

Income tax status of Universal Credit

Who is likely to be affected?

This measure will affect people entitled to receive Universal Credit, including those who move onto Universal Credit from an existing social security benefit.

General description of the measure

This measure will exempt Universal Credit from liability to income tax.

Policy objective

Making Universal Credit tax exempt is consistent with the Government's wider aim of simplification. It also fits with the Government's stated intention to remove those on the lowest incomes from tax.

Background to the measure

Universal Credit was part of a package of measures in the Welfare Reform Act 2012. It supersedes six benefits and tax credits of which two are taxable to some degree. It is not possible to disaggregate components of an award of Universal Credit, so the tax exemption applies to an individual's total entitlement.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2013.

Current law

The income tax status of social security benefits is set out in the Income Tax (Earnings And Pensions) Act 2003 (ITEPA). Table A in section 660 ITEPA includes the social security benefits that are liable to income tax. Table B, Parts 1 and 2 in section 677 ITEPA include the social security benefits that are wholly exempt from income tax.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to provide that Universal Credit and its equivalent in Northern Ireland are added to the list of tax exempt benefits in Table B.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to reduce receipts by approximately £30 million per annum from 2014-15. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2013.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	This will affect people as they migrate from claiming a currently taxable benefit to claiming non-taxable Universal Credit. Around 300,000 individuals are estimated to pay tax currently on benefits moving into Universal Credit. Numbers affected will build over time to 300,000 reflecting the phased migration of claimants to Universal Credit.					

Equalities impacts	There is very little information on the characteristics of those individuals who currently pay tax on a benefit which will be superseded by Universal Credit. They will all gain at their marginal rate.
Impact on business including civil society organisations	This measure is expected to have no impact on businesses or civil society organisations. This measure impacts on income tax due for individuals only.
Operational impact (£m) (HMRC or other)	This measure will have a negligible operational impact.
Other impacts	Other impacts and been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax receipts and data from the Department for Work & Pensions as individuals are moved from currently taxable benefits to Universal Credit.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

1 Income tax exemption for universal credit

- (1) In section 677(1) of ITEPA 2003 (UK social security benefits wholly exempt from tax), in Part 1 of Table B (benefits payable under primary legislation) insert at the appropriate place –

“Universal credit	WRA 2012	Part 1
	Any provision made for Northern Ireland which corresponds to Part 1 of WRA 2012”	

- (2) The amendment made by this section has effect for the tax year 2013-14 and subsequent tax years.

EXPLANATORY NOTE

INCOME TAX EXEMPTION FOR UNIVERSAL CREDIT

SUMMARY

1. This clause adds Universal Credit to the table of social security benefits that are wholly exempt from income tax.

DETAILS OF THE CLAUSE

2. Subsection 1 adds Universal Credit and its equivalent in Northern Ireland to Table B in section 677 of the Income Tax (Earnings and Pensions) Act 2003. Table B sets out the social security benefits that are wholly exempt from income tax.
3. Subsection 2 provides that this clause has effect for 2013-14 and later tax years.

BACKGROUND NOTE

4. Universal Credit will bring together different forms of income-related benefits and tax credits and provide a simple, integrated benefit for people in or out of work. The benefit will consist of a basic standard allowance with additional elements for disability, children disabled children, child care, carers and housing costs.
5. If you have any questions about these changes or comments on the legislation, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).