12.5	21.7	25.2	28.8	28.9
<b>1988-89</b>										
Gross income	100.18	150.27	200.36	300.54	400.72					
Income tax	5.36	17.88	30.40	55.45	80.49	5.3	11.9	15.2	18.4	20.1
NICs	7.01	13.52	18.03	27.05	27.45	7.0	9.0	9.0	9.0	6.9
Income tax and NICs	12.37	31.40	48.43	82.50	107.94	12.3	20.9	24.2	27.4	26.9
<b>1989-90</b>										
Gross income	109.67	164.50	219.33	329.00	438.66					
Income tax	6.38	20.09	33.80	61.22	88.63	5.8	12.2	15.4	18.6	20.2
NICs	7.27	13.30	18.23	27.75	27.75	6.6	8.1	8.3	8.4	6.3
Income tax and NICs	13.65	33.39	52.03	88.96	116.38	12.4	20.3	23.7	27.0	26.5
<b>1990-91</b>										
Gross income	119.10	178.64	238.19	357.29	476.38					
Income tax	7.06	21.94	36.83	66.60	96.38	5.9	12.3	15.5	18.6	20.2
NICs	7.50	12.86	18.22	28.28	28.28	6.3	7.2	7.6	7.9	5.9
Income tax and NICs	14.56	34.80	55.05	94.88	124.66	12.2	19.5	23.1	26.6	26.2
<b>1991-92</b>										
Gross income	127.92	191.87	255.83	383.75	511.66					
Income tax	7.87	23.86	39.85	71.83	103.80	6.2	12.4	15.6	18.7	20.3
NICs	7.87	13.63	19.38	30.90	31.46	6.2	7.1	7.6	8.1	6.1
Income tax and NICs	15.74	37.49	59.23	102.72	135.26	12.3	19.5	23.2	26.8	26.4
<b>1992-93</b>										
Gross income	134.54	201.81	269.08	403.61	538.15					
Income tax	7.04	23.70	40.51	74.15	107.78	5.2	11.7	15.1	18.4	20.0
NICs	8.33	14.38	20.44	32.55	32.67	6.2	7.1	7.6	8.1	6.1
Income tax and NICs	15.37	38.08	60.95	106.69	140.45	11.4	18.9	22.7	26.4	26.1
<b>1993-94</b>										
Gross income	138.64	207.96	277.28	415.92	554.56					
Income tax	7.86	24.75	42.08	76.74	111.40	5.7	11.9	15.2	18.5	20.1
NICs	8.56	14.80	21.04	33.51	33.88	6.2	7.1	7.6	8.1	6.1
Income tax and NICs	16.42	39.55	63.12	110.26	145.28	11.8	19.0	22.8	26.5	26.2

Section 14: Time series

**Table 14.7: One-earner married couple, with no children, income tax and NICs (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1994-95</b>										
Gross income	143.00	214.49	285.99	428.99	571.98					
Income tax	9.69	27.56	45.44	81.18	124.43	6.8	12.8	15.9	18.9	21.8
NICs	9.74	16.89	24.04	38.34	38.44	6.8	7.9	8.4	8.9	6.7
Income tax and NICs	19.43	44.45	69.47	119.52	162.87	13.6	20.7	24.3	27.9	28.5
<b>1995-96</b>										
Gross income	148.00	222.00	296.00	443.99	591.99					
Income tax	12.01	30.51	49.01	86.01	131.55	8.1	13.7	16.6	19.4	22.2
NICs	10.16	17.56	24.96	39.36	39.36	6.9	7.9	8.4	8.9	6.6
Income tax and NICs	22.17	48.07	73.97	125.37	170.91	15.0	21.7	25.0	28.2	28.9
<b>1996-97</b>										
Gross income	153.98	230.97	307.96	461.94	615.92					
Income tax	11.41	29.89	48.37	85.33	130.78	7.4	12.9	15.7	18.5	21.2
NICs	10.52	18.22	25.92	40.62	40.62	6.8	7.9	8.4	8.8	6.6
Income tax and NICs	21.93	48.11	74.29	125.95	171.40	14.2	20.8	24.1	27.3	27.8
<b>1997-98</b>										
Gross income	163.85	245.78	327.70	491.55	655.40					
Income tax	12.15	30.99	49.84	87.52	138.07	7.4	12.6	15.2	17.8	21.1
NICs	11.43	19.62	27.81	41.54	41.54	7.0	8.0	8.5	8.5	6.3
Income tax and NICs	23.57	50.61	77.65	129.06	179.61	14.4	20.6	23.7	26.3	27.4
<b>1998-99</b>										
Gross income	170.10	255.15	340.20	510.30	680.40					
Income tax	12.61	32.17	51.73	90.85	143.33	7.4	12.6	15.2	17.8	21.1
NICs	11.89	20.40	28.90	43.38	43.38	7.0	8.0	8.5	8.5	6.4
Income tax and NICs	24.50	52.56	80.63	134.23	186.71	14.4	20.6	23.7	26.3	27.4
<b>1999-00</b>										
Gross income	176.15	264.23	352.30	528.45	704.60					
Income tax	13.80	34.06	54.32	94.83	149.42	7.8	12.9	15.4	17.9	21.2
NICs	11.02	19.82	28.63	43.40	43.40	6.3	7.5	8.1	8.2	6.2
Income tax and NICs	24.82	53.88	82.95	138.23	192.82	14.1	20.4	23.5	26.2	27.4
<b>2000-01</b>										
Gross income	183.75	275.63	367.50	551.25	735.00					
Income tax	18.37	38.58	58.79	99.22	158.45	10.0	14.0	16.0	18.0	21.6
NICs	10.78	19.96	29.15	45.90	45.90	5.9	7.2	7.9	8.3	6.2
Income tax and NICs	29.15	58.54	87.94	145.12	204.35	15.9	21.2	23.9	26.3	27.8
<b>2001-02</b>										
Gross income	196.70	295.05	393.40	590.10	786.80					
Income tax	19.75	41.39	63.02	106.30	173.73	10.0	14.0	16.0	18.0	22.1
NICs	10.97	20.81	30.64	48.80	48.80	5.6	7.1	7.8	8.3	6.2
Income tax and NICs	30.72	62.19	93.66	155.10	222.53	15.6	21.1	23.8	26.3	28.3
<b>2002-03</b>										
Gross income	198.75	298.13	397.50	596.25	795.00					
Income tax	19.77	41.63	63.49	107.22	174.57	9.9	14.0	16.0	18.0	22.0
NICs	10.98	20.91	30.85	49.60	49.60	5.5	7.0	7.8	8.3	6.2
Income tax and NICs	30.75	62.54	94.34	156.82	224.17	15.5	21.0	23.7	26.3	28.2
<b>2003-04</b>										
Gross income	205.90	308.85	411.80	617.70	823.60					
Income tax	21.25	43.90	66.55	111.85	183.84	10.3	14.2	16.2	18.1	22.3
NICs	12.86	24.18	35.51	55.89	57.95	6.2	7.8	8.6	9.0	7.0
Income tax and NICs	34.11	68.08	102.06	167.74	241.79	16.6	22.0	24.8	27.2	29.4



