



Tax credits

Are you eligible? Been told you've been overpaid? Catch up here on what you need to know about tax credits

The name may suggest that they reduce your tax bill – but don't be misled. Tax credits are in fact state benefits that are designed to provide extra money for people who are bringing up children, disabled workers and other workers on lower incomes. There are two types – working tax credit (WTC) and child tax credit (CTC). You might be eligible for one or both.

You don't have to be paying National Insurance or tax to qualify for tax credits but they are means-tested. So whether you qualify – and how much you get – depends on your income and your personal circumstances.

WHAT YOU GET

The amount you get is based on your circumstances at the time you make the claim and your previous year's income – see 'What counts as income', below. So if you put in a claim now, it's the income you received between 6 April 2005 and 5 April 2006 that will initially be used to assess your claim (see 'Tip', right).

CTC and WTC are made up of different 'elements' and the amount you'll receive depends on how many of these elements you are eligible for. All the elements you are entitled to are added together to make up your maximum award, but whether

ACTION POINTS

Update the Tax Credits Office

You must notify the Tax Credits Office if your circumstances change. That way, you should be paid the correct amount.

Don't miss deadlines

Your payments can stop if you miss the deadline for sending back your renewal form.

Check your award

Don't just assume your award is right even if you have given the correct details.

Put in an appeal

If you're told you've been overpaid, don't just accept it: you can appeal.

TIP

If last year's income was too high for you to be eligible but has since dropped, it's still worth putting in a claim. You may receive no award at first but you can then ask for your claim to be reassessed on your current year's income.

or not you receive the full award will depend on how much you earn – see p42 and p43.

How much you get for a particular year also depends on when you put in your claim. Tax credit claims run for a tax year (from 6 April to the following 5 April) and can normally be backdated up to three months only. So a claim put in on or before 5 July can be backdated to the beginning of the tax year, which means you'll receive your full entitlement. A claim that goes in after 5 July will get credit for only part of the tax year.

WHAT COUNTS AS INCOME

What you do – and don't – need to declare when applying for an award

You must declare everything you earn from your employment (whether you work for someone else or yourself), as well as any income in excess of £300 from other sources, such as taxable social security benefits, pensions and savings. (The £300 limit is between you if you are claiming as a couple.) Some fringe benefits from your employer do not count.

You don't have to declare income or interest from tax-free savings, such as an Isa, or any rent received through the rent-a-room scheme (see p47). You must declare income before tax and National Insurance are deducted. But you can deduct payments to a pension and to charity through gift aid or a payroll-giving charity scheme. See HMRC's guide WTC2.

TAX CREDITS IN DETAIL

What you need to know if you're new to claiming tax credits

These two pages explain the credits in detail, including who can claim them and the different elements each is made up of. All figures relate to the 2006-2007 tax year.

CHILD TAX CREDIT

Child tax credit (CTC) is a payment to support families with children. You don't have to be working to claim it and any payment made is in addition to child benefit payments. It is paid directly to the person mainly responsible for caring for the child, and you can choose whether to receive payments weekly or every four weeks.

Who can claim

To be eligible, you must have at least one dependent child and a household income of less than £58,000 a year (£66,000 if the child is below the age of one). You may still be eligible if you are earning more than this and have substantial childcare costs, so it may well be worth putting in a claim.

CTC provides support for a child until 31 August following their 16th birthday, or for a young person aged under 20 who is in full-time education. You can also claim for a young person aged 16 or 17 who has left full-time education but doesn't work more than 24 hours a week or has a paid training place.

The elements

All families that are eligible for CTC receive the basic family element of £545. For families with a baby under the age of one, this doubles to

RENEWING YOUR TAX CREDIT

You'll get a renewal pack each year sometime between April and July. The details you give will be treated as your claim for the current tax year (so currently 2006-2007). The renewal pack also lets you tell Revenue & Customs about your actual income for last year (2005-2006) and is used to finalise your 2005-2006 claim. Your completed renewal must be returned to Revenue & Customs by 31 August 2006.

If you miss this deadline, your tax credit payments will stop and Revenue & Customs

might also start to recover any payments already made to you between April and September 2006. If you don't have accurate figures for your 2005-2006 income, you can use estimated figures but you must provide the actual figures before 31 January 2007.

If you miss this second deadline, you'll need to make a new claim for the current year. This can be backdated only three months so you could end up losing many months' worth of tax credit.

£1,090. Up to £1,765 (depending on income) can be paid for each additional child.

