

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES
BY THE DEPUTY OF ST. JOHN
ANSWER TO BE TABLED ON MONDAY 26TH SEPTEMBER 2016**

Question

What work, if any, has the Department undertaken with the Department of Social Security to use the current Income Support and Tax systems to ensure that there are incentives in monetary terms for people to return to work?

Answer

The Treasury has always worked closely with Social Security when developing policy and continues to do so, discussing initiatives in advance to ensure that, as far as is practical, they are joined up. In terms of the incentive to return to work this is a balance between how much the individual will earn from being employed vs how much they will pay out in income tax/Social Security contributions. The Income Support benefit is designed to promote financial independence, a policy which will ultimately reduce benefit expenditure by helping people into employment that allows them to support themselves without government assistance.

Income Support

For working age people, the Income Support scheme contains a legal requirement to be in full time employment, subject to certain exceptions (e.g. for people with severe disabilities). Anyone required to work who is not in employment is required to engage with the comprehensive Back to Work service which helps people into jobs, offering retraining and in-work support where necessary. Once in work, earnings from employment are disregarded from the benefit calculation to the value of 23%, meaning that each pound earned by somebody on Income Support increases their total household income by 23p. If paid, the value of any Social Security contributions is also disregarded in full. Help is available for low income working families towards the cost of childcare. Taken together this means that a person getting Income Support is immediately better off by moving into even part-time employment. These incentives are also supported by financial benefit sanctions for people who don't do enough to look for work.

Taking all of these factors into account, there are strong legal and financial drivers for unemployed people to return to work, as well as the social and psychological benefits of being in employment. Over the last few years this has been evidenced by a steady decrease in both unemployment and the number of adults claiming Income Support, even during a period of economic uncertainty.

Income tax

The generous reliefs and allowances within the tax system mean that income tax should not be an obstacle to people returning to work. For example, in the context of a single person they need to have an annual income exceeding £14,350 before they pay any income tax. For a single person with an income of £20,000 their income tax liability would be £1,469; equating to an effective tax rate of 7.3%.

In the context of married couples the exemption threshold is £23,000. Furthermore, to encourage participation by both spouses, a second earner's allowance exempts the first £4,500 of the "second spouse's"¹ earnings; meaning that in the context of a married couple where both spouses are working the exemption threshold is actually £27,500.

These exemption thresholds, both for single people and married couples, are also increased (by a maximum of an additional £14,000) where the taxpayer has incurred qualifying childcare costs; reducing their tax liability and supporting parents back into the workforce.

¹ "Second spouse" in this context means the spouse with the lower earnings for the relevant year of assessment.