



Department for  
Communities and  
Local Government

## Localising council tax support

Council tax reduction scheme (default scheme) regulations –  
taking account of Universal Credit income

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December, 2012

ISBN: 978-1-4098-3732-9

# Overview

1. Where a local authority fails to adopt a scheme by the deadline of 31 January 2013, the default scheme will come into effect. The regulations setting out the default scheme,<sup>1</sup> laid before Parliament on 22 November, will come into force on 18 December 2012.
2. The regulations largely recreate current council tax benefit regulations under the Local Government Finance Act 2012. However, some adjustments have been made to reflect that, from April 2013, a Universal Credit path-finder scheme will commence, and from October 2013 Universal Credit will begin to replace a number of income-related benefits.
3. In October, we provided a document setting out how the default scheme will take account of claimants in receipt of Universal Credit, and how these measures will help to support positive work incentives.
4. Responding to feedback from interested parties, this document now provides some worked examples of how Default Scheme universal credit provisions operate.
5. Over the past few months DCLG officials have worked closely with DWP to ensure the default scheme complements the work incentives that Universal Credit is designed to promote.

## Provision for Universal Credit in the default scheme

6. **Annex B** provides a worked example of how the Default scheme would calculate a reduction for somebody with an award of Universal Credit.
7. Under the default scheme paragraphs 28 and 37, council tax support will be calculated in broadly the same way as the existing Council Tax Benefit system by comparing **income** to the **applicable amount**.
8. For the '**applicable amount**' (paragraph 28) under council tax support, the default scheme will use the Universal Credit **maximum award**. The maximum award is made up of components with a clear read-across to the 'applicable amount'. **Annex A** sets this out. This ensures consistency of treatment 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.
9. For income (paragraph 37 of the default scheme), the scheme will use **the assessment of income provided by Universal Credit**. In most cases,<sup>2</sup>

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<sup>1</sup> SI 2012/ 2886.

<sup>2</sup> Billing authorities will still be able to treat the income and capital of a non-dependent as the applicant's if it appears to the authority that the two have entered into arrangements in order

this will only be modified by adding in the award of Universal Credit itself, and by any further 'discretionary' reduction that the authority decides to apply (and to turn the amounts of income and the award into amounts for a week as opposed to a month). The way that Universal Credit works means that housing and childcare costs are taken into account under both 'income' and 'applicable amount', cancelling each other out (see paragraphs 14 and 15 of this note).

10. As with the way in which pension credit savings credit is currently calculated, having used DWP figures to calculate income and applicable amount, the rest of the calculation works in the same way as usual. Claimants will lose 20p for every £1 of income over and above the applicable amount. An example calculation is at **Annex B**.
11. If an applicant is entitled to Universal Credit for the first time in the month of application and DWP has not yet sent through its assessment of income, the billing authority will, in the same way as for other benefits, calculate the reduction award once it has received DWP's assessment of income and maximum award calculations, and bill the applicant once this has been done, applying Part 13 of the Prescribed Requirements regulations (when entitlement begins and changes of circumstance) as appropriate. Local authorities may have their own handling preferences based on existing practises (see **Annex C**).

## Supporting work incentives

### Taper

12. 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.
13. The regulations continue provide for support to be tapered away at a rate of 20 per cent for every additional pound of income **over and above** the applicable amount. Since the council tax support taper applies to the additional income remaining after Universal Credit taper has been deducted, marginal deduction rates<sup>3</sup> cannot exceed 81 per cent.

### Hours/income rules

14. As a consequence of the removal of income and hours rules from the Default Scheme (which under council tax benefit 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) claimants will not experience 'cliff edges', meaning that

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to take advantage of this scheme and the non-dependent has more income than the claimant – paragraph 34 of the main schedule to the Default Scheme.

<sup>3</sup> Marginal Deduction Rates - The proportion of any increase in earnings which is lost due to tax or reduced benefit payments

their household income will always increase if they have increased earnings.

## Treatment of housing and childcare costs

15. Allowing housing and childcare costs to be taken into account in both the 'maximum award' and assessed 'income' is both simpler to administer, and avoids dual tapering, since the means test for council tax support will take into account the fall in housing and childcare support when earnings increase.
16. 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, increased childcare costs will not lead to a reduction in support for Council Tax.

