

# Comparing investment in Universal Credit work allowances and taper rate

This analysis looks at different ways of boosting the budgets of low-income working households claiming Universal Credit (UC). It compares investing £1 billion in increasing the work allowances (the amount that can be earned before UC starts to be withdrawn – similar to a personal tax allowance) and investing £1 billion in lowering the taper (the speed with which UC is withdrawn once earnings exceed the work allowance – similar to a tax rate).

## JRF Analysis Unit

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### What you need to know

1. Spending £1 billion increasing work allowances for families with children helps more people exit poverty and provides a larger budget boost to households in lower-income deciles, compared to spending the same amount on lowering the taper:

#### **Scenario A - investment in reduced taper**

Policy change - reduce taper to 60.75%.

Cost: £0.99 billion.

#### **Scenario B - investment in increased work allowance**

Policy change - work allowances increased by 20.5% for families with children.

Cost: £0.99 billion.

## Methods

Analysis was completed using version v01\_57 of the IPPR Tax-Benefit Model. This takes a sample of around 20,000 households (FRS 2016/17) and measures, through micro-simulation, the impact that specific policy changes have on household income and poverty rates, and the associated national costs or savings of the policy change.

The **work allowance** sets the maximum a family (benefit unit) can earn before the amount of benefit they receive starts to be cut.

The **taper** sets the speed with which benefits are withdrawn once earnings exceed the work allowance. If the taper is set at 0.63, this means that for every extra pound earned after the work allowance has been met, the total benefit amount received is reduced by 63p.

In **Scenario A** (investment in the taper), the taper has been changed from 0.63 to 0.6075. This means that for each extra pound earned, the total benefit amount is reduced by 61p instead of 63p. The result is a higher number of people will become eligible to receive benefits and people already in receipt of benefits will remain eligible (for a reduced payment) for longer.

In **Scenario B** (investment in the work allowance), the work allowance for families with children was increased by 20.5% over their 2017/18 value. This means families with children can earn more before their benefit payments are reduced. The result is that families with children, who receive benefits, will receive their full benefit for longer, and more families with children overall will be eligible for some benefit.

	Base	Scenario A	Scenario B
<b>Cost*</b>		£0.99 billion	£0.99 billion
<b>Change in poverty figures (Below 60% med income) **</b>	14,300,000	- 200,000	- 300,000
<b>Change in mean weekly income by income decile for all households***</b>			
Decile 1 (poorest)	£147.70	£1.10	£2.00
Decile 2	£331.70	£2.00	£3.00
Decile 3	£397.80	£2.50	£2.70
Decile 4	£469.80	£2.20	£1.80
Decile 5	£512.80	£1.00	£0.90
Decile 6	£602.60	£0.60	£0.50
Decile 7	£690.40	£0.40	£0.20
Decile 8	£791.40	£0.20	£0.20
Decile 9	£914.80	£0.00	£0.00
Decile 10 (richest)	£1,694.00	£0.00	£0.10

\* costings figures rounded to nearest £100 million

\*\* poverty figures rounded to nearest 100,000

\*\*\* income figures rounded to nearest £0.10

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## Links

Department of Work and Pensions. Family Resources Survey [Online] Available at: <https://www.gov.uk/government/collections/family-resources-survey--2> [Accessed 9 September 2018]

Universal Credit web content. York: Joseph Rowntree Foundation [Online] Available at: <https://www.jrf.org.uk/income-benefits/universal-credit> [Accessed 6 September 2018]

In-work poverty content. York: Joseph Rowntree Foundation [Online] Available at: <https://www.jrf.org.uk/work/in-work-poverty> [Accessed 6 September 2018]

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - [We can solve poverty in the UK](#) - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)

This analysis has been undertaken by the JRF Analysis Unit in June 2018. For further details please contact: [Analysis.Unit@jrf.org.uk](mailto:Analysis.Unit@jrf.org.uk)