KNIGHT & COMPANY

chartered accountants

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FACT SHEET

TAX CREDIT ENTITLEMENTS

CHILD TAX CREDITS

CTC supports families with children and comes in two forms. Firstly, if you have a child and your family income is below £58,000 pa (£66,000 pa if you have a child under age 1) you may qualify for the family element of £545 pa.

Secondly, you may qualify for child tax credits if you fit the means-tested profile of income below £16,040 and have a child under age 16, or up to 20 if in full time (secondary) education. If your income is more than this the child element will be reduced * by 39p for every £ that your income exceeds that amount.

WORKING TAX CREDIT

WTC is a payment to top up earnings of low paid working people, including those who do not have children. You may qualify for WTC if you have a child under age 16, work 16 hours a week or more and your income is below £6,420. If your income is more then the amount will be reduced *.

To be entitled to WTC without children you must work 30 hours a week and be at least 25 years of age.

You may qualify for tax credits to help with childcare costs as part of the WTC.

If you have disabilities, have been out of work or are over 50 and returning to work you may also qualify.

Tax Credits are based on income being joint income – that of both parents or partners. Maintenance payments from a previous spouse or partner are excluded from the computation.

If you think you qualify, call the Tax Credit Helpline – 0845 300 3900 for the application form.

TAX CREDIT PLANNING POINTS

- Tax credit claims are initially based on a 'base year' estimate being the year preceding the actual year: it may be worthwhile to make a protective claim even if it results in a nil award as it means if income should subsequently fall, a claim can be made

- An increase in income from one year to the next of less than £25,000 is ignored for tax credit calculations so one year's qualification can provide two years' awards

- The 'Income' definition is not the same for tax credits as for your tax return: the treatment of employment benefits and trading income losses is different. Sole traders benefitting from the Annual Investment Allowance for their capital expenditure may find that they also become eligible for tax credits

- Pension planning is critical as pension contributions affect the tax credit calculation and can effectively result in up to 61% tax relief

- Where the amount of dividends drawn is flexible it is advisable to calculate the effect on any tax credit eligibility

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