





# TAX CREDITS

Just under six million families now receive some form of tax credits. Read on to find out how your family could be a credit to you

**D**on't be fooled by the name. Tax credits don't reduce your tax bill. They are state benefits which provide payments of extra money to people bringing up children, disabled workers and other workers on lower incomes.

There are two types of tax credit – working tax credit and child tax credit. You might be eligible for one or both. Tax credits are tax-free and you don't have to be paying National Insurance or tax to qualify but they are means-tested. So, whether you qualify and how much you get depend on what you earn and your circumstances.

## WHAT YOU GET

How much tax credit you get is based on your current circumstances and your income during the previous tax year. If you have children, you are eligible for some tax credit if your income (joint income if you are a couple) during the tax year 2005-2006 is less than £58,000 a year, or £66,000 if you have a child under the age of one. If you don't have children, you will probably receive some credit if your income is less than £11,300 if you are single, or less than £15,600

if you are part of a couple. If you are a disabled worker, or are over 50 and returning to work, you might still qualify for working tax credit even if you earn more than this.

Working out how much working tax credit and/or child tax credit you might be entitled to isn't easy. The tables on p60 give an idea of how much you might receive but a more precise method is to use the Revenue's calculator (see 'More help', p61). This lets you put in your own details and works out what you might be entitled to.

## What counts as income?

Your income is everything you earn from your employment (whether you work for someone else or yourself) as well as any income you might have from other sources, such as taxable social security benefits, pensions and savings income.

You must declare the income before tax and National Insurance are deducted. However, you can deduct any payments you make to a pension, and any payments you make to charity through Gift Aid or a payroll-giving charity scheme with your employer, from your income figure before you declare it.

If you receive income of less than £300 during the year from sources other than your employment, self-employment, taxable social security benefits, student dependent grant or some miscellaneous income such as business start-up allowance, you don't have to declare it. So, for example, if you have interest from savings of less than £300 in the tax year, it won't count. The £300 limit is between you if you are claiming as a couple. You don't have to declare income or interest from tax-free savings such as an Isa or Tessa, or any rent you receive through the rent-a-room scheme (see p33).

## 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. Child tax credit 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. CTC provides support for a child until 1 September following their 16th birthday, or for a young person aged under 19 who is in full-time education (up to and including A levels, NVQ level 3 or Scottish Highers).

You can also claim for a young person aged 16 or 17 who has left full-time education but does not work more than 24 hours a week or does not have a paid training place – for more details, see Revenue leaflets WTC1 and 2 *Child tax credit and working tax credit (guide and introductions)*.

### How much can you claim?

CTC is made up of several elements and the amount of credit you'll receive depends on how many of these elements you are eligible for and how much you earn. For example, all families that are eligible for CTC receive the basic family element, which is £545 a year. For families with a baby under the age of one the family element doubles to £1,090, and £1,690 a year is paid for each additional child.

If you're responsible for a child with a disability, there's an additional payment of £2,285 a year. 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 in the 28 weeks before the date of claim. There's an additional 'severe disability' element

### All families eligible for child

### tax credit receive at least £545

of £920 if you receive disability living allowance (highest care component) for the child.

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. If you receive only CTC (so no working tax credit) you will be entitled to the full amount until your annual household income reaches £13,910. After that, your CTC award (apart from the family element) will be reduced by 37p for every £1 of income above £13,910. The family element of CTC is reduced only when the household income exceeds £50,000. (All figures shown relate to the 2005-2006 tax year.)

### WORKING TAX CREDIT

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

### Who can claim?

Generally speaking, you must work at least 30 hours a week, be 25 or older and have an income of less than £11,300 a year if you're single and childless or £15,600 jointly if you are part of a couple and childless (amounts for 2005-2006). However, if you are disabled and work, or have children, you may be eligible for WTC 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 for WTC 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.

### How much can you claim?

As with CTC, there are various elements to WTC. Everyone who qualifies for WTC receives the basic element, worth up to £1,620 in the

2005-2006 tax year, depending on your income. In addition, you can receive extra elements depending on your circumstances. So, for example, lone parents could get up to an extra £1,595; people who work more than 30 hours a week up to an extra £660; and disabled workers up to £2,165 (all 2005-2006 amounts). Again, the elements you are entitled to are added together but your maximum award is reduced the more you earn.