Section 14: Time series

**Table 14.7: One-earner married couple, with no children, income tax and NICs (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>2004-05</b>										
Gross income	212.70	319.05	425.40	638.10	850.80					
Income tax	22.06	45.45	68.85	115.65	190.47	10.4	14.2	16.2	18.1	22.4
NICs	13.39	25.09	36.78	57.37	59.50	6.3	7.9	8.6	9.0	7.0
Income tax ar	35.45	70.54	105.63	173.02	249.97	16.7	22.1	24.8	27.1	29.4
<b>2005-06</b>										
Gross income	219.58	329.36	439.15	658.73	878.30					
Income tax	22.77	46.93	71.08	119.39	196.69	10.4	14.2	16.2	18.1	22.4
NICs	13.81	25.89	37.97	59.25	61.44	6.3	7.9	8.6	9.0	7.0
Income tax ar	36.59	72.82	109.05	178.63	258.13	16.7	22.1	24.8	27.1	29.4
<b>2006-07</b>										
Gross income	225.95	338.93	451.90	677.85	903.80					
Income tax	23.45	48.30	73.15	122.86	202.56	10.4	14.3	16.2	18.1	22.4
NICs	14.18	26.61	39.04	60.61	62.87	6.3	7.9	8.6	8.9	7.0
Income tax ar	37.63	74.91	112.19	183.47	265.43	16.7	22.1	24.8	27.1	29.4
<b>2007-08</b>										
Gross income	233.85	350.78	467.70	701.55	935.40					
Income tax	24.20	49.92	75.64	127.09	209.05	10.3	14.2	16.2	18.1	22.3
NICs	14.72	27.59	40.45	63.02	65.35	6.3	7.9	8.6	9.0	7.0
Income tax ar	38.92	77.50	116.09	190.10	274.41	16.6	22.1	24.8	27.1	29.3
<b>2008-09</b>										
Gross income	242.00	363.00	484.00	726.00	968.00					
Income tax	25.19	49.39	73.59	121.99	200.01	10.4	13.6	15.2	16.8	20.7
NICs	15.07	28.38	41.69	68.31	75.13	6.2	7.8	8.6	9.4	7.8
Income tax ar	40.26	77.77	115.28	190.30	275.14	16.6	21.4	23.8	26.2	28.4
<b>2009-10</b>										
Gross income	250.00	375.00	500.00	750.00	1000.00					
Income tax	25.10	50.10	75.10	125.10	206.35	10.0	13.4	15.0	16.7	20.6
NICs	15.40	29.15	42.90	70.40	82.30	6.2	7.8	8.6	9.4	8.2
Income tax ar	40.50	79.25	118.00	195.50	288.65	16.2	21.1	23.6	26.1	28.9

