

Child Tax Credit and Working Tax Credit

Although they are administered by HM Revenue & Customs (HMRC), these credits have nothing to do with the tax system and are not connected with how much tax you pay.

The general rule is that to qualify for tax credits you must be aged 16 or over and usually live in the United Kingdom. To receive your entitlement to tax credits, you need to claim them using a paper form TC600 or online at the HMRC website (www.hmrc.gov.uk/taxcredits).

If you don't already have a claim pack you can get one by telephoning 0845 300 3900.

Couples must claim tax credits jointly, and entitlement will be based on the combined income of both partners.

Child Tax Credit (CTC)

CTC can be claimed by families with at least one child, and annual family income up to about £50,000.

It provides support for

- children until 1 September after their 16th birthday
- children aged 16 to 18 who are in full time "non-advanced" education (ie studying for at least 12 hours a week and the course leads to A level, NVQ level 3, or below)
- children aged 16 to 18 who have left full time education but do not have a job or training place and have registered with the Careers Service or Connexions Service, and are not claiming Income Support or tax credits in their own right

The amount of benefit is dependent on the number of children in the family, whether they have disabilities, and the total family income. It will be paid direct to the person who cares for the children.

CTC is made up of the following elements:

- A family element that is payable to any family responsible for a child.
- A child element for each child the family is responsible for. This is paid at a higher rate if the child has a disability and at an enhanced rate for a child with a severe disability.

The basic family element of £545 per year is available in full to all families with joint income up to £40,000, with a tapering reduction up to income of about £43,330.

CTC will be paid directly through a bank account to the person who is mainly responsible for caring for the children in the family, either weekly or every four weeks.

The following table shows the range of annual amounts receivable:

Gross Annual Joint Income	One Child	Two Children	Three Children
Up to £15,860	£3,100	£5,655	£8,210
Up to £40,000	£545	£545	£545

Families with children are still able to claim Child Benefit, which is unaffected by, and continues to be paid separately from, the tax credits.

Working Tax Credit (WTC)

WTC is a tax credit for people in paid work who are on a relatively low income (for couples, joint income), including those with a disability. It replaces adult-related elements of Working Families' Tax Credit and Disabled Person's Tax Credit. It also includes support for the cost of eligible childcare.

WTC is for people who are employed or self employed (either on their own or in partnership) who

- usually work 16 hours or more a week
- are paid for that work, and
- expect to work for at least 4 weeks

and who are

- 16 or over and responsible for at least one child, **or**
- aged 16 or over and disabled, **or**
- aged 25 or over and usually work at least 30 hours a week

WTC includes a basic element and a range of extra elements (see the table below).

WTC is paid to the person who is working 16 or more hours a week. Couples where both work 16 hours or more a week may choose which of them will receive it. Following changes to the payment of WTC, employees now receive their payments direct from HM Revenue & Customs rather than via their employer. With this change in payment method the only remaining tax credit obligations on employers will be to retain tax credit records after the end of the tax year to which they relate, and to answer earnings enquiries or requests for other information from HMRC. These requests will be limited to cases when HMRC cannot get information from other sources, or has reason to suspect that a claimant has mis-stated their true earnings or the number of hours they have worked. The childcare element of WTC will always be paid direct to the person who is mainly responsible for caring for the child or children, alongside payments of CTC.

Basis of Assessment

Tax credit awards are based initially on income for the previous year. At the end of the tax year, when income for the year is known, the tax credits position is finalised. Any increase in income will be ignored to the extent of £10,000, but income changes above this limit will result in a reassessment.

During the year

- If income rises significantly, you should tell HMRC so that the award can be adjusted. Otherwise, you may receive too much tax credit and have to pay it back when the award is finalised at the end of the year
- If income falls, you can ask to have your tax credits paid on the basis of an estimate of your income for the year. But if you do that, you will have to tell HMRC straight away if you think your income will be higher than your estimate
- Any relevant change in circumstances must be notified to HMRC within three months

Income for Tax Credit purposes

Income is broadly aligned with the claimant's gross taxable income (ie before the deduction of income tax and National Insurance Contributions). Earnings will be taken from P60 certificates for employees and self assessment returns for self employed claimants. There are, however, exceptions to the alignment, including:

