Inland Revenue

Child Tax Credit and Working Tax Credit

A guide

CHILD TAX CREDIT AND WORKING TAX CREDIT
WTC2

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

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Inland Revenue

From April 2003, there are two new tax credits: Child Tax Credit and Working Tax Credit. This leaflet explains in detail what they are, who is eligible and how to claim.

Introduction

If you have children or are working as an employee or a self-employed person (whether or not you also have children), you should find out more about the new tax credits. Comprehensive guidance notes are available with the claim form.

The new tax credits replace
- Children's Tax Credit
- Working Families' Tax Credit
- Disabled Person's Tax Credit
- from April 2004, the money for children in Income Support and income-based Jobseeker's Allowance (October 2003 for the Minimum Income Guarantee (MIG), which will be replaced by the State Pension Credit), and
- the New Deal 50+ Employment Credit.

From April 2003, Child Tax Credit is the main way that families will get money for their children, and for 16-18 year olds in education. The amount you get is based on your income. You can claim whether or not you are in work. It replaces the old tax credits and benefits with a single system - so all families with children, with an income up to £58,000 a year (or up to £66,000 a year if there is a child under one year old), will be able to claim in the same way.

More information about Child Tax Credit is on pages 3-6 and about Working Tax Credit on pages 6-18.

Working Tax Credit supports working people, helping to top up earnings.

Child Benefit is not affected by the introduction of Child Tax Credit and Working Tax Credit. It continues to be paid separately, but from April 2003, the Inland Revenue will pay it.

Who is eligible?

To qualify for tax credits, you must be aged 16 or over and usually live in the United Kingdom (that is, England, Scotland, Wales and Northern Ireland). Short absences abroad for holidays or on business will not affect your eligibility.

Some people may be eligible even if they do not live in the UK. Phone the Helpline (see page 30) for more information if you live outside the UK but you, or your partner if you have one

- work in the UK
- are a Crown Servant posted overseas, or
- are receiving a UK state pension or contributions-based Jobseeker's Allowance.

If you are a single (or separated) person, you should make a claim based on your individual circumstances.

If you are

- part of a married couple living together and not permanently separated, or
- a man and woman living together as if you are married

you must claim together, based on your joint circumstances.

How will tax credits be paid?

If you are employed, your employer will pay any Working Tax Credit (apart from the 'child care element') with your pay. Otherwise, tax credits will be paid directly to your bank or building society account.

If you do not have an account, any bank or building society will be able to advise you about the most appropriate type of account for you. Alternatively, you may open a Post Office Card Account to receive your tax credit payments, when these accounts become available.

In exceptional circumstances, perhaps because you have no fixed address, if you are unable to open an account but are still entitled to tax credits because you work or have children, we may pay you by giro.

Child Tax Credit

What is Child Tax Credit?

Child Tax Credit is a payment to support families with children. You can claim it if you, or your partner, are responsible for at least one child or young person who usually lives with you.

If they also live with another family for part of the time, you and that other family must decide jointly which of you has the main responsibility for that child and let us know. Only the family with the main responsibility can claim Child Tax Credit.

Deciding who has the main responsibility depends on the facts: the number of days the child lives with you is important, but this is not the only factor to consider. If you are unsure what to look at, you should ring the Helpline (on page 30) for assistance.

If you cannot agree who has the main responsibility for the child, we will make our own decision.

If another family makes a claim for the same child, you may be asked to provide details of why you think you have the main responsibility for the child. We will consider these, together with the details provided by the other claimant, and decide who is entitled to the tax credit for that child.

If you do not agree with our decision, you have the right to appeal. Our leaflet WTC/AP 'How to appeal against a tax credit decision or award' contains more information on this.

You do not have to be working to claim Child Tax Credit.

If you get Income Support or income-based Jobseeker's Allowance, you do not need to make a claim for Child Tax Credit now. The Department for Work and Pensions (in Northern Ireland, the Department for Social Development) will contact you directly to let you know how the new tax credits will affect you and your benefit.

Child Tax Credit will provide support for

- a child until 1 September following his or her 16th birthday
- a young person aged under 19 in full-time non-advanced education, up to and including 'A' levels, NVQ level 3 or Scottish Highers
- a young person aged 16 or 17 who has left full-time education, does not work more than 24 hours a week or have a paid training place and has registered with the Careers Service or Connexions Service (the Connexions Service does not operate in Wales, Scotland or Northern Ireland), provided that child or young person
  - is not claiming benefits (such as Income Support) or tax credits in his or her own right, or
  - is not serving a custodial sentence of more than four months imposed by a court, or
  - has not been placed with you for fostering or adoption in cases where the local authority is paying you for the cost of caring for that young person under section 23 Children Act 1989 (in Scotland, section 26 Children (Scotland) Act 1995 and in Northern Ireland, Article 27 Children (Northern Ireland) Order 1995).

How is Child Tax Credit made up?

Child Tax Credit contains several elements. The maximum value of each is listed below but the amount you get depends on your income.

Element	**Annual amount 2003-04 (£)**
Family element (one per family)	545
Family element, baby addition (paid to families with a child under one year old on top of family element)	545
Child element (including those under one year old, paid for each child)	1,445
Disability element (paid in addition to the child element)	2,155
Severe disability element (paid in addition to the child and disability elements)	865

You may get a disability element for each child you are responsible for if you receive Disability Living Allowance (DLA) for the child or the child is registered blind or has been taken off the blind register in the 28 weeks before your date of claim.

You may get a severe disability element for each child you are responsible for if you receive DLA (Highest Rate Care Component) for the child.

How much can I get?

Child Tax Credit will be paid in addition to Child Benefit. The table below provides a guide to how much you could receive for the tax year 2003-04 (that is, 6 April 2003 to 5 April 2004) if you do not qualify for Working Tax Credit. (The weekly figures are for illustration only.)

If your child is under one year old or has a disability, then the amount you can receive will be higher.

Child Tax Credit (£)

Gross Annual Joint Income (£)	**One Child**		**Two Children**		**Three Children**	
	Annual	Weekly	Annual	Weekly	Annual	Weekly
5,000	1,990	38.00	3,435	65.70	4,880	93.30
10,000	1,990	38.00	3,435	65.70	4,880	93.30
15,000	1,335	25.50	2,780	53.20	4,225	80.80
20,000	545	10.40	930	17.80	2,375	45.40
25,000	545	10.40	545	10.40	545	10.40
30,000	545	10.40	545	10.40	545	10.40
40,000	545	10.40	545	10.40	545	10.40
50,000	545	10.40	545	10.40	545	10.40
60,000	0	0.00	0	0.00	0	0.00

Using this table, if your income is £15,000 a year and you have two children, you could receive an annual Child Tax Credit award of £2,780, that is £53.20 a week.

If you or your partner qualify for Income Support or income-based Jobseeker's Allowance, your Jobcentre Plus office (in Northern Ireland, your Social Security office) will contact you to let you know how the new tax credits will affect your benefit.

Child Tax Credit will be paid directly to the main carer for all the children in the family. If you are a single parent, this will be paid to you directly. If you are part of a couple, you will need to tell us which of you is the main carer for the children. You can choose whether to receive payments weekly or every four weeks.

