

The Tax Credit system was first introduced in April 2003 and it provides help for people on low income who are working, have children or both. Claims are made for each tax year and initially the claim is based on the income of the preceding year. If an award is made, the payment is calculated on a daily basis and all payments made are tax free. The award is then finalised shortly after the end of the tax year and adjusted based on the actual income for the year.

Who qualifies?

Eligibility depends on your personal circumstances, but as a general guide if your income is not above the following limits for the year ending 5 April 2015, you will probably qualify:

- Single without children - £13,100
- Couple without children - £18,000
- You have one child - £26,000
- You have two children - £32,600

NB These limits are a general guide – if you have more children, pay for childcare, or if you or your child has a disability, the income limit may be higher.

There are two types of Tax Credit:

- Child Tax Credit - this is paid where you are responsible for at least one child or young person who normally lives with you
- Working Tax Credit - this is based on the number of hours you work and get paid for, whether you are employed or self-employed, but voluntary or any type of unpaid work does not

Qualifying for Working Tax Credit

In order to qualify, you must work a minimum number of hours each week.

If you don't have children:

- if you are aged 25 or over, you need to do paid work of at least 30 hours a week
- if you have a disability and are aged 16 or over, you need to do paid work of at least 16 hours a week
- if you are aged 60 or over, you need to do paid work of at least 16 hours a week

If you do have children:

- if you are single, you need to do paid work of at least 16 hours a week
- if you are in a couple, your joint paid working hours need to be at least 24 a week, with one of you working at least 16 hours a week

If you are in a couple and your joint working hours are less than 24 a week, you can still get Working Tax Credit if one of the following applies:

- one of you is aged 60 or over, or disabled and working at least 16 hours a week
- one of you works at least 16 hours a week, and the other is entitled to Carer's Allowance (even if they don't actually receive the payment due to other benefits)
- one of you works at least 16 hours a week, and the other is incapacitated, an in-patient in hospital, or in prison

Qualifying for Child Tax Credit

You can usually claim Child Tax Credit for:

- any child who lives with you, until 31 August after their 16th birthday
- children under 20, if they're in certain types of full-time, non-advanced education or on an unwaged, approved training course

You do not have to be the child's parent to make a claim – you are eligible if you are responsible for a child, which means they usually live with you and they keep their toys, clothes and personal possessions in your home.

It is of course possible for a child to live at more than one address, but only one household can claim for each child, so in this instance you need to decide who will make the claim. You cannot claim for a child who never lives with you, even if you pay maintenance for that child.

How much will I get?

The system is quite complex and payments are graduated depending on the number of hours worked, the number of children and the amount of total income received. It is also affected by any childcare costs that you may make. It is based on the circumstances of the household, so if you are married, living with someone, or in a civil partnership, a joint claim must be made which will take into account the details of both parties.

Due to the number of variables, there are some rough guides available, but the best way to check how much you might be able to claim is to use the online calculator available on the HMRC website here: <http://taxcredits.hmrc.gov.uk/Qualify/DIQHousehold.aspx>

This calculator will take you through a series of steps based on the household income and children living with you and will give you an indication of how much you are likely to receive. If you believe you are entitled to a tax credit award, the next step is to make a formal claim.

Making a claim for Tax Credits

If you believe that you may be entitled to Tax Credits, it is important to make a claim as soon as possible, as any entitlement can only be backdated by a maximum of one month from the date of claim. Even if you think your income might be too high to qualify for a Tax Credit award at the moment, it is worth making a claim to protect your rights should your circumstances change.

If you are starting work you can make a claim up to 7 days before you start work, but it is not possible to make a claim in advance for an unborn baby – you must wait until the child is born before you make a claim.

To make a claim you have to fill in a claim form by contacting the Tax Credit Helpline and getting a claim form. You can't download a claim form, or make your claim online. You need to telephone the team on 0345 300 3900. The lines are open from 8am to 8pm Monday to Friday and 8am to 4pm on Saturday.

When you call, you will need your National Insurance number and the following information for the last tax year (a tax year runs from 6th April one year to 5th April of the following year):

- your employment income from your P60 or final payslip
- your taxable profit if you were self-employed
- details of any benefits you get like contribution-based Jobseeker's Allowance or Carer's Allowance
- the amount of any other income you get like savings interest, pensions or rent
- details of any childcare payments you make if you use a registered or approved provider

You will be sent a claim form within one week of calling and you should complete and return the form as soon as possible.

How Tax Credits are paid

If you have made a joint claim and you both qualify for Working Tax Credit, you can choose which one of you will receive the award. For Child Tax Credit, any award as a result of a joint claim will be paid to the main carer and you must decide which one of you that is.

Tax credits are paid directly into your chosen bank, building society or Post Office account by direct debit and you can choose whether they are credited weekly or every four weeks.

What if my circumstances change?

If your circumstances change after you have made a claim, you should notify the Tax Credits Helpline as soon as possible. If you fail to tell them of a change which would result in your Tax Credits going down within one month of that change, you could be charged a penalty of up to £300. The types of changes they need to know about are:

- change of address
- change of bank account details for the account the tax credits are credited to
- change in work – either stopping work, starting work, a change in the hours you work or a change of employer
- change in income, either increasing or reducing
- change in family circumstances – ceasing to live as a couple, or starting to live as a couple, an additional child living with you or a child leaving your home
- childcare changes
- change in disability status

Tax Credit Renewals

Each year you must renew your Tax Credit claim. You will be sent a renewal pack (even if you made a claim and your entitlement was nil). There are two types of renewal pack:

- Annual Review Notice only
- Annual Declaration form and Annual Review notice

The Annual Review notice summarises your details and claim for the previous tax year based on the information held by the Tax Credit Office. You should check the details to ensure that they are correct and complete and notify the Tax Credit Office if there are any discrepancies.

If you are only sent an Annual Review notice (ie you do not receive an Annual Declaration form), your tax credit claim is automatically being renewed and unless you need to advise the Tax Credit Office of any changes, you need take no further action.

If you are sent an Annual Declaration form you do need to renew your claim in order to continue to receive Tax Credits. You can do this by completing and returning the form, or by calling the tax Credit helpline. If there are no changes to report and the Annual Review notice is correct, you can register and renew your claim online on the HM Revenue & Customs website. The final deadline for renewing is 31 July after the end of the tax year – if you miss this deadline, your Tax credits will stop being paid.

How to calculate income for Tax Credit claims

The way in which income is declared for Tax Credit purposes is not quite the same as the method used for completing a self assessment tax return, so you should pay careful attention to the following:

- Chargeable event gains – the total gain must be included, you cannot deduct any top slicing relief you may be entitled to
- 'Other income' de minimus exemption - other income includes pensions, rents, chargeable event gains, foreign income and savings income, however there is an exemption of £300. If the total 'other income' is less than £300, it is not taken into account – if it exceeds that amount, you should deduct the exemption from the 'other income'.
- Pension contributions and gift aid payments – the gross amounts are deducted from your total income for Tax Credit purposes
- Trading losses – the way in which trading losses are relieved is very different to the rules under self assessment. They are deducted from your total income and then, if there is any unused amount, they are deducted from your partner's total income. If there is still some unused loss, this is carried forwards and offset against future profits from your self-employment.

In summary

The requirements of the Tax Credit system can seem daunting, so if you need any help with an initial claim, with checking the Annual Review or renewing your claim, Waveney Tax Solutions can help. For more information, you can call us on 01502 370620 or 07919 924273, or alternatively you can email us at nina@waveneytaxsolutions.co.uk.