THE OECD TAX-BENEFIT DATABASE

Description of policy rules for the United Kingdom 2023

OECD

BETTER POLICIES FOR BETTER LIVES

THE OECD TAX-BENEFIT DATABASE FOR THE UNITED KINGDOM

Description of policy rules for 2023

OECD contact: Edoardo Magalini, Jobs and Income Division, Directorate for Employment, Labour and Social Affairs. Email: Tax-Benefit.Models@oecd.org

National team: Marc Knotts, Department for Work and Pensions.

This version: October 2023

BETTER POLICIES FOR BETTER LIVES

Jobs and Income Division
Directorate for Employment, Labour and Social Affairs

Table of contents

OECD
BETTER POLICIES FOR BETTER LIVES

Jobs and Income Division
Directorate for Employment, Labour and Social Affairs

Preface

This report provides a detailed description of the tax and benefit rules in the United Kingdom as they apply to working-age individuals and their dependent children. It also includes output from the OECD Tax-Benefit model (**TaxBEN**), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families ("vignettes"), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click here for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)

- **TaxBEN web calculator**
- **Methodology and user guide**
- **OECD tax-benefit data portal**
- **Network of national experts**

Guidelines for updating this report (for national experts)

General guidelines

Detailed **guidelines for updating Section 5** "Net costs for Early Childhood Education and Care"

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **April 6, 2023**.
- **TaxBEN** models all policies in effect on the reference date. This includes temporary policies implemented in response to the **Covid-19 pandemic** described in blue font.
- The symbol (i) in the text provides a link to the glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- **TaxBEN** variables are indicated in the text using the format `[variable name]`.

The OECD tax-benefit model for the United Kingdom: Policy rules in 2023

1. Reference wages

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available here).[1] If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth[2] to the latest available wage estimate.

The minimum wage **[MIN]** in 2023 is GBP 10.42 per hour for those aged 23 and over (lower rates apply for other age groups). The annual earnings of a full-time minimum wage worker is computed by multiplying the hourly minimum wage (as of April 6 2023) by 40 * 52, i.e. GBP 10.42* 40 * 52 = GBP 21,674.

Dear expert, considering the current cost-of-living crisis, this year we are collecting information on the indexation of monetary parameters used to calculate benefits and taxes (e.g. benefit amounts, tax thresholds, etc.). In each section of the report, we added a subsection and a comment asking you about indexation of relevant parameters. Please could you provide for each parameter the following information:

- Is there an automatic indexation?
- In case of *automatic* indexation, what is the reference index (e.g. the CPI)?
- What is the frequency of the uprates and when it usually takes place (e.g. every year on the 1st of January)?
- If indexation occurs at irregular intervals, what triggers it?

Warm thanks in advance for your help.

Note: Here by "Indexation" we mean automatic adjustment (whether at regular intervals or not) of benefit amounts or other relevant monetary parameters in order to reflect developments in prices and/or wages.

2. Unemployment benefits

All new claims to Jobseeker's Allowance (JSA) are for new style JSA. Universal Credit has replaced the legacy income-based JSA (JSA(IB)) benefit. New style Jobseeker's Allowance (JSA) is a contributions-based benefit that can be paid to claimants who are unemployed and looking for full-time work. JSA is available for men and women aged 18 or older but below State Pension Age. They must have entered into a Claimant Commitment and must be capable of, available for and actively searching for work as an employee or as self-employed.

[1] Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

[2] Wage growth projections are based on OECD Economic Outlook and EU economic forecasts (for non-OECD countries).

New style JSA is paid to those who satisfy the National Insurance contribution conditions (see Section 2.1).

2.1. New style Jobseeker's Allowance

Variable names: **[UI_p; UI_s]**

This is an unemployment insurance benefit. It is contributory, not means-tested and is taxable.

2.1.1. Eligibility conditions

Age: 18 years or older but below State Pension Age

Contribution/employment history: New style JSA is a personal benefit paid to unemployed people who have paid or been credited with sufficient National Insurance contributions in the last two full tax years before the year in which they make their JSA claim. There are two conditions that must be fulfilled for an individual to have a sufficient contribution record:

- The first condition requires the person to have paid Class 1 (employee) National Insurance contributions (or, in some exceptional circumstances, special Class 2 (share fishermen and volunteer development workers) contributions, or a combination of Class 1 and 2 contributions) in at least one of the two previous tax years on amounting to at least 26 times the minimum weekly contribution for that year. Since earnings above the minimum are disregarded, this effectively means that the claimant must have been employed (or, exceptionally, self-employed) for at least 26 weeks in one of these tax years, though not necessarily continuously. If, however, a claimant has multiple concurrent employments, it is possible for them to pay multiple contributions in respect of the same tax weeks, and therefore satisfy the condition in fewer than 26 separate weeks.
- The second contribution condition requires the person to have paid, or been credited with, Class 1 contributions (or, in some exceptional circumstances, Class 2 contributions) in both of the relevant income tax years amounting to a total of at least 50 times the minimum contribution for that year (which consists in the lower earnings limit, LEL).

Payment of Class 1 and Class 2 National Insurance contributions gives rise to an 'earnings factor' which is used to calculate entitlement to contributory benefits. For Class 1 contributions, the earnings factor is the amount of earnings, excluding those above the upper earnings limit (UEL), upon which contributions have been paid. The minimum rate at which an individual is deemed to have made a contribution is the lower earnings limit (LEL) GBP 123[3] in 2023-24. Note, however, that earnings above the LEL are disregarded when determining the first contribution condition.

Behavioural requirements and related eligibility conditions: TaxBEN assumes that these conditions are satisfied when simulating unemployment benefits.[4] To qualify for JSA, jobseekers must be available for work: in most cases this means that they must

[3] The National Insurance Thresholds are available here.

[4] Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018), Langenbucher (2015) and Venn (2011).

be willing and able to take up work immediately. There are some exceptions to the requirement to be able to take up work immediately, e.g. carers, volunteers and persons providing a service.

In some situations, jobseekers can restrict their availability. However, they must have reasonable prospects of getting work unless the restrictions are reasonable in view of their physical or mental condition, or if they are a lone parent whose availability is restricted to their child's normal school hours.

Jobseekers must also be actively searching for work. To meet work search requirements jobseekers must take reasonable steps to have the best prospects of securing employment.

JSA may be sanctioned if the claimant:

- Fails to report a change without good reason; or
- loses a job because of misconduct; or
- leaves a job voluntarily without good reason; or
- refuses to accept or fails to keep to their 'claimant commitment'; or
- fails to apply for or accept a job without good reason; or
- declines a job offer without good reason; or
- fails to attend an interview without good reason.

There are also training scheme and employment programme-related sanctions. If attendance on a training scheme or employment programme is compulsory, jobseekers can be sanctioned if they:

- lose their place because of misconduct; or
- give up or fail to attend the scheme or programme without good reason; or
- are notified of a place on a scheme or programme and fail to apply for or accept it when offered to them without good reason; or
- fail to participate or undertake any activity mandated by the scheme provider; or
- decline a reasonable opportunity of a place without good reason.

If JSA is sanctioned:

- the length of time for which it is sanctioned is fixed up to a maximum of 156 weeks (approximately 3 years) depending on the reason for the sanction and the number of previous sanctions of the same level. During the sanction period JSA is not paid;
- special rules apply for 16 or 17 year olds;
- if a jobseeker disagrees that they should be sanctioned, or with the sanction period, they can challenge the decision;
- jobseekers may be able to get hardship payments.

