Melissa

Melissa, a lone parent, works full time, earns £65,000 a year, and has two children (3 and 5 years of age) for whose care she pays her approved childcare provider £350 a week. What is her tax credits entitlement for 2010/11?

To find the point at which Melissa's fast taper credits stop, compute maximum credits:

<table>
<thead>
<tr>
<th>Daily rates</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>WTC basic</td>
<td>5.27</td>
</tr>
<tr>
<td>WTC lone parent</td>
<td>5.18</td>
</tr>
<tr>
<td>WTC 30 hour</td>
<td>2.17</td>
</tr>
<tr>
<td>CTC child element x 2</td>
<td>12.62</td>
</tr>
</tbody>
</table>

Total without childcare = 25.24 x 365 = 9,212.60

Childcare:
- Maximum for 2 children £300p/w x 52 @ 80% = 12,480.00

Maximum tax credits = 21,692.60

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

Gross up maximum tax credits by 39%:
£21,692.60 x 100/39 = 55,622.05
Add 1st income threshold = 6,420.00
Slow taper starts at = 62,042.05

Family element (daily rate) = £1.50 x 365 = 547.50

Income = 65,000.00
Less (start of slow taper) = 62,042.05
£2,957.95 x 6.67% = 197.30
Melissa's tax credit entitlement is = £350.20

It will be seen from this example that the generous rates of support for children and childcare can push tax credit entitlement into quite high income brackets.