Payments will normally be made into a bank or building society account or, when they become available, a Post Office Card Account.

Working Tax Credit

What is Working Tax Credit?

Working Tax Credit is a payment to top up the earnings of low paid working people (whether employed or self-employed), including those who do not have children.

Working Tax Credit will help to make work pay for low income workers. In most cases, your employer will pay it, although we will pay the self-employed directly.

The 'child care element' of Working Tax Credit will be paid directly to the main carer of the child or children along with Child Tax Credit.

How is Working Tax Credit made up?

Working Tax Credit contains several elements, including additional amounts for

- working people with a disability,
- people with a severe disability, and
- the costs of registered or approved child care.

The maximum value of each element is listed opposite, but the amount you get depends on your income.

Element	Annual amount 2003-04 (£)
Basic element (one per single claimant or couple)	1,525
Couple's† and lone parent elements (paid in addition to basic element but only one couple's element allowed per couple)	1,500
30 hour element (paid in addition to other elements but only one 30 hour element allowed per couple)	620
Disability element (paid in addition to other elements)*	2,040
Severe disability element (paid in addition to other elements)*	865
50+ return to work element (16-29 hours per week) (paid in addition to other elements)*†	1,045
50+ return to work element (30 or more hours per week) (paid in addition to other elements)*	1,565
Child care element, maximum eligible cost for families with child care for one child	£135 per week
Child care element, maximum eligible cost for families with child care for two or more children	£200 per week
Percentage of eligible child care costs covered	70%

*If the claim is a joint claim and you are both entitled to any of these elements, the award will include two elements per couple. However, the 50+ return to work elements are mutually exclusive. Where an individual works enough hours to qualify for the 50+ 30 hour element, he or she cannot also receive the 50+ 16-29 hours element.

†If you qualify for the 50+ 16-29 hours element, you will not get the couple's element unless you have responsibility for a child or you qualify for the disability element of Working Tax Credit.

Working hours

You need normally to be working a minimum number of hours a week to claim Working Tax Credit.

See pages 10-14.

If you are aged 16 or over and either

- you or your partner are responsible for a child or young person, **or**
- you have a disability which puts you at a disadvantage in getting a job **and** you satisfy either the 'qualifying benefit' test or the special 'fast-track' rules to qualify for a disability element

then you must work at least 16 hours a week.

If you are part of a couple with children, you are eligible for the 30 hour element if you **jointly** work at least 30 hours a week, provided one of you works at least 16 hours. Childless couples cannot add their hours together to qualify for the 30 hour element.

If you or your partner are aged 50 or over and are returning to work on or after 6 April 2003 after claiming one or more of the qualifying out-of-work benefits listed below for at least the previous six months, you must work at least 16 hours a week.

The qualifying out-of-work benefits are
- Income Support
- Jobseeker's Allowance
- Incapacity Benefit
- Severe Disablement Allowance
- both a state retirement pension and the Minimum Income Guarantee.

You will also qualify for Working Tax Credit if
- you have been receiving a combination of these benefits for six months or more, or
- you have been awarded National Insurance credits for six months or more.

If you received Invalid Care Allowance (now Carer's Allowance), Bereavement Allowance or Widowed Parent's Allowance before making a successful claim for one of the benefits listed above, the time that you received any of these allowances will count towards the six month period.

If you do not have children or you do not have a disability which puts you at a disadvantage in getting a job, you must be aged 25 or over **and** work at least 30 hours a week to qualify for Working Tax Credit.

In all cases, you have to be
- working (whether in employment or self-employment) when you make your claim, or
- starting paid work within seven days of making your claim.

You should expect the work
- to continue for at least four weeks after you have made the claim, and
- to be paid, so, for example, working as a volunteer does not normally count.

You can still claim Working Tax Credit if you work at a school or college and don't work during school or college holidays.

If you are moving between jobs, you will remain eligible for Working Tax Credit provided that the gap between jobs is not more than seven days. Where the gap is more than seven days, you may still be eligible for Working Tax Credit but you will have to make a new claim based on the circumstances of your new job.

Maternity leave

For most women expecting a baby in or after April 2003, Statutory Maternity Pay (SMP) or Maternity Allowance (MA) is paid for the first 26 weeks (previously 18 weeks) of maternity leave (known as ordinary maternity leave). This can be followed by up to 26 weeks of unpaid leave, known as additional maternity leave.

For the 26 weeks of ordinary maternity leave, whether or not you are receiving SMP or MA, you are still treated as being in work and able to claim Working Tax Credit, **provided** you normally worked at least 16 or 30 hours a week (whichever applied) immediately before going on maternity leave. This also applies if you are self-employed.

When the 26 weeks of ordinary maternity leave are over, you continue to be eligible for Working Tax Credit if you begin work again at that point. Any further additional (unpaid) maternity leave does not count as being in work and you are not eligible for Working Tax Credit for this period.

Adoption leave and paternity leave

From April 2003, if you adopt you may be eligible for 26 weeks ordinary adoption leave, for which you may get Statutory Adoption Pay (SAP), followed by 26 weeks additional (unpaid) adoption leave.

Also from April 2003, new fathers may be eligible for two weeks paternity leave and to be paid Statutory Paternity Pay (SPP) for those two weeks.

If you are on paternity leave or ordinary adoption leave, whether or not you are receiving SPP or SAP, you will still count as being in work and able to claim Working Tax Credit, **provided** you normally worked at least 16 or 30 hours a week (whichever applied) immediately before going on leave. This also applies if you are self-employed.

Sick leave

If you are off work for up to 28 weeks because of illness and are receiving

- Statutory Sick Pay (SSP)
- short-term Incapacity Benefit at the lower rate
- Income Support paid on the grounds of incapacity for work, or
- National Insurance credits on the grounds of incapacity for work

then you will still be able to claim Working Tax Credit, **provided** you worked at least 16 or 30 hours a week (whichever applied) immediately before you started to receive any of these benefits. This applies to both employees and the self-employed.

The disability element

You may receive the disability element of Working Tax Credit if you work at least 16 hours a week **and** have a physical or mental disability which puts you at a disadvantage in getting a job **and** you satisfy either the 'qualifying benefit' test or the special 'fast-track' rules.

If you are claiming as a couple and your partner is also working for 16 hours or more a week, and is entitled to the disability element, you may receive two disability elements.

What is a disability which puts someone at a disadvantage in getting a job?

Details of the disabilities which put someone at a disadvantage in getting a job are set out in the notes that accompany the claim form. They include a wide range of things, for example

- seeing
- hearing
- communicating with people
- getting around
- using your hands
- reaching with your arms
- mental disabilities, and
- exhaustion and pain.

We may ask you to give us the name of a healthcare professional who can confirm the extent to which your disability affects you, for example, a doctor, a district or community nurse, or an occupational therapist.

What is the 'qualifying benefit' test?

(A)

To pass the 'qualifying benefit' test, you must be receiving one of the following benefits

- Disability Living Allowance
- Attendance Allowance
- Industrial Injuries Disablement Benefit (with Constant Attendance Allowance for you)
- War Disablement Pension (with Constant Attendance Allowance or Mobility Supplement for you), or
- a vehicle provided under the Invalid Vehicle Scheme.

