Tax credits claimants: understanding the implications of claiming universal credit

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LITRG warns that tax credits claimants might see their existing claim stopped if they claim universal credit.

Universal credit 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).

Since the start of the coronavirus pandemic, LITRG has been made aware – both from members of the public contacting our websites, and, indirectly, from welfare rights advisers – that there has been a spike in cases in which existing tax credits claimants have claimed universal credit and had their tax credits claim stopped.

In this situation, HMRC and the Department for Work and Pensions (DWP) state that claimants are then not able to go back to tax credits, unless they are:

- people who are entitled to the severe disability premium in income support, income-based jobseeker's allowance, income-related employment and support allowance or housing benefit or have recently been entitled and although the benefit has ended, continue to meet the entitlement conditions for the severe disability premium; and
- people who are 'frontier workers'. Frontier workers are people who are 'in Great Britain' (under Welfare Reform Act 2012 s 4(1)(c)) or 'in Northern Ireland' (under Article 9(1) (c) of Welfare Reform (Northern Ireland) Order 2015) but do not reside in either GB or NI. Crown servants or members of HM Forces who are posted overseas (as defined under the UC Regulations 2013) are not frontier

workers.

To some extent, HMRC have been flexible with the tax credits rules in the short term; for example, confirming that tax credits claimants who temporarily cannot work their normal hours will still receive their usual tax credits payments.

However, despite this, some people might still face a reduction in their income and find they need to access further financial support. One example of this is if they require support with housing costs which would have previously been provided through housing benefit, but which is now only available through universal credit in most cases. A claim for universal credit to access rent support will lead to the termination of the tax credit claim.

In other cases, we have seen people who have claimed universal credit based on government communications that led them to believe it would provide support equivalent to statutory sick pay for the self-employed. They erroneously thought it would be paid in addition to their existing tax credits.

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 universal credit (by means of a tariff income based on the capital amount) if you have more than £6,000. You have no entitlement to universal credit when capital reaches £16,000. Some people will therefore have to dip into savings to see them through the adverse effects of coronavirus on their finances.

Some tax credit claimants may have to claim universal credit, irrespective of their wishes, if there is a change of circumstances which ends their tax credit claim; for instance, the break-up of a relationship meaning they have to move from a joint claim to a single claim. Or indeed the reverse, if a new relationship is formed by a previously single claimant.

The fairness of this household assessment of entitlement to means-tested benefits has been the subject of a number of queries to the LITRG website by members of the public over recent weeks. People – perhaps especially those who have missed out on state support under the coronavirus-specific support schemes for various reasons – have felt it somewhat unfair that they are obliged to rely on their partner to support them at this difficult time.

Those who have paid sufficient National Insurance contributions might, however, be entitled to contributions-based benefits such as new-style jobseeker's allowance or new-style employment and support allowance, so it is important to check all avenues of support. It is also important to be aware that in some cases, people can be better off on universal credit compared to tax credits, especially in the shorter term. Anyone claiming legacy benefits should seek specialist advice before they claim universal credit to ensure they make an informed decision.

More information, targeted at advisers, on tax credits and the transition to universal credit can be found on LITRG's RevenueBenefits website. We have also published a section on our main website giving information on what support might be available to those affected by coronavirus.

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