

## The Financial Effects of Starting Work (ref 26)

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### **The Move Towards Employment For All**

Finding and keeping paid employment is a valid aspiration of all people, particularly people with learning disabilities who have traditionally been marginalised in the labour market, and have often been offered unproductive day activities. Much of government policy through *Valuing People* and various New Deal schemes have had employment opportunities as one of their central planks. However, the prospect of someone taking up paid employment often needs careful planning and thought because of the financial implications.

#### **Typical Situations Of People With Learning Disabilities Not In Work**

If people are not working, they will usually be living on benefits, either non-means tested like Incapacity Benefit (IB) and Disability Living Allowance (DLA) and/or means-tested like Income Support (IS) and Housing Benefit (HB). Here are a few typical scenarios:

1. Under 35 and living with parents: - someone in this position may receive I B (£98.45p per week) and DLA of various amounts – anything from a minimum of £17.10p per week to £109.50p per week depending on the impact of their disability. They may be asked to pay something towards any services provided by the social services department.
2. Under 50 and living in residential care: - someone here may be on means-tested benefits (Income Support – IS) of up to £86.30 and possibly DLA mobility component up to £45 per week maximum. In this situation, they would probably have to pay most of their IS towards their fees.
3. Under 60, and renting from a housing association: - in this scenario a person may have an income of up to £147 per week from IS/IB, and DLA on top of this. If they receive any amount of IS their rent would be covered by Housing Benefit (HB) and their Council Tax by Council Tax Benefit (CTB). They would not have to pay towards any 'Supporting People' charge, but might have to pay the council or the Independent Living Fund (ILF) for any assessed charges towards care and support.
4. Under 60, and buying through shared ownership with the help of ISMI – Income Support for Mortgage Interest. This case would be very similar to (3), with the extra help of having their mortgage interest paid by IS. Their rent charge would still be covered by HB. Again, they may be assessed as having to pay towards their care and support depending upon the local policy and the amount of benefit they receive.

### **What Happens If I Work Part-time?**

Usually, any extra income from earnings will affect means-tested benefits. If people are disabled, there are specific rules around this. If you work less than 16 hours per week, this is defined as 'part-time'. If you receive a means-tested benefit (eg IS or HB) the first £20 per week of your earnings is ignored. Thus, if you earn £45 per week, this will reduce your IS by £25 per week.

Sometimes even part-time work can stop entitlement to IS. This depends on how much IS you are being paid. For example; you are being paid £134.75p per week by the DWP; £98.45p of this is IB, the balance (£36.30) is IS.

You start part-time work and receive £60 per week. £20 of this is ignored and £40 is taken into account. This is more than £36.30, and so means that you would no longer be entitled to IS. This can cause a lot of extra work – HB & CTB will stop automatically and need to be reclaimed, after which they will be paid at a lower amount; you will lose automatic entitlement to NHS charges and will have to reclaim these. There are some concessions in the benefit system which mean that people who are unable to work full-time can do part-time and still keep their IB. See *Quick Brief Earnings From Permitted Work (ref 11)*. *Quick Brief Earnings From Permitted Work - [www.housingoptions.org.uk/gi\\_quickbriefs/qb\\_11.pdf](http://www.housingoptions.org.uk/gi_quickbriefs/qb_11.pdf)*

### **What Is The Definition of 'Full-time' Work**

Full-time work for benefit purposes is when you work 16 hours per week or more. People who are self-employed are generally taken as being in full-time work regardless of any profit they make from self-employment.

### **What Happens If I Work Full-time?**

The main effect of working full-time is that you will no longer be able to claim Income Support. IS is not available to people working full-time, irrespective of their financial position. There are some circumstances when you will be treated as not in full-time work for IS claims, even if you are working 16 hours or more per week. These are:

- your earnings are 75% or less than a person without your disability would reasonably expect to earn, working the same hours in that job, or in a comparable one in the area; or
- you work 75% or less hours than those a person without your disability would reasonably be expected to work in that job or in a comparable job in the area, or
- you live in a registered care home.

However the impact of earnings and tax credits will usually mean that these groups of people who are still able to claim IS will not be entitled to any payment because their new income will be more than what IS would pay.

The other main effect of disabled people working full-time is that they will almost certainly be entitled to Working Tax Credit. Incapacity Benefit and Severe Disablement Allowance will stop if you work full-time. You can still claim HB & CTB, but your entitlement will reduce on a sliding scale – more details of this come later. DLA can carry on whether or not you are in work.

### **How Does Full-time Work Change My Income?**

You can usually claim Working Tax Credit (WTC) if you are disabled as soon as you work 16 hours or more per week. Your income will also be changed by your earnings.

#### **Example A**

1. Jo is 23 and lives with her Mum. Jo receives IB of £98.45p per week. She also receives DLA care of £17.10p per week. Her total income is £115.55p per week.

