

# **Recovering old tax credits debt from ongoing awards**

## **What is it?**

Announced by the Chancellor during the 2012 Autumn Statement, this is where tax credits overpayments from previously ended claims will be recovered from a customer's ongoing tax credits payments.

## **Why will it be applied?**

This will help customers repay their tax credits debts more efficiently directly from payments they are receiving.

## **Who will be affected?**

Households that have debts from previously ended claims, with the same household member(s), may have their old debts recovered in this way. Where an ongoing award is a joint claim, any previous overpayments from single claims that have ended, for either of the joint household applicants, will be included for recovery.

Where recovery is currently taking place, or direct payments are being made to repay an overpayment from previously ended claims, then these will not be included for recovery from ongoing payments.

## **How will recovery take place?**

Ongoing payments will be reduced by 25% (or 10% if on maximum award) to repay the old debts.

## **When will it commence?**

Any households where this type of recovery is applicable will have their current payments amended from October 2014. Checks for appropriate ongoing awards will take place periodically.

## **Which debt will the repayments be made against?**

Because a number of debts from different years, awards or households will be moved to the ongoing claim, these separate overpayments will be collated as one single amount. Recoveries from ongoing payments will reduce this as a whole until the full amount is recovered.

In the circumstances where an ongoing award ends, where the total overpayment amount is not fully recovered, then **Reconciliation** will apply to apportion the repayments to the individual debts appropriately.

## **What is Reconciliation?**

Following a defined set of rules set out below, the debts will be returned to their original awards with any recoveries made for that particular debt deducted.

Reconciliation does not apply in every circumstance and when it does not apply, recovery can continue until the full amount has been recovered, including any overpayments generated on the ongoing award.

## **When will it apply?**

Reconciliation will apply where the ongoing award ends, terminates or payments stop, such as where:

- Claim ends (Household breaks down in a joint claim)
- Entitlement ends (such as a young person leaves approved education or training)
- The claim is terminated (such as where no response is received up to the specified date to renew their claim)
- Payments reduce to Nil (such as a change in entitlement)
- Payments are suspended by HMRC (pending further investigation)

## **Why will it be applied?**

Reconciliation will be applied to apportion recoveries made to date in order to repay tax credits overpayments. Reconciliation ensures that any apportionment is fair, particularly for joint claims that end.

## **How will it work?**

On reconciliation, recoveries made will be prioritised in the following order:

- 1.** For joint and single claims, oldest overpayment with the same household members as the award that has just ended/terminated or payments have stopped.
  - Oldest award year first
    - a)** WTC first
    - b)** Then CTC
- 2.** For joint claims, any overpayments generated on the ongoing award
  - Oldest award year first
    - a)** WTC first
    - b)** Then CTC
- 3.** For joint claims, any remaining recoveries of overpayments will be split evenly (50:50) against overpayments for each claimant
  - Oldest award year first for each individual's overpayments
    - a)** WTC first
    - b)** Then CTC
- 4.** For joint claims, where the 50:50 split repays all overpayments for one claimant, remaining recoveries from that claimant will be allocated to repay the other claimant's overpayments – with WTC then CTC repaid for the oldest award year first.

**Outstanding overpayments will be pursued through direct recovery.**