(B)

Alternatively, you must have received one of the following benefits in the last six months

- Incapacity Benefit at the short-term higher rate or the long-term rate
- income-based Jobseeker's Allowance*
- Income Support*

- Severe Disablement Allowance
- Council Tax Benefit*
- Housing Benefit*.

*This must include a Disability Premium or a Higher Pensioner Premium for you.

If you give up Incapacity Benefit paid at the short-term higher rate or the long-term rate or Severe Disablement Allowance to go to work and you qualify for a disability element of Working Tax Credit, you can return to the same rate of Incapacity Benefit or Severe Disablement Allowance if

- you give up your job while qualifying for a disability element of Working Tax Credit, and
- your first day of incapacity immediately follows your last day of work, and
- this falls within two years of when you last received Incapacity Benefit or Severe Disablement Allowance.

(C)

You can also pass the 'qualifying benefit' test if you have been 'training for work' in the last eight weeks **and** you started training for work within eight weeks of receiving either Incapacity Benefit at the short-term higher rate or the long-term rate or Severe Disablement Allowance.

Training for work includes either

- a course run by the Department for Education & Skills (in Northern Ireland, the Department for Employment and Learning) such as, Training for Work, Youth Training or Work Preparation, or
- a non-Government course which you attended for more than 16 hours a week to learn an occupational or vocational skill.

If you are making

- a second, or further, claim for the disability element of Working Tax Credit that follows on from the end of your previous award, and you were entitled to a disability element in that previous award on the basis of (B) or (C) of the 'qualifying benefit' test, or on the basis of satisfying the 'fast-track' rules, or
- a first claim that follows on from an award of Disabled Person's Tax Credit, and you were entitled to that previous award of Disabled Person's Tax Credit on the basis of (B) or (C) of the 'qualifying benefit' test, or on the basis of satisfying the 'fast-track' rules

you will be treated as still passing the 'qualifying benefit' test or 'fast-track' rules.

What are the 'fast-track' rules?

The 'fast-track' rules are intended to help you if you are finding it hard to stay in work because of a disability. If your disability means that, after a period of sickness, you have to change to work with lower pay or reduce your hours in your current job, the fast-track allows you to qualify for the disability element earlier than under the 'qualifying benefit' test. The same applies if you are self-employed.

To qualify for the disability element of Working Tax Credit via the 'fast-track' rules, you must have been getting one or more of the following for 20 weeks or more, provided that the last day of receipt was in the last eight weeks

- Statutory Sick Pay
- Occupational Sick Pay
- Incapacity Benefit at the short-term lower rate
- Income Support paid because of incapacity for work, or
- National Insurance credits awarded because of incapacity for work.

The 20 weeks does not need to be a single continuous period. It can be made up of any time that you received the benefits or National Insurance credits which are separated by eight weeks or less. These times may be 'linked', that is, added together to see whether you satisfy the 20 week condition.

You must have a disability which puts you at a disadvantage in getting a job and is likely to last for at least six months or for the rest of your life. In addition, your gross earnings (before tax and National Insurance contributions are deducted) must be at least 20% less than they were before you had the disability, with a minimum reduction of £15 a week.

The severe disability element

If you or your partner (if you are claiming as a couple) get Disability Living Allowance (Highest Rate Care Component) or Attendance Allowance (Higher Rate), you can get the severe disability element.

You do not have to be working to qualify for the severe disability element as long as your partner does. If you both qualify, you will get two severe disability elements.

Help with the costs of child care

You may be able to get more Working Tax Credit to help with the cost of registered or approved child care. This is the child care element of Working Tax Credit. The child care element can help with up to 70% of your child care costs up to a maximum cost of £135 a week for one child and £200 a week for two or more children. This means that the child care element is worth up to an extra
- £94.50 a week (£135 x 70%) for families with one child, and
- £140 a week (£200 x 70%) for families with two or more children.

The amount you receive will depend on your income and will be paid directly to the main carer.

To claim the child care element you must be over 16 **and**
- **if you are a lone parent**, you must work 16 hours a week or more, or
- **if you are in a couple**
  - both of you must work 16 hours a week or more, or
  - one partner must work 16 hours a week or more **and** the other partner must be
    - incapacitated, or
    - an in-patient in hospital, or
    - in prison (whether serving a custodial sentence or remanded in custody awaiting trial or sentence).

You will be treated as incapacitated if you receive
- Disability Living Allowance
- Attendance Allowance
- Severe Disablement Allowance
- Incapacity Benefit at the short-term higher rate or long-term rate
- Industrial Injuries Disablement Benefit (with Constant Attendance Allowance for you)
- War Disablement Pension (with Constant Attendance Allowance for you)
- Council Tax Benefit or Housing Benefit with a Disability Premium or Higher Pensioner Premium for you, or
- a vehicle under the Invalid Vehicle Scheme.

You can claim the child care element for any child up to
- 1 September following his or her 15th birthday, or
- 1 September following their 16th birthday if the child is registered blind or has been taken off the blind register in the 28 weeks before your claim, or you receive Disability Living Allowance for the child.

If you are on ordinary maternity leave, ordinary adoption leave or paternity leave and are still treated as being in work, you **cannot** claim the costs of child care for the child you have taken leave to look after, but you **can** claim the costs of child care for any other children in the family.

What do you mean by 'registered' or 'approved' child care?

The child care must be provided by one of the following
- registered childminders, nurseries and playschemes
- out-of-hours clubs on school premises run by a school or a local authority
- child care schemes run by school governing bodies under the 'extended schools' scheme
- child care schemes run by approved providers, for example, an out-of-school-hours scheme or a provider approved under a Ministry of Defence Accreditation scheme

- in England only, child care provided in your own home* by a person approved to care for your child or children
- in England only, child care provided in your own home* by a domiciliary worker or nurse from a registered agency who cares for the child or children
- in Scotland only, child care provided in your own home* by (or introduced through) child care agencies, including sitter services and nanny agencies, which are required to be registered.

*You **cannot** claim for the costs of child care provided in your own home if the person approved to provide that child care is a 'relative' of your child. Relative means a parent, grandparent, aunt or uncle, brother or sister (whether by blood, half-blood, marriage or affinity), and includes step-parents.

Your scheme or childminder will be able to tell you whether or not they are approved or registered. **You cannot claim the costs of child care if it is not registered or approved.**

What happens if I change or stop my child care arrangements?

If you change your child care provider, you may still be eligible for the child care element, but the amount due may need to be adjusted to take account of any changes in the costs. You should tell us as soon as you change your provider.

We may check the details of your child care costs with your provider. If the details you have given us are out-of-date, we might contact the wrong provider and could stop paying the child care element if we cannot check the details of your claim.

If the average weekly costs of your child care change, you may be due more or less child care element.

If your average weekly costs go up by £10 a week or more for at least four weeks in a row, you should tell us so that we can increase your child care element. You must tell us **within three months** of the change to get the increase from the date it started.