2.1.2. Benefit amount

New style JSA contribution-based is payable at the rate of GBP 84.80 per week for a single person aged 25 and over or GBP 67.20 per week for those aged 16-24. It is an individual benefit and does not include an amount for partners or children.

2.1.3. Benefit duration

Jobseeker's Allowance is payable for as long as a jobseeker meets the conditions of entitlement. No benefit is received for the first 7 days of a benefit claim, which are known as 'waiting days'. Claimants are exempt from waiting days in certain cases, for example, if the claim is made within 12 weeks of the end of a previous award.

New style JSA is payable for up to 182 days in any one job-seeking period, which may include more than one claim provided the break in entitlement is less than 12 weeks. The entitlement to 182 days of JSA contribution-based once exhausted cannot be re-used for a subsequent claim that relies on contributions made in the same tax years.

Once the period of entitlement to new style JSA has been exhausted a jobseeker may be able to receive support from Universal Credit (section 3.1. , providing they meet the conditions of entitlement and their income and capital is low enough.

2.1.4. Means test

New style JSA is not subject to a means test but reduced on a one for one basis in respect of earnings over certain limits: normally GBP 5 a week, but GBP 20 for some special occupations. The benefit is also reduced by the amount by which occupational or personal pension income exceeds GBP 50 per week.

2.1.5. Tax treatment

The benefit is taxable.

2.1.6. Interactions with other components of the tax-benefit system

It is possible to receive contribution-based JSA alongside other benefits, but it is included in the income definition for the means test for Universal Credit.

2.1.7. Combining benefit receipt and employment/starting a new job

Benefit withdrawn if claimant works more than 16 hours per week. Earnings from work reduce benefit entitlement as described in Section 2.1.4.

2.1.8. Benefit indexation

No information available.

2.2. Unemployment assistance

OECD note: Jobseekers who do not qualify for Unemployment Insurance benefits (UI – Section 2.1), or whose entitlement to these benefits are low or have expired, can claim Unemployment Assistance (UA – this section) and/or Social Assistance benefits (SA – Section 3). While the main purpose of UA programmes is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is *not always* the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.

Based on TaxBEN's definition of Unemployment Assistance schemes, Universal Credit, can be considered, for the purposes of the model and of comparativeness across countries, as a type of unemployment assistance. For this reason, it is sometimes defined as such in TaxBEN, see Section 3.

3. Social assistance and housing benefits

3.1. Universal Credit

Variable name: **[UC]**

Universal Credit replaces six previous benefits – Child Tax Credits, Housing Benefit, Income Support, Income-Based Jobseeker's Allowance, Income-Related Employment and Support Allowance and Working Tax Credit. Implementation of Universal Credit began in 2013 and is expected to be completed in 2024. In this transition period, previous "legacy" claims continue to be administered. Since December 2018, Universal Credit is the default working age benefit across the UK, which is the situation modelled in the TaxBEN model. However, legacy benefits continue to be relevant for claimants who claimed before this date.

3.1.1. Eligibility Conditions

A claimant has to meet the following basic conditions of entitlement:

- To be 18 or over (with some exceptions),
- To be under state pension age,
- To be resident in Great Britain,
- To have a National Insurance Number,
- To not be in full-time education (with some exceptions), and
- To have accepted a claimant commitment (with some exception[5]).

3.1.2. Benefit Amount

Universal Credit payments are made up of

1. A standard allowance and any extra amounts that apply if the claimant has children, a disability or a health condition which prevents them from working, or they have caring responsibilities for a severely disabled person. In the TaxBEN model, this component is typically shown in the variable for Social Assistance (SA). However, if the model is asked to calculate unemployment benefit entitlements without social assistance or housing top-ups, the model assumes that the unemployment benefit recipient will claim Universal Credit (but does not have any housing costs), and the resulting amount is shown as unemployment assistance (variables UB, UA). This is because UC replaces income-based Jobseeker's allowance, which was classified as unemployment assistance.
2. Support for housing costs – this is shown in the variable HB, except when the model is asked to calculate unemployment benefit entitlements without social assistance top-ups, but with housing benefits. In this case, the variable HB contains the entire universal credit amount.

[5] From 15 February 2022 claimants who are terminally ill, as defined, are exempt from the requirement to have a claimant commitment.

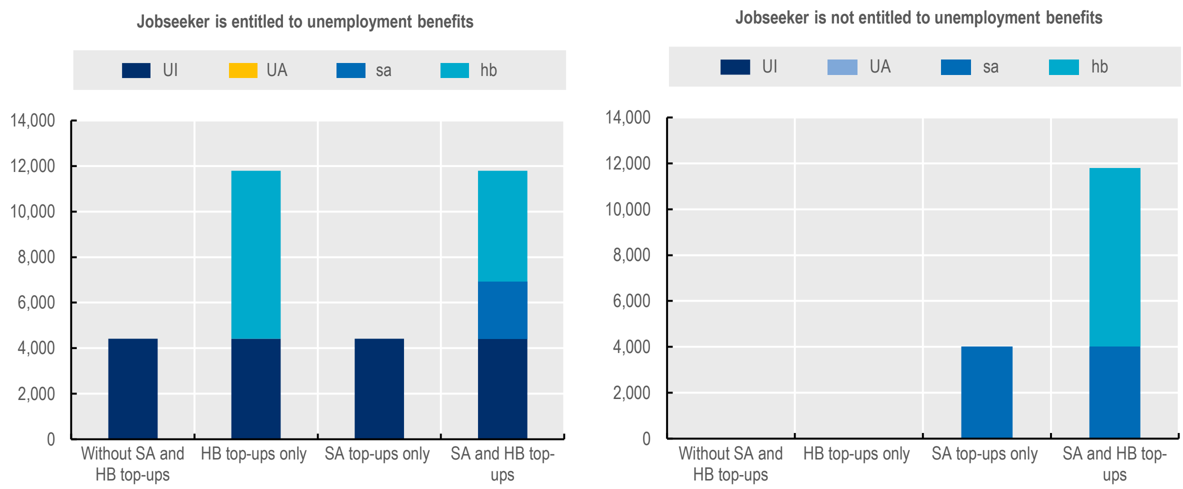
3. Support for childcare. In the TaxBEN model, this support is attributed to the variable childcare element (see section 5.3.

As there is only one means-test for Universal Credit, the components SA, HB and cc_benefit are calculated in the following way: first, the childcare component is completely attributed to the cc_benefit variable. The remainder of Universal Credit is separated into the variables SA and HB according to the relative size of the standard allowance and the (eligible) housing costs, depending on household structure and family composition as chosen by the model user.

Figure 3.1 illustrates the classification of Universal Credit depending on the model run for a single jobseeker without children. The left panel assumes that the person is entitled to unemployment benefits, the right hand side that she is not. The X-axis shows different combinations of model runs, with and without housing benefits, that a user might model, and the resulting contributions of various benefits on net income. UI stands for unemployment insurance, which is contribution-based jobseeker's assistance in the UK.