- not all benefits in kind are included
- the first £100 of statutory maternity pay (and their new equivalents) does not count
- apart from earnings and taxable social security benefits, most other annual income is taken into account only to the extent that it exceeds £300
- Contributions to approved pension schemes and payments under the Gift Aid scheme are deducted

It is very important to understand that tax credits cannot be backdated for more than three months. Please ask us for further information regarding filing deadlines or refer to the tax credit website at www.taxcredits.inlandrevenue.gov.uk

2011-12 Rates and thresholds

Working Tax Credit ¹	Per year
Basic element	£1,920
Additional couple's and lone parent element	£1,950
30 hour element	£790
Disabled worker element	£2,650
Enhanced disabled adult element	£1,130
50 plus return to work payment, 16-29 hours ²	£1,365
50 plus return to work payment, 30+ hours ²	£2,030
Childcare element	Per week
- maximum eligible cost	£300
- maximum eligible cost for 1 child	£175
- percentage of eligible costs covered	70%

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Notes

1. Apart from those mentioned in the footnote below, the elements for which claimants are eligible can be added together to arrive at the maximum amount of tax credit available.
2. These elements are mutually exclusive. Where an individual works enough hours to qualify for the 50plus return to work payment (30+ hours), they cannot also qualify for the 50plus return to work payment (16-29 hours).

Child Tax Credit	Per year
Family element ¹	£545
Child element ²	£2,555
Disabled child additional element ²	£2,800
Severely disabled child additional element ²	£1,130

Notes

1. Only one family element is available per family. Families are entitled to the family element and the baby addition in the first year of a child's life.
2. As well as one family element, a family will be entitled to a child element for each child for whom it has responsibility. For each child, the child elements which are appropriate may be added together to arrive at the maximum amount available for that child.

Common features	Per year
First income threshold	£6,420
First withdrawal rate	41%
Second income threshold	£40,000
Second withdrawal rate	41%
First threshold for those entitled to Child Tax Credit only	£15,860
Income disregard	£10,000

Those with income below the first withdrawal threshold will be paid the full amount of tax credits available for their circumstances. Those with income over the threshold will have their maximum tax credit award tapered away by 41p for every excess £1 of gross income. Claimants eligible for both WTC and CTC will have their maximum awards reduced in the order:

- WTC apart from childcare;
- The childcare element of WTC
- CTC apart from the family element; and finally
- CTC family element where income exceeds the higher threshold of £40,000

This means that WTC paid through employers is the first to be withdrawn, so that for many families with children, tax credits will be paid wholly to the person with main responsibility for the child's care.

Example

Couple with two children where both parents work at least 16 hours per week, paying £220 a week on childcare:

		£	£
<i>Working Tax Credit</i>	- Basic element	1,920	
	- Second adult element	1,950	
	- 30 hour element	790	
	- Childcare element (220 x 70% x 52)	<u>8,008</u>	12,668
<i>Child Tax Credit</i>	- Child element (2,555 x 2)	5,110	
	- Family element	<u>545</u>	<u>5,655</u>
<i>Maximum Award</i>			<u>£18,323</u>

The maximum award is payable until family income reaches £6,420 (first threshold).

For income over this threshold, there is a taper of 41p for each additional £1 of income, so that, for example, the WTC basic element will be lost when income reaches $£6,420 + (1,920 \times 100/41) = £11,103$

The CTC family element is subject to the higher threshold of £40,000, above which the taper is £1 for each additional £2.44 of income and will be lost when income reaches $£40,000 + (£545 \times 2.44) = £41,330$

The following table shows the effect of these principles in setting income levels where the various elements are lost:

Element	Income band	Cumulative income	Reduction family element	Reduction other elements	Net award
To first income threshold	£6,420	£6,420			£18,323
WTC Basic	£4,683	£11,103		£1,920	£16,403
WTC second adult	£4,756	£15,859		£1,950	£14,453
WTC 30 hour	£1,927	£17,786		£790	£13,663
WTC childcare	£19,532	£37,318		£8,008	£5,655
To second income threshold	£2,682	£40,000		£1,100	£4,555
CTC family	£1,330	£41,330	£545	£545	£3,465
CTC child	£8,451	£49,781		£3,465	0