

revenue benefits

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:

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

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	<u>6,420.00</u>
Family element starts to taper at:	<u>56,018.83</u>

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)

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To calculate the family element:

CTC family element (daily rate) £1.49 x 366 = *545.34*

<i>Income</i>	<i>56,800.00</i>
<i>Less (second income threshold)</i>	<u><i>56,018.83</i></u>
	<i>781.17</i>

£781.17 x 41% = *320.27*

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).

<i>Maximum family element</i>	<i>545.34</i>
<i>Less reduction due to income</i>	<i>(320.27)</i>

Entitlement ***225.07***