

This factsheet explains whether you or your spouse/partner are entitled to the Child Tax Credit and the childcare element of the Working Tax Credit.

Claims for the Working Tax Credit other than the childcare element are not covered in detail here. It is aimed at low income workers. As the amount of Child Tax Credit may be dependent on the potential benefits payable under the Working Tax Credit, you may need to look at the benefits under the Working Tax Credit system. The rates of Working Tax Credits are shown as an appendix to this factsheet. A tax credit claim could affect other state benefits (but not child benefit). Such impact is not further considered here.

The credit and the childcare element of the Working Tax Credit are paid direct to the main carer, usually the mother.

Claiming Child Tax Credit

Who makes the claim?

Couples must make a joint tax credits application. If you are part of a couple, you cannot decide to apply as a single person.

A couple is:

- a man or a woman who are married and living together, or
- a man and a woman living together as if they are married, or
- a same sex couple who have entered into a civil partnership, or
- a same sex couple who live together as if in a civil partnership.

The income of couples must be added together for the threshold tests below.

Qualifying child

Child Tax Credit is for people who are legally responsible for at least one child or qualifying young person. (See appendix.)

The Childcare Element of the Working Tax Credit

Who makes the claim?

To apply for the childcare element, lone parents must work 16 hours or more per week.

Couples can apply if:

- both work 16 hours or more per week; or
- one of you works 16 hours or more per week and the other receives a disability benefit or an invalid carriage because he or she has a disability.

Qualifying child

The child or children you are claiming for must be under the qualifying age. (See appendix.)

What type of childcare?

Payments must be made to a 'childcare provider'. (See appendix.)

How much are these Credits worth?

This depends on your circumstances.

The basic 'family' element of the Child Tax Credit is £545 p.a. The Child Tax Credit rises to £1,090 for the first 12 months after a child is born (the baby addition). But you may receive less than this if your family income is above £50,000 (see income tests below).

And you may receive more than this if your family income is somewhat less than £50,000 due to other elements of the Child Tax Credit and/or if you pay qualifying childcare costs.

Income tests - for basic 'family' element

The basic 'family' element of the Child Tax Credit is payable until income exceeds a threshold of £50,000 p.a. of annual income at which point it is tapered away at the rate of £1 for every £15 of further income. This gives a cut off point of £58,175.

The basic Child Tax Credit payable in the year a child is born is also paid in full until income exceeds a threshold of £50,000 p.a. The effect of the taper at the rate of £1 for every £15 of further income gives a cut off point of £66,350.

Amounts and Income Tests - For Full Child Tax Credit

To compute the full potential Child Tax Credit the following credits are added to the Working Tax Credit but then may be reduced by the level of your family income:

| | 2009/10 Annual |
|--------------------------|---------------------------|
| Child element per child | £2,235 |
| Disabled child | £2,670 |
| Severely disabled | £1,075 |
| Family (one only) | £545 |
| Baby addition (one only) | £545 |

Childcare costs are added to the above rates at a rate of 80% of eligible costs to maximum eligible costs of £175 per week (£300 if two or more children).

The annual income threshold for the full Child Tax Credit and childcare costs is currently £6,420 with a reduction of 39p for every extra £1 of income. This threshold and reduction applies where your entitlement consists of both CTC and WTC elements. If you are only eligible for the Child Tax Credit as you are not working then the annual income threshold is £16,040 before any reduction is applied.

Example

Oscar and Izzy work full-time and have two children. Oscar has self employment income of £10,400 p.a. and Izzy is employed with income of £26,000 p.a. They pay eligible childcare costs of £180 per week.

Their entitlement to Working Tax Credit/ Child Tax Credit in 2009/10 is:

| | 2009/10 |
|----------------------------------------|----------------|
| Basic (Working Tax Credit) | £1,890 |
| Couple addition (Working Tax Credit) | £1,860 |
| 30 hours per week (Working Tax Credit) | £775 |
| Childcare 70% of £180 x 52 weeks | £7,488 |
| Child Tax Credit - 2 children @ £2,235 | £4,470 |
| Child Tax Credit - Family element | £545 |
| | £17,028 |
| Less (10,400 + 26,000 - 6,420) @ 39% | £11,692 |
| Child Tax Credit | £5,336 |

Which Year's Income?