Section 14: Time series

**Table 14.8: One-earner married couple, with 2 children, direct tax burden**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1983-84</b>										
Gross income	68.63	102.94	137.25	205.88	274.50					
Income tax	4.46	14.76	25.05	45.64	66.23	6.5	14.3	18.3	22.2	24.1
NICs	6.18	9.26	12.35	18.53	21.15	9.0	9.0	9.0	9.0	7.7
Child Benefit	12.18	12.18	12.18	12.18	12.18					
Direct tax burden	-1.54	11.84	25.22	51.99	75.20	-2.2	11.5	18.4	25.3	27.4
<i>Family income supplement</i>	12.06	0.00	0.00	0.00	0.00					
<i>Net of family income supplement</i>	-13.60	11.84	25.22	51.99	75.20	-19.8	11.5	18.4	25.3	27.4
<b>1984-85</b>										
Gross income	73.70	110.55	147.40	221.10	294.80					
Income tax	3.91	14.96	26.02	48.13	70.24	5.3	13.5	17.7	21.8	23.8
NICs	6.63	9.95	13.27	19.90	22.50	9.0	9.0	9.0	9.0	7.6
Child Benefit	13.26	13.26	13.26	13.26	13.26					
Direct tax burden	-2.72	11.65	26.02	54.77	79.48	-3.7	10.5	17.7	24.8	27.0
<i>Family income supplement</i>	11.55	0.00	0.00	0.00	0.00					
<i>Net of family income supplement</i>	-14.27	11.65	26.02	54.77	79.48	-19.4	10.5	17.7	24.8	27.0
<b>1985-86</b>										
Gross income	79.04	118.56	158.09	237.13	316.17					
Income tax	3.78	15.64	27.49	51.21	74.92	4.8	13.2	17.4	21.6	23.7
NICs	6.32	10.67	14.23	21.34	23.85	8.0	9.0	9.0	9.0	7.5
Child Benefit	13.80	13.80	13.80	13.80	13.80					
Direct tax burden	-3.70	12.51	27.92	58.75	84.97	-4.7	10.5	17.7	24.8	26.9
<i>Family income supplement</i>	12.04	0.00	0.00	0.00	0.00					
<i>Net of family income supplement</i>	-15.74	12.51	27.92	58.75	84.97	-19.9	10.5	17.7	24.8	26.9
<b>1986-87</b>										
Gross income	84.68	127.02	169.36	254.04	338.72					
Income tax	4.17	16.45	28.73	53.29	77.85	4.9	13.0	17.0	21.0	23.0
NICs	5.93	11.43	15.24	22.86	25.65	7.0	9.0	9.0	9.0	7.6
Child Benefit	14.14	14.14	14.14	14.14	14.14					
Direct tax burden	-4.04	13.74	29.83	62.01	89.36	-4.8	10.8	17.6	24.4	26.4
<i>Family income supplement</i>	12.58	0.00	0.00	0.00	0.00					
<i>Net of family income supplement</i>	-16.62	13.74	29.83	62.01	89.36	-19.6	10.8	17.6	24.4	26.4
<b>1987-88</b>										
Gross income	91.62	137.43	183.24	274.85	366.47					
Income tax	5.03	17.40	29.77	54.51	79.24	5.5	12.7	16.2	19.8	21.6
NICs	6.41	12.37	16.49	24.74	26.55	7.0	9.0	9.0	9.0	7.2
Child Benefit	14.50	14.50	14.50	14.50	14.50					
Direct tax burden	-3.05	15.27	31.76	64.74	91.29	-3.3	11.1	17.3	23.6	24.9
<i>Family income supplement</i>	10.49	0.00	0.00	0.00	0.00					
<i>Net of family income supplement</i>	-13.55	15.27	31.76	64.74	91.29	-14.8	11.1	17.3	23.6	24.9
<b>1988-89</b>										
Gross income	100.18	150.27	200.36	300.54	400.72					
Income tax	5.36	17.88	30.40	55.45	80.49	5.3	11.9	15.2	18.4	20.1
NICs	7.01	13.52	18.03	27.05	27.45	7.0	9.0	9.0	9.0	6.9
Child Benefit	14.50	14.50	14.50	14.50	14.50					
Direct tax burden	-2.13	16.90	33.93	68.00	93.44	-2.1	11.2	16.9	22.6	23.3
<i>Family credit</i>	18.75	0.00	0.00	0.00	0.00					
<i>Net of family credit</i>	-20.88	16.90	33.93	68.00	93.44	-20.8	11.2	16.9	22.6	23.3
<b>1989-90</b>										
Gross income	109.67	164.50	219.33	329.00	438.66					
Income tax	6.38	20.09	33.80	61.22	88.63	5.8	12.2	15.4	18.6	20.2
NICs	7.27	13.30	18.23	27.75	27.75	6.6	8.1	8.3	8.4	6.3
Child Benefit	14.50	14.50	14.50	14.50	14.50					
Direct tax burden	-0.85	18.89	37.53	74.46	101.88	-0.8	11.5	17.1	22.6	23.2
<i>Family Credit</i>	19.35	0.00	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-20.20	18.89	37.53	74.46	101.88	-18.4	11.5	17.1	22.6	23.2

Section 14: Time series

**Table 14.8: One-earner married couple, with 2 children, direct tax burden (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1990-91</b>										
Gross income	119.10	178.64	238.19	357.29	476.38					
Income tax	7.06	21.94	36.83	66.60	96.38	5.9	12.3	15.5	18.6	20.2
NICs	7.50	12.86	18.22	28.28	28.28	6.3	7.2	7.6	7.9	5.9
Child Benefit	14.50	14.50	14.50	14.50	14.50					
Direct tax burden	0.06	20.30	40.55	80.38	110.16	0.0	11.4	17.0	22.5	23.1
<i>Family Credit</i>	19.99	0.00	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-19.94	20.30	40.55	80.38	110.16	-16.7	11.4	17.0	22.5	23.1
<b>1991-92</b>										
Gross income	127.92	191.87	255.83	383.75	511.66					
Income tax	7.87	23.86	39.85	71.83	103.80	6.2	12.4	15.6	18.7	20.3
NICs	7.87	13.63	19.38	30.90	31.46	6.2	7.1	7.6	8.1	6.1
Child Benefit	16.13	16.13	16.13	16.13	16.13					
Direct tax burden	-0.38	21.36	43.11	86.60	119.14	-0.3	11.1	16.8	22.6	23.3
<i>Family Credit</i>	22.75	0.00	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-23.14	21.36	43.11	86.60	119.14	-18.1	11.1	16.8	22.6	23.3
<b>1992-93</b>										
Gross income	134.54	201.81	269.08	403.61	538.15					
Income tax	7.04	23.70	40.51	74.15	107.78	5.2	11.7	15.1	18.4	20.0
NICs	8.33	14.38	20.44	32.55	32.67	6.2	7.1	7.6	8.1	6.1
Child Benefit	17.45	17.45	17.45	17.45	17.45					
Direct tax burden	-2.08	20.63	43.50	89.24	123.00	-1.5	10.2	16.2	22.1	22.9
<i>Family Credit</i>	25.00	0.00	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-27.08	20.63	43.50	89.24	123.00	-20.1	10.2	16.2	22.1	22.9
<b>1993-94</b>										
Gross income	138.64	207.96	277.28	415.92	554.56					
Income tax	7.86	24.75	42.08	76.74	111.40	5.7	11.9	15.2	18.5	20.1
NICs	8.56	14.80	21.04	33.51	33.88	6.2	7.1	7.6	8.1	6.1
Child Benefit	18.10	18.10	18.10	18.10	18.10					
Direct tax burden	-1.68	21.45	45.02	92.16	127.18	-1.2	10.3	16.2	22.2	22.9
<i>Family Credit</i>	26.75	0.00	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-28.43	21.45	45.02	92.16	127.18	-20.5	10.3	16.2	22.2	22.9
<b>1994-95</b>										
Gross income	143.00	214.49	285.99	428.99	571.98					
Income tax	9.69	27.56	45.44	81.18	124.43	6.8	12.8	15.9	18.9	21.8
NICs	9.74	16.89	24.04	38.34	38.44	6.8	7.9	8.4	8.9	6.7
Child Benefit	18.45	18.45	18.45	18.45	18.45					
Direct tax burden	0.98	26.00	51.02	101.07	144.42	0.7	12.1	17.8	23.6	25.2
<i>Family Credit</i>	30.39	0.00	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-29.42	26.00	51.02	101.07	144.42	-20.6	12.1	17.8	23.6	25.2
<b>1995-96</b>										
Gross income	148.00	222.00	296.00	443.99	591.99					
Income tax	12.01	30.51	49.01	86.01	131.55	8.1	13.7	16.6	19.4	22.2
NICs	10.16	17.56	24.96	39.36	39.36	6.9	7.9	8.4	8.9	6.6
Child Benefit	18.85	18.85	18.85	18.85	18.85					
Direct tax burden	3.32	29.22	55.12	106.52	152.06	2.2	13.2	18.6	24.0	25.7
<i>Family Credit</i>	38.42	4.75	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-35.10	24.47	55.12	106.52	152.06	-23.7	11.0	18.6	24.0	25.7
<b>1996-97</b>										
Gross income	153.98	230.97	307.96	461.94	615.92					
Income tax	11.41	29.89	48.37	85.33	130.78	7.4	12.9	15.7	18.5	21.2
NICs	10.52	18.22	25.92	40.62	40.62	6.8	7.9	8.4	8.8	6.6
Child Benefit	19.60	19.60	19.60	19.60	19.60					
Direct tax burden	2.33	28.51	54.69	106.35	151.80	1.5	12.3	17.8	23.0	24.6
<i>Family Credit</i>	40.46	4.89	0.00	0.00	0.00					
<i>Net of Family Credit</i>	-38.12	23.62	54.69	106.35	151.80	-24.8	10.2	17.8	23.0	24.6