If your average weekly costs go down by £10 a week or more for at least four weeks in a row, we will reduce your child care element. You must tell us as soon as possible if your average weekly costs go down by £10 a week or more. If you don't, you might be overpaid tax credits and have to pay some back. If you do not tell us **within three months**, you might also have to pay a penalty.

For more information about how to calculate these costs, you should read our leaflet WTC5 'Help with the costs of child care. Information for parents and child care providers'.

If you stop using child care, you cannot continue to receive the child care element. If your average weekly costs are zero for at least four weeks in a row, you should tell us as soon as possible to prevent being overpaid. You must tell us **within three months** or you might have to pay a penalty.

How much Working Tax Credit can I get?

Working Tax Credit is paid in addition to any Child Tax Credit you may be entitled to. Some people will be paid both Child Tax Credit and Working Tax Credit.

The amount of your Working Tax Credit award is based on your circumstances (for example, how many hours you work or whether you are disabled) and your income. The tables below and overleaf provide a guide to how much you could receive for the tax year 2003-04. The weekly figures are for illustration only.

Working Tax Credit (£)
If you are **not** responsible for at least one child or qualifying young person

Gross Annual Joint Income (£)	**Single person aged 25 or over working 30 or more hours a week**		**Couple (working adult aged 25 or over) working 30 or more hours a week**	
	Annual	Weekly	Annual	Weekly
5,000	2,145	41.00	3,645	69.70
7,500	1,245	23.80	2,745	52.50
10,000	320	6.10	1,820	34.80
12,500	0	0.00	895	17.10
15,000	0	0.00	0	0.00

Working Tax Credit (£)
If you are responsible for at least one child or qualifying young person

Gross Annual Joint Income (£)	Couple or lone parent working between 16 and 30 hours a week		Couple or lone parent working 30 or more hours a week	
	Annual	Weekly	Annual	Weekly
5,000	3,025	57.80	3,645	69.70
7,500	2,120	40.60	2,745	52.50
10,000	1,195	22.90	1,820	34.80
12,500	270	5.20	895	17.10
15,000	0	0.00	0	0.00

Using these tables, for example, if you are claiming as a lone parent or a couple with children and working 30 hours or more a week, with an income of £10,000 a year, you could receive an annual Working Tax Credit award of £1,820, that is £34.80 a week.

The maximum amounts may be higher if you are entitled to the disability elements of Working Tax Credit.

Income and capital

The amount of tax credits you will receive depends on your circumstances, for example

- the number and ages of your children
- the number of hours you work each week
- whether you are disabled, and
- how much you pay for registered child care.

It also depends on the level of your income. If you are part of a couple, it depends on your joint income.

As Child Tax Credit and Working Tax Credit are annual tax credits, we will look at your income for a tax year to work out your award, usually the last complete tax year before the year of the tax credits claim.

For tax credit claims for the year beginning 6 April 2003, however, we need details of your income for the tax year 2001-02 (that is, 6 April 2001 to 5 April 2002), as this is the latest tax year for which you should have full details of your income.

What income will I have to report in my claim?

Broadly, you will have to report in the tax credits claim form income which is taken into account for income tax purposes. But there are important exceptions to this general rule and some are outlined below.

The Tax Credits Helpline (see page 30 for details) will be able to give you more information about what types of income count for tax credit purposes.

We take into account the gross amount of your income you receive, that is, your income before tax and National Insurance contributions have been taken off. Similarly, if you make contributions from your earnings to buy shares in your employer's company under a Share Incentive Plan (SIP), then those contributions must be added back to your gross pay.

However, contributions to an approved pension scheme (such as, an occupational pension scheme, a personal pension plan or retirement annuity) and payments under the Gift Aid or Payroll Giving schemes are not included when you work out your income for a tax credit claim.

We take the following types of income into account when we work out how much tax credits to pay

- salary and wages, including commission, bonuses, tips, gratuities, profit-related pay, holiday pay, SSP, some benefits in kind which may be provided by your employer (for example, car and car fuel, allowances for the use of your own car on business, vouchers and credit tokens). Although SMP, SPP and SAP are taxable, we will take off £100 a week from your income for tax credit purposes
- profits from self-employment
- taxable social security benefits, for example, Carer's Allowance (previously Invalid Care Allowance) and Incapacity Benefit paid at the long-term rate, including any Child Dependency Increases paid with these benefits - but **not** benefits which are not taxable, such as, Child Benefit, Attendance Allowance, Disability Living Allowance, Housing Benefit or Council Tax Benefit
- state retirement pensions (including, from April 2003, Widowed Parent's Allowance, Widowed Mother's Allowance, Widow's Pension and Industrial Death Benefit) and occupational or personal pensions - but **not** war pensions, whether paid on grounds of wounds or disability or paid to widows
- most income from savings and investments (for instance, interest from bank and building society accounts, dividends from UK companies, payments from trusts or the estate of a deceased person in administration) - but **not** income from certain tax-exempt investments, such as, Individual Savings Accounts (ISAs), Personal Equity Plans (PEPs) or non-taxable National Savings products
- rental income from property - but **not** income which is exempt from income tax under the rent-a-room scheme
- foreign income, for example, from investments or property overseas and social security payments from overseas governments, before any overseas tax was taken off but deducting any bank charges or commission when converting foreign currency to pounds. We want to know about **all** foreign income, whether or not it was received and taxed in the UK, unless you were unable to send the income to the UK because of exchange controls in the country of origin, and

- miscellaneous income, such as, Business Start-Up Allowances for unemployed people starting their own business or copyright royalties paid to someone who is not a professional author or composer, which is taxable under Case VI of Schedule D Taxes Act.

Apart from income from employment, self-employment, taxable social security benefits, student dependant's grant (see page 22) and miscellaneous income, you only need to report other income if it is more than £300 a year in total. If it is, you only need to enter the amount over £300 in the tax credits claim form. If you make a claim as a couple, the £300 limit applies to your **joint** income, not to each of you separately.

What about capital?

Unlike Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC), we will not normally take capital (that is, deposits in current and savings accounts at banks and building societies, lump sum payments and the value of property, shares and other investments) into account when we work out your entitlement to tax credits.

However, in some cases where the income tax rules treat capital as income and tax it as such, you will be expected to include the taxable amount as income in your tax credit claim. This can happen if, for example, you hold shares in a UK company and the company gives you a stock-dividend (new shares) instead of a cash dividend. This is part of what we call 'notional income'.

What does 'notional income' mean?

Besides capital that is treated as income under the income tax rules, notional income also includes income that you can be treated as having which you may not in fact have. This includes

- trust income payable to one person but which the income tax rules tax as the income of another person - the tax credit rules also treat the income as belonging to that other person
- income you may have deprived yourself of for the purpose of getting a tax credit or more tax credit

- income that would be available to you if you applied for it. There are some exceptions, for example
  - a deferred personal pension or retirement annuity, or
  - compensation for personal injury, and
- if you work or provide a service for free or less than the going rate, in which case you are treated as getting the going rate for the job if the person you are working for or to whom you are providing the service has the means to pay. This does not apply if you are working as a volunteer or on an employment or training programme.

Are maintenance payments taken into account when calculating tax credit entitlement?

No. We don't take maintenance payments, such as, child support or payments under a divorce settlement into account. You will be able to have full use of any maintenance that you receive in addition to your tax credits.