Figure 3.1. Classification of Universal Credit in the TaxBEN model

Net income and benefit components by model run, single jobseeker without children, GBP per year, 2023

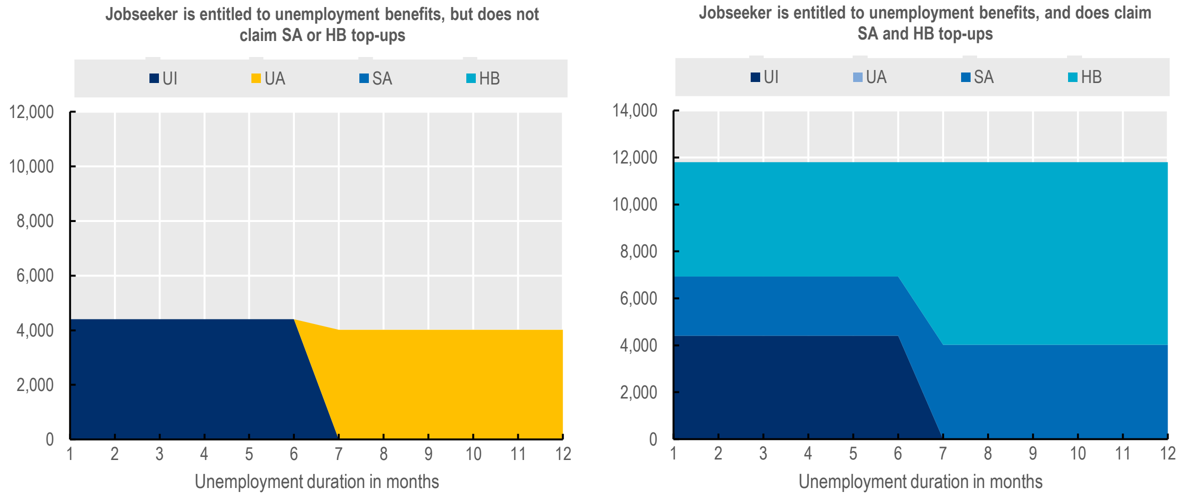


Source: Source: OECD Tax and Benefit Models. http://oe.cd/TaxBEN

In a similar way, Figure 3.2 shows net income by benefit component for two cases: in the left panel, a jobseeker is entitled to unemployment benefits, but does not claim social assistance or housing benefit. The TaxBEN model assumes that this person still makes a claim for universal credit, but does not have housing costs. Because it is a run without social assistance top-ups, the graph shows the standard allowance of universal credit as unemployment assistance, to preserve the continuity from the legacy benefit income-based jobseeker's allowance. In the right panel, the jobseeker is assumed to apply for social assistance and housing benefit top-ups. TaxBEN translates this to a full Universal Credit claim, as shown by the social assistance and housing benefit components.

Figure 3.2. Classification of Universal Credit in the TaxBEN model, principal out of work

Net income by benefit and duration of unemployment, single jobseeker without children, GBP per year, by model run and duration of unemployment, 2023

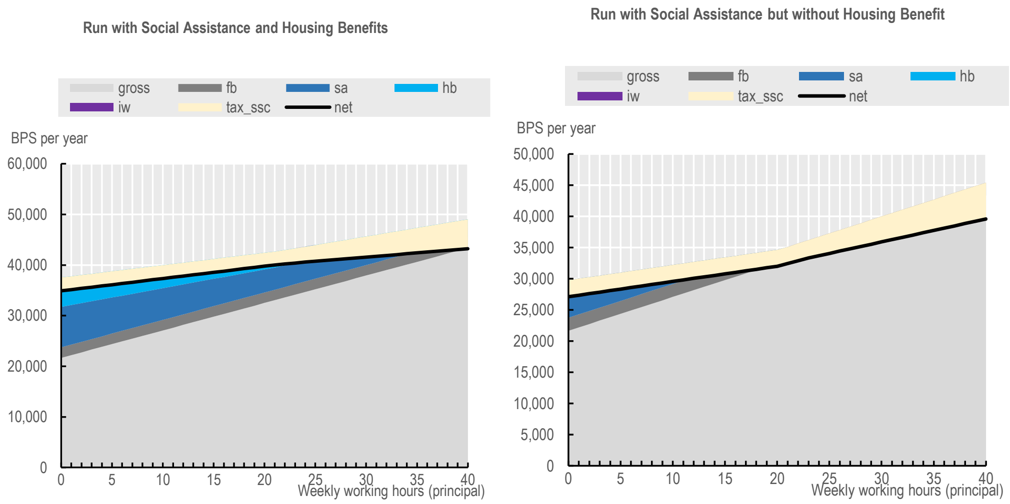


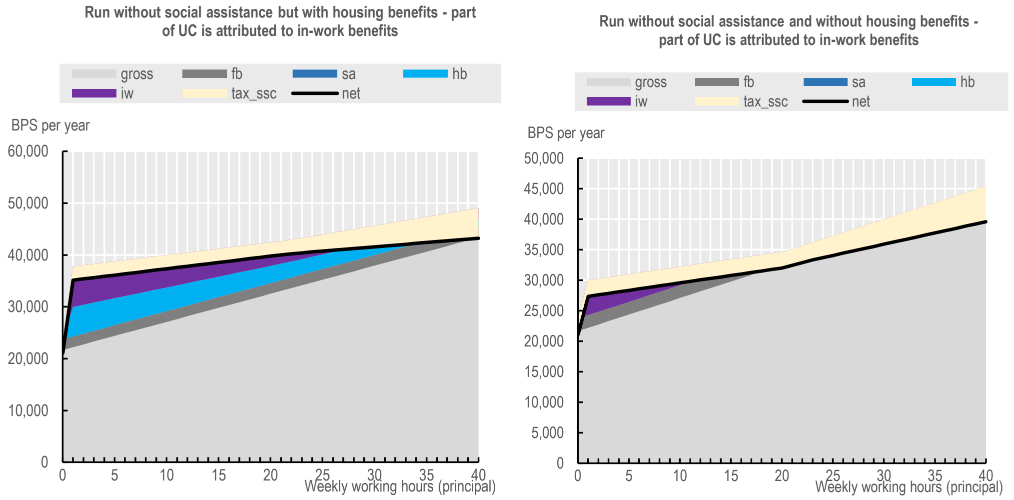
Source: Source: OECD Tax and Benefit Models. http://oe.cd/TaxBEN

If the principal household member is in work, but the user specifies a run without SA top-ups, TaxBEN assigns Universal Credit to in-work benefits, to preserve the continuity from the legacy benefits working tax credit and child tax credit. Note that if the principal is unemployed, assignment will always be to social assistance or unemployment assistance, even if the spouse is assumed to be employed. This asymmetry between the work status of principal and spouse is necessary to preserve the consistency of the timeline for the UK.

Figure 3.3. Classification of Universal Credit in the TaxBEN model, principal in work

Net income by TaxBEN model run-type, benefit and working hours of the principal household member at the minimum wage, couple with 2 children, spouse works full-time at the minimum wage, 2023.





Source: Source: OECD Tax and Benefit Models. http://oe.cd/TaxBEN

Standard allowance

Variable name: **[SA, UA, HB[6], IW[7]]**

Universal Credit (Monthly Figures)	Under 25	25+
Standard Allowance – single	£265.31	£334.91
Standard allowance – couple	£416.45	£525.72

Support for Children

If the claimant has 1 or 2 children, they will receive an extra amount for each child.[8]

If the claimant has 3 or more children, they will receive an extra amount for at least 2 children. Claimants can only receive an extra amount for more children if any of the following are true:

- The children were all born before 6 April 2017,
- They were already claiming for 3 or more children before 6 April 2017, or
- Another exception applies (not simulated in the TaxBEN model).