Section 14: Time series

**Table 14.8: One-earner married couple, with 2 children, direct tax burden (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1997-98</b>										
Gross income	163.85	245.78	327.70	491.55	655.40					
Income tax	12.15	30.99	49.84	87.52	138.07	7.4	12.6	15.2	17.8	21.1
NICs	11.43	19.62	27.81	41.54	41.54	7.0	8.0	8.5	8.5	6.3
Child Benefit	20.05	20.05	20.05	20.05	20.05					
Direct tax burden	3.52	30.56	57.60	109.01	159.56	2.2	12.4	17.6	22.2	24.3
<i>Family Credit</i>	<i>38.11</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>					
<i>Net of Family Credit</i>	<i>-34.59</i>	<i>30.56</i>	<i>57.60</i>	<i>109.01</i>	<i>159.56</i>	<i>-21.1</i>	<i>12.4</i>	<i>17.6</i>	<i>22.2</i>	<i>24.3</i>
<b>1998-99</b>										
Gross income	170.10	255.15	340.20	510.30	680.40					
Income tax	12.61	32.17	51.73	90.85	143.33	7.4	12.6	15.2	17.8	21.1
NICs	11.89	20.40	28.90	43.38	43.38	7.0	8.0	8.5	8.5	6.4
Child Benefit	20.75	20.75	20.75	20.75	20.75					
Direct tax burden	3.75	31.81	59.88	113.48	165.96	2.2	12.5	17.6	22.2	24.4
<i>Family Credit</i>	<i>37.68</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>					
<i>Net of Family Credit</i>	<i>-33.93</i>	<i>31.81</i>	<i>59.88</i>	<i>113.48</i>	<i>165.96</i>	<i>-19.9</i>	<i>12.5</i>	<i>17.6</i>	<i>22.2</i>	<i>24.4</i>
<b>1999-00</b>										
Gross income	176.15	264.23	352.30	528.45	704.60					
Income tax	13.80	34.06	54.32	94.83	149.42	7.8	12.9	15.4	17.9	21.2
NICs	11.02	19.82	28.63	43.40	43.40	6.3	7.5	8.1	8.2	6.2
Child Benefit	24.00	24.00	24.00	24.00	24.00					
Direct tax burden	0.82	29.88	58.95	114.23	168.82	0.5	11.3	16.7	21.6	24.0
<i>Family Credit</i>	<i>41.67</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>					
<i>Net of Family Credit</i>	<i>-40.85</i>	<i>29.88</i>	<i>58.95</i>	<i>114.23</i>	<i>168.82</i>	<i>-23.2</i>	<i>11.3</i>	<i>16.7</i>	<i>21.6</i>	<i>24.0</i>
<b>2000-01</b>										
Gross income	183.75	275.63	367.50	551.25	735.00					
Income tax	18.37	38.58	58.79	99.22	158.45	10.0	14.0	16.0	18.0	21.6
NICs	10.28	19.96	29.15	45.90	45.90	5.6	7.2	7.9	8.3	6.2
Working Families' Tax Credit	80.86	46.50	12.14	0.00	0.00					
Child Benefit	25.00	25.00	25.00	25.00	25.00					
Direct tax burden	-77.21	-12.96	50.80	120.12	179.35	-42.0	-4.7	13.8	21.8	24.4
<b>2001-02</b>										
Gross income	196.70	295.05	393.40	590.10	786.80					
Income tax	9.75	31.39	53.02	96.30	172.67	5.0	10.6	13.5	16.3	21.9
NICs	10.97	20.81	30.64	48.80	48.80	5.6	7.1	7.8	8.3	6.2
Working Families' Tax Credit	76.76	39.97	3.19	0.00	0.00					
Child Benefit	25.85	25.85	25.85	25.85	25.85					
Direct tax burden	-81.89	-13.63	54.62	119.25	195.62	-41.6	-4.6	13.9	20.2	24.9
<b>2002-03</b>										
Gross income	198.75	298.13	397.50	596.25	795.00					
Income tax	9.60	31.46	53.32	97.05	173.15	4.8	10.6	13.4	16.3	21.8
NICs	10.98	20.91	30.85	49.60	49.60	5.5	7.0	7.8	8.3	6.2
Working Families' Tax Credit	81.13	43.96	6.79	0.00	0.00					
Child Benefit	26.30	26.30	26.30	26.30	26.30					
Direct tax burden	-86.85	-17.89	51.08	120.35	196.45	-43.7	-6.0	12.9	20.2	24.7

