

Treatment of earnings: Guidance

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Earned income

Earned income is payment or profits that come from:

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

Employed earnings

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

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

Benefits treated as earnings

The following benefits are treated as earnings and subject to the Work Allowance and Earnings Taper rates:

- Statutory Sick Pay
- Statutory Maternity Pay
- Ordinary Statutory Paternity Pay
- Statutory Adoption Pay
- Statutory Shared Parental Pay (ShPP)
- Statutory Neonatal Care Pay
- Statutory Parental Bereavement Pay

Income treated as earnings

Advances of earnings

An advance of a claimant's earnings is not taken into account when received.

The deduction taken from earnings to pay back the advance is not an allowable deduction and is treated as earnings received.

Company directors

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

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

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

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

For further information, see Companies and directors

Local authority councillors

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

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

- travel and subsistence allowance

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

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

Managed service companies

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

Notional earnings

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

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

Reservist pay

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

Payments not treated as earnings include:

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

These are treated as capital.

Service users

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

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

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

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

Claimants must self-report these as earnings.

All expenses relating to service user activity must be ignored and not treated as earnings.

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

Tax Refunds (commonly known as Tax Rebates) and National Insurance contribution repayments

A refund of Income Tax and / or National Insurance contributions in respect of a tax year in which the person was in work is treated as earnings.

Where the employer has paid a refund through PAYE the claimant does not need to declare it as this will come through the RTI feed. If the claimant receives it via BACS or cheque etc then they must report it in the assessment period that they received it. Claimants are responsible for self-reporting this.

Any tax refund received for any other reason, such as, inheritance tax or capital gains – must be considered as capital only.

Third party deductions

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

The claimant's pay or wage slip will show the amount taken and the reason why.

Tips and gratuities

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

Income not treated as earnings

Benefits in kind and taxable expenses

Benefits in kind are usually received by an employee from an employer as part of a remuneration package. This can be a company car and fuel. Where a benefit in kind is reported via RTI, it will be deducted from the gross taxable figure. This applies whether the benefit in kind is shown as a lower tax code figure or via the claimant's payment.

Taxable expenses can be paid by an employer to the employee in respect of expenses incurred by reason of the employment, such as Excess Fares Allowance or a mileage allowance paid to an employee who has used their own car for business. They are subject to tax and National Insurance. However, for Universal Credit they are not classed as employed earnings, and the amount must be deducted from the earnings used in the calculation. For further information see ADM Amounts excluded from being employed earnings H3080 - H3129 | and Payments disregarded from employed earnings H3130 - H3169

Boarders and lodgers

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

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

Caring responsibilities

The additional expenses associated with caring responsibilities will not be deducted from earnings when calculating the net amount to be taken into account.

Charitable donations or giving

Certain charitable donations are disregarded. This applies to payroll giving but not Gift Aid.

Pension contributions

For most people, personal and occupational pension contributions are deducted from pay automatically by the employer. This is known as a workplace pension.

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

Claimants may opt out of a workplace pension and choose to make payments into a registered personal or occupational pension scheme, which are not paid via their employer. Where contributions are taken after the earnings have been taxed, the pension contribution is deducted from the reported RTI figure.

For claimants paying into a workplace pension this will be done automatically via the RTI feed. Claimants who pay into a private scheme will need to provide evidence of their pension payment every month, for each payment.

Only money paid by the claimant into the pension, will count. Any tax relief or amounts paid by third parties is not to be deducted. An agent contact template (ACT) must be raised.

Salary sacrifice schemes

Earnings used for salary sacrifice schemes, for example – childcare or the purchase of Share Incentive Plans, are ignored when calculating Universal Credit.

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

Surplus earnings

If a new Universal Credit claim is made after 6 months, surplus earnings will not be applied and the Universal Credit award will be calculated in the normal way. For further information, see Surplus, fluctuating and irregular earnings plus payment cycles.

Termination of employment payments

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

Surplus earnings

If a new Universal Credit claim is made after 6 months, surplus earnings will not be applied and the Universal Credit award will be calculated in the normal way. For further information, see Surplus, fluctuating and irregular earnings plus payment cycles.

Trade disputes

If a claimant is involved in a trade dispute they may receive strike pay. This is not treated as earnings and is not notified through the RTI feed. Strike pay is fully disregarded.