Unearned income

Unearned Income

Universal Credit must not be paid to claimants who have income available from other sources that provide the same support for living costs.

This core principle is balanced by recognising that additional costs (for example, the costs for disability) and income paid to meet those additional costs is not taken into account in Universal credit.

What is unearned income

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

How it works in Universal Credit

The Universal Credit regulations list the unearned income which must be taken into account in the Universal Credit assessment.

However, there are exceptions to the general rule and certain types of unearned income are not taken into account in the Universal Credit assessment. These include:

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

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

Adjusting the Universal Credit Maximum Amount: unearned income taken fully into account

The income taken fully into account in a Universal Credit claim includes other benefits and other unearned income.

Other benefits

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

The benefits which affect the Universal Credit award are:

- Bereavement Allowance, please note, this is not the new Bereavement Support Payment introduced in April 2017 which is not taken into account in Universal Credit
- Carer’s Allowance or Carer Support Payment (Scotland), but not any Scottish Government Carer’s Allowance Supplement, paid twice yearly to recipients of Carer’s Allowance or Carer Support Payment in Scotland
- Incapacity Benefit (this has been replaced with Employment and Support Allowance (ESA) but some claimants may have retained existing entitlement)
- Industrial Injuries Benefits, but not any amount awarded for Constant Attendance Allowance or Exceptionally Severe Disablement Allowance
- Maternity Allowance
- New Style Employment and Support Allowance (contribution-based)
- New Style Jobseeker’s Allowance (contribution-based)
- Reduced Earnings Allowance may be paid with Industrial Injuries Benefit
- Severe Disablement Allowance
- State Retirement Pension
- Widowed Mother’s Allowance
- Widowed Parent’s Allowance
- Widow’s Pension
- foreign benefits directly comparable to those listed above

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

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

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

Other unearned income

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

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

- payments from an annuity (other than retirement pension income) or already disregarded as personal injury compensation (please note, some people receive an annuity from their occupational or personal pension)
- foreign pension payments
- pension protection fund payments
- claimants must declare Welsh Basic Income Scheme payments for care leavers as they are taxable income under Part 5 of the Income Tax (Trading and Other Income) Act 2005

Calculation

Benefits must only be considered as unearned income if they are in payment. Suspended benefits must not be taken into account.

Where unearned income is taken into account, it is the gross amount (the amount before tax and other deductions) that is deducted from the Universal Credit maximum amount

For unearned income, which is not paid monthly, an amount is calculated as the monthly equivalent, for example:

- weekly payments are multiplied by 52 and divided by 12
- four weekly payments are multiplied by 13 and divided 12
- three monthly payments are multiplied by 4 and divided by 12
- annual payments are divided by 12

Averaging non-monthly income in this way ensures an even distribution, For example, to avoid taking 4 payments of a contributory benefit paid weekly into account in one assessment period and 5 in another. This solution attributes a fixed amount in respect of income for each assessment period.

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

Monthly amount of income x 12 divided by 365 x number of days in respect of which the income is paid that fall within the assessment period.

This formula only applies to income that begins or ends in an assessment period. If an income changes in an assessment period, the normal rules apply. The amount of income in payment at the end of the assessment period (averaged for a monthly payment where necessary) is taken into account for the whole of the assessment period using the ‘whole month approach’.

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

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

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

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

Adjusting the Universal Credit maximum amount: certain income is not taken into account

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

- victims of modern slavery who have been identified by the Home Office may be eligible for subsistence payments through the Victim Care Contract. A benefit claim can be made while they are receiving subsistence payments
- income from boarders and lodgers (as claimants are not entitled to housing costs for spare rooms) unless the claimant is self-employed and renting out rooms in their house as part of conducting a trade (for example, running a bed and breakfast, income from bed and breakfast being conducted as a trade is to be treated as self- employed earnings)
- War Pensions including War Disablement Pension and War Widows or Widowers Pensions
- Armed Forces Compensation Scheme or Service Attributable Pensions and Service-attributable, non-taxable Service Invalidity Pensions
- income paid to meet the additional costs or expenses of disability, for example:
  - Disability Living Allowance, Child Disability Payment (Scotland), Personal Independence Payment (PIP), Adult Disability Payment (ADP) or Armed Forces Independence Payment
  - Attendance Allowance, Constant Attendance Allowance (including Industrial Injuries and War Disablement Pension strands of Constant Attendance Allowance) or Access to Work payments

    - Local Authority Community Care
    - Independent Living Payment
    - reimbursements for hospital travel or prescription charges
    - compensation payments for personal injury, paid to an eligible adult as income in certain conditions
- certain payments that are intended to meet additional costs of caring for child dependants, for example:
    - Child Benefit
    - Guardian’s Allowance
    - Fostering Allowance and other Social Services payments
    - Scottish Kinship Care payments
    - continuing care payments
- payments to address the additional expenses associated with bereavement:
    - Bereavement Support Payment
    - Funeral Support Payment (Scotland)

- expenses for encouraged activities, for example:
    - payments to reimburse an eligible adult in work for expenses
    - expenses paid to claimants taking part in public enquiries
    - expenses paid to jurors or witnesses in court cases (excluding income replacement)
    - expenses for unpaid charity or voluntary workers
- payments made to meet specific costs for training or development are fully disregarded, for example Education Maintenance Allowance payments (in Scotland and Wales), elements of training allowances, Sports Awards or student loans which do not cover basic living costs (in Great Britain)
- Christmas Bonus
- Discretionary housing payments made by Local Authorities (see Discretionary Housing Payments)
- local authority administered Council Tax Benefit
- payments deemed to carry a disproportionate administrative cost if taken into account, for example charitable or voluntary payments for the claimant or their children
- some special schemes for compensation are also disregarded, for example:
    - compensation for variant Creutzfeldt Jacob disease (CJD)
    - charitable payments for those involved in the 2017 terrorist attacks on Westminster and London Bridge and the bombing of the Manchester Arena
    - Post Office compensation payment (Horizon)
- Scottish Government Carer’s Allowance Supplement paid twice yearly to recipients of Carer’s Allowance or Carer Support Payment in Scotland

- Transition to Universal Credit housing payment
- Young Carer Grant (Scotland)

Remember only income specifically prescribed in the regulations can be taken into account. See also Capital disregards.

Important notes

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

Deprivation of income - Notional income

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

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

Notional income is applied to claimants and partners in the UC assessment unit who are over the qualifying age for State Pension Credit (SPC) and who have not drawn on their pensions. This applies to people who have:

- not claimed their State Pension; and / or
- not purchased an annuity with their personal or occupational pension pot; or drawn an income under pension flexibilities which is equal to or more than the annuity payments they could receive

A notional income equivalent to the amount of pension income their pension pot would provide will be taken into account when calculating their Universal Credit.