## **Annex A**

# **The Universal Credit Maximum Award and the Applicable Amount**

Universal Credit is made up of a standard allowance and potentially five elements, as any award is based on a claimant's personal circumstances. The elements<sup>4</sup> are:

- Standard Allowance
- Child Element / Disabled Child Additions
- Childcare Element
- Carer Element
- Limited Capability for Work Element
- Housing Element

The total of these elements is called the Universal Credit maximum award. For the purposes of the default scheme the applicable amount will be equal to the Universal Credit maximum award

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<sup>4</sup> More details on the elements can be found on <http://www.dwp.gov.uk/docs/uc-draft-regs-2012-memorandum.pdf>

## Annex B

### Example of calculating council tax reductions for Universal Credit claimants under the default scheme

**NB: Figures are purely illustrative**

STEPS FOR CALCULATING COUNCIL TAX REDUCTIONS – DEFAULT SCHEME		
	Link to The Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012	Illustrative Example - Universal Credit
<b>A. Check capital:</b> Check that capital is under £16,000. Capital between £6,000 and £16,000 attracts tariff income.	Capital Limits - Para 23 Treatment of Capital – Para 63-67, 69, 70 Tariff Income – Para 72	Capital = £7,000 Capital is <£16,000 £1,000 (£7,000-£6,000) attracts tariff income of £4 (£1,000/250)
<b>B. Annual gross council tax liability</b> – the amount set by appropriate authority as council tax for the relevant financial year, in respect of the dwelling for which applicant is liable	See para 29	£1000 for a Band B property
<b>C. Subtract any appropriate discount</b> under the LGFA 1992 Schedule 1 to give discounted council tax due:	See para 29	25% single person reduction: £1,000 x 0.25 = £250 Annual net council tax liability = £1,000- £250 = £750
<b>D. Calculate weekly amount</b> -divide by number of days in financial year and multiply by 7 to get weekly liability.	--	£750/ 365 = £2.054795 (daily amount) £2.054795 x 7 = £14.38356 per week
<b>E. Calculate applicable amount</b> (weekly) *Universal credit Maximum award is converted to a weekly figure by multiplying by 12 and dividing by 52.	Para 28	Applicable amount:  Applicable Amount = Universal Credit maximum award* = £71.00
<b>F. Calculate income</b> (weekly) ** As defined in Paras 49-60 & 66 of the Universal Credit Draft Regulations 2012 *** As defined in Paras 61-65 & 67-68 of the Universal Credit Draft Regulations 2012 **** Universal Credit Entitlement is defined as the Universal Credit maximum award reduced to take into account key financial conditions (including the 65% taper) and further revised for key adjusting criteria that affect the award of Universal Credit.	Para 37	Income:  Earned Income**       £96.00 Unearned Income***   £4.00 Universal Credit Entitlement****       £26.00  Total                       £126.00
<b>G. Calculate excess income</b> (F-E)	Para 17	Excess income = £126.00 - £71.00 = £55.00
<b>H. Taper excess income</b> (20% G)	Para 17	£55 x 20% = £11.00
<b>I. Weekly Council Tax Reduction Entitlement</b> before non-dependant deductions (D – H)	Para 29	£14.38356 - £11.00 = £3.38356
<b>J. Subtract any non-dependent deductions</b> under the regulations For example, if non dependent earns less than £183 per week – deduction is £3.30 per week (amount set out in schedule – as currently).	Para 30	No non-dependant deduction because person lives alone £3.38356 - £0 =£3.38356
<b>K. Daily Council Tax Reduction Entitlement</b> (J divided by 7)	--	=£3.38356/7 =£0.483366
<b>L. Calculate the annual amount of council tax due.</b> The daily unrounded benefit figure is annualised and deducted from the council tax liability (see cell K x 365), subtracted from B	--	£0.483366 x 365 = £171.59 £1,000 - £171.59= £828.41
<b>M Apply administrative aspects</b>	Parts 13 – 16 and Schedule 1	

## Annex C

Options for handling a new applicant who had applied for, but was not yet in receipt of, a working-age benefit under the existing council tax benefit system would also apply under the council tax reduction system.

If a person made a claim on the first of the month, and was expecting to be in receipt of universal credit that month, the billing authority could seek to determine via ATLAS whether the award was imminent (in which case the claim could be processed within a month).

If so, the authority would inform the individual that the claim had not yet gone through, and the award would be processed once this had happened.

It would be open to the authority, consistent with existing practice, to:

- process the rest of the claim/ any other information, pending receipt of the universal credit information;
- flag the matter with council tax colleagues, so that they were able to hold back on the bill;
- Process the full claim on receipt of the universal credit information.

If it did not look as if the individual was to be in receipt of Universal Credit (or any other working age benefit) within the month, it would be open to the authority (consistent with existing practice) to assess them according to the means-test (this may be as zero income), with the start date for universal credit being treated as a change of circumstances in due course.