



Universal Credit

Universal Credit is a new benefit that is designed to support people who are on a low income or out of work. This guide, produced for a-n by financial services experts Counterculture, explains how Universal Credit is calculated and how it may impact those who are self-employed.

Universal Credit is a new benefit that is designed to support people who are on a low income or out of work, and aims to help ensure that they are better off in work than on benefits.

Universal Credit will eventually replace the following other benefits:

- Jobseekers Allowance
- Housing Benefit
- Working Tax Credit
- Child Tax Credit
- Employment and Support Allowance
- Income Support

Universal Credit is being introduced gradually and a claim and eligibility will depend on where you live.

Recipients will be informed by their provider when Universal Credit will replace their existing benefits and tax credits.

Self-employment

So far so clear, however there would appear to be some basic problems with the calculation that works out entitlement to the Universal Credit and these problems can lead to adverse consequences for those who are self-employed.

These problems are likely to be felt more keenly by those in the creative industries where the patterns of work are not exactly 9 to 5 and where payment for such work is less structured than even that!

The problems centre on three main points:

- 1) The calculation assumes that a person is gainfully employed for 35 hours per week and is being paid an amount equal to at least the minimum wage for each of those hours. If only...
- 2) A claimant is expected to make monthly returns of their income/expenses/circumstances, as compared to the annual reporting requirements for tax purposes. If only the time spent doing this could be charged for and included in that 35 hours!
- 3) Where income and expenses do not arise evenly, little or no relief is available for any peaks and troughs with both good and bad months potentially reducing the value of any claim. So, potentially lose/lose then.

How does it work?

Universal Credit is worked out in 3 steps:

- 1) Maximum Universal Credit: This is the standard allowance and is the same as the existing Jobseekers Allowance. This may be added to with various elements related to children you may have, childcare costs, disability issues, carers support and housing costs.
- 2) Reduction due to income and earnings: The entitlement is then reduced by reference to other income earned, savings and capital above £6,000, other benefits received and other income received, eg pension.
- 3) Other reductions: The entitlement may be further reduced to take account of issues such as the benefits cap, previous benefit overpayments and certain other debt repayments.

Potential problems

Income for the purposes of calculating entitlement to Universal Credit is not calculated the same as income for tax purposes because it is done on a monthly basis and on a strict cash basis. Employees receive regular amounts so this has little impact on them. For the self-employed though, and those who operate through a simple owner managed business, they may be hit where they are not paid on time by their customers or where they are not able to spread evenly annual costs over each month.

Potential claimants will have to ensure that they are registered with HM Revenue and Customs either because they are already in receipt of a benefit or by making a new application. Once registered, it will be necessary to complete a monthly return of your net income and any changes in your circumstances.

The calculation assumes you are earning the 'minimum income floor'. This is calculated as follows:

- Number of expected work hours
- Multiplied by National minimum wage rate for your age
- Multiplied by 52 then divided by 12 to give a monthly figure
- Less income tax and national insurance

The 'minimum income floor' applies even if the actual figure for a month would be a lower figure due to eg lower income or higher allowance expenses that month. Unfortunately, where the reality of the actual profit or loss for a month is ignored in favour of the 'minimum income floor' figure, there is no provision to roll forward to a following month so that results are averaged.

To help mitigate any negative impact of the 'minimum income floor', claimants are advised to ask customers for part payments to help even out income and also to arrange for annual expenses to be paid in monthly instalments.

Relief is available for individuals in the first 12 months of starting a self-employment and in other limited circumstances.

More information

This overview is intended to set out the basic principles of Universal Credit and is not intended to constitute advice when making or considering making a claim. For further information and advice visit [Jobcentre Plus](#) or [Citizens Advice Bureau](#). For detailed advice, talk to your accountant or contact southoffice@counterculturellp.com

www.gov.uk/universal-credit/overview

About Counterculture

Counterculture helps cultural, creative and not-for-profit organisations to plan, manage and thrive by providing a tailor-made service, which includes everything from strategic planning to funding, financial and project management, legal and governance advice, capital projects, training and advocacy. counterculturellp.com

About a-n

With over 19,000 members, a-n is the UK's largest visual arts membership organisation. Its mission is to stimulate and support contemporary visual arts practice and affirm the value of artists in society. It delivers this through a combination of advocacy, support and research.

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