WTC also contains 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 70 per cent of childcare costs up to £175 a week for one child and £300 a week for two or more children.

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

### THE REVENUE GETS IT WRONG

Wendy Gibson was awarded too much in tax credit because of a mistake by the Revenue. Despite admitting it was wrong, the Revenue has told her she must repay the extra.

When Wendy was off work for more than a year after an operation, she qualified for tax credits. Her income changed several times during the year, but each time she notified the tax office straight away so that her tax credit award could be altered.

Wendy was therefore shocked to receive a letter last November, 13 months after she had returned to work and her tax credits had ceased,

to say she'd been overpaid. Wendy questioned this, but the tax office told her: 'We have decided that, although the overpayment was due to a mistake on our part, it was not reasonable for you to believe that your award was correct, and the overpayment will be recovered from you'.

Since Wendy had always told the Revenue exactly what income she was receiving, and its source, she understandably assumed her award was based on this information. She didn't think she could reasonably have known her award was wrong. Neither do we. Wendy is appealing the decision.



Wendy's appealing a Revenue decision

# WHAT YOU MIGHT RECEIVE IN TAX CREDITS

## 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 2005-2006 (from 6 April 2005 to 5 April 2006), 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 (£) <sup>a</sup>	Annual award (£)		
	One child	Two children	Three children
not working	2,240	3,930	5,625
5,000	5,455	7,150	8,840
8,000	5,085	6,780	8,475
10,000	4,160	5,855	7,550
15,000	2,495	4,190	5,885
20,000	645	2,340	4,035
25,000	545	545	2,185
30,000	545	545	545
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

<sup>a</sup> 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

If you are single (or part of a couple) but are 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 the 2005-2006 tax year (that is, from 6 April 2005 to 5 April 2006). If you are a disabled worker, or over 50 and returning to work, you may get more than this.

### WORKING TAX CREDIT AWARDS

Annual income (£)	Annual award (£)	
	Single person aged 25 or over working 30 hours or more a week	Couple (working adult aged 25 or over) working 30 or more a week
7,566 <sup>a</sup>	1,410	3,005
8,000	1,250	2,845
10,000	510	2,105
13,000	0	995
16,000	0	0

<sup>a</sup> National minimum wage

£1 of income over £5,220. If you qualify for both credits, your working tax credit award is reduced before any child tax credit you are eligible for.

### IF YOUR CIRCUMSTANCES CHANGE

Your tax credits award is based on your circumstances at the time you apply and, initially, on how much income you received in the previous tax year. So awards for 2005-2006 will be based on your income during 2004-2005. If your circumstances change during the tax year (for example, you have a baby or adopt, or you change jobs or stop working), you should notify the Revenue (via its tax credit helpline – see 'More help', p61) within three months of the change. Your award can be amended immediately, without having to wait until after the end of the tax year. Failure to notify the Revenue of changes within these three months means you will lose valuable benefits or may be awarded too much. In some cases, you could be charged a penalty.

### If your income goes down

If last year's income means you didn't qualify for tax credits, but your income has since fallen, put in a claim anyway. Although you will initially receive a 'nil award', you can go back to the Revenue with your new income figure. Your revised claim will be backdated up to three months, or to the start of the tax year if that's within the three months.

If you are already receiving tax credits and your income goes down, the Revenue can revise your award based on your lower income. Tell the Revenue you expect to receive less income during 2005-2006 than you did during 2004-2005 and it will adjust your payments to make sure you receive the right amount. Alternatively, you can wait until the Revenue finalises your award at the end of the tax year, when you will automatically receive any extra tax credit as a lump sum.

### If your income goes up

If your income in the current tax year rises by more than £2,500 you should contact the tax credit office immediately. Your award for the current year will be based on your actual income, less £2,500 – the full amount of the increase is not taken into account until the next year. If you don't tell the Revenue, you will be expected to pay back any overpayment when your award is finalised at the end of the tax year and this might mean your award for next year is severely reduced (see 'Overpayments', opposite). Awards for this tax year are not affected if your income rises by less than £2,500, though it will affect the amount you receive next year.