She starts work, doing 16 hours a week, and is paid the Minimum Wage of £5.52p per hour. Her weekly earnings are £88.32p per week (£4593 per annum). Because her wages are at the same level as the National Insurance Lower Earnings Level, and less than the Tax free allowance for a single person (£5225 pa) she does not have any stoppages from her wages.

Her WTC will consist of a 'basic element' (£1730 pa) and a 'Disability Element' (£2310 pa). Because her wages are so low, she will get the maximum WTC, which would be £4040 pa, i.e. £77.69p per week. So in this scenario Jo would have an income of £183.11p per week (this includes her DLA), an increase of £67.56p per week.

2. Later on, Jo increases her hours to 30 per week.

Her wages will now be: 30 hrs @ £5.52p = £165.60p. Her WTC will change. Because she is working 30 hours, an extra element is included in the calculation (£705 per annum). This means that the maximum WTC would be £4745 pa. However, WRC is means-tested once your wages are more than a set amount called the 'annual threshold' – currently £5220 – the same as the basic tax allowance. In Jo's case now, 37% of her wages above this threshold (£8611 less £5220 = 37% of £3391 = £1255) is deducted from the maximum WTC. This makes her WTC £4745 less £1255 = £3490 per annum (£67.11p per week).

Jo's new income would be:	wages	£148.40p (after tax & NI)
	WTC	£ 67.11p
	DLA	£ 17.10p
	Total	£232.61p

It can be seen from this that someone in Jo's position (ie living with parents or family) can be substantially better off financially by taking up full-time work.

### **Example B**

1. Mo is 32 and lives on his own in a housing association flat. He receives IS & IB combined of £132.85p per week. He gets DLA care of £43.15p and DLA mobility of £17.10p per week. His rent is £150 per week. He has a Council Tax bill of £28 per week, but because he lives there alone he gets 25% discount. Because he receives IS he gets HB & CTB to cover both of these bills.

While he is not working, his income is:	IS/IB	£132.85p
	DLA care	£ 43.15p
	DLA mob	£ 17.10p
	Total	£193.70p

Here he has no rent or Council tax to pay, so all this is 'disposable'.

2. Mo starts work at 16 hours per week at the minimum wage. His earnings and WTC would be the same as Jo's in example A.

So Mo's income would be:	Wages	£ 88.32p
	WTC	£ 77.69p
	DLA care	£ 43.15p
	DLA mob	£ 17.10p
	Total	£226.26p

Mo would, therefore, have an extra income of £32.56p per week. However, because he is no longer on IS, his HB & CTB would have to be re-assessed. The income that would be taken into account would be his earnings (less £20 disregard) and his WTC (in full). In Mo's case this will be £146.01p per week (£68.32p + £77.69p). In an HB/CTB calculation, a proportion of any income that is larger than the 'appropriate amount' (the amount used to work out your IS entitlement) is deducted from the maximum they can give.

For Mo, this means that the council will calculate that the difference between his assessed income of £146.01p and the 'appropriate amount' - £132.85p - is an 'excess income'. This figure is £13.16p. Mo will lose 65% of this (£8.55p) off his HB, and another 20% of it off his CTB (£2.63p).

In the event, Mo's 'disposable' income after paying his rent & council tax is:

Income	£226.26p
Less rent contribution	£ 8.55p
Less council tax contribution	£ 2.63p
Remaining	£215.08p

Mo's move into work means he is about £11 per week better off.

3. Mo increases his hours to 30 per week. Like Jo, his gross weekly wage is now £165.60p, but like Jo he will have some tax and National Insurance stopped from this, making his take-home pay £148.40p per week. Just like Jo, his WTC will be reduced because of his extra earnings, going down to £67.11p per week.

Mo's new income will be:	Wages	£148.40p
	WTC	£ 67.11p
	DLA care	£ 43.15p
	DLA mob	£ 17.10p
	Total	£275.76p

His HB & CTB will be assessed again. His 'excess income' will now be £62.66p per week. This means he will have to contribute 65% @ £62.66p towards his rent (£40.73p pw) and 20% @ £62.66p towards his council tax (£12.53p pw). Mo's 'disposable' income will now be:

Income	£275.76p
Less rent contribution	£ 40.73p
Less council tax contribution	£ 12.53p
Remaining	£222.50p

This shows that although Mo now works 14 hours more each week and earns an extra £77.32p per week, the combined effect of tax and NI stoppages and the HB/CTB system means he is only £7.42p better off for his troubles.

### **Example C**

1. Lee is 53, and is buying his flat under a shared ownership scheme. He receives IS/IB of £147.50p per week. He also receives DLA care high rate (£64.50p per week) and DLA mobility high rate (£45 per week).

This gives him a total income of £256.55p per week.

