EXAMPLE 7

Melissa, a lone parent, works full time, earns £56,800 a year, and has two children (aged 3 and 5) for whose care she pays her approved childcare provider £290 a week.

To find the point at which Melissa’s tax credits other than the family element stop, calculate maximum credits for 2011-2012:

<table>
<thead>
<tr>
<th>£ Daily rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>WTC basic 5.25</td>
</tr>
<tr>
<td>WTC lone parent 5.33</td>
</tr>
<tr>
<td>WTC 30 hour 2.16</td>
</tr>
<tr>
<td>CTC child element x 2 13.98</td>
</tr>
<tr>
<td><strong>Total without childcare</strong> 26.72 x 366 = 9,779.52</td>
</tr>
<tr>
<td><strong>Childcare:</strong></td>
</tr>
<tr>
<td>2 children £290p/w x 52 @ 70% 10,556.00</td>
</tr>
<tr>
<td><strong>Maximum tax credits</strong> 20,335.52</td>
</tr>
</tbody>
</table>

To ascertain the level of income at which WTC and CTC (apart from family element) are tapered away:

Gross up maximum tax credits by 41%:

£20,335.52 x 100/41 49,598.83

Add 1st income threshold 6,420.00

Family element starts to taper at: 56,018.83

Melissa’s second income threshold is therefore £56,018.83 which is the point that the family element of CTC will start to be reduced by 41 pence for every £1 that her income exceeds her second income threshold. In 2010-2011 and earlier years, the family element was tapered much more slowly at a rate of 6.67% and for this reason was often referred to the ‘slow taper’ as compared to the 39% ‘fast taper’ (associated with the first income threshold).

(Continued on Pg 2)
To calculate the family element:

\[ \text{CTC family element (daily rate)} \times 366 = 545.34 \]

\[ \begin{align*}
\text{Income} & \quad 56,800.00 \\
\text{Less (second income threshold)} & \quad 56,018.83 \\
\end{align*} \]

\[ \begin{align*}
\text{£781.17} \times 41\% & \quad 320.27 \\
\end{align*} \]

Melissa’s income exceeds her second income threshold by £781.17. Her family element is reduced by 41 pence for each £ of this excess (a reduction of £320.27).

\[ \begin{align*}
\text{Maximum family element} & \quad 545.34 \\
\text{Less reduction due to income} & \quad (320.27) \\
\end{align*} \]

\[ \text{Entitlement} \quad 225.07 \]