



**Saffron Resource Centre**

# **TAX CREDITS**

**A GUIDE TO ENTITLEMENT**



**PRESENTED BY BEVERLEY HALL**

# WHAT ARE TAX CREDITS AND HOW DO THEY WORK?

## TAX CREDITS ARE PAYMENTS THE GOVERNMENT MAKES TO PEOPLE WHO LIVE IN THE UK AND ARE:

- \* aged at least 16
- \* in paid work, or
- \* responsible for children, or
- \* both in work and responsible for children, or
- \* claiming Income Support or Jobseeker's Allowance and have children.

There are two types of Tax Credit; *WORKING TAX CREDIT* and *CHILD TAX CREDIT*, and the amount received depends on the applicant's income and whether they meet the qualifying conditions.

Both of these are made up of a number of different parts or 'elements'.

## CHILD TAX CREDIT (CTC)

Has a:

- \* family element
- \* baby element
- \* child element
- \* disabled child element, and
- \* severely disabled child element.

How many of these elements are awarded depends on the make-up of the family

## WORKING TAX CREDIT (WTC) ALSO HAS ELEMENTS

There is a:

- \* basic element
- \* couple's element
- \* lone parent's element
- \* childcare element
- \* element for people working 30 hours or more a week
- \* disability element
- \* severe disability element, and
- \* 50+ element.

Again, the elements awarded, vary according to the circumstances of the applicant.



## WHAT IS TAKEN INTO ACCOUNT WHEN CALCULATING TAX CREDITS?

*To calculate an award, the Tax Credit Office looks at:*

- \* the Tax Credit elements that the claimant is entitled to
- \* the claimant's level of income (before tax and National Insurance contributions are taken off).

*The amount of Tax Credits is based on the 'income limits' for the period of the claim. These limits are levels of annual income above which, Tax Credits payments start being reduced. The higher a claimant's income, the less Tax Credits they are likely to receive.*

*To qualify for CHILD TAX CREDITS, claimants must be responsible for a child or young person aged up to 20, who is in qualifying training or non-advanced education. They do not need to be working to claim Child Tax Credit, which means that people who are students or not in paid work are eligible to claim.*

*To qualify for WORKING TAX CREDITS, claimants need to fall into one of the following categories:*

- \* aged 25 years or more and working at least 30 hours a week, or
- \* working for at least 16 hours a week and responsible for a child (either on their own or as part of a couple), or
- \* disabled and working at least 16 hours a week, or
- \* starting work of at least 16 hours a week, aged 50 or more, and have been in receipt of certain out of work benefits for the previous 6 months – which entitles them to a special 50+ element which is payable for 12 months.



