As we come up to 7 April, I thought it would be helpful, for several reasons, to issue this ‘tax credits special’ edition of Housing Benefit Direct. I want to give you as much information as possible about the latest position on New Tax Credit claims and awards, and the overall impact on HB administration. I also want to summarise some of the changes we have had to make recently, and to answer some frequently asked questions. I hope you will find it a useful supplement to the information we are providing in the Handbook.

I recognise that you are bound to be apprehensive about additional workloads arising from the introduction of New Tax Credits. Of course, we always knew that there was going to be extra work. That is why we provided the additional administration funding, and I’m sure that nearly all authorities have used part of the funding for additional staff. I wrote to all Finance Directors in November, pointing out that if any local authority did not recruit additional staff they would indeed find it difficult to cope.

Having said that, I don’t want to minimise the problems (see Joy MacKenzie’s letter inside). There were already over 3 million claims to the New Tax Credits by the end of February, and more are coming in all the time as April approaches. But there is some evidence that families in the HB/CTB/New Tax Credits group are leaving it late to claim. So a significant number of the families that you are most interested in now seem likely to claim in late March or even in early April. Claims received are being handled in a controlled way through each stage of the process. Award notices are now being sent out in larger numbers, and claims that have been checked and are complete are now passing through the calculation stage of the process in larger numbers. This does all mean, though, that NTC award information will be available for you to process later than hoped for. It was always going to be the case that some HB/CTB customers would need to be reassessed and re-billed for their council tax after 7 April. Clearly, there will be more of these cases than you were expecting and we are looking carefully at what might be done to help you with that.

We are discussing this with your representatives and I will keep you posted on developments.

Meanwhile, if you have any general points to make about tax credits please contact me. I will do my best to answer your letters personally. If you have any further technical queries please contact Lucy Da Silva [e.mail: Lucy.Da.Silva@dwp.gsi.gov.uk]. But please also note that further guidance is coming out on some points (see articles inside).

Paul Howarth, Head of Housing Support Division. E-mail: Paul.Howarth@dwp.gsi.gov.uk

**Main points to remember**

Tax credits are a new form of income and there are differences in the way people have to notify the Inland Revenue and yourselves when a change of circumstances affecting entitlement occurs. However the main points you need to remember are:

- Payments of tax credits are income and taken fully into account in HB/CTB.
- Arrears of tax credits, ie payments of arrears included in a tax credit award, are capital and if paid as a result of a change of circumstance in the tax credit claim the capital can be disregarded for 52 weeks - this avoids the need for you to reassess the HB/CTB claim for period of the arrears payment.

You do not have to consider doing a notional income calculation in respect of tax credits - you only take tax credits into account if the claimant has claimed them and IR has made the award.

You always take account of the tax credit net awards paid, no matter what adjustments have been made to them.

If a customer reports a change of circumstance that you know will affect both the claim to HB and the tax credit award, take appropriate action on the HB claim as normal, taking into account the amount of tax credit currently in payment. Once the tax credit has been revised you will need to take into account the new amount of tax credit, but only from the date the revised amount is paid.
HB/CTB: A guide to the new tax credits - Amendment 7

You should, by now have received a copy of amendment 7 to the “HB/CTB - A guide to the new tax credits”. It has also been placed on our website.

The amendment is intended to help you understand and extract the information you will need to calculate the amount of tax credit to take into account as income when assessing entitlement to a claim for HB or CTB from either a proforma or a tax credit award notice.

It provides case studies based on samples of proformas and tax credit award notices.

However, it only gives the information in respect of awards made before or immediately after 6 April 2003 in respect of the complete tax year.

Information about awards that:
- are made after the start of the tax year
- include payments of arrears
- are amended part way through a tax year
- are part-year awards
will be issued as soon as possible

Information about what to do when the Inland Revenue finalise the awards at the end of the tax year will be issued towards the end of the tax year.

Amendment 7 looks daunting! It’s not. Please take the time to read through the explanatory paragraphs (1300 - 1372) before starting on the case studies. These paragraphs should help you understand the case studies.

Service Level Agreement

This agreement between LAs and the Inland Revenue outlines the key services offered by the Inland Revenue to LAs in respect of new tax credits. It will be distributed to you shortly. The agreement includes a section on the priority telephone line service that the Inland Revenue will provide via their call centres and the associated levels of service they will offer. The agreement also outlines the process by which LAs can request written copies of specific NTC award notices.