I am a student. Will my loan or grant be taken into account if I claim Child Tax Credit?

We don't take student loans or grants to meet the cost of tuition fees, child care, books, travel and equipment into account. But you should tell us if you receive a grant for a dependent child or adult.

The Helpline (see page 30 for details) will be able to tell you which elements of the dependant's grant count as income for tax purposes.

If you are a student nurse or a health profession trainee and you receive a bursary under the NHS Bursary Scheme, you do not need to tell us about these payments in your claim.

After you have finished your studies and start work, repayments of student loans are not deductible from income in tax credit claims.

Where can I find details of my income?

If you were employed on 5 April 2002, details of your earnings during the tax year 2001-02 will be shown
- in the P60 tax certificate given to you by your employer after the end of that tax year
- in your monthly payslips, and
- in the P9D or P11D certificates (if you received relevant benefits) given to you by your employer.

The guidance to the tax credits claim form will tell you exactly which benefits to tell us about.

For more information, or if you have not sent us a tax return, please see the guidance to the claim form.

If you are self-employed, you should tell us the taxable profit calculated in your tax return for 2001-02. If your business made a loss in that tax year, for tax credit purposes you can set that loss against
- other income you may have for that year
- any income of your spouse for that year, or
- any income of your personal partner for that year.

If you received taxable social security benefits in 2001-02, the Department for Work and Pensions (formerly the Department of Social Security) (in Northern Ireland, the Department for Social Development) should have sent you a record of the taxable amount of benefit.

If you received other types of income, you should refer to the statements, passbooks or to tax deduction certificates provided by the payer of the income and which you should be keeping for tax purposes.

How is my award worked out?

The amount of tax credits which you (and your partner, if you have one) will receive is calculated by dividing (separately) each of the elements of Child Tax Credit and Working Tax Credit which your family is entitled to by the number of days in the tax year and rounding up to the nearest penny to give a daily rate. These daily rates are then multiplied by the number of days in the relevant period and added together to give your family's maximum entitlement.

We then look at your income (and your partner's, if you have one) to work out whether you will get tax credits in full or at a reduced rate. We will send you an award notice which tells you how much tax credit you will receive and when payments will start.

If your family receives Income Support or income-based Jobseeker's Allowance you will automatically receive the full amount of Child Tax Credit that you qualify for. If you receive Child Tax Credit **only**, you will be entitled to the full amount of that tax credit until your annual income reaches £13,230.

If you receive Working Tax Credit, whether on its own or in addition to Child Tax Credit, and your annual income (or your and your partner's income) is below £5,060, you will receive the maximum amount of all the elements that you qualify for. If your income is over that threshold, the maximum amount is reduced by 37 pence for every pound of income over the threshold (**rounded down** to the nearest penny).

If you have income over the threshold of £5,060, your maximum amount will be reduced in the following order
- Working Tax Credit apart from the child care element
- the child care element of Working Tax Credit
- the child elements of Child Tax Credit, and finally
- the family element of Child Tax Credit.

There are some examples of how tax credit awards are calculated on pages 33-43.

We will not start to reduce the family element of Child Tax Credit (including, where relevant, the baby addition) until your annual income is over £50,000 and entitlement to tax credits over and above the family element has been withdrawn. We will then reduce that element by £1 for every £15 of income over that second threshold.

What happens once I am getting tax credits?

Tax credit awards will initially be based on your current circumstances and your income for the previous tax year (although awards for the tax year 2003-04 will be based on income for the tax year 2001-02).

If your circumstances do not change and there are no significant changes in your income during the year, the initial award will run until the end of the tax year (5 April).

At the end of the tax year, we will send you a further notice which tells you the information we hold about your claim, in particular the circumstances and income upon which we based the award and the amount of tax credit paid over the year. **You should check this notice carefully**. You must then either
- confirm that the details are correct, or
- correct them if there were changes that you have not previously told us about.

You also need to tell us about your income for the year just ended.

When you send the notice back and we have all the details, we will
- check whether the award we paid you for the year just gone was right, and
- work out your award for the following year, as the notice will also act as the claim for the next award.

If your circumstances and income stayed the same throughout the year which has just ended, or if your income in that year was not more than £2,500 higher than the year before that, you should have received the right amount of tax credits.

If you only get the family element of Child Tax Credit, you don't have to return the notice if your income remains within a certain range specified in the end-of-year notice, provided your circumstances have not changed.

If you do not have to return the notice, you will be treated as having automatically made a new claim for the next award.

What happens if my circumstances or income change?

There are some changes which could affect the level of the tax credit award. They are

- changes in the adults in the household, for example, if you and your partner stop living together or if, having been living on your own, you begin living with someone as a couple
- changes in circumstances affecting the elements of tax credits for which you are eligible, such as
  - the birth or death of a child
  - if a child leaves the household or stops full-time education
  - if you stop using registered or approved child care, or
  - a change in your usual weekly working hours
- you or your partner begin to qualify for a disability element
- you or your partner no longer have a disability which puts you at a disadvantage in getting a job
- a child you are responsible for is registered as blind or is taken off the blind register
- Disability Living Allowance (DLA) starts or stops being paid for a child you are responsible for
- the Highest Rate Care Component of DLA starts or stops being paid for you, your partner, or a child you are responsible for
- the Higher Rate of Attendance Allowance starts or stops being paid for you or your partner
- you have claimed DLA and the decision on the claim has not yet been made (this may affect the date that any disability element may be backdated to), and
- changes in income between the previous year and the current year.

You should keep

- a record of any changes in circumstances to help you complete the end of year notice, and
- your new award notice after you have told us about a change of circumstances.

Changes in circumstances

You must tell us **within three months** about a change in the number of adults in your household or if your partner changes. You must also tell us if you or your partner leave the UK permanently or go abroad for more than 8 weeks (12 weeks if you go or remain abroad because you are ill or because a member of your family is ill or has died).

This is because you will need to make a new claim, taking account of your new circumstances and the level of your new household income. If you don't, you may be overpaid tax credits. You will be asked to pay these back and may also be liable to a penalty of up to £300.

You should tell us immediately about changes that may reduce your award, for example

- if a young person leaves your family or stops full-time education
- if you change your child care provider, or
- if you or your partner stops working more than the relevant minimum of 16 or 30 hours a week and this is not part of your normal annual cycle of employment.

If your child care costs go down by £10 a week or more for at least four weeks in a row, you must tell us as soon as possible (at the latest **within three months**) otherwise you may be liable to a penalty.

These changes can affect your award from the date of the change. If you delay telling us, you may be paid too much tax credit and have to pay it back.

You need to tell us **within three months** about changes that may increase your tax credit award, such as

- a new child in the family
- starting to use registered or approved child care
- if your child care costs increase by £10 a week or more for at least four weeks in a row, or
- an increase in your working hours (or those of your partner) from under 16 to 16 hours or more a week or from under 30 to 30 hours or more a week.

We will then increase your award from the date of the change.

You can tell us about any of these changes by

- phoning the Tax Credits Helpline (see page 30 for details)
- visiting an Inland Revenue Enquiry Centre or a Jobcentre Plus office (in Northern Ireland, a Social Security office), or
- writing to us.