# WHAT ARE THE DIFFERENT TAX CREDITS ELEMENTS?

<b>CHILD TAX CREDIT ELEMENTS</b>	<b>MAXIMUM AMOUNT FOR 2009/10</b>
<b>FAMILY ELEMENT - THE BASIC ELEMENT FOR FAMILIES RESPONSIBLE FOR ONE OR MORE CHILDREN</b>	<b>£545</b>
<b>BABY ELEMENT PAID TO FAMILIES WITH ONE OR MORE CHILDREN UNDER THE AGE OF ONE. ONLY ONE PAYMENT REGARDLESS OF HOW MANY CHILDREN UNDER ONE</b>	<b>£545</b>
<b>CHILD ELEMENT - ONE FOR EACH CHILD OR YOUNG PERSON THE CLAIMANT IS RESPONSIBLE FOR</b>	<b>£2,235</b>
<b>DISABILITY ELEMENT - ONE FOR EACH CHILD IN RECEIPT OF DISABILITY LIVING ALLOWANCE, OR THE CHILD IS REGISTERED BLIND OR HAS BEEN TAKEN OFF THE BLIND REGISTER IN THE 28 WEEKS BEFORE THE DATE OF CLAIM</b>	<b>£2,670</b>
<b>SEVERE DISABILITY ELEMENT - ONE FOR EACH CHILD IN RECEIPT OF THE HIGHEST RATE CARE COMPONENT OF DISABILITY LIVING ALLOWANCE</b>	<b>£1,075</b>
<b>WORKING TAX CREDIT ELEMENTS</b>	<b>MAXIMUM AMOUNT FOR 2009/10</b>
<b>BASIC ELEMENT - PAID TO ANY WORKING PERSON WHO IS ELIGIBLE</b>	<b>£1,890</b>
<b>COUPLES AND LONE PARENT ELEMENT</b>	<b>£1,860</b>
<b>30 HOUR ELEMENT - FOR PEOPLE WHO WORK AT LEAST 30 HOURS A WEEK. COUPLES WITH AT LEAST ONE CHILD CAN CLAIM THE 30 HOUR ELEMENT IF THEY WORK AT LEAST 30 HOURS A WEEK BETWEEN THEM PROVIDING AT LEAST ONE OF THEM WORKS 16 HOURS OR MORE A WEEK</b>	<b>£775</b>
<b>DISABILITY ELEMENT - FOR WORKING PEOPLE WHO ARE DISABLED</b>	<b>£2,530</b>
<b>SEVERE DISABILITY ELEMENT - FOR EACH PERSON WHO RECEIVES THE HIGHEST RATE CARE COMPONENT OF DISABILITY LIVING ALLOWANCE OR THE HIGHER RATE OF ATTENDANCE ALLOWANCE</b>	<b>£1,075</b>
<b>50+ RETURN TO WORK PAYMENT (16-29 HOURS) FOR PEOPLE WHO ARE RETURNING TO WORK AFTER A PERIOD ON BENEFITS</b>	<b>£1,300</b>
<b>50+ RETURN TO WORK PAYMENT (30+ HOURS) FOR PEOPLE WHO ARE RETURNING TO WORK AFTER A PERIOD ON BENEFITS</b>	<b>£1,935</b>
<b>A CHILDCARE ELEMENT, WHERE THE CLAIMANT CAN GET BACK UP TO 80 PER CENT OF THEIR COSTS FOR ELIGIBLE CHILDCARE</b>	<b>£175 MAXIMUM ELIGIBLE COST PER WEEK IF PAYING FOR ONE CHILD, £300 MAXIMUM ELIGIBLE COST PER WEEK IF PAYING FOR TWO OR MORE CHILDREN</b>

# WHAT ARE THE INCOME LIMITS?

## **TO QUALIFY FOR MAXIMUM CHILD TAX CREDIT THE INCOME LIMIT IS £16,040**

*If the claimant's income is more than this, the child element will be reduced. But income can be up to £50,000 before the family element is effected.*

## **TO QUALIFY FOR MAXIMUM WORKING TAX CREDIT THE INCOME LIMIT IS £6,420**

*If income is more than this, the amount of benefit will be reduced.*

## **HOW THE AWARD IS CALCULATED**

*If the claimant's income is higher than the income limit, each element of the Tax Credits award is reduced in a set order as follows:*

- \* *Working Tax Credit (apart from the childcare element) at the rate of 39%*
- \* *Working Tax Credit childcare element at the rate of 39%*
- \* *Child Tax Credit child element at the rate of 39%*
- \* *Child Tax Credit family element at the rate of 6.67%.*

*The Tax Credit Office works out the reduced amount by taking away from the claimant's income, the income limit for each particular element, and multiplying the result by the rate that applies to that element - 39% or 6.67% - to give the reduced amount.*

*If the reduced amount is equal to or higher than the amount of the element the claimant qualifies for, they won't get any Tax Credits for that element.*

*But if their entitlement is higher than the reduced amount, the amount they will receive is the difference between the entitlement and the reduced amount.*

## EXAMPLE FOR A SINGLE PERSON EARNING £9000

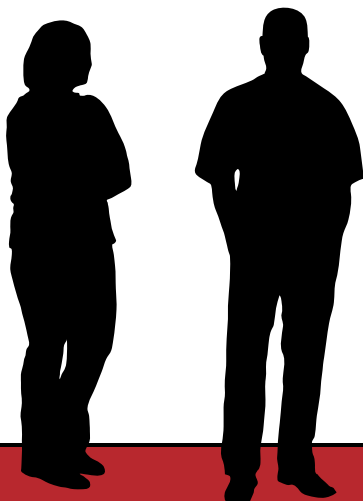
- \* The claimant is entitled to the Working Tax Credit basic element (£1,890) and 30 hour element (£775), giving a total of **£2,665**
- \* The Working Tax Credit income limit is £6,420. Both elements are reduced together, so the reduced amount is  $£9,000 - £6,420 \times 39\% = \mathbf{£1,006.20}$

The reduced amount is less than their entitlement, so the amount they will get is  $£2,665 - £1,006.20 = \mathbf{£1,658.80}$ .

