

A QUICK GUIDE TO TAX CREDITS

What are they? Well, if ever a term has been over used in recent years, its “tax credit”! A TC is a form of state benefit given either directly to the claimant or paid via a reduction in tax bills.

In this context TC’s should not be confused with “Research and Development Tax Credits” paid to companies undertaking research, nor should they be confused with some “Tax Credits” which are given to investors under schemes like the Enterprise Investment Scheme. Finally – and emphatically – TCs should not be confused with “Tax Credits” on Dividends and Bank Interest.

The TCs we are referring to now, and which are an important issue for many families, are those targeted to help people on low incomes and with children.

Some terms

Child Tax Credit (CTC) – paid from April 2003 – to replace existing benefits and tax credits.

Working Tax Credit (WTC) – paid from April 2003 – to supplement the income of working households on low incomes.

These two credits replace:

Childrens Tax Credit
Working Families Tax Credit
Disabled Persons Tax Credit
Child element of Job Seekers Allowance/Income Support
Some elements of New Deal



All of which cannot
be claimed after
5 April 2003

Who can claim? Broadly anyone, married or single, (i) with children or, (ii) if without children, who work at least 30 hours a week and are 25 or over. There are slightly lower working hour qualifications for the disabled (who can claim at 16) and people returning to work over the age of 50.

The actual entitlements are based on various parameters – see later – and are tapered if your income exceeds a certain level.

Married couples must apply as a couple and entitlements are based on joint income.

Children of previous relationships count if they live with you and you are responsible for them.

How to claim Claims, or renewals if you were claiming in the previous year, need to be made to HM Revenue & Customs by 31 August each year (for years before 2006, this was 30 September). If you claim after that date then your claim cannot be backdated more than three months.

Claims for 2003/04, the first year of the new regime, were based on 2001-02 income. However as tax credits are based on actual income of the tax year, the award of TC will be provisional and actual income details for 2003/04 will need to be provided by 30 September 2004, at which stage a provisional claim is made for 2004/05, etc.

For the self employed a provisional re-application can be made by 31 August each year, with actual figures being submitted by the following 31 January in line with Self Assessment deadlines.

If income is less than estimated then extra TC payments may be due. If income is more than £25,000 (£2,500 for 2005-6 and earlier years) over what was estimated then some of the TC paid must be re-paid.

Child Tax Credit CTC is paid for one or more children. The claimant(s) does not have to be working. The claim covers children up to 1 September after their 16th Birthday, or up to 18 and still in full time education.

The 2008/09 rates (2007/08) are:

- Family element £545 pa (£545) where all eligible children over 1 year old
- Family element £1,090 pa (£1,090) where one or more children under 1 year old

There is only one family element paid regardless of number of children

- Child element £2,085 per child (£1,845) (increased if the child is disabled)
- Childcare element dealt with under WTC

CTC is paid direct to the main carer for the child (in the same way as Child Benefit is paid at present).

Working Tax Credit WTC is paid primarily to

- (i) a person aged 16 or over working 16 or more hours a week who is responsible (or whose partner is responsible) for one or more children; or
- (ii) a person aged 25 or over who works 30 hours or more.

Different rules apply for the disabled and those over 50 who come off of state benefits.

The 2008//09 rates (2007/08) for the working element of CTC are:

- Basic £1,800 pa (£1,730)
- Couple/lone parent £1,770 extra pa (£1,700) (couple applies even if there are no children)
- 30 hour pw addition £735 pa (£705) extra where one partner works more than 30 hours a week

There is also a childcare element added on to WTC. You can claim 80% of childcare costs paid to a registered childminder or other accredited childcare provider. The maximum childcare costs claimable are £175 per week for one child or £300 per week for two or more children.

Child Benefit remains unchanged and is still paid to the main carer.

Linking to Income WTC and CTC are subject to an income taper.

Income is household income from employment (including most benefits in kind), self employment, investments (including dividends from family companies), property, etc. Broadly income for TC purposes is the same as income for personal tax purposes. The first £300 of non earned income is disregarded. Capital Gains are not included.

Unlike the old WFTC rules there is no clawback against capital – so no matter how much you have in the bank, you can still claim if your income is low enough.

The income taper is 39% (208/09) (37% 2007-08) of household income over £6,420 pa (2008/09)(2007/08 5,220 pa).

The income taper is applied first to the working element of WTC, then the childcare element of WTC and finally to the CTC.

Protective claims Even if you think you are going to earn too much to qualify for TCs, you can make a claim now on a protective basis so if your income for the tax year turns out lower than anticipated you can get TCs for the full year. Without a protective claim you can only backdate your application three months.

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