Department for Communities and Local Government

Localising support for council tax

Explanatory note on re-stated default scheme universal credit provisions

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Department for Communities and Local Government

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Overview

1. The provisions for universal credit were included in draft regulations setting out the default council tax reduction scheme[1] ('the default scheme'), published in July 2012. Over the past few months the Department for Communities and Local Government has worked closely with the Department for Work and Pensions (DWP) to ensure that the default scheme complements the work incentives that universal credit is designed to promote. This note explains:

   - how the proposals of the default scheme support work incentives; and
   - some small amendments to the July provisions that have resulted from this assurance work.

   The note and updated provisions are being published to keep interested parties up to speed ahead of the regulations being made by the Secretary of State. This will happen as soon as possible after the Local Government Finance Bill obtains Royal Assent.

Universal credit provisions

2. Under the default scheme, council tax support will be calculated in the same way as the existing council tax benefit system by comparing **income** to the **applicable amount**.

3. The default scheme regulations contain provisions about applicants with an award of universal credit[2]. For the **'applicable amount'** of such applicants the default scheme uses the amount of the 'maximum award' calculated for the purposes of universal credit[3]. This ensures that there is a consistent approach between the amount that universal credit determines a person needs to live on and the amount that council tax reduction schemes assume a person needs to live on.

4. The **'income'** assessment made by DWP for universal credit will be re-used, with the universal credit payment itself being included as 'income'. The treatment of income and earnings between universal credit and the default scheme will be aligned as far as possible. Any disregards of income (**not already taken into account under universal credit**) will be adjusted for.

[1] The draft Council Tax Reduction Schemes (Default Scheme) (England) Regulations, to be made under section 113(2) of, and paragraph 4 of Schedule 1A to, the Local Government Finance Act 1992.
[2] An individual or a couple.
[3] Please see paragraph 27 of the draft default scheme provisions on universal credit, published alongside this note.

5. Applicants will lose 20p for every £1 of income over and above their applicable amount, subject to any earnings disregards that may be applied under the Default Scheme.

Supporting work incentives

The taper

6. Taking into account universal credit as income in the way set out above supports positive work incentives by mitigating the risk of having high marginal deduction rates. (A marginal deduction rate is the proportion of any increase in earnings which is lost due to tax or reduced benefit payments.)

7. As set out above, the draft default scheme regulations continue to provide for support to be tapered away at a rate of 20 per cent for every additional pound of (universal credit plus universal credit-assessed) income **over and above** the applicable amount (once any additional disregards have been applied under council tax reductions). Since the 20 per cent council tax support taper applies to the universal credit income which has already been tapered by 65 per cent, marginal deduction rates[4] cannot exceed 100 per cent and will instead be around 81 per cent, taking into account a person's tax and national insurance contributions.

Hours/income rules

8. A number of income and hours rules previously applicable under council tax benefit (for benefits universal credit is replacing such as jobseekers' and employment and support allowances) no longer apply for recipients of universal credit under the default scheme regulations. Under council tax benefit these rules controlled the way income was calculated and made staged adjustments (extended payments) at points where income increased – for example, due to a return to work). Whilst these measures did provide some support for work incentives, the extended taper in universal credit provides better support smoothed over a longer period, meaning claimants will not experience 'cliff edges' and their household income will always increase if they have increased earnings.

[4] Marginal Deduction Rates - the proportion of any increase in earnings which is lost due to tax or reduced benefit payments.

Minor amendments to the universal credit provisions in the July 2012 draft of the Default Scheme Regulations

9. We will not, now, deduct housing costs from the ‘applicable amount’ as in the original draft regulations[5]. Instead housing and childcare costs will continue to be taken into account in both the ‘maximum award' and assessed 'income'. This is both simpler to administer, and avoids a potential (otherwise) for a reduction in the housing or child care element when earnings increase not to be taken into account in council tax. This would artificially ‘inflate’ the council tax reduction, leading to a higher overall taper.

10. Universal credit already provides support for childcare. Households increasing their working hours may face increased childcare costs, which will be partially offset by universal credit. Since universal credit is taken into account for both the applicable amount and income calculations of the default scheme, a further adjustment in the Council Tax support calculation for ‘childcare costs’ will not be undertaken. Any disregards of income (**not already taken into account under universal credit**) will be adjusted for.

11. A **further allowance** in the form of a disregard, will take into account universal credit being added in as income and aside from this only disregards **not already effected under universal credit** will be adjusted for.

12. We intend to amend the regulations as set out in the accompanying draft provisions for universal credit to omit the reference to taking into account the income and capital of any partner not taken into account in determining the net income of the person claiming Universal Credit[6], as there won’t be any such income and capital – it will have already been assessed under Universal Credit.

[5] Paragraph 27(2) of the default scheme in the draft Regulations of 16 July 2012 will be omitted.
[6] Paragraph 36(2)(d) of the draft default scheme of 16 July 2012.