## THE TABLE BELOW SHOWS HOW MUCH WORKING TAX CREDIT A CLAIMANT WHO IS WORKING AND NOT RESPONSIBLE FOR ANY CHILDREN OR YOUNG PEOPLE WILL BE ENTITLED TO

ANNUAL INCOME	SINGLE PERSON AGED 25 OR OVER, WORKING 30 HOURS OR MORE A WEEK	COUPLE AGED 25 OR OVER, WORKING 30 HOURS OR MORE A WEEK
£9,000	£1,660	£3,520
£10,000	£1,270	£3,130
£11,000	£880	£2,740
£12,000	£490	£2,350
£13,000	£100	£1,960
£14,000	-	£1,570
£15,000	-	£1,180
£16,000	-	£790
£17,000	-	£400

These figures will increase if the claimant qualifies for the 50+ or disability elements.



**THE TABLE BELOW SHOWS HOW MUCH WORKING TAX CREDIT AND CHILD TAX CREDIT A FAMILY ARE ENTITLED TO IF THEY ARE IN WORK AND RESPONSIBLE FOR AT LEAST ONE CHILD OR YOUNG PERSON**

<b>ANNUAL INCOME</b>	<b>ONE CHILD</b>	<b>TWO CHILDREN</b>	<b>THREE CHILDREN</b>
<b>NOT WORKING</b>	<b>£2,780</b>	<b>£5,020</b>	<b>£7,255</b>
<b>£5,000</b>	<b>£6,535</b>	<b>£8,770</b>	<b>£11,010</b>
<b>£9,000</b>	<b>£6,330</b>	<b>£8,565</b>	<b>£10,805</b>
<b>£10,000</b>	<b>£5,915</b>	<b>£8,155</b>	<b>£10,390</b>
<b>£15,000</b>	<b>£3,965</b>	<b>£6,205</b>	<b>£8,440</b>
<b>£20,000</b>	<b>£2,015</b>	<b>£4,255</b>	<b>£6,490</b>
<b>£25,000</b>	<b>£545</b>	<b>£2,305</b>	<b>£4,540</b>
<b>£30,000</b>	<b>£545</b>	<b>£545</b>	<b>£2,590</b>
<b>£35,000</b>	<b>£545</b>	<b>£545</b>	<b>£640</b>
<b>£40,000</b>	<b>£545</b>	<b>£545</b>	<b>£545</b>
<b>£55,000</b>	<b>£210</b>	<b>£210</b>	<b>£210</b>

*These figures will increase if the claimant qualifies for the baby, childcare, or disability elements.*



# HELP WITH THE COST OF CHILDCARE

## WORKING CLAIMANTS MAY BE ENTITLED TO THE CHILDCARE ELEMENT OF WORKING TAX CREDIT TO HELP TOWARDS THE COSTS OF REGISTERED OR APPROVED CHILDCARE

**Lone parents** must be aged 16 or over and work at least 16 hours a week.

**Couples** must both be aged over 16, and both must work at least 16 hours a week, or one must work 16 hours a week whilst the partner is incapacitated, in hospital, in prison, or in custody.

To be treated as incapacitated, the partner must be in receipt of one of the following:

- \* Disability Living Allowance / Attendance Allowance
- \* Severe Disablement Allowance
- \* Incapacity Benefit at the short-term higher rate or long-term rate
- \* Industrial Injuries Disablement Benefit
- \* War Disablement Pension
- \* Council Tax Benefit or Housing Benefit with a Disability Premium or Higher Pensioner Premium
- \* a vehicle under the Invalid Vehicle Scheme
- \* Contribution based Employment and Support Allowance (ESA) / Statutory Sick Pay for a combined period of over 28 weeks.

**New parents** can claim Working Tax Credit, including the childcare element, from the child's date of birth or placement for adoption.