### TAX CREDITS RENEWAL

If you are already claiming tax credits (other than just the family element of child tax credit), you'll get a renewal pack each year (renewal packs are

sent out between April and July). The details you give will be treated as your claim for the current tax year (so currently 2005-2006). The renewal pack also lets you tell the Revenue about your actual income for 2004-2005, and is used to finalise your 2004-2005 claim. Your claim for 2005-2006 is also initially based on the information you give in the renewal pack. Your completed renewal must be returned to the Revenue by 30 September 2005.

### Missing the deadline

If you miss this deadline, your tax credit payments will stop and the Revenue might also start to recover any payments already made to you between April and September 2005. If you don't have accurate figures for your 2004-2005 income, you can use estimated figures, but you must provide the actual figures before 31 January 2006. If you miss this second deadline, you'll

**If you miss the deadline, your tax credit payments will stop**

need to make a new claim for 2005-2006 and this can be backdated only three months so you could lose many months' benefit.

### OVERPAYMENTS

The Revenue considers overpayments on a case-by-case basis but detailed explanations of its overall policy are included in its Code of Practice 26, available from the Revenue website or through its orderline (see 'More help', right).

The Revenue can ask you to pay back any overpayments it identifies either by a reduction in your award for the current year or by paying the amount owed in 12 monthly instalments (though it might agree to extend this). However, it cannot demand a refund if it was reasonable for you to think that your award was right. In addition, it should not demand a refund if it would cause hardship to you or your family. It's worth questioning the Revenue's decision – see 'How to appeal', below.

### HOW TO APPEAL

If you think your tax credit award is wrong, you should ask the Inland Revenue for an explanation. If you still don't agree, you can ask for the award to be looked at again, but you must contact your tax credits office within one month of receiving the letter telling you of the award. If you take longer than this, the Revenue will still consider your award again but any changes will take effect only from the date of your request, not the date of the original award.

If, after all that, you still don't agree, you may be able to appeal. Appeals must be put into writing and are considered by an Appeal Tribunal

## COUPLES

If you are married, or an unmarried man and woman living together as a couple, you must make a joint application. The amount of tax credits you'll receive depends on your joint income. If you are part of a same-sex couple, each partner can make a separate application. However, same-sex couples who register as a civil partnership under the Civil Partnership Act 2004 will have to submit a joint claim.

independent of the Inland Revenue. See Inland Revenue leaflet WTC/AP *How to appeal against a tax credit decision or award* for more information and the appeal form.

### TAX CREDIT PROBLEMS

Tax credits have helped thousands of people – but the system is not without its problems. Last September, the Low Income Tax Reform Group (LITRG), together with other tax bodies and welfare rights organisations, submitted to the Inland Revenue a list of changes and improvements they believe necessary to rid the system of problems people encounter daily. John Andrews OBE, Chairman of LITRG, had this to say: 'It is disappointing that 18 months after the implementation of the tax credits system we are still discussing fundamental deficiencies which we, and other bodies, identified as needing modification right at the start.'

Among the changes LITRG and the other groups say are a priority are:

- making award notices clearer
- better training for staff operating the contact centres and helplines
- a greater willingness to refund overpayments which come about through Revenue error
- better practical guidance to all claimants to help them with difficult areas of the system.

The Revenue told us it holds regular consultation group meetings, which include organisations like LITRG, and welcomes their suggestions. It has already addressed some of the concerns – for instance, it monitors calls, undertakes quality checks and reviews guidance and training. It's also redesigning the tax credit award notice. ■

## MORE HELP

### Revenue leaflets

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

### what happens Code of practice

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

### Help online

- (For help using the internet to apply for tax credits, ring 0845 300 3938, 8am to 10pm Mon-Fri; 10am to 6pm weekend)
- Tax Credits Online Service (calculator and claim form) [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

### Tax credits helplines

- Open 8am to 8pm seven days a week
- Britain 0845 300 3900 (textphone 0845 3003909)
- N Ireland 0845 603 2000 (textphone 0845 607 6078)
- Other help**
- The Low Income Tax Reform Group [www.litr.org.uk](http://www.litr.org.uk)
- TaxAid (see p7) [www.taxaid.org.uk](http://www.taxaid.org.uk) 020 7803 4959