If you are responsible for a child with a disability, there's an extra payment of up to £2,350. To qualify, you must receive disability living allowance for the child, or the child must be registered blind or have been taken off the blind register no more than 28 weeks before the date of claim. There's an additional severe disability element of up to £945 if you receive disability living allowance (highest care component) for the child.

Your income and your award

If your family receives income support or income-based jobseeker's allowance, you will automatically receive the full amount of CTC that you qualify for. Others who receive only CTC (so no working tax credit) will be entitled to the full amount until annual household income reaches £14,155. After that, your CTC award (apart from the family element of £545) will be reduced by 37p for every £1 of income above £14,155. The family element of CTC is reduced only when the household income exceeds £50,000.

Warning

Same-sex couples living together and claiming tax credits are now assessed jointly, whether or not they form a civil partnership.

WORKING TAX CREDIT

Working tax credit (WTC) is a payment to top up earnings of working people who are on moderate or low incomes, whether or not they have children.

Who can claim

Broadly, you must work at least 30 hours a week, be 25 or older, and have income under £11,500 a year if you're single and childless or £15,940 jointly if in a couple and childless. If you are disabled and work or have children, you may qualify if you earn more than this, provided you're aged 16 or over and work at least 16 hours a week. You may also be eligible if you or your partner are aged 50 or over, work at least 16 hours a week and are returning to work after a period claiming out-of-work benefits.

WHAT TO DO WHEN YOU GET YOUR AWARD

It's vital you check your award. Follow these steps if you think something is wrong. See HMRC leaflet WTC/AP for more details

STEP 1 Check the information that Revenue & Customs has recorded about you (your income, number of children, etc). If the details are incorrect, you could be over- or underpaid.

STEP 2 Ask Revenue & Customs for an explanation if you think your tax credit award is wrong.

STEP 3 If you still don't agree, you can appeal against the decision but you must contact the Tax Credits Office within one month of receiving your award notice. Revenue & Customs will still consider your award after this but any changes may take effect only from the date of your request, not from the date of the original award.

The elements

Everyone who qualifies receives the basic element, worth up to £1,665 depending on income. You can also receive extra elements depending on your circumstances – for example, if you are a lone parent (£1,640), work more than 30 hours a week (£680), or are a disabled worker (£2,225).

There's also a childcare element – an extra allowance for working families who spend money on approved childcare. This includes a registered childminder, nursery or play scheme, an out-of-hours club on school premises run by a school or local authority, or a childcare scheme run by an approved provider. You can claim up to 80 per cent of childcare costs up to £175 a week for one child, £300 a week for two or more children.

Your income and your award

If you qualify for WTC, whether on its own or in addition to CTC, and your annual household income is below £5,220, you'll receive the total amount of all the elements you qualify for. The maximum amount is reduced by 37p for every £1 of income over £5,220. If you qualify for both types of tax credits, your WTC award is reduced before any CTC you are eligible for.

GETTING HELP

It isn't easy to work out how much you may be entitled to. Our tables, right, give some idea but it's best to get advice from the tax credit helplines.

TAX CREDIT HELPLINES

The helplines are open from 8am to 8pm seven days a week:

- **England, Scotland, Wales**
0845 300 3900
(textphone 0845 3003909)
- **Northern Ireland**
0845 603 2000
(textphone 0845 607 6078)

WHAT YOU MIGHT RECEIVE AT A GLANCE

Here is a guide to how much you might receive in 2006-2007. For specific advice, contact the helplines (see 'Getting help', left)

FAMILIES WITH CHILDREN

If you are responsible for the care of at least one child, it's likely you will qualify for child tax credit, but you may be eligible for working tax credit as well. The table below is a guide to how much families with children might receive (in both child tax credit and working tax credit) for the tax year 2006-2007 (from 6 April 2006 to 5 April 2007), depending on household income. Families with a disabled worker or disabled child, a child under one year old, or someone aged 50 or over who is returning to work after a period of unemployment will receive more.

WORKING TAX CREDIT AND CHILD TAX CREDIT AWARDS

Annual income (£) ^a	Annual award (£)		
	One child	Two children	Three children
not working	2,310	4,080	5,845
5,000	5,620	7,390	9,150
8,000	5,275	7,045	8,810
10,000	4,535	6,305	8,070
15,000	2,685	4,455	6,220
20,000	835	2,605	4,370
25,000	545	755	2,520
30,000	545	545	670
40,000	545	545	545
45,000	545	545	545
50,000	545	545	545
55,000	210	210	210
60,000	0	0	0

^a People with an income of £5,000 a year are assumed to work part-time (between 16 and 30 hours a week). In households with an annual income of £8,000 or more, at least one adult is assumed to be working 30 or more hours a week

WORKING PEOPLE WITH NO CHILDREN

Whether you're single or part of a couple, if you're on a low or moderate income, you may be eligible for working tax credit. The table is a guide to how much you might receive for 2006-2007 (that is, from 6 April 2006 to 5 April 2007). If you are a disabled worker, or over 50 and returning to work, you may get more.