Claimants in receipt of maternity / adoption / paternity benefits are treated as being in work from the day they started receiving the benefit, as long as they were in qualifying paid work (of at least 16 or 30 hours, whichever applies) before going on leave.



## HOW MUCH IS THE CHILDCARE ELEMENT?



*The childcare element can help with 80% of eligible childcare costs up to a maximum of:*

- \* *£175 a week for one child*
- \* *£300 a week for two or more children*

*and can be claimed even if only for a short period, for example, during school holidays.*

### WHAT IS MEANT BY REGISTERED OR APPROVED CHILDCARE?

*The childcare must be provided by one of the following:*

- \* *a childcare provider registered with Ofsted*
- \* *childcare provided to a child aged between 3 and 4 by a school*
- \* *out-of-school-hours childcare provided to a child aged 5 to 15 by a school*
- \* *a person approved under the Childcare Approval Scheme providing childcare in the child's home or in other domestic premises*
- \* *a domiciliary worker or nurse from an agency registered under the Domiciliary Care Agencies Regulations 2002 providing childcare in the child's home*
- \* *an approved foster carer (the childcare cannot be for the foster carer's foster child).*

### CHILDCARE PROVIDED BY A RELATIVE

*Childcare provided by a relative, even if the relative is registered or approved, does not qualify for the childcare element of Working Tax Credit if the care takes place in the child's home, or takes place away from the child's home and is solely for the child or children to whom the provider is related.*

*However, a parent of a child looked after away from the child's home, by a registered childminder or approved childcarer who is a relative, who also looks after a number of other children, can claim the childcare element.*

*Relative means a parent, grandparent, aunt or uncle, brother or sister, whether by blood, half-blood, marriage, civil partnership or affinity.*

# HOW IS A CLAIM FOR TAX CREDITS MADE?

*There is one claim form for both Child Tax Credit and Working Tax Credit (TC600) which can be ordered from the Tax Credit Helpline (0845 300 3900), or by completing the form on the HM Revenue and Customs (HMRC) website.*

*If claimants are married or living with a partner, they need to claim jointly. This also applies to same sex couples whether or not they are registered as Civil Partners.*

*Claims can be back-dated up to a maximum of 3 months. Therefore a claim should be made at the right time in order to receive the correct amount.*

## HOW ARE TAX CREDITS PAID?

*Tax Credits will normally be paid into the claimant's Bank account, Building Society account or Post Office card account.*

*Child Tax Credit is paid to the person who is mainly responsible for the child or children. This is usually the person who receives the Child Benefit for the child. (Child Benefit is still an entitlement for every child and is not affected by any claims for Tax Credits).*

## UNDERPAYMENTS AND OVERPAYMENTS

*Underpayments and overpayments are a feature of the Tax Credit system. Basically this is because the awards are based on a full twelve months income – initially the income of the previous tax year.*

*However, final entitlement, which is worked out when the claim is renewed at the end of the tax year, may be based on a different figure if income has reduced or increased, or if there have been changes in circumstances, and it may differ from the amount the claimant has actually been paid. Hence they may be overpaid, or underpaid.*

*To keep this possibility to a minimum, the Tax Credit Office should be notified of any changes as they happen, and some changes must be reported to the Tax Credit Office within strict time limits.*

*An underpayment will usually be paid in a lump sum after the end of the tax year, and overpayments will normally be collected by reducing Tax Credits for the following year. There are special rules here, particularly for cases of hardship, which are set out in the HMRC Code of Practice.*

*For the majority of claimants, if the renewal form is not returned by the 31st July deadline, Tax Credit payments will stop, and an overpayment will arise as a result of a gap in entitlement from the beginning of the new tax year. They will then have to make a fresh application for Tax Credits, and request a 3 month back-date if appropriate.*

*Those whose income is over £50,000 are usually only entitled to the family element of Child Tax Credit, in which case, their claim will be renewed automatically.*

## **TELLING THE TAX CREDIT OFFICE ABOUT CHANGES**

*There are some changes which have to be reported to the Tax Credit Office within one month, and include:*

- \* changes in childcare costs*
- \* changes in the family unit, or responsibility for, or eligibility of children or young people in the household*
- \* falls in working hours across the 16 hour or 30 hour per week thresholds*
- \* absence from the UK in excess of 8 weeks (12 weeks if due to illness or bereavement).*