The claimant can also receive an additional amount for any qualifying disabled child or disabled young person, regardless of how many children are in the household. Note that the situation of disabled children is not simulated in the TaxBEN model.

[6] In runs where the principal is out of work and where the user has chosen to run the model without social assistance, but with housing top-ups.

[7] In runs where the principal is in work and the user has chosen to run the model without social assistance.

[8] Top-ups for children are included in the SA variable in the TaxBEN model.

Extra monthly amount	
For the first child	£290 (born before 6 April 2017) £244.58 (born on or after 6 April 2017)
For the second child and any other eligible children	£244.58 per child
For a disabled or severely disabled child	£132.89 or currently 414.88 in 2023
If the claimant is entitled to a childcare supplement (see Section 5.3.)	Up to 85% of childcare costs (up to £646.35 for one child and £1,108.04 for 2 or more children), see Section 5.3. for more details.

Support for those with disabilities

If the claimant has a disability or health condition, which restricts – either wholly or partly – their capability for work, they may receive an additional amount as set out in the table below.[9]

If the claimant was receiving the severe disability premium (SDP) in their previous benefit (Income Support, Employment and Support Allowance or Jobseeker's Allowance) they may receive a transitional SDP element (not modelled in TaxBEN).[10]

	Extra monthly amount
If the claimant has limited capability for work and work-related activity	£354.28
If the claimant has limited capability for work and started health-related Universal Credit or Employment and Support Allowance (ESA) claim before 3 April 2017	£132.89

Support for carers

If the claimant cares for a severely disabled person, they receive an additional monthly amount as follows. Note that this situation is not simulated in the TaxBEN model.

	Extra monthly amount
If the claimant provides care for at least 35 hours a week for a severely disabled person who receives a disability-related benefit	£168.81

This is on top of any extra amount the claimant will receive if they have a disabled child.

Support for housing costs

Variable name: **[HB]**

Claimants may receive support for housing costs. How much the claimant receives depends on their age and circumstances. The payment covers eligible rent. (The TaxBEN model focuses on households in rented accommodation; if the claimant is a homeowner, they may be able to get a loan to help with interest payments on their mortgage or other loans they have taken out for their home through the Support for Mortgage Interest scheme, see Annex).

[9] For more details, see https://www.gov.uk/health-conditions-disability-universal-credit.

[10] For more details see https://www.legislation.gov.uk/uksi/2021/4/regulation/2/made

Eligible rent may differ from the contractual rent. This may happen, for example, if the contractual rent includes ineligible service charges or is deemed to be excessive (either for the property in question or relative to other rents in the area) or if the size of the property is excessive relative to the claimant's needs. In the private sector (the situation simulated in the TaxBEN model), the maximum amount a family can claim is the Local Housing Allowance (LHA) rate, which varies by the number of occupiers in a household and the area in which they live. The household size criteria determine the appropriate number of bedrooms for which the occupiers qualify: a family is entitled to one bedroom for each couple or single person aged 16 or over, for any two children of the same sex aged under 16 and any two children under 10. The maximum entitlement is four bedrooms. Single people without children aged under 35 can only claim the 'shared accommodation' rate. In most circumstances, benefits are paid directly to the tenant rather than to the landlord.

There are situations where an individual's circumstances might require larger accommodation than the size criteria would allow, and they may consequently face a shortfall in their ability to meet their rent as a result. In such cases (and in others), the local authority has a discretionary power to consider the award of Discretionary Housing Payments which can address an individual's specific accommodation needs where necessary. These discretionary payments are not simulated in the TaxBEN model.

The weekly LHA rates used in the TaxBEN model are those for Maidstone in Kent, which are as follows from April 2022:

Maidstone Broad Rental Market Area	
Shared Accommodation	£88.85
1 Bedroom	£149.59
2 Bedrooms	£187.56
3 Bedrooms	£224.38
4 Bedrooms	£287.67

There are also national caps on LHA rates, which are currently set at the following levels (as of April 2023):

- £295.49 for shared accommodation and one bedroom properties,
- £365.92 for a two bedroom property,
- £441.86 for a three bedroom property,
- £593.75for a four bedroom property.

Because of the COVID-19 Emergency, LHA rates have been increased to the 30th percentile of market rents. This applies to all private renters claiming Universal Credit. The rates have been maintained at these levels even after the end of the emergency period.

Other support the claimant could receive

If the claimant receives Universal Credit, the claimant may also be able to get other financial support depending on their circumstances.

3.1.3. Benefit duration

Universal Credit is paid as long as the conditions are fulfilled, after the assessment period.

3.1.4. Means test

Income test:

Specified forms of unearned income, including occupational pensions, reduce the claimant's Universal Credit payment on a one-for-one basis. However, some benefits, such as Child Benefit are fully disregarded.

However, employed earnings net of relievable pension contributions income tax and employee's National Insurance Contributions are subject to a single taper rate of 55% from 24 November 2021. There is also a work allowance which disregards a certain amount of earnings for those with responsibility for a child or qualifying young person or with limited capability for work. The work allowance is £344 per month for those receiving housing support and £573 per month for those not receiving any housing support from the 24th November 2021

Self-employed earnings are calculated net of permitted business expenses, relievable pension contributions income tax and employee's National Insurance Contributions are also subject to the single taper rate of 55% (not modelled in TaxBEN). A Minimum Income Floor is calculated using the National Minimum Wage for their age group, multiplied by the number of hours they are expected to look for and be available for work. It also includes a notional deduction for tax and National Insurance. If self-employed earnings are below the Minimum Income Floor, the Minimum Income Floor is used to calculate Universal Credit entitlement rather than actual earnings. Self-employed claimants are given a grace period of one year, known as a Start-Up period, to increase their earnings up to and beyond the level of their Minimum Income Floor. The Minimum Income Floor only applies once the Start-Up period has ended.

The benefit cap limits the total amount of working age benefits a household can receive and is applied through Housing Benefit and Universal Credit.[11] The Secretary of State has reviewed the benefit cap levels and from April 2023 they are £22,020 per annum for couples and lone parents (£25,323 in Greater London; this situation is not simulated in TaxBEN) and £14,753 per year for single people without children (£16,967 in Greater London). Certain groups are excluded from the benefit cap, including those claiming severe disability benefits and/or carer benefits and those whose household earnings are at least £722 per month from April 2023. There is a nine month grace period during which the cap does not apply for those who have a sustained work history.

Asset test:

Capital and property are also considered to determine eligibility to the Universal Credit and they are included in the means-testing.

Assets below GBP 6,000 (lower capital limit) are ignored. Assets in excess of GBP 6,000 are treated as yielding an income (known as "assumed yield") of GBP 4.35 per month for each whole / part GBP 250 over GBP 6,000. There is no entitlement to Universal Credit where an assessment unit (household) has asserts totalling over GBP 16,000 (upper capital limit).

Assets include savings, stocks and shares, property, trusts and ISAs (including help to buy ISAs, the Lifetime ISA (April 2017)), peer-to-peer loans and crypto assets. Income derived from assets, such as interest on savings, rent payments from a second property or dividends from shares will to be treated as capital.