The agreement will be governed by the Practitioners Operational Group which will now include Inland Revenue representatives. Any issues relating to performance against the agreed service levels would ultimately be raised for resolution at this group. Further agreements to cover joint working on fraud and compliance are currently being written.

The schedule exercise

One of the mechanisms put in place to enable you to get advance information about tax credits awards that would need to be taken into account as income for the purposes of HB/CTB, was to invite you to submit schedules of households who you might expect to claim the new credits. On receipt of individual schedules, Child Benefit Centre (CBC) check whether a tax credit claim has been made and awarded, and return the proformas with the either the award information or confirmation that there was no trace of a claim. The aim of this was to minimise the scope for any overpayment of HB/CTB if customers themselves did not provide details of tax credit payments.

The first phase of the exercise has now been completed, with the CBC processing almost 300,000 schedules. However, for a number of reasons, NTC award information is becoming available for you to process later than hoped for. It has been agreed therefore that the CBC will retain schedules (104,645 of them) dealt with during the first phase where the tax credits system was indicating a claim had been made but not yet processed to the award stage.

The plan now is for those cases to be reviewed again from 20 March, by when more award detailed information should be available, and to forward their schedules for you to reassess HB/CTB claims before the tax credit payments start.

It is also planned to run a 'mop-up' phase of this exercise, from a date to be confirmed, for those of you who may still have cases that have claimed tax credits but are awaiting award notification/decision.

Distribution/content of this newsletter

We welcome your views on the content and format of this newsletter and would like further suggestions on what to include in future issues. Please send your ideas to Penny Higgins
email: Penny.Higgins@dwp.gsi.gov.uk

Next month:

Coming in next month’s issue:
- more on Pathfinders
- update on Performance Standards Fund
- Benefit Periods
Dear Joy

Many thanks for your letter. I imagine that anyone who has worked in benefits for any length of time will recognise much of what you say here. (I won’t mention what I used think about ‘Headquarters’ when I worked in a local office!). I am very conscious of the additional workloads you are now likely to face, on top of all the other things you mention, and at the busiest time of your year. I can assure you we are now looking urgently at the implications for overpayments, and for subsidy. If we can clarify the position, or make any changes, in these areas I will let you know very soon.

We’re also looking at the funding implications of the need to do extra assessments, as well as more training and software changes. Again, I can’t make any promises at this stage, but I will let your representatives know one way or the other as soon as possible. As you rightly say, we must try to minimise the effects of all this on customers and that is our key priority.

I take heart from your statement that ‘you will do everything in your power to make it work’ as long as we give you clear guidance. I know from my visits to LAs that benefits staff share that commitment and resolve. And I do think there is a brighter future ahead. 2003 was always going to be challenging with Supporting People, New Tax Credits and Pension Credit. But I hope you agree that our HB reform proposals show our commitment, backed firmly by Ministers, to remove some processes, such as benefit periods, where we think any value they add is disproportionate to the amount of hassle they create for you, and for customers. (I will reply separately to your points on benefit periods by the way.)

And I do believe there is a strong case for looking critically at some of the complications that have arisen in dealing with tax credits and we will be doing this too over the coming year.

So I do understand the points you make, and we are doing our best to address them. Moreover, I am confident that we can work together to make life much better both, for you and our customers.

Best wishes

Paul

---

Dear Paul

I would like to make the following comments regarding the recent issues raised in respect of new tax credits.

The volume of changes in circumstances that LAs are going to have to deal with will be much higher than anticipated. Not only the processing of changes but the number of enquiries from customers who will be totally confused by the range and number of documents they will receive from a variety of sources. Where will they call for advice? The LA who are accessible. How can we process changes while we deal with confusion? Get more resources. Where will we get trained staff? The list goes on.

In addition to inconvenience and confusion it is likely that tenants and council tax payers will be unable to interpret what they should actually pay and this will lead to further difficulties with reductions in collection performance and cash flow shortfalls. Who will they call for advice? The LA who should be able to tell them. How will we know what is happening in the Inland Revenue? Phone them to ask. How can they process NTC claims when we keep phoning them? The list goes on.

What about overpayments that will inevitably arise out of all of this? They were an issue in any case and now they will escalate. The only sensible thing to do is classify them as official error with no subsidy implication to LAