

Freedom of Information request 5950/2013

Received 18 December 2013

Published

Information request

On 12/12/2013 Minister Esther McVey has supplied information regarding 3 calculations of Universal Credit.

Please could you supply the full details of how they have been calculated, including rates of standard allowance, work threshold and earned income.

DWP response

The 3 case studies are provided at Annex 1, please note the figures may not add due to rounding.

If you have any queries about this letter please contact me quoting the reference number above.

Case Study One

Table One shows how much a couple both aged over 25, not paying rent, with one partner working for 30 hours a week for the minimum wage would receive in Universal Credit at 2013/14 benefit rates.

Table One	
Monthly Income under Universal Credit	
Universal Credit Element	Entitlement
Standard Allowance	£489
Total	£489

Income	
30 hours per week at National Minimum Wage	£823
<i>minus:</i> Tax and National Insurance.	£28
Net Household Earnings (after Tax & NI)	£794
<i>minus:</i> Work Allowance	£111
Applicable Earnings	£683

Deductions	
65% taper x Applicable Earnings	£444
Total	£444

Net Entitlement to Universal Credit	
Maximum Amount of UC	£489
<i>minus:</i> Deductions	£444
Amount Payable	£45

The calculation has four key steps:

The first step is to calculate their maximum Universal Credit entitlement. As the couple have no children, do not pay rent and are not disabled or carers they receive a standard allowance of £489 per month.

The second step is to calculate their Applicable Earnings. Applicable Earnings is the amount by which the net household earnings (after income tax and national insurance) exceed the Work Allowance. The Work Allowance is the level of net earnings a household can earn before their Universal Credit entitlement begins to be reduced.

Working 30 hours at the national minimum wage gives gross earnings of £823 per month, £28 tax and national insurance is deducted, therefore the couple has net household earnings of £794. The couple has a work allowance of £111 per month, which means that the couple has Applicable Earnings of £683.

The third step is to calculate how much their maximum Universal Credit entitlement is reduced by. Universal credit is reduced by 65p for every £1 of Applicable Earnings. With Applicable Earnings of £683 there is a reduction of £444. This is 65% of £683.

Once the Universal Credit entitlement and the size of reduction are known the actual Universal Credit payment can be calculated. The couple has a Universal Credit entitlement of £489 which is reduced by £444. This leaves a Universal Credit payment of £45.