The transition of tax credits to universal credit

General Features **Personal tax**

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The Low Incomes Tax Reform Group (LITRG) provides an update on the rollout of universal credit, highlighting some recently announced changes to the schedule.

Universal credit (UC) is gradually replacing working tax credit and child tax credit as well as income support, income-based jobseeker's allowance, income-related employment and support allowance and housing benefit (together known as legacy benefits). Tax professionals who advise people about tax credits will need to understand the rollout of UC and the rules, which are very different from those that apply to tax credits, particularly for the self-employed.

UC was introduced as a pathfinder in north-west England in April 2013. Between April 2013 and April 2016, it was gradually rolled out across all postcodes in Great Britain. However, only people who meet strict 'gateway conditions' can claim in places that are known as 'live service' areas. In general, this means that only single jobseekers who meet other strict conditions can claim, but in a small number of areas couples and those with children can too. Anyone living in a live service area for UC can still make a claim to the legacy benefits which UC is replacing.

To complicate matters further and in response to criticism, in November 2014 the DWP introduced a digital IT system that was to run alongside the live service system.

After initial testing in a single postcode area, from April 2016 the digital service (now called 'full service') started to roll out across Great Britain. As it does so, it is replacing the live service in designated postcode areas. We expect that existing UC claimants will eventually be transferred into the full digital service system. The key difference is that in postcode areas where this full service is now available, claims for tax credits are no longer possible for those under state pension credit age and instead a claim for UC must be made. The gateway conditions do not apply in digital areas.

Existing tax credit claimants are not affected by the rollout of UC unless they make a claim for it, in which case they ought to seek advice first because they could be worse off. A particularly important factor for tax credit claimants to bear in mind is that capital is not taken into account for tax credits, but it is for UC (by means of a tariff income based on the capital amount) if you have more than £6,000 and you have no entitlement to UC when capital reaches £16,000.

Previously, the government confirmed that existing tax credit claimants who are migrated across by DWP/HMRC would receive some transitional protection if they had capital, but the details of how this will work are not yet known. It will not apply if a tax credit claimant chooses to claim UC.

On 20 July 2016, the new work and pensions secretary announced a delay in the transfer of existing tax credit claimants to UC. Initially expected to begin in 2018 and complete in 2021, transfer will now start in July 2019 with a view to completion in March 2022. This delay is in order to allow a contingency period between September 2018 and June 2019, as suggested by the National Audit Office.

At the same time, various other announcements were made on UC. Some new rules for the self-employed, which would allow losses to be partly recognised in the UC system but also take account of excess profits or ‘surplus earnings’ for both the employed and self-employed, had been due to be introduced from April 2016. These have been delayed twice and will not be active until April 2018.

Legislation is already in place to limit the child elements of tax credits and UC to the first two children from April 2017. However, some subtle changes to the introduction of this policy and the related family element changes were also announced. As a result, families with more than two children will be able to claim tax credits rather than UC until November 2018. It is unclear at present how this will be implemented and whether there will need to be an exception to the rule that the credits can no longer be claimed in full service UC areas for those under state pension credit age. We will update our adviser website (see below) as soon as details are known.

The rollout of UC is complicated. To help advisers, LITRG (in partnership with LASA), has developed a UC postcode checker tool as part of our Revenue benefits website. Simply enter a postcode and the tool will tell you:

- Whether you are eligible to make a claim for UC in that postcode and, if so, the conditions for claiming it
- Future UC plans for that postcode area
- Whether claims for tax credits and other benefits can still be made in that postcode area
- What UC means for existing tax credit claimants
- Links to detailed information about UC and moving from tax credits to UC
- Details of independent local advice organisations in that postcode area

Also available is a widget that can be added to your own website. Download it here.

The dedicated Revenue benefits website has been developed for advisers who need detailed information about tax credits, child benefit and the transition to UC. We are also developing a section dedicated to the new tax-free childcare scheme. The website also has a blog with the latest announcements on the transition to UC.