[11] A list of working-age benefits that are counted towards the benefit cap can be found here: https://www.gov.uk/benefit-cap. TaxBEN incorporates all benefits modelled: child benefit, Universal Credit and New-Style Jobseeker's Allowance.

Assets does not include:

- the property occupied by the claimant as his or her main home;
- personal injury compensation payments placed in trust funds;
- certain other special schemes for compensation;
- personal pension schemes and retirement annuity contracts;
- business assets;
- covid-19 related business assets; or
- assets belonging to a relevant child dependant within the assessment unit.

Properties other than the main residence and land are valued and considered as assets. If that additional property is rented out, overall capital would equal the assumed yield imputed (as set out above) plus rental payments from the date they are due to be paid.

Applicable assets are valued at their current market value or surrender value less:

- 10% where there would be expenses attributable to sale;
- the amount of any encumbrances (e.g. a mortgage).

3.1.5. Tax treatment

Universal Credit is not taxable.

3.1.6. Interactions with other components of the tax-benefit system

Contributions based benefits (new style JSA and ESA) can be received alongside Universal Credit but reduce Universal Credit entitlement on a one-for-one basis.

3.1.7. Combining benefit receipt and employment/starting a new job

Universal Credit recipients can be unemployed or working, as there are no-cliff edges or maximum working hours to be entitled but the amount received is dependent on any earnings, and are taken into account in the means test as described above.

3.1.8. Benefit indexation

Universal Credit is not index-linked. The Social Security Administration Act 1992 requires the Secretary of State to annually review benefits and pensions. However, by convention Universal Credit is up-rated in line with increases in the Consumer Prices Index in the year to September.

3.2. Housing benefit

OECD note: This section provides information on housing benefit (HB) schemes that aim to reduce the rental costs for people living in privately rented accommodations. Cash support for housing costs *other than rent*, e.g. for heating and water bills, is outside the scope of this section. Similarly, this section does not include other housing benefits such as those for the construction of housing, the purchases of owner-occupied housing, or the repayment of interests on owner-occupied housing. In-kind support for families in social housing through below-market rents is also excluded.

Based on this definition, Universal Credit (see Section 3.1) is a housing benefit programme in the United Kingdom, and is sometimes defined as such in TaxBEN.

4. Family benefits

4.1. Child benefit

Variable name: **[FB, FAMBEN]**

This is a non-contributory benefit, not means-tested (though there is a tax charge applicable to claimants or their partners if either of them has an Adjusted Net Income (ANI) over a specified amount under certain conditions that is related to the amount of Child benefit payments received) and it is not taxable.

4.1.1. Eligibility conditions

Child Benefit is paid for each child the claimant is responsible for aged under 16 where specified eligibility conditions are met or in respect of a young person who has not attained the age of 20 if still in approved education or training and other related eligibility conditions are met.

4.1.2. Benefit amount

From 6 April 2023, Child Benefit is payable at the weekly rate of GBP 24.00 for the eldest child for whom benefit is payable and GBP 15.90 per week in respect of each other child.

4.1.3. Benefit duration

As long as the eligibility conditions hold.

4.1.4. Means test

Child Benefit is not subject to any means test, but claimants are subject to a tax charge for those with an annual ANI in excess of GBP 50,000 who claim Child Benefit or whose partner claims it (the partner with the higher income is liable to the tax charge). For those with income between GBP 50,000 and GBP 60,000, the amount of the charge is 1% of the Child Benefit received for every GBP 100 of taxable income over GBP 50,000. For those with income over GBP 60,000 the tax, charge is equal to the amount of Child Benefit payments. Claimants can keep receiving their Child Benefit payments and pay a tax charge, or alternatively opt to stop receiving their Child Benefit payments.

4.1.5. Tax treatment

The benefit is not taxable.

4.1.6. Interaction with other components of the tax-benefit system

The benefit is universal and can be received together with any other benefit.

4.1.7. Combining benefit receipt and employment/starting a new job

No restrictions, but see Section 4.1.4 above for details of High-Income Child Benefit Charge.

4.1.8. Benefit indexation

The amounts referenced in 4.1.1. are correct as of 6 April 2023, increasing from GBP 21.80 and GBP 14.45 in tax year ending 5 April 2023.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **April 6, 2023.**

Education is a devolved responsibility, and each of England, Scotland, Northern Ireland and Wales are responsible for setting the policy and monitoring participation in childcare for pre-school children in their respective countries. The TaxBEN model simulates the situation in England.

In England and Wales, children enter primary school from age five (the compulsory school age) though many start in the reception class of primary school at age four.

In Scotland, children born between March and August start school in the August of, or following, their fifth birthday. Those born between September and February start school in the August prior to their fifth birthday. As such, children in Scotland usually start school between the ages of 4.5 and 5.5 years old.

In Northern Ireland, children enter primary school from age four.

Prior to starting school, children may participate in pre-school, but this is not compulsory.

5.1. Gross childcare fees

Variable name: **[UKcc_cost]**

The mean hourly fee charged by providers in England in 2023 was estimated to be £5.68 for children under age two, £5.72 for children aged two and £5.60 for three and four year old preschool children[12]. These figures vary for Scotland, Wales and Northern Ireland

OECD note: Starting from 2023, the OECD tax-benefit model allows to determine the parent(s)'s weekly working hours and the use of formal childcare services **independently**. This means that childcare costs can be simulated also for a jobless single parent, and not only for an employed one, since childcare use is no longer limited to only cover the hours spent at work.

5.1.1. Discounts for part-time usage

Childcare is paid hourly, there is no discount for part-time use.

5.1.2. Fees indexation

There is no indexation as fees are determined by the establishments. The gross fees reported in this section are the average ones[13].

5.2. Fee discounts and free provision

Variable name: **[cc_susbsidy]**

Some free provision is available in England, Scotland and Northern Ireland and Wales. TaxBEN models English rules.

[12] CORAM childcare survey 2023, https://www.coram.org.uk/resource/coram-family-and-childcare-survey-2022 Table 1, page 11 [accessed 28th of April 2022]

[13] Source: Childcare and early years provider survey, Reporting year 2022 – Explore education statistics – GOV.UK (explore-education-statistics.service.gov.uk)

5.2.1. Eligibility

All three and four year olds in England are entitled to free provision of 30 hours per week for 38 weeks per year if both parents, or the lone parent in a single parent family, meet the relevant immigration criteria earn at least 16 times the hourly minimum wage each week[14], and neither parent has an annual taxable income of more than GBP 100,000. All other three and four year olds are entitled to 15 hours of free childcare per week for 38 weeks per year. Disadvantaged two year olds are also entitled to the free provision of 15 hours of early education per week for 38 weeks. The eligibility criteria for this last provision comprise three types of households:

1. The first need to be in receipt of certain benefits and earn less than £15,400 a year if on Universal Credit or £16,190 if on Tax Credits (covered in the model).
2. The second comprises households where the 2 year old has special educational needs or disability or is a looked after child or has left care.
3. The third group consist of households where parents have certain immigration status (no recourse to public funds) or have claimed asylum, subject to income thresholds broadly equivalent to those for families able to receive benefits.

This provision is simulated for the **first type of households**, while it is not for the other two, as they are outside of the scope of TaxBEN's model. Children become eligible for a free place from the term after their second or third birthday.