# OTHER HELP AVAILABLE FOR PEOPLE IN RECEIPT OF TAX CREDITS

## CHILD BENEFIT

*Child Benefit is a four weekly tax-free payment available to anyone bringing up a child or young person. Income or savings do not affect it, and claimants do not have to be receiving Tax Credits to get it.*

*£20 a week is paid for the eldest child, and £13.20 a week for each additional child.*

## HELP WITH HEALTH COSTS

*People getting Tax Credits because they are on a low income, may get help with certain health costs that include free NHS prescriptions, NHS dental treatment, NHS wigs and fabric supports, eyesight tests, optical vouchers towards the cost of glasses or contact lenses, and help with the cost of travel to receive NHS treatment under the care of a consultant.*

*Those who qualify should automatically get an NHS Tax Credit Exemption Certificate sent to them in the post. Call 0845 609 9299 for further information.*

## HEALTHY START VOUCHERS

*The Healthy Start scheme provides free vitamin supplements and weekly vouchers which can be spent on milk, fresh fruit, fresh vegetables or infant formula.*

*To qualify, claimants must:*

- \* be getting Child Tax Credit for a child under 4*
- \* not be getting Working Tax Credit*
- \* have a household income of £16,040 a year or less.*

*Those who are pregnant and under the age of 18, or in receipt of Income Support or Income Based Jobseekers Allowance will automatically qualify whether or not they get Tax Credits.*

## HEALTH IN PREGNANCY GRANT

*Mums-to-be can now get a one-off tax-free payment of £190 called the Health in Pregnancy Grant. The money is to help them stay well and healthy and to meet extra costs during the later stages of their pregnancy, and is available through their doctor or midwife.*

## **SURE START MATERNITY GRANT**

*Those who are expecting a baby within 11 weeks, or have had a baby in the past 3 months and are receiving Tax Credits, may qualify for the £500 Sure Start Maternity Grant.*

*To qualify, the claimant should be getting either of the following:*

- \* Child Tax Credit in excess of the family element (which is £545 per year)*
- \* Working Tax Credit that includes the disability or severe disability element.*

## **FREE SCHOOL MEALS**

*A child attending a local authority school may qualify for free school meals if the family:*

- \* receives Child Tax Credit, but not Working Tax Credit*
- \* has a household income of £16,040 a year or less.*

## **CHILD TRUST FUND**

*The Child Trust Fund is a tax-free savings account for children.*

*An investment voucher is automatically issued when Child Benefit is first claimed, and is payable to all children irrespective of their circumstances or whether their family receives Tax Credits.*

## **EDUCATION MAINTENANCE ALLOWANCE (EMA)**

*EMA is a weekly allowance of up to £30 paid to support young people who are continuing in non-advanced education after the age of 16, and does not affect any Tax Credits paid to their parents or carers.*

## **HELP WITH FUNERAL EXPENSES**

*People in receipt of Tax Credits may be able to get a Funeral Payment from the Social Fund if a close family member has died. To qualify, they need to be getting either of the following:*

- \* Child Tax Credit in excess of the family element (which is £545 per year)*
- \* Working Tax Credit that includes the disability or severe disability element.*

*A Funeral Payment includes the necessary burial or cremation fees, and up to £700 for any other expenses, such as the funeral director's fees, the coffin or flowers. Entitlement may be affected by the deceased's estate or if there is any other means of paying for the funeral.*

# BACK TO WORK INCENTIVES

## RETURN TO WORK CREDIT

*£40 a week is paid for up to 12 months by Jobcentre Plus to encourage people to return to paid employment, who have been out of work and claiming benefit because of sickness or disability. A similar incentive scheme is available to lone parents, and both are excluded as income when calculating Tax Credit awards.*

## OTHER HELP

*People qualifying for Tax Credits may also get help with other payments such as:*

- \* court fees*
- \* legal costs*
- \* prison visits*
- \* metered water charges*
- \* essential house repairs or improvements*
- \* home energy efficiency schemes.*

## HOW TO GET MORE INFORMATION ON TAX CREDITS

*Go online to **taxcredits.direct.gov.uk** to check entitlement, or phone the Helpline on **0845 300 3900** between 8.00am and 8.00pm, seven days a week.*

