

Example 1:

Using daily rates

Joyce is a lone parent who normally works 30 hours a week. Her income for 2020/21 was £13,500 and she expects her 2020/21 income to be similar. Her tax credits for 2021/22 are calculated on a daily basis as:

Step 1:

WTC basic	£5.50 x 365	
WTC lone parent	£5.65 x 365	
WTC 30 hour	£2.28 x 365	
CTC child element	£7.80 x 365	
CTC family element	<u>£1.50 x 365</u>	
MAXIMUM CREDITS	£22.73 x 365 days =	£8,296.45

Step 2:

Income	£13,500	
Less threshold	<u>- £6,565</u>	
'Excess income'	£6,935 x 41%	
Reduction due to income	£2,843.35	(£2,843.35)
TOTAL TAX CREDITS	(£8296.45 – 2843.35)	£5,453.10

Using annual rates

Step 1:

WTC basic	£2,005
WTC lone parent	£2,060
WTC 30 hour	£830
CTC child element	£2,845
CTC family element	<u>£545</u>
MAXIMUM CREDITS	£8,285

Step 2:

Income	£13,500	
Less threshold	<u>- £6,565</u>	
'Excess income'	£6,935 x 41%	
Reduction due to income	£2,843.35	(£2,843.35)
TOTAL TAX CREDITS	(£8,285 - £2483.35)	£5,441.65