OECD note: all the sources of income considered in TaxBEN undergo the process of annualization. This means that they are considered in the amount for one month (or one week) and then multiplied by 12 (or 52) to determine the annualized amount. Hence, when computing the childcare fees discount for 2, 3 and 4 years old, we consider a period of 52 weeks and not just 38 since the childcare fees paid in the model are also modelled around this assumption, and thus are higher than what a parent would normally pay since the school year is shorter than 52 weeks. This process of annualizing the sources of income (and expenses) is necessary to maintain coherent and comparable results across various countries.

Free early education places are available at nursery schools, nurseries on school sites, nursery classes in schools and academies, children's centres, day nurseries, playgroups and pre-schools and with child-minders.

In Scotland, all 3 and 4 year olds are entitled to 1,140 hours of free provision per year from the term beginning after their 3rd birthday (starting in August, January or April). Around a quarter of 2 year olds are also eligible, based on entitlement to certain benefits and also 2 year olds who are looked after, under a kinship care order, or with a parent appointed guardian. The local authority may offer places at nurseries, nursery classes in schools, playgroups, or child-minders either through their own services or through partners in the private or third sector.

In Northern Ireland the Pre-school Education Programme (PSEP) is a universal service which offers funded pre-school education places for children in their immediate pre-school year. Pre-school education places are available in nursery schools, primary schools with nursery units and voluntary and private settings. It covers at least 12.5 hours a week over 38 weeks.

[14] Please note that this threshold uses as reference the minimum wage specific to the age of the claimant (see section 1.). Source: Regulation 18(3) of [The Childcare (Free of Charge for Working Parents) (England) Regulations 2022 (legislation.gov.uk)]

In Wales, all children are entitled to a minimum of 10 hours of free early education from the term after their third birthday until they can start full time education, which is usually the September after they turn four. Access to early education is via local authorities, and in some areas children will receive more than the minimum number of hours available. Under the terms of the Childcare Offer for Wales working parents of three and four year olds can access a total of 30 hours of government-funded early-education and childcare for 48 weeks per year. This includes the universal early education provision. A working parent is one who earns the equivalent of 16 hours at the minimum wage each week, and neither parent has a taxable income of more than GBP 100,000.

Across Wales the Flying Start programme (Flying Start is geographically targeted at disadvantaged areas) provides free additional support to two and three year olds in more deprived communities. As well as a range of additional healthcare and developmental support this includes funded quality childcare for 2.5 hours per day, 5 days a week, for 39 weeks during the year, to support child development.

5.2.2. Amount of discount or free provision

In England, free provision for 3 and 4 year-olds amounts to 1,140 or 570 hours a year depending on whether parents are eligible for the extended entitlement (see Section 5.2.1 above). This free provision is spread over no fewer than 38 weeks of the year (so generally 30 or 15 hours a week for 38 weeks – that is 1140 or 570 hours per year), but need not be confined to term time. Parents can choose to spread the provision over more weeks if they wish (by using fewer hours per week).

In Scotland, 3 and 4 year-olds are entitled to 600 hours of free early learning and childcare per year. This entitlement will increase to 1,140 hours per year from August 2022, and the majority of children in funded childcare provision already have access to the expanded entitlement This must be over a minimum of 38 weeks a year and need not be confined to term time.

In the PSEP in Northern Ireland, nursery schools and primary schools with nursery units can offer either full-time (minimum of 4.5 hours per day) or part-time (minimum of 2.5 hours per day) sessions. All voluntary and private pre-school education providers offer part-time sessions only. Places in the PSEP are funded for 38 weeks of the year.

In Wales some 2-3 year olds are able to access 2.5 hours per day, 5 days a week, for 39 weeks during the year. All 3-4 year olds are able to access a minimum of 10 hours of early-education, though the exact amount of provision varies across local authorities. The 3-4 year olds of working parents are then entitled to up to a further 20 hours of government-funded childcare, making an overall entitlement of 30 hours of combined provision, which is available for 48 weeks per year.

5.2.3. Variation by income

In England, disadvantaged 2 year-olds from families claiming an out of work benefit[15] are also entitled to a free part-time early education place (i.e., 15 hours per week for 38 weeks), as long as household earnings do not exceed £15,400 if the family is in receipt of Universal Credit or £16,190 if the family is in receipt of tax credits.

Similarly, in Scotland 2 year-olds in families entitled certain benefits and those who are looked after, under a kinship care order, or with a parent appointed guardian are entitled to the same funded provision as 3 and 4 year olds, but otherwise there is no variation by income.

[15] Including Income Support and Income-Based JSA.

5.2.4. Benefit indexation

Not applicable since the programme discounts the cost of certain amounts of hours from total childcare costs.

5.3. Child-care benefits for formal centre-based care

Variable name: **[cc_benefit]**

There are two types of childcare support in the UK. First, there is an additional element of Universal Credit (see Section 3.1.) to support parents with childcare costs. This is a benefit. Second, there is a 'Tax-Free Childcare' scheme, which is available more widely. This is a workers' right for workers with associated childcare costs. Families must choose which of these schemes they wish to take advantage of. In the TaxBEN model it is assumed that they choose whichever is most advantageous.

5.3.1. Eligibility

To claim the childcare element of Universal Credit, the claimant must be aged 16 or over. If the claimant is a lone parent, he or she must be in paid work. For couples, both members must be in paid work. However, only one partner needs to work if the other partner is receiving a disability benefit, is temporarily absent for the claimant's household or is entitled to Carer's Allowance.

To qualify for the Tax-Free Childcare Scheme, the claimant (and their partner if applicable) must be in work and earning at least 16 hours a week on average at the UK national minimum wage, but their adjusted net income must be below GBP 100,000 per year.

5.3.2. Benefit or subsidy amount

The childcare element of Universal Credit is payable for the cost of "registered" or "approved" childcare. It can cover up to 85% of a family's childcare cost subject to a maximum a family can receive of £646.35 per month for one child and £1,108.04 per month for two or more children. In Summer 2023, the budget Universal Credit childcare element caps will significantly increase from £646.35 to £950.92 for one child and from £1,108.04 to £1,630.15 for two or more children. This change will be included in TaxBEN for 2024.

The Tax-Free Childcare scheme pays for 20% of parents' childcare costs up to a maximum of GBP 10,000 per year for each child up to 11 years old (GBP 20,000 per year for disabled children, though this situation is not simulated in the TaxBEN model). The maximum benefit is thus GBP 2,000 per child per year (or GBP 4,000 per year for disabled children).

5.3.3. Benefit duration

No limit.

5.3.4. Means test

See Section 3.1.4. for details of the means test for Universal Credit.

For Tax-Free Childcare, both parents must have earnings have an adjusted net income under GBP 100,000 as stated in Section 5.5.1 above in order to qualify, but other than this, there is no variation by income.

5.3.5. Tax treatment

Both Working Tax Credit and Tax-Free Childcare are not taxable.

5.3.6. Interaction with other benefits

See Section 6.1.6 for details of how the Working Tax Credit interacts with other benefits.

Receipt of Tax-Free Childcare is not compatible with receipt of Universal Credit or other monetary forms of government childcare support such as bursaries or tax exemptions.