Section 14: Time series

**Table 14.8: One-earner married couple, with 2 children, direct tax burden (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>2003-04</b>										
Gross income	205.90	308.85	411.80	617.70	823.60					
Income tax	21.25	43.90	66.55	111.85	183.84	10.3	14.2	16.2	18.1	22.3
NICs	12.86	24.18	35.51	55.89	57.95	6.2	7.8	8.6	9.0	7.0
Total Tax Credits	95.56	57.67	19.79	10.43	10.43					
Child Benefit	26.80	26.80	26.80	26.80	26.80					
Direct tax burden	-88.25	-16.39	55.47	130.51	204.56	-42.9	-5.3	13.5	21.1	24.8
<b>2004-05</b>										
Gross income	212.70	319.05	425.40	638.10	850.80					
Income tax	22.06	45.45	68.85	115.65	190.47	10.4	14.2	16.2	18.1	22.4
NICs	13.39	25.09	36.78	57.37	59.50	6.3	7.9	8.6	9.0	7.0
Total Tax Credits	102.53	63.29	24.05	10.50	10.50					
Child Benefit	27.55	27.55	27.55	27.55	27.55					
Direct tax burden	-94.63	-20.30	54.03	134.97	211.92	-44.5	-6.4	12.7	21.2	24.9
<b>2005-06</b>										
Gross income	219.58	329.36	439.15	658.73	878.30					
Income tax	22.77	46.93	71.08	119.39	196.69	10.4	14.2	16.2	18.1	22.4
NICs	13.81	25.89	37.97	59.25	61.44	6.3	7.9	8.6	9.0	7.0
Total Tax Credits	105.81	65.30	24.79	10.50	10.50					
Child Benefit	28.40	28.40	28.40	28.40	28.40					
Direct tax burden	-97.62	-20.88	55.86	139.73	219.23	-44.5	-6.3	12.7	21.2	25.0
<b>2006-07</b>										
Gross income	225.95	338.93	451.90	677.85	903.80					
Income tax	23.45	48.30	73.15	122.86	202.56	10.4	14.3	16.2	18.1	22.4
NICs	14.18	26.61	39.04	60.61	62.87	6.3	7.9	8.6	8.9	7.0
Total Tax Credits	108.50	66.81	25.13	10.50	10.50					
Child Benefit	29.15	29.15	29.15	29.15	29.15					
Direct tax burden	-100.02	-21.05	57.91	143.82	225.78	-44.3	-6.2	12.8	21.2	25.0
<b>2007-08</b>										
Gross income	233.85	350.78	467.70	701.55	935.40					
Income tax	24.20	49.92	75.64	127.09	209.05	10.3	14.2	16.2	18.1	22.3
NICs	14.72	27.59	40.45	63.02	65.35	6.3	7.9	8.6	9.0	7.0
Total Tax Credits	110.95	67.80	24.66	10.43	10.43					
Child Benefit	30.20	30.20	30.20	30.20	30.20					
Direct tax burden	-102.23	-20.50	61.23	149.47	233.78	-43.7	-5.8	13.1	21.3	25.0
<b>2008-09</b>										
Gross income	243.33	364.99	486.65	729.98	973.30					
Income tax	25.45	49.79	74.12	122.78	209.05	10.5	13.6	15.2	16.8	21.5
NICs	15.22	28.60	41.98	68.75	75.18	6.3	7.8	8.6	9.4	7.7
Total Tax Credits	126.63	79.31	31.99	10.5	9.71					
Child Benefit	31.35	31.35	31.35	31.35	31.35					
Direct tax burden	-117.31	-32.28	52.76	149.68	243.17	-48.2	-8.8	10.8	20.5	25.0

Section 14: Time series

**Table 14.8: One-earner married couple, with 2 children, direct tax burden (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>2009-10</b>										
Gross income	250.00	375.00	500.00	750.00	1000.00					
Income tax	25.10	50.10	75.10	125.10	206.35	10.0	13.4	15.0	16.7	20.6
NICs	15.40	29.15	42.90	70.40	82.30	6.2	7.8	8.6	9.4	8.2
Total Tax Credits	133.97	85.36	36.74	10.5	7.94					
Child Benefit	33.20	33.20	33.20	33.20	33.20					
Direct tax burden	-126.67	-39.31	48.06	151.80	247.51	-50.7	-10.5	9.6	20.2	24.8