Changes in income

Your award will initially be based on your income for the previous tax year (although awards for the tax year 2003-04 will initially be based on income of the tax year 2001-02).

If your income in the current tax year rises by less than £2,500, it will not affect your award and we will still base it on your income for the previous year. So for the current year, you will get the benefit of a rise in income up to that amount without it reducing your tax credit award. The increased level of income is not taken into account until the next year.

If your income in the current year is lower than last year's income, we will base your tax credit award on your current year's income. In this case, you may be due more tax credit. You can either
- tell us during the year that you expect to receive less income than last year – we will then adjust your payments to make sure you receive the right amount in-year, or
- wait until we finalise your award at the end of the year and we can pay you any extra tax credit you are due in a lump sum.

We will check at the end of the year what your income was. If you tell us during the year about a fall in your income and it falls by less than you expected, you will have to pay back any tax credits we have overpaid.

If your income increases by more than £2,500, then we will base your final award on your current year's income. We will only take that part of the increase over £2,500 into account when working out your tax credit award for the current year. We will, however, use the full amount of income when setting your award for the following year.

You should tell us immediately if you think that your income will rise by more than £2,500 in the current tax year. This will help you to avoid an overpayment of tax credits which you would have to pay back after we finalise the award at the end of the year.

What happens if there are changes in my tax credit award?

If your tax credit award goes up because of a change in circumstances which increases your entitlement, and if you have told us about this during the year, we will
- pay any extra tax credit for up to three months before the adjustment was made in a lump sum, and

- increase your award for the rest of the year.

If your income has fallen and you tell us about it during the year, we will pay you any extra tax credits due from the start of the year or when you first became entitled to tax credits. If, at the end of the tax year, we find that you were due more tax credit than you were in fact paid because of a change in circumstances or income, we will pay the extra amount as a lump sum.

If your tax credit award goes down because of a change in circumstances which reduces your entitlement or because of an increase of more than £2,500 in your income, that you have told us about during the year, we will reduce your tax credit award from the date of the change so that we pay you the right amount for the year overall.

Alternatively, if we have already paid you as much as or more than you are entitled to for that year, we will not pay out any more tax credits for the rest of that year. If, during the year, we find that you were not entitled to any tax credits, at any time in the year, we will ask you to pay back all the tax credits we have paid you.

If, at the end of the tax year, we find that we have paid you too much tax credit during the past year, you will have to pay it back by either
- having it deducted from a continuing tax credit award, or
- direct payment.

What if I disagree with the level of my tax credit award or with having to pay a penalty?

If you disagree with our decision on your tax credit award or with any penalty, you have the right to appeal against it. You will have 30 days from the date of our decision in which to appeal and you will have to tell us the grounds for appealing. Our leaflet WTC/AP 'How to appeal against a tax credit decision or award' contains more information on how to appeal.

For a transitional period, appeals against decisions on tax credits will be administered and heard by appeal tribunals within the Appeals Service, but in due course, responsibility for hearing tax credit appeals is expected to be transferred to the General and Special Commissioners of Income Tax.

Help and advice

How do I claim or get more information?

If you were receiving WFTC, DPTC or the Children's Tax Credit, you will have been sent a claim pack for Child Tax Credit or Working Tax Credit or both. You can make a claim

- by going online at **www.inlandrevenue.gov.uk/taxcredits**, or
- by filling in and returning the paper form in the claim pack.

If you need further advice about Child Tax Credit, Working Tax Credit or the claim forms you can

- phone our Helpline on **0845 300 3900** (England, Scotland and Wales) or **0845 603 2000** (Northern Ireland)
- textphone the Helpline on **0845 300 3909** (England, Scotland and Wales) or **0845 607 6078** (Northern Ireland)
- visit any Inland Revenue Enquiry Centre or a Jobcentre Plus office (in Northern Ireland, a Social Security office).

Our Helplines are open between 8.00am and 8.00pm, seven days a week (except Christmas Day, Boxing Day, New Year's Day and Easter Sunday).

If you get Income Support or income-based Jobseeker's Allowance, you do not need to make a claim now. The Department for Work and Pensions (in Northern Ireland, the Department for Social Development) will contact you directly to let you know how the new tax credits will affect you and your benefit.

If you were not receiving WFTC, DPTC or the Children's Tax Credit, Income Support or income-based Jobseeker's Allowance but you think you might be entitled to Child Tax Credit or Working Tax Credit or both, you can phone the Helpline or visit an Inland Revenue Enquiry Centre or a Jobcentre Plus office (in Northern Ireland, a Social Security office) to receive a claim pack.

What other help can I get?

If your income is below a certain level you may be entitled to benefits and services, such as help with the costs of health services, provided by other Government departments, agencies or local authorities. You may need to use your tax credits award notice as proof of your income for these benefits and services.

For information about these benefits and services, you will need to contact the organisation that provides them. A list of these benefits and the relevant organisations, with initial contact numbers, can be found in our booklet WTC6 'Child Tax Credit and Working Tax Credit. Other types of help you may be able to get', which will be available

- on the Internet at **www.inlandrevenue.gov.uk/taxcredits** from May 2003, and
- in paper form at Inland Revenue Enquiry Centres from June 2003.

If you receive Housing Benefit or Council Tax Benefit, your tax credit award may affect the amount of benefits you are entitled to. When you get your award notice, you should contact your local authority's Housing Benefit or Council Tax Benefit office so that they can reassess your case.

Child Benefit and Home Responsibilities Protection

If you are claiming Child Tax Credit because you are responsible for a child, you may also be entitled to Child Benefit. If you have not already done so, you should consider making a claim for Child Benefit.

If you are the person awarded Child Benefit, this will give you access to Home Responsibilities Protection (HRP). HRP can help to protect your rights to the basic Retirement Pension and the State Second Pension. To help you build up entitlement to the basic Retirement Pension, HRP reduces the number of years you need to

- pay National Insurance contributions on your earnings, or
- receive National Insurance credits because you were unable to work

provided you received Child Benefit for the whole of the tax year.

If you are part of a couple who share caring responsibilities for a child, you should consider carefully who should receive Child Benefit, to make sure that the person who most needs to protect their pension will receive HRP.

If you want the Child Benefit to be paid to your partner to protect their pension rights, you can apply on Child Benefit claim form CH2, which you can get from the Child Benefit Centre (in Northern Ireland, the Child Benefit Office) or any local social security office.

To find out more about protecting your basic Retirement Pension, you can get leaflets CF411 'Home Responsibilities Protection' or PM9 'State Pension for Carers' from your local social security office.

National Insurance credits for social security benefits

If you receive Working Tax Credit and are earning below the Lower Earnings Limit for liability to National Insurance contributions (£77 a week in the tax year 2003-04), you may be awarded National Insurance credits to help to safeguard your entitlement to some social security benefits, such as, the basic Retirement Pension.

You can get more advice from the Helpline (see page 30 for details), any Inland Revenue Enquiry Centre or your local Jobcentre Plus office (in Northern Ireland, a Social Security office).

Examples of tax credit calculations

The following examples explain how tax credits will help people in differing circumstances. Other than example 10, for easy reference, these calculations are not rounded (as described on page 24).