WORKING TAX CREDIT AWARDS

Annual income (£)	Annual award (£)	
	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
7,878 ^a	1,365	3,005
8,000	1,320	2,960
10,000	580	2,220
13,000	0	1,110
16,000	0	0

^a National minimum wage

OVERPAYMENTS

Your rights if Revenue & Customs tells you you've been given a bigger award than you should have

Tax credits have benefited millions since their introduction in April 2003. But the system hasn't been without its problems or critics.

Without a doubt, the main problem has been overpayments – and indeed all the people we've featured in this chapter since tax credits came in, including Claire and Matt (right) this year, have had problems with overpayment.

After much pressure, the government confirmed last autumn that anyone who puts in an appeal to challenge an overpayment will no longer have the money collected while the appeal is being considered.

In addition, where an overpayment is the fault of Revenue & Customs and you could not have been reasonably expected to think the award was right, it will be written off – in other words, you shouldn't be held responsible for mistakes made by Revenue & Customs.

Where overpayment is due to your error or because you didn't pass on details about changes, Revenue & Customs still may not demand payment if it would cause you or your family hardship, or it may give you longer to pay.

If you're told you've been overpaid, appeal. Follow these steps.

HOW TO APPEAL AN OVERPAYMENT

What to do if you're told you've been overpaid

STEP 1 Ask the Tax Credits Office to explain exactly how much has been overpaid and the reason.

STEP 2 Check the information you gave to the Tax Credits Office against the information it has recorded to establish who made the mistake.

STEP 3 If you can't repay the money, or the overpayment is a result of a mistake by the Tax Credits Office, complete form TC846 *Request to reconsider recovery of tax credits*. Also ask for HMRC Code of Practice 26, which explains your rights if you have been paid too much.



APPEAL AN OVERPAYMENT

When your circumstances change, you must keep the Tax Credits Office up to date, so that your award can be adjusted if necessary. But things aren't always that simple in practice, as Claire Docherty and partner Matt found out when they were told that they had been overpaid by a whopping £7,000, even though they had done all the right things.

We featured Claire and son, Charlie, in our guide two years ago when she was claiming tax credits for the first time. Staff at the Ashford tax office had been really helpful.

Claire had kept the Tax Credits Office informed so she was mystified when, last September, she and Matt received a letter saying they had been overpaid by £7,000. Claire checked with the Ashford office and all their details had been recorded correctly, so she can't understand why they were overpaid. Claire told us: 'We had no reason to think we were being overpaid. Every time our circumstances changed, I told the tax office and it updated our file. We just assumed the amount we were getting was correct – why wouldn't we?'

Claire and Matt are appealing the decision.

CHANGE OF CIRCUMSTANCES

The cut-off points for telling the Tax Credits Office of changes

You need to keep the Tax Credits Office up to date with any changes in your circumstances that could affect your tax credits awards. If you don't, you could be overpaid, underpaid or even fined.

IMMEDIATE NOTIFICATION

You should give the Tax Credits Office immediate notice of changes you think might reduce your award. Such changes include things like:

- your household income rising by more than £25,000
- a young person you are claiming for leaving the household or stopping full-time education
- you or your partner ceasing to work the minimum 16 or 30 hours a week.

WITHIN THREE MONTHS

You must tell the Tax Credits Office within three months if:

- the number of adults in the household changes, or if your partner changes
- you or your partner go abroad for more than eight weeks or leave the UK permanently, or lose the right to reside in the UK
- your childcare costs go down by at least £10 a week.

AS SOON AS POSSIBLE

It is in your interest to tell the Tax Credits Office as soon as possible of any changes that might increase your award, so the amount can be amended immediately. Such changes include:

- a new baby or adoption
- a drop in income.

MORE HELP

HMRC leaflets

- WTC/AP How to appeal against a tax credit decision or award
- WTC1 and 2 Child tax credit and working tax credit (introduction and guide)
- WTC5 Help with the costs of childcare
- WTC7 Tax credit penalties

Code of practice

- 26 What happens if you are paid too much tax credit

Other help

- The Low Income Tax Reform Group www.litr.org.uk
- TaxAid www.taxaid.org.uk 0845 120 3779