The initial claim to Child Tax Credit for 2009/10 is based on income for the tax year 2008/09. So, for example it includes the taxable business profits or employment income as stated in your tax return for that year. Other income is also included to the extent that it exceeds £300.

Personal Pension Plan contributions and Gift Aid payments (gross amounts) are deductible.

There are other special rules but adding together your 'family' income on this basis will give you an idea as to whether it is worthwhile making a claim.

The amount of tax credit that you are entitled to can change if your income in the year to 5 April 2010 is significantly different from your income in the year to 5 April 2009. If the income for the later year is more than £25,000 higher than income in the initial claim, then you may end up with less tax credit and have to make a repayment of the amount you were overpaid to HMRC.

Renewals Process

There will be two methods used by HMRC for the renewals process:

Annual review

This type of review will occur where the claimant is only entitled to the family element.

The claimants will receive an annual review and will automatically continue to receive the benefits of the family rate. Care will have to be taken to ensure the claimant is still entitled to the tax credit. In some circumstances the claimants may be required to submit details of their actual income for the year.

Annual declaration review

This type of review will occur where the claimant is entitled to an amount in addition to the family element of child tax credit, or has expected income in excess of £50,000.

The claimant will have to make an annual declaration to HMRC detailing their actual income position.

Deadline

The renewal deadline for 2009/10 claims is 31 July 2009. It is possible to renew using estimated figures and then provide final figures by 31 January 2010.

Protective Claims

As previously stated, the initial claim to credit for a given year is based on income of the previous year - e.g. the initial claim for 2009/10 is based on income of 2008/09. However, the final credit to which a family is entitled is based on the actual income for 2009/10. Of course, you do not yet know your actual income for the year to 5 April 2010. You are unlikely to know your actual income for a given tax year until the end of the year. However, it may be best to make a claim sooner rather than later due to restrictions on backdating late claims.

A claim can only be backdated by three months. This means that a claim made on 6 August can only be backdated to 6 May.

Protective claims are likely to be of most interest to people with children whose income levels are variable perhaps because they are self employed or because there is the threat of redundancy.

How Do I Claim?

The tax credits website (www.hmrc.gov.uk/taxcredits) allows people to make their claim on-line. It also gives more information on the various elements of the tax credits and the opportunity to go through a quick calculation that gives an indication of what you might be entitled to.

If you would prefer to make a paper-based claim, you can telephone a helpline (0845 300 3900) and ask for a claim pack.

How abacus can help

As the claim has to be made jointly by you and your spouse/partner, we can only make claims on your behalf if each of you has previously signed a form authorising us to act.

If we do not currently act for your spouse/partner we will need a form to be signed. Please contact us if you want us to act for your spouse/partner and we will send you the appropriate form. If you do not wish us to formally act we are still available to provide any advice you need.

This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.

Appendix

Working Tax Credits rates - 2009/10

| | Annual |
|--------------------------------|--------|
| Basic | £1,890 |
| Couple / lone parent addition | £1,860 |
| Working 30+ hours per week add | £775 |
| Disabled worker | £2,530 |
| Severe disability | £1,075 |
| Aged 50+ working 16-29 hours | £1,300 |
| Aged 50+ working 30+ hours | £1,935 |

Qualifying child for Child Tax Credit

Child Tax Credit is for people who are legally responsible for at least one child or qualifying young person.

- A child is a person aged under 16 or until the 1st September after that child's 16th birthday.
- A young person is a person aged 16 to 19 provided they are in full time non advanced education or an approved training course, either of which began before their 19th birthday.

Qualifying child for childcare element of the Working Tax Credit

The child or children you are claiming for must be under the qualifying age.

For the childcare element that age is from birth up to 1st September following the child's 15th birthday.

If:

- the child is registered blind or
- the child has been taken off the blind register within the last 28 weeks or
- you receive Disability Living Allowance on behalf of that child,

the qualifying age is from birth up to 1st September that follows the child's 16th birthday.

Childcare provider

You can apply for the costs of childcare arrangements if the childcare provider is:

- a registered childminder, nursery or play scheme or
- an out of hours club on school premises run by the school or Local Authority or
- a childcare scheme run on Government property or
- a childcare scheme run by an approved provider. For example, an out of school hours scheme. Your scheme will be able to tell you whether they are approved.

You cannot apply for the costs of any childcare arrangement that does not fit into one of the above categories. The childcare provider must have a registration number which is provided by the Local Authority when they are approved.