Example 1

Patricia Taylor is a single parent with one child aged 12 and works less than 30 hours a week. Patricia's gross earnings last tax year were £8,000 (rising to £8,400 in the current year) and apart from Child Benefit (which is disregarded for tax credit purposes) she has no other income. She does not use registered child care.

Patricia's maximum tax credit entitlement will be a combination of
- Child Tax Credit - family element (£545) and child element (£1,445), giving £1,990 a year, and
- Working Tax Credit - basic element (£1,525) and lone parent's element (£1,500), giving £3,025 a year.

A total of £5,015.

As her income in the current year is expected to rise by less than £2,500, her tax credit award for the year will be based on last year's income. The income threshold is £5,060. Patricia's award is worked out as follows

		£	
Annual income		8,000.00	
Less threshold	-	5,060.00	
Excess income		2,940.00	
		£	
Maximum tax credit		5,015.00	
Less 37% of excess income	-	1,087.80	
Award		**3,927.20**	(£75.52 a week)

Example 2

Rebecca Dobson is a single parent with one child aged 4 and works more than 30 hours a week. She uses a registered childminder, which costs her £100 a week. Her gross earnings last tax year were £15,000 (rising to £15,750 in the current year). She receives Child Benefit and maintenance from the child's father of £1,200 each year. She also has £5,000 in her building society account which in the previous tax year paid gross interest (that is, before tax) of £150 and she expects the same amount this current year. Her total gross income last tax year was therefore £16,350 (not including Child Benefit, which is disregarded). For the purposes of tax credit we also disregard

- the maintenance payments, and
- the gross interest, because it is below the £300 limit for reporting in the tax credit claim form.

Therefore, her income for tax credits purposes is only her earnings of £15,000 last year and £15,750 this year.

Rebecca's maximum tax credit entitlement will be a combination of

- Child Tax Credit - family element (£545) and a child element (£1,445), giving £1,990, and
- Working Tax Credit - basic element (£1,525), a lone parent element (£1,500), a 30 hour element (£620) and 70% of the eligible child care costs of £100 a week (£5,200 a year), which is £3,640 a year, giving £7,285.

A total of £9,275.

As her income in the current year is expected to rise by less than £2,500, her tax credit award for the year will be based on last year's income. The income threshold is £5,060. Rebecca's award is worked out as follows

	£	
Annual income	15,000.00	
Less threshold	- 5,060.00	
Excess income	9,940.00	
	£	
Maximum tax credit	9,275.00	
Less 37% of excess income	- 3,677.80	
Award	**5,597.20**	(£107.63 a week)

Example 3

Mike and Claire Jones have one child, aged 10, who is disabled. Mike works more than 30 hours a week while Claire stays at home to look after their child. Mike had gross earnings last tax year of £20,000 (rising to £21,000 in the current year). Claire receives Child Benefit and Disability Living Allowance on behalf of the child, both of which are disregarded for tax credit purposes. The couple also have £12,000 in their joint building society account, which last tax year paid gross interest of £360 and they expect the same amount this current year.

Their total gross income last tax year was therefore £20,360 (not including DLA and Child Benefit).

Their maximum tax credit entitlement will be a combination of

- Child Tax Credit - family element (£545), a child element (£1,445) and a disabled child element (£2,155), giving £4,145, and
- Working Tax Credit - basic element (£1,525), couple's element (£1,500) and a 30 hour element (£620), giving £3,645.

A total £7,790.

As Mike and Claire's income in the current year is expected to rise by less than £2,500, their tax credit award for the year will be based on last year's income, with £300 of the gross interest being disregarded. This gives last year's income of £20,060. The income threshold is £5,060. Their award is worked out as follows

	£	
Annual income	20,060.00	
Less threshold	- 5,060.00	
Excess income	15,000.00	
	£	
Maximum tax credit	7,790.00	
Less 37% of excess income	- 5,550.00	
Award	**2,240.00**	(£43.08 a week)

Example 4

Rashid and Yasmin Ali both work more than 30 hours a week and have three children, all of school age. They do not use registered child care. Last tax year, Rashid earned £15,000 (rising to £15,750 in the current year) and Yasmin earned £10,000 (rising to £10,500 in the current year). She also received Child Benefit for the children. The couple also have £12,000 in a joint building society account, which last tax year paid gross interest of £360 and they expect the same amount this current year.

Their total gross income last tax year was therefore £25,360 (not including Child Benefit).

Their maximum tax credit entitlement will be a combination of
- Child Tax Credit - family element (£545) and a child element (£1,445 per child), giving £4,880, and
- Working Tax Credit - basic element (£1,525), couple's element (£1,500) and a 30 hour element (£620), giving £3,645.

A total of £8,525.

As Rashid and Yasmin's income in the current year is expected to rise by less than £2,500, their tax credit award for the year will be based on last year's income, with £300 of the gross interest being disregarded. This gives last year's income of £25,060. The income threshold is £5,060. Their award is worked out as follows

	£	
Annual income	25,060.00	
Less threshold	- 5,060.00	
Excess income	20,000.00	
	£	
Maximum tax credit	8,525.00	
Less 37% of excess income	- 7,400.00	
Award	**1,125.00**	(£21.63 a week)

Example 5

Nick Sinclair is single, aged 25, works more than 30 hours a week and has no children. His gross earnings last tax year were £10,000 (rising to £10,500 in the current year) and he has no other income.

Nick's maximum tax credit entitlement will be a combination of
- Working Tax Credit - basic element (£1,525) and a 30 hour element (£620), giving £2,145.

As his income in the current year is expected to rise by less than £2,500, his tax credit award for the year will be based on last year's income. The income threshold is £5,060. Nick's award is worked out as follows

	£	
Annual income	10,000.00	
Less threshold	- 5,060.00	
Excess income	4,940.00	
	£	
Maximum tax credit	2,145.00	
Less 37% of excess income	- 1,827.80	
Award	**317.20**	(£6.10 a week)

Example 5

Vicky Graham is a single parent with one child aged 12 and works more than 30 hours a week. She does not use registered child care. Last tax year her gross earnings were £8,000. She has no other income (apart from Child Benefit, which is disregarded).

Vicky's maximum tax credit entitlement will be a combination of
- Child Tax Credit - family element (£545) and a child element (£1,445), giving £1,990, and
- Working Tax Credit - basic element (£1,525), a lone parent element (£1,500) and a 30 hour element (£620), giving £3,645.

A total of £5,635.

The income threshold is £5,060. Based on last year's income, Vicky's tax credit award would be as follows

		£	
Annual income		8,000.00	
Less threshold	-	5,060.00	
Excess income		2,940.00	
		£	
Maximum tax credit		5,635.00	
Less 37% of excess income	-	1,087.80	
Award		**4,547.20**	(£87.45 a week)

However, at the start of the new tax year, Vicky takes a better paid job and expects to earn £11,500 gross a year. This is a rise in income of £3,500, that is £1,000 higher than the £2,500 limit for reporting increases in income. She contacts us immediately to have her tax credit award reassessed on the basis of her current year's income.