Section 14: Time series

**Table 14.9: Two-earner married couple, with no children, income tax and NICs<sup>1</sup>**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1983-84</b>										
Gross income	68.63	102.94	137.25	205.88	274.50					
Income tax	0.00	4.46	14.75	35.34	55.93	0.0	4.3	10.7	17.2	20.4
NICs	3.71	9.26	12.35	18.53	24.71	5.4	9.0	9.0	9.0	9.0
Income tax and NICs	3.71	13.72	27.10	53.87	80.63	5.4	13.3	19.7	26.2	29.4
<b>1984-85</b>										
Gross income	73.70	110.55	147.40	221.10	294.80					
Income tax	0.00	3.40	14.45	36.56	58.67	0.0	3.1	9.8	16.5	19.9
NICs	3.98	9.95	13.27	19.90	26.53	5.4	9.0	9.0	9.0	9.0
Income tax and NICs	3.98	13.35	27.72	56.46	85.20	5.4	12.1	18.8	25.5	28.9
<b>1985-86</b>										
Gross income	79.04	118.56	158.09	237.13	316.17					
Income tax	0.00	2.92	14.77	38.48	62.20	0.0	2.5	9.3	16.2	19.7
NICs	3.32	9.01	13.60	21.34	28.46	4.2	7.6	8.6	9.0	9.0
Income tax and NICs	3.32	11.93	28.37	59.83	90.65	4.2	10.1	17.9	25.2	28.7
<b>1986-87</b>										
Gross income	84.68	127.02	169.36	254.04	338.72					
Income tax	0.00	3.43	15.71	40.27	64.82	0.0	2.7	9.3	15.9	19.1
NICs	2.54	7.88	13.89	22.86	30.48	3.0	6.2	8.2	9.0	9.0
Income tax and NICs	2.54	11.31	29.60	63.13	95.31	3.0	8.9	17.5	24.9	28.1
<b>1987-88</b>										
Gross income	91.62	137.43	183.24	274.85	366.47					
Income tax	0.00	4.81	17.18	41.91	66.65	0.0	3.5	9.4	15.2	18.2
NICs	2.75	8.52	15.03	24.74	32.98	3.0	6.2	8.2	9.0	9.0
Income tax and NICs	2.75	13.33	32.20	66.65	99.63	3.0	9.7	17.6	24.2	27.2
<b>1988-89</b>										
Gross income	100.18	150.27	200.36	300.54	400.72					
Income tax	0.00	5.36	17.88	42.92	67.97	0.0	3.6	8.9	14.3	17.0
NICs	3.01	9.32	16.43	27.05	36.06	3.0	6.2	8.2	9.0	9.0
Income tax and NICs	3.01	14.67	34.31	69.97	104.03	3.0	9.8	17.1	23.3	26.0
<b>1989-90</b>										
Gross income	109.67	164.50	219.33	329.00	438.66					
Income tax	0.00	6.70	20.41	47.83	75.24	0.0	4.1	9.3	14.5	17.2
NICs	4.67	9.49	15.85	26.60	36.47	4.3	5.8	7.2	8.1	8.3
Income tax and NICs	4.67	16.19	36.26	74.43	111.71	4.3	9.8	16.5	22.6	25.5
<b>1990-91</b>										
Gross income	119.10	178.64	238.19	357.29	476.38					
Income tax	0.00	7.50	22.38	52.16	81.93	0.0	4.2	9.4	14.6	17.2
NICs	4.28	9.64	15.00	25.72	36.43	3.6	5.4	6.3	7.2	7.6
Income tax and NICs	4.28	17.13	37.38	77.87	118.37	3.6	9.6	15.7	21.8	24.8

<sup>1</sup> It is assumed that earnings are split 60:40 between the two members of the couple.

Section 14: Time series

**Table 14.9: Two-earner married couple, with no children, income tax and NICs<sup>1</sup> (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1991-92</b>										
Gross income	127.92	191.87	255.83	383.75	511.66					
Income tax	0.00	8.02	24.01	55.98	87.96	0.0	4.2	9.4	14.6	17.2
NICs	3.27	9.99	15.74	27.26	38.77	2.6	5.2	6.2	7.1	7.6
Income tax and NICs	3.27	18.00	39.75	83.24	126.73	2.6	9.4	15.5	21.7	24.8
<b>1992-93</b>										
Gross income	134.54	201.81	269.08	403.61	538.15					
Income tax	0.00	7.25	22.03	55.66	89.30	0.0	3.6	8.2	13.8	16.6
NICs	3.49	10.60	16.66	28.77	40.87	2.6	5.3	6.2	7.1	7.6
Income tax and NICs	3.49	17.85	38.69	84.43	130.17	2.6	8.8	14.4	20.9	24.2
<b>1993-94</b>										
Gross income	138.64	207.96	277.28	415.92	554.56					
Income tax	0.00	8.48	23.29	57.78	92.44	0.0	4.1	8.4	13.9	16.7
NICs	3.57	10.88	17.12	29.59	42.07	2.6	5.2	6.2	7.1	7.6
Income tax and NICs	3.57	19.35	40.40	87.37	134.51	2.6	9.3	14.6	21.0	24.3
<b>1994-95</b>										
Gross income	143.00	214.49	285.99	428.99	571.98					
Income tax	0.00	10.02	26.47	61.74	97.49	0.0	4.7	9.3	14.4	17.0
NICs	5.18	12.33	19.48	33.78	48.08	3.6	5.7	6.8	7.9	8.4
Income tax and NICs	5.18	22.35	45.94	95.52	145.56	3.6	10.4	16.1	22.3	25.4
<b>1995-96</b>										
Gross income	148.00	222.00	296.00	443.99	591.99					
Income tax	0.00	12.52	29.54	65.99	102.99	0.0	5.6	10.0	14.9	17.4
NICs	5.52	12.92	20.32	35.12	49.92	3.7	5.8	6.9	7.9	8.4
Income tax and NICs	5.52	25.44	49.86	101.11	152.91	3.7	11.5	16.8	22.8	25.8
<b>1996-97</b>										
Gross income	153.98	230.97	307.96	461.94	615.92					
Income tax	0.00	12.07	28.96	64.95	101.90	0.0	5.2	9.4	14.1	16.5
NICs	5.64	13.34	21.04	36.43	51.83	3.7	5.8	6.8	7.9	8.4
Income tax and NICs	5.64	25.41	50.00	101.38	153.74	3.7	11.0	16.2	21.9	25.0
<b>1997-98</b>										
Gross income	163.85	245.78	327.70	491.55	655.40					
Income tax	0.00	12.70	30.35	67.26	104.95	0.0	5.2	9.3	13.7	16.0
NICs	6.47	14.66	22.85	39.24	55.62	3.9	6.0	7.0	8.0	8.5
Income tax and NICs	6.47	27.36	53.20	106.50	160.57	3.9	11.1	16.2	21.7	24.5
<b>1998-99</b>										
Gross income	170.10	255.15	340.20	510.30	680.40					
Income tax	0.00	13.28	31.51	69.82	108.94	0.0	5.2	9.3	13.7	16.0
NICs	6.77	15.28	23.78	40.79	57.80	4.0	6.0	7.0	8.0	8.5
Income tax and NICs	6.77	28.56	55.29	110.61	166.74	4.0	11.2	16.3	21.7	24.5

<sup>1</sup> It is assumed that earnings are split 60:40 between the two members of the couple.



