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Taxable state benefits

When it comes to tax, not all state benefits are equal – some are tax-free whereas others are taxable. The following lists set out some of the most common taxable and tax-free state benefits.

Taxable benefits

The following benefits are taxable and must be taken into account in working out your taxable income:

- the state pension;
- widow's pension;
- jobseeker's allowance;
- contribution-based employment and support allowance;
- carer's allowance;
- incapacity benefits (week 29 onwards);
- bereavement allowance; and
- widowed parent's allowance.

Statutory payments (statutory maternity pay, statutory paternity pay, statutory adoption pay, shared parental pay and statutory sick pay) are also taxable.

Non-taxable state benefits

Many benefits can be received tax free. This means that they can be ignored when working out your taxable income. Likewise, they do not eat into your personal allowance.

- housing benefit;
- income-related employment and support allowance;
- working tax credit;
- child tax credit;
- income support;
- disability living allowance;
- pension credit;
- guardian's allowance;
- winter fuel payments and Christmas bonus;
- free TV licence for over 75s;
- lump sum bereavement payments;
- maternity allowance;

- industrial injuries benefit;
- severe disablement allowance;
- universal credit;
- war widow's pension; and
- young person's bridging allowance.

Child benefit

Although child benefit is a tax-free benefit, a tax charge -- the high income child benefit tax charge -- applies where a person receives child benefit and they or their partner has income in excess of £50,000 per year. The charge is equal to 10% of the child benefit received for each £100 by which income exceeds £50,000 (such that once income reaches £60,000, the charge is equal to the child benefit for the year).

Where both partners have income in excess of £50,000, the charge is levied on the one with the highest income, even if that is not the partner in receipt of the child benefit. A person can choose to disclaim their child benefit, rather than receive it and pay the tax.

Partner note: ITEPA 2003, Pt. 10.

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