Cost of Living Awards

Treatment for Tax and Benefit Purposes

It is expected that the DWP will consider the purpose of the payment against the definition of ‘local welfare provision’ in relevant legislation. On that basis, DWP have indicated that payments would be disregarded for the purpose of those benefit entitlements for which the legislation specifies that capital to be disregarded includes ‘any local welfare provision.’ DWP have also indicated that the payments would have no impact on particular contribution-based benefits.

It is expected that DWP will consider that payments will be treated as capital for the purpose of Universal Credit and may impact upon entitlement where the total capital held exceeds £6,000, either prior to or as a result of this payment.

Within the Council Tax Reduction scheme, a crisis payment made by a local authority for the purpose of meeting a short term need is disregarded as income and capital of a person where the payment is made using the local authority’s power to advance well-being and is using funding provided by the Scottish Ministers in the case of the £150 Cost of Living Award and by Inverclyde Council for the £350 Cost of Living Award. It is Inverclyde Council’s position that because the Scottish Government and Inverclyde Council are funding the payments as a response to the increase in living costs, the payments are disregarded as income and capital for the purposes of Council Tax Reduction.

The UK Government have confirmed that the Cost of Living Award will not be taxable from first principles (with regards to employment income, miscellaneous income or annual payment provisions). They have also indicated that HMRC are unlikely to challenge instances of a trader working from home not declaring any award received as a trading receipt.