5.3.7. Combining benefit receipt or subsidy and employment/starting a new job

For both Universal Credit and Tax-Free Childcare, claimants must be in work to qualify; see Section 5.3.1 above. However, parents with work agreed to start in the future can apply a month in advance.

5.3.8. Benefit indexation

Universal Credit is not index-linked (see section 3.1.8.).

5.4. Child care allowance for children not using child care centres

Tax-Free Childcare can be used for any regulated childcare whether or not at the providers' premises; for instance, nannies.

5.5. Government support for childcare expenditures

Tax-Free Childcare allows working parents to deposit funds into a childcare account, on GOV.UK. Government then tops up the childcare by 25%: for every GBP 8.00 parents add to their childcare account the government gives GBP 2.00.

5.5.1. Eligibility

All parents must work at least 16 hours a week and earn no more than £100,000 per year

5.5.2. Maximum amount

Parents can receive a maximum of £2,000 government subsidy this way per child, per year, or £4,000if a child is disabled.

5.5.3. Variation by income

The rate of subsidy is not varied by the parent's income, so long as they remain eligible.

5.5.4 Impact on overall income tax calculation

Although the scheme replaces a tax exemption, Tax-Free Childcare is not a tax exemption and so does not impact overall tax calculations.

6. In-work benefits

Variable name: **`[IW]`**

Universal Credit can be claimed while in work, see Section 3.1.4.

7. Social security contributions and payroll taxes

7.1. National Insurance contributions

Variable names: **[SOCSEC_p; SOCSEC_s; SSCR_p; SSCR_s]**

Class 1[16] National Insurance contributions (NICs) are currently payable by employees earning more than the Primary Threshold[17] (GBP 242 in any week) for the 2022/23 tax year. This amount to 12 per cent of earnings between GBP 242 and the NICs Upper Earnings Limit (GBP 967 per week), and 2 per cent of earnings above GBP 967 per week. All employees earning GBP 242 or less per week do not have to pay NICs, but those earnings between the Lower Earnings limit (GBP 123) and GBP 242 per week are deemed to have paid a notional contribution, which gives them entitlement to contributions-based benefits

Employer's contributions are not payable for employees earning at or below the Secondary Threshold (GBP 175 per week). The rate of employers' contributions is 13.8 per cent of earnings above GBP 175 per week.

Self-employed earners who are below the State Pension age pay Class 2 and Class 4 NICs. Class 2 contributions are currently payable by self-employed earners at a weekly flat rate of £3.15 when profits exceed the Lower Profits Threshold[18] (GBP 11,908 per year) for the 2022/23 tax year. Class 4 NICs[19] are payable by self-employed earners who are below the State Pension age at the main percentage rate, 9.73%, on taxable profits between the Lower Profits Limit[20] (GBP 11,908 per year) and the Upper Profits Limit (GBP 50,270 per year) and at the additional Class 4 percentage rate, 2.73%, on all profits above GBP 50,270 per year for the 2023/24 tax year.

To mirror the position for employees, where employees are treated as having paid NICs on their earnings between GBP 123 per week and GBP 242 per week but do not actually pay any NICs, self-employed earners do not have to pay any NICs on profits between the Small Profits Threshold (GBP 6,725 per year) and GBP 11,908 per year, they are treated to have paid NICs which gives them entitlement to certain contributory-based benefits. Self-employed earners with profits below GBP 6,725 may wish to pay voluntary Class 2 NICs to protect their entitlement to certain contributory benefits. The

[16] From 6 April 2022 to 5 November 2022, the main and additional rates of Class 1 NICs (except for the 0% bands) included a 1.25ppt increase due to the Health and Social Care Levy.

[17] The NICs Primary Threshold was set at £190 per week between 6 April to 5 July 2022, then increased to £242 per week from 6 July in line with the announcement made at Spring Statement 2022 to align the NICs Primary Threshold and Lower Profits Limit with the Personal Allowance for Income Tax.

[18] At Spring Statement 2022, it was announced that self-employed individuals earning between the Small Profits Threshold and the Lower Profits Limit would not pay Class 2 NICs while continuing to build up entitlement to contributory benefits. The new level at which Class 2 NICs is paid is the Lower Profits Threshold. This was set at £11,908 in 2022-23 to align with the Lower Profits Limit, and along with the Lower Profits Limit will increase to £12,570 for 2023-24.

[19] The main and additional rates of Class 4 NICs are assessed on an annual basis, therefore an average rate was applied to ensure consistency and fairness with Class 1 NICs payers who paid the increased NICs rate between 6 April – 5 November 2022. From 6 April 2023, these rates will revert back to 9% and 2%.

[20] Self-employed NICs are calculated on an annual basis, therefore, the Lower Profits Limit was set at an average threshold of £11,908 for the 2022-23 tax year which is equivalent to 13 weeks of the threshold at £9,880 and 39 weeks at £12,570, reflecting the position for employees.

case of self-employed earners is not considered in TaxBEN since the model focuses on employees.

For those aged under 21, those aged under 25 on a recognised apprenticeship training programme, qualifying veterans and new Freeport employees, employer NICs are zero on earnings of GBP 967 (GBP 481 for Freeport employees) or less per week. Contributions are still payable by employers on earnings above GBP 967 (GBP 481 for Freeport employees) per week at the standard 13.8 per cent rate.

Eligible employers (those with NICs liabilities under £100,000 in the previous tax year, who do not operate in the public sector) are able to claim relief off their Employer NICs of £5,000 in 2023-24 (not modelled in TaxBEN).

The Apprenticeship Levy is charged at a rate of 0.5% on the gross pay bill of employers. Employers will receive an annual allowance of GBP 15 000 to offset against the levy meaning that only employers with an annual gross pay bill of over GBP 3m will end up paying the levy. As not all employers pay the apprenticeship levy, it is not included in the TaxBEN model.

7.1.1. *Rates indexation*

No information available.

8. Taxes

Taxation in the UK is on the individual level. The tax year begins on 6 April. Note that the devolved administration in Scotland has powers to alter income tax rates and thresholds, and that these were used for the first time in the 2017–18 tax year. The TaxBEN model does not simulate these differences, and the information in this section does not apply to Scotland.

8.1. ***Income tax***

Variable names: **[INCTAX_p; INCTAX_s]**

8.1.1. *Tax allowances*

Basic tax allowance: a personal annual allowance of GBP 12,570 is available to individuals in 2023/24. The personal allowance is gradually withdrawn if the Adjusted Net Income is above GBP 100,000 at a rate of 50% of all Adjusted Net Income above GBP 100,000 and reaches zero if income is £125,140 or above. It is available UK-wide (including Scotland).

Marriage Allowance: A member of a married couple or civil partnership may transfer 10% of their personal allowance to their spouse or civil partner (i.e. GBP 1,260 in 2023–24) if they are not using their full allowance, provided the spouse or civil partner is not a higher or additional rate taxpayer.

Allowances for specific types of income (not simulated in the TaxBEN model):

- Dividend Allowance of GBP 1,000 for income from dividends in 2023/24
- Personal Savings Allowance of GBP 1,000 for taxpayers with total income below the basic rate limit, or GBP 500 for those with total income below the higher rate limit, for income from savings.

8.1.2. Tax base

In the TaxBEN model, the tax base is gross earnings plus contribution-based JSA minus the personal allowance.