Section 14: Time series

**Table 14.9: Two-earner married couple, with no children, income tax and NICs<sup>1</sup> (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>1999-00</b>										
Gross income	176.15	264.23	352.30	528.45	704.60					
Income tax	0.00	11.98	31.39	71.91	112.42	0.0	4.5	8.9	13.6	16.0
NICs	4.42	13.22	22.03	39.65	57.26	2.5	5.0	6.3	7.5	8.1
Income tax and NICs	4.42	25.20	53.42	111.55	169.68	2.5	9.5	15.2	21.1	24.1
<b>2000-01</b>										
Gross income	183.75	275.63	367.50	551.25	735.00					
Income tax	2.59	16.92	36.73	77.16	117.58	1.4	6.1	10.0	14.0	16.0
NICs	3.43	12.36	21.55	39.93	58.30	1.9	4.5	5.9	7.2	7.9
Income tax and NICs	6.02	29.28	58.28	117.09	175.88	3.3	10.6	15.9	21.2	23.9
<b>2001-02</b>										
Gross income	196.70	295.05	393.40	590.10	786.80					
Income tax	3.08	18.50	39.50	82.77	126.05	1.6	6.3	10.0	14.0	16.0
NICs	3.10	12.11	21.94	41.61	61.28	1.6	4.1	5.6	7.1	7.8
Income tax and NICs	6.18	30.61	61.44	124.38	187.33	3.1	10.4	15.6	21.1	23.8
<b>2002-03</b>										
Gross income	198.75	298.13	397.50	596.25	795.00					
Income tax	0.00	8.27	29.37	73.09	116.82	0.0	2.8	7.4	12.3	14.7
NICs	3.03	12.01	21.95	41.83	61.70	1.5	4.0	5.5	7.0	7.8
Income tax and NICs	3.03	20.28	51.32	114.92	178.52	1.5	6.8	12.9	19.3	22.5
<b>2003-04</b>										
Gross income	205.90	308.85	411.80	617.70	823.60					
Income tax	3.48	20.20	42.50	87.80	133.10	1.7	6.5	10.3	14.2	16.2
NICs	3.80	14.39	25.72	48.37	71.02	1.8	4.7	6.2	7.8	8.6
Income tax and NICs	7.28	34.59	68.22	136.17	204.12	3.5	11.2	16.6	22.0	24.8
<b>2004-05</b>										
Gross income	212.70	319.05	425.40	638.10	850.80					
Income tax	3.64	21.02	44.11	90.91	137.70	1.7	6.6	10.4	14.2	16.2
NICs	4.03	15.08	26.77	50.17	73.57	1.9	4.7	6.3	7.9	8.6
Income tax and NICs	7.67	36.10	70.88	141.08	211.27	3.6	11.3	16.7	22.1	24.8
<b>2005-06</b>										
Gross income	219.58	329.36	439.15	658.73	878.30					
Income tax	3.76	21.70	45.55	93.85	142.16	1.7	6.6	10.4	14.2	16.2
NICs	4.15	15.55	27.63	51.78	75.93	1.9	4.7	6.3	7.9	8.6
Income tax and NICs	7.91	37.25	73.17	145.63	218.09	3.6	11.3	16.7	22.1	24.8
<b>2006-07</b>										
Gross income	225.95	338.93	451.90	677.85	903.80					
Income tax	3.87	22.35	46.89	96.60	146.31	1.7	6.6	10.4	14.3	16.2
NICs	4.24	15.94	28.37	53.22	78.08	1.9	4.7	6.3	7.9	8.6
Income tax and NICs	8.12	38.29	75.26	149.82	224.39	3.6	11.3	16.7	22.1	24.8
<b>2007-08</b>										
Gross income	233.85	350.78	467.70	700.96	934.62					
Income tax	3.97	22.98	48.39	99.71	151.11	1.7	6.6	10.3	14.2	16.2
NICs	4.42	16.55	29.45	55.11	80.81	1.9	4.7	6.3	7.9	8.6
Income tax and NICs	8.39	39.54	77.84	154.81	231.92	3.6	11.3	16.6	22.1	24.8
<b>2008-09</b>										
Gross income	242.00	363.00	484.00	726.00	968.00					
Income tax	5.83	26.18	50.38	98.78	147.18	2.4	7.2	10.4	13.6	15.2
NICs	4.42	16.83	30.14	56.76	83.38	1.8	4.6	6.2	7.8	8.6
Income tax and NICs	10.25	43.01	80.52	155.54	230.56	4.2	11.8	16.6	21.4	23.8

<sup>1</sup> It is assumed that earnings are split 60:40 between the two members of the couple.

Section 14: Time series

**Table 14.9: Two-earner married couple, with no children, income tax and NICs<sup>1</sup> (continued)**

	£ per week					As a percentage of gross earnings				
	Multiples of median earnings					Multiples of median earnings				
	50%	75%	100%	150%	200%	50%	75%	100%	150%	200%
<b>2009-10</b>										
Gross income	250.00	375.00	500.00	750.00	1000.00					
Income tax	5.10	25.19	50.19	100.19	150.19	2.0	6.7	10.0	13.4	15.0
NICs	4.40	17.05	30.80	58.30	85.80	1.8	4.5	6.2	7.8	8.6
Income tax and NICs	9.50	42.24	80.99	158.49	235.99	3.8	11.3	16.2	21.1	23.6

<sup>1</sup> It is assumed that earnings are split 60:40 between the two members of the couple.

