

Executive summary

This report looks at the interaction between taxes and benefits, focusing on two case studies to highlight how Universal Credit supports families.

We look at how their incomes change as their earnings increase, and find that:

Out of work support under Universal Credit is inadequate

For families with two children living in an expensive part of the country, the Benefit Cap leaves them with £18,000 (40%) less than their needs as assessed by the benefit system.

In work support helps more people than you might think

200,000 to 300,000 higher rate taxpayers are potentially eligible for Universal Credit. This is caused largely by the high cost of housing and childcare.

This table shows the maximum a household can earn and still receive support, broken down by the reasons why they have an entitlement to Universal Credit.

Maximum household earnings at which a couple living in London could access Universal Credit	
2+ children, rental and childcare costs	£148,000
2+ children and rental costs	£112,000
2+ children and childcare costs only (e.g. owner-occupier)	£68,000
2+ children, no rental or childcare costs	£42,000
No children, rental or childcare costs	£12,629

This isn't limited to the most expensive parts of the country. A couple with two children renting in Leeds could access support at earnings of up to £96,000.

Higher earners lose out through the interaction of taxes and benefits

The savings limit, which prevents households with capital above £16,000 from accessing Universal Credit, has been unchanged since 1990. This can potentially halve household income, creating a strong disincentive to save.

Under Universal Credit, families with more than two children who rent their home and earn £50,000 or more can be subject to an effective tax rate of over 100%.

The withdrawal of the tax free personal allowance at £100,000 means that dual earner couples, each earning £62,570, are over £14,000 better off after tax than a single earner household earning £125,140. Together, these penalise single earner couples and make the tax system less progressive than it should be.