8.1.3. Income tax schedule

In 2023–24, all taxpayers who live in England, Wales and Northern Ireland are liable on taxable income other than savings and dividend income at the basic rate of 20 per cent for the first GBP 37,700[21], a higher rate of 40 per cent over the basic rate limit of GBP 37,700 up to GBP 112,570, and an additional rate of 45 per cent over GBP 150,000. Taxable Income is defined as gross income for income tax purposes less allowances. This means that individuals who are eligible for the Basic tax allowance have their first gross earnings of GBP 12,570 disregarded from the tax computations.

Taxable income (GBP)	Rate %
0 – 37 700	20
37 701 – 112 570	40
Over 112 570	45

In 2023–24, all taxpayers who live in Scotland are liable for Scottish Income Tax on taxable income other than savings and dividend income. They are also eligible for the personal tax allowance (it is also gradually withdrawn if the Adjusted Net Income is above GBP 100,000 at a rate of 50% of all Adjusted Net Income above GBP 100,000 and reaches zero if income is £125,140 or above. The starter rate of 19 per cent for the first GBP 2,162, a basic rate of 20 per cent over the starter rate limit of GBP 2,162 up to GBP 13,118, an intermediate rate of 21 per cent over the basic rate limit of GBP 13,118 up to GBP 31,092, a higher rate of 41 per cent over the intermediate rate limit of GBP 31,092up to GBP 112,570,000, and an top rate of 46 per cent over GBP 112,570,000 (the Scottish system is not modelled in TaxBEN).

Taxable income (GBP)	Rate %
0 – 2,162	19
2,162 – 13,118	20
13,118-31,092	21
31,093-112,570	42
Over 112,570	47

In 2023-24, the first £1,000 of dividend income is covered by the dividend allowance. Dividend income is then charged as 0% for the first GBP 12,570 which is the personal tax allowance, 8.75% on income between GBP 12,570 and GBP 50,270, and higher rate of 33.75% over the basic rate limit of GBP 50,270 up to GBP 125,140, and an additional rate of 39.35 % over GBP 125,140. For savings income, 0% tax rate applied to up to £5,000 individuals earn less than £17,570 from employment. Every £1 earned above an individual's personal allowance (£12,570) reduces the band by £1 until it tapers to zero. Then basic rate (20%) taxpayers can earn up to £1000 savings income tax-free and

[21] Taxable Income is considered net of the basic tax allowance and the marriage allowance, provided that the individual is eligible for them. For example, a single individual with annual gross earnings below the limit of GBP 100,000 would pay no tax on the first GBP 12,570 earned due to the basic tax allowance.

higher rate taxpayers (40%) can earn up to £500 tax-free. Neither dividend income nor savings income are considered in TaxBEN.

8.1.4. *Tax credits*

There are no tax credits in the UK income tax system.

8.1.5. *Fees indexation*

No information available.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for the UK in 2023 (see figure below). TaxBEN by default produces the following output: 1) net household incomes (**black line**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (users are free to select many of these circumstances). The model and the related web calculator is accessible from the project website. The figure below shows output for a two-adult family with two children (adults are both 40 years old whereas children are 4 and 6 years old respectively) and four different scenarios:

- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record (in months), for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas show the following household income components: **GROSS** = gross earnings; **UB** = unemployment benefits; **SA** = social assistance / guaranteed minimum income benefits; **HB** = housing benefits; **FB** = family benefits; **IW** = in-work benefits; **SSC** = social security contributions; **IT**= income tax. Note that these components may be the result of the aggregation of more than one benefit/tax into a composite category. Please refer to the sections above for the benefits/taxes included in each category.

Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Panel A assumes that one adult family member (the so-called ‘second adult’ using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (the so-called ‘first adult’) is employed full-time throughout the entire year at different earnings levels ranging between 0 and 200% of the average wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits (again, e.g. because they have expired) but claiming social assistance or guaranteed minimum income benefits, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x-axis in Panel B measures the time of benefit receipt, starting from the first month. The x-axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2nd month of unemployment benefit receipt. In Panel B and D, previous earnings are assumed to be equal to the average wage.

Figure 9.1. Selected output from the OECD Tax-Benefit model, 2023

Couple with two children

Source: OECD TaxBEN model.

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in the United Kingdom that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

Support for Mortgage Interest

Housing Benefit cannot be claimed by people who are owner occupiers (unless they part own and part rent).

Help is available to homeowners as support for mortgage interest (SMI) which is an interest bearing loan and is secured by a charge on the property. SMI is available to claimants in receipt of one of the following qualifying benefits; Income Support, Income-based Jobseeker’s Allowance, Income related Employment & Support Allowance, State Pension Credit and Universal Credit.

The aim of SMI is to make a contribution towards the interest on loans taken out to purchase their home and specific loans for repairs and improvements (in UC all loans secured on the property are eligible). The amount of the SMI loan is calculated by applying a standard interest rate (SIR) (currently 2.65%) to the capital balance up to a maximum of £200k (£100k for those in receipt of Pension Credit). Exceptions to these limits may apply where a home improvement loan is needed to make the existing property suitable for a disabled member of the household.

No help is provided towards arrears, endowment policies or capital repayments. Help is provided from the outset of a claim for customers in receipt of State Pension Credit, but waiting periods apply for those in receipt of Income Support, income-based Jobseeker’s Allowance income-related Employment & Support Allowance and Universal Credit. There is a waiting period of 3 consecutive assessment periods for Universal Credit claimants. No help is provided towards arrears, endowment policies or capital repayments. Help is provided from the outset of a claim for customers in receipt of State Pension Credit, but a qualify period of 3 consecutive assessment periods applies to Universal Credit claims when no support is provided.

SMI loans are recoverable from any available equity when the property is sold or ownership transferred.

SMI loans are recoverable when the property is sold or ownership transferred.

Cost of living payments (COLPs):

Cost of Living Payments (COLPs) were introduced to help support people on the lowest incomes cope with the rising costs as a result of the COL crisis.

These payments are lump sum amounts paid out throughout 2023 and early 2024 to recipients of Income-related Jobseeker Allowance (JSA), income-related Employment and Support Allowance (ESA), Income Support, Pension Credit, Universal Credit, Child Tax Credit and Universal Tax Credit.

The first payment of GBP 301 is aimed at those entitled to a payment (or later found to be entitled to a payment) of Universal Credit, income-based JSA, income-related ESA, Income Support or Pension Credit for an assessment period that ended in the period 26 January 2023 to 25 February 2023 (most COLP amount paid between 25 April 2023 and 17 May 2023). Otherwise, the GBP 301 payment is also available for those who received a payment of tax credits for any day in the period 26 January 2023 to 25 February 2023, or that are later found to have been entitled to a payment for this period (payment paid between 2 and 9 May 2023).

Two other payments of GBP 300 and GBP 299 are scheduled to take effect throughout, Autumn 2023 and Spring 2024 respectively but as of now there is no definitive detail on the qualifying or exact payment dates for either payment All these payments are made separately from the benefit payments.

A pensioner cost of living payment of £300 per pensioner household will be paid as a top up to the winter fuel payment in winter 2023/24. Conventional winter fuel payments of £200 for a household with someone aged 66-79 and £300 for a household with someone aged 80 or over will therefore increase to £500/£600 respectively.

To receive a winter fuel payment and therefore the pensioner cost of living payment in 2023/24 a person has to have reached state pension age before 25 September 2023.