His outgoings are: Mortgage Interest of £110 per week; Rent of £75 per week and Council Tax of £20 per week. Currently his mortgage interest is being covered in full through the ISMI scheme and is being paid direct to his lender by the DWP. He gets 25% discount on his Council Tax, and the remainder is covered in full by CTB, and the rent is covered in full by HB. Because these bills are covered, his total income is 'disposable'.

2. Lee starts work for 16 hours per week for the minimum wage. Everyone else where he works is also on the minimum wage.

His wages are £88.32p per week. Just as in the two previous examples, Lee will be able to claim WTC. In his case, he will be paid more because he is on the high rate of DLA care. Lee will receive a 'severe disability element' and a '50 plus' element as well; these are £980 per annum and £1185 per annum respectively. This means that Lee's total WTC will be £6205 per annum (£119.33p per week)

Lee's income will be:	Wages	£ 88.32p
	WTC	£119.33p
	DLA care	£ 64.50p
	DLA mob	£ 45.00p
	Total	£317.15p

However, the bills that Lee has to pay out of his own money will increase. He will no longer be entitled to IS, and so will have to pay the £110 mortgage interest himself. In this scenario Lee should still get full help towards his rent and council tax, because the 'appropriate amount' (£147.50 + his housing costs) is still less than his assessed income (£68.32p + £119.33p = £187.65p per week). Here Lee's 'disposable' income would fall from £256.55p per week to £317.15p less £110 mortgage = £207.15p. Consequently Lee will be £49.40p per week worse off by working these hours.

3. Will he become better off by working longer hours? If Lee goes up to 45 hours per week at a wage of £6 per hour, he would receive £270 gross per week; this comes down to £217.59p per week after stoppages. His WTC would reduce to £55.58p per week. His DLA remains unchanged.

Lee's income would be:	Wages	£217.59p
	WTC	£ 55.58p
	DLA care	£ 64.50p
	DLA mob	£ 45.00p
	Total	£382.67p

On this income, Lee will no longer get full help from HB & CTB. His assessed income is now just over the 'appropriate amount' and he will have to pay £3.68p towards his rent and £1.13p towards his council tax each week. Any further increases in his wages will not be useful for him because he will keep losing HB & CTB and, when it is due for re-assessment, WTC. In this scenario Lee has a 'disposable' income of £272.67p after paying his mortgage and the new rent & council tax contributions. This is much better than when he worked part-time, but is still only £16.12p per week more than when he was not working at all.

### What Do We Learn From These Examples?

These examples show that the financial effect of moving from benefits to paid work can be both variable and problematic.

If people are not on means-tested benefits there is unlikely to be any financial loss when going into work. If people are on means-tested benefits, then their future financial position will depend very much on their accommodation position and how high their rent is. If people are paying substantial rents which are covered by HB, then they are often stuck in a poverty trap where they may be worse off when moving into low-paid work. The same can be true of people who have taken on shared ownership and have both rent and mortgage interest to pay.

The essential advice is that people should always get full and expert advice if they are in a position to make choices about going into any work, whether full or part-time.

### Are There Any Other Financial Advantages In Taking Up Full-time Work?

There are some aspects of the system which are helpful to people who are in full-time work:

- WTC is usually only reassessed yearly. This means that you can have wage increases within the tax year and these will not reduce your WTC
- If you receive help from the Independent Living Fund, they ignore earnings when they make a financial assessment of your contribution.
- If the social services charge you for services, they have to ignore your earnings when they make a financial assessment as well
- If you have to finish work soon after starting, there are 'rapid reclaim' processes for IS & HB.
- From April 2008 there is a new return to work credit (RTWC). This will be a non-taxable payment of £50 per week, payable for up to 52 weeks. To be eligible, people must have been claiming Incapacity Benefit or Severe Disablement Allowance for 13 weeks or more. It will not be treated as income for Housing Benefit or Council Tax Benefit purposes.
- The DWP is piloting a "Better Off in Work Credit" scheme in the Yorkshire & Humberside area. This ensures that anyone going into full-time work and off benefits will be better off by at least £25 per week. It is expected that this will be rolled out nationally in 2009/10.

## **Any Other Financial Disadvantages To Working?**

Financial disadvantages to working hinge around no longer being entitled to IS. These include:

- not having automatic exemption to NHS charges, eg prescription charges, dental and optical fees etc
- not having access to the DWP's Social Fund
- access to ISMI for shared ownership no longer available
- no automatic entitlement to 'maximum' HB & CTB

## **Further Advice**

Anyone thinking of moving from benefits to work should take as much advice as possible, for example from a welfare rights service or their local Citizens' Advice Bureau. Web-based benefit or entitlement calculators can be useful, but will not take into account all the aspects that need to be considered. Feel free to call us if you have specific situations you need to discuss.

If you require further information or have other queries contact Housing Options.

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