Section 14: Time series

**Table 14.10: Direct tax burden on a one-earner couple with 2 children**

	Average earnings (£ per week)		Tax Burden (per cent) <sup>1</sup>	
	Male mean earnings	All employee median earnings	on male mean earnings	on all employee median earnings
1960-61	16.5		5.8	
1961-62	17.1		7.7	
1962-63	17.7		8.4	
1963-64	18.4		7.8	
1964-65	19.7		9.0	
1965-66	21.1		10.5	
1966-67	22.3		11.7	
1967-68	23.3		13.0	
1968-69	25.1		14.8	
1969-70	27.3		16.7	
1970-71	30.8		18.8	
1971-72	33.9		17.7	
1972-73	38.4		17.5	
1973-74	43.4		19.6	
1974-75	52.9		22.2	
1975-76	65.5		25.7	
1976-77	74.1		24.6	
1977-78	80.7		22.5	
1978-79	92.8		20.9	
1979-80	109.3		18.9	
1980-81	131.4		20.8	
1981-82	145.9		22.5	
1982-83	157.4		22.8	
1983-84	171.0	137.3	22.4	18.4
1984-85	185.0	147.4	22.0	17.7
1985-86	198.5	158.1	22.0	17.7
1986-87	213.8	169.4	21.9	17.6
1987-88	233.6	183.2	21.4	17.3
1988-89	256.3	200.4	20.7	16.9
1989-90	279.9	219.3	20.8	17.1
1990-91	306.2	238.2	20.8	17.0
1991-92	328.7	255.8	20.7	16.8
1992-93	347.7	269.1	20.2	16.2
1993-94	359.1	277.3	20.3	16.2
1994-95	369.1	286.0	21.7	17.8
1995-96	381.2	296.0	22.3	18.6
1996-97	397.8	308.0	21.4	17.8
1997-98	426.9	327.7	21.2	17.6
1998-99	445.9	340.2	21.3	17.6
1999-00 <sup>2</sup>	462.6	352.3	20.6	15.5
2000-01	485.2	367.5	20.7	13.8
2001-02	511.0	393.4	18.7	13.9
2002-03	531.3	397.4	19.0	12.8
2003-04	544.0	411.8	19.9	13.5
2004-05	558.8	425.4	20.0	12.7
2005-06	580.3	439.2	20.1	12.7
2006-07	598.9	451.9	20.2	12.8
2007-08	618.6	467.7	20.3	13.1
2008-09	640.3	484.0	19.0	10.8
2009-10	661.7	500.0	18.8	9.7

<sup>1</sup> Defined as income tax and NICs less Child Benefit and Tax Credits as a percentage of gross income. A family with 2 children on mean male earnings is only entitled to the basic family element of CTC.

Note: WFTC was netted off from its first full year of implementation in 2000-01, until it was replaced by TCs in April 2003. At male mean earnings, a couple with 2 children were not entitled to WFTC; on median earnings of all employees, a couple with two children had WFTC entitlements of £14.33 per week in 2000-01, £9.38 per week in 2001-02 and £8.08 per week in 2002-03.

Note: Prior to 2000-01, the tax burden was defined as income tax and NICs less Child Benefit as a percentage of gross income. A couple with 2 children on median (or male mean) earnings was not entitled to Family Credit or Family Income Supplement.

Section 14: Time series

**Table 14.11: Number of taxpayers and income tax liabilities**

	Taxpayers with income greater than reliefs and allowances due <sup>1</sup>	Thousands						£ billion			
		Number of people paying tax						Higher rate taxpayers	Taxpayers liable to investment income surcharge	Total income tax liability	
		Individuals	Single people	Husbands	Wives	Aged under 65	Aged 65 and over	State Pension age			
1978-79	21,400	25,900	9,220	12,000	4,750	-	-		763	611	20.3
1979-80	21,600	25,900	9,650	11,800	4,510	-	-		674	236	22.9
1980-81	21,000	24,900	9,050	11,700	4,150	-	-		796	273	26.9
1981-82	20,800	24,800	9,230	11,200	4,350	-	-		1,090	324	30.5
1982-83	20,800	24,600	9,400	11,100	4,110	-	-		983	289	32.6
1983-84	20,300	24,000	9,400	10,700	4,050	-	-		860	238	33.4
1984-85	20,200	23,800	9,370	10,500	3,930	-	-		930	-	35.3
1985-86	20,200	23,700	9,520	10,400	3,830	-	-		950	-	38.8
1986-87	20,400	23,900	9,830	10,400	3,690	-	-		1,120	-	42.8
1987-88	20,800	24,300	10,300	10,300	3,750	-	-		1,190	-	45.3
1988-89	21,200	25,200	10,400	10,600	4,150	-	-		1,350	-	46.5
1989-90	21,500	25,000	11,200	9,880	3,880	-	-		1,500	-	53.4
1990-91	-	26,100	10,700	9,660	5,710	23,000	3,120		1,700	-	60.2
1991-92	-	25,700	10,900	9,170	5,780	22,800	2,930		1,620	-	63.3
1992-93	-	25,400	10,500	9,080	5,840	22,400	2,960		1,720	-	60.7
1993-94	-	25,000	10,100	9,050	5,820	22,000	3,040		1,740	-	61.4
1994-95	-	25,300	10,400	9,060	5,940	22,100	3,250		2,000	-	66.3
1995-96	-	25,800	10,600	9,090	6,120	22,500	3,320		2,130	-	72.0
1996-97	-	25,700	10,400	9,110	6,200	22,400	3,280		2,080	-	73.7
1997-98	-	26,200	10,600	9,310	6,330	22,800	3,390		2,120	-	79.5
1998-99	-	26,900	11,400	9,130	6,440	23,300	3,670		2,350	-	88.0
1999-00	-	..	..	..	..	..	..		..	-	..
2000-01	-	29,300	13,900	8,530	6,830	25,300	3,950		2,880	-	105.6
2001-02	-	28,600	13,700	8,140	6,760	24,500	4,090		3,000	-	107.0
2002-03	-	28,900	14,600	7,930	6,380	24,700	4,190		3,040	-	111.7
2003-04	-	28,500				24,500	3,950		2,960	-	117
2004-05	-	30,300				26,000	4,250		3,330	-	123
2005-06	-	31,100				26,900	4,160	5,100	3,590	-	138
2006-07 <sup>2</sup>	-	31,800				27,300	4,520	5,590	3,770	-	150
2007-08 <sup>3</sup>	-	32,300				27,600	4,710	5,790	3,890	-	160
2008-09 <sup>3</sup>	-	30,900				26,700	4,240	5,280	3,560	-	150
2009-10 <sup>3</sup>	-	29,300				25,300	4,040	5,010	2,910	-	141

<sup>1</sup> For years up to and including 1989-90, married couples were counted as one taxpayer and their incomes are combined. Since 1990-91, husbands and wives have been counted separately.

<sup>2</sup> This is the latest survey year

<sup>3</sup> Projected, in line with Budget 2009.

### **HM Treasury contacts**

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If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit  
HM Treasury  
1 Horse Guards Road  
London

SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: [public.enquiries@hm-treasury.gov.uk](mailto:public.enquiries@hm-treasury.gov.uk)

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