Her maximum tax credit entitlement based on her circumstances remains the same but the increase in income will reduce the tax credit award.

The first £2,500 of the increase in earnings is disregarded, so the revised award will be based on income of £9,000 (that is, £11,500 less £2,500). We will therefore amend Vicky's award as follows

		£	
Annual income		9,000.00	
Less threshold	-	5,060.00	
Excess income		3,940.00	
		£	
Maximum tax credit		5,635.00	
Less 37% of excess income	-	1,457.80	
Award		**4,177.20**	(£80.33 a week)

Example 7

Mark Joyce is single, aged 30, works more than 30 hours a week and has no children. He is deaf and receives Disability Living Allowance (DLA). Mark's gross earnings last tax year were £10,000 (rising to £10,500 in the current year) and, apart from DLA (which is disregarded for tax credit purposes), he has no other income.

His maximum tax credit entitlement will be a combination of
- Working Tax Credit - basic element (£1,525), a 30 hour element (£620) and disability element (£2,040), giving £4,185.

As his income in the current year is expected to rise by less than £2,500, his tax credit award for the year will be based on last year's income. The income threshold is £5,060. Mark's award is worked out as follows

		£	
Annual income		10,000.00	
Less threshold	-	5,060.00	
Excess income		4,940.00	
		£	
Maximum tax credit		4,185.00	
Less 37% of excess income	-	1,827.80	
Award		**2,357.20**	(£45.33 a week)

Example 8

John Smith, aged 51, starts work at the beginning of the new tax year, having spent the previous year on Jobseeker's Allowance (JSA). His new job means that he works more than 30 hours a week and he expects to earn £12,000 gross a year. He and his wife, Margaret, have £5,000 in their joint building society account, which currently pays £150 a year gross interest (this is disregarded as it is below the £300 limit for reporting on the tax credit form). Margaret stays at home and the couple have no children or young people living with them.

John and Margaret's maximum tax credit entitlement will be a combination of the basic (£1,525), couple's (£1,500), 30 hour (£620) and 50+ return to work (30 hours, £1,565) elements of Working Tax Credit, together worth £5,210.

Their tax credit award will be based on the current year's income. The first £2,500 of the increased income is disregarded. So the award will be based on income of £9,500 (that is, £12,000 less £2,500). The income threshold is £5,060. John and Margaret's award is worked out as follows

		£	
Annual income		9,500.00	
Less threshold	-	5,060.00	
Excess income		4,440.00	
		£	
Maximum tax credit		5,210.00	
Less 37% of excess income	-	1,642.80	
Award		**3,567.20**	(£68.60 a week)

Example 9

James and Sarah McAllister have three children, including a baby under the age of one. Sarah stays at home to look after the children while James works more than 30 hours a week. Last tax year, James earned £52,000 (rising to £54,000 in the current year). The couple have £15,000 in a joint building society account, which last tax year paid gross interest of £450 and is expected to pay the same amount in the current year. Sarah also receives Child Benefit for the children but this is disregarded for tax credit purposes. As a result, James and Sarah's total gross income last tax year was £52,450.

Their maximum tax credit entitlement will be a combination of

- Child Tax Credit - family element (£545), family element's baby addition (£545) and a child element (£1,445 per child), giving £5,425, and
- Working Tax Credit - basic element (£1,525), couple's element (£1,500) and a 30 hour element (£620), giving £3,645.

A total of £9,070.

As James and Sarah's income in the current year is expected to rise by less than £2,500, their tax credit award for the year will be based on last year's income, with £300 of the gross interest being disregarded. This gives last year's income of £52,150. At an income level of £50,000, their entitlement over and above the family element (and baby addition) of Child Tax Credit would already have been withdrawn. As James and Sarah's income exceeds the second income threshold of £50,000 by £2,150, their award will be worked out as follows

		£	
Family element and baby addition		1,090.00	
Less £2,150 x 1/15	-	143.33	
Award		**946.67**	(£18.20 a week)

Example 10

Colin and Mary Owen are in their early twenties. They both work more than 30 hours a week and each receive a salary of £12,000 a year. On 6 October 2003, their first child is born and Mary gives up work permanently to look after the child. Colin continues to work at the same level of salary. Mary receives Child Benefit but this is disregarded for tax credit purposes. Their tax credit entitlement for the tax year 2003-04 will be based on Colin's salary of £12,000 and Mary's salary for the first six months of the tax year of £6,000, giving a total gross income of £18,000.

Colin and Mary cannot claim tax credits for the first six months of 2003-04 because they are both under 25 and have, at that stage, no children. For the next six months, 6 October 2003 to 5 April 2004, they can claim both Child Tax Credit and Working Tax Credit. Their maximum tax credit entitlement will be a combination of

- Child Tax Credit - family element (£545), the family element's baby addition (£545) and the child element (£1,445) are each divided by the number of days in the tax year (366 days in 2003-04) and rounded up to the nearest penny to give a daily rate. These daily rates are then multiplied by the number of days in the relevant period and added together, giving £1,268.19, and
- Working Tax Credit - basic element (£1,525), the couple's element (£1,500) and the 30 hour element (£620) are each divided by the number of days in the tax year and rounded up to the nearest penny to give a daily rate. These daily rates are then multiplied by the number of days in the relevant period and added together, giving £1,824.51.

A total of £3,092.70.

Their tax credit award will be based on the current year's income, that is, £18,000 divided by 366 (the number of days in the tax year) and multiplied by 183 (the number of days in the relevant period). This gives income of £9,000. The income threshold is £5,060 divided by 366 and multiplied by 183, giving £2,530. Colin and Mary's award is worked out as follows

		£	
Annual income		9,000.00	
Less threshold	-	2,530.00	
Excess income		6,470.00	
		£	
Maximum tax credit		3,092.70	
Less 37% of excess income	-	2,393.90	
Award		**698.20**	(£13.43 a week)

Further information

We produce a wide range of leaflets. Some we have mentioned which you might find useful are

TC600 Notes. How to complete your tax credits claim form for 2003

WTC1 Child Tax Credit and Working Tax Credit. An Introduction

WTC5 Help with the costs of child care. Information for parents and child care providers

WTC6 Child Tax Credit and Working Tax Credit. Other types of help you may be able to get (available on the Internet from May 2003 and in paper form from June 2003)

WTC/AP How to appeal against a tax credit decision or award.

Our leaflets are available at **www.inlandrevenue.gov.uk** and from any Inland Revenue office or Enquiry Centre. Most offices are open to the public from 8.30am to 5.00pm, Monday to Friday. Addresses are in your local phone book under 'Inland Revenue' and at **www.inlandrevenue.gov.uk/local.**

You can get most of our leaflets from our Orderline, seven days a week (except Christmas Day, Boxing Day and New Year's Day) by

- phone or textphone (for Minicom users) on **0845 9000 404** between 8.00am and 10.00pm
- fax on **0845 9000 604**
- e-mail at **saorderline.ir@gtnet.gov.uk**
- writing to
  PO Box 37
  St Austell
  Cornwall
  PL25 5YN.

Orderline calls are charged at local rates.

Your library or Citizens Advice Bureau may also have copies of some of our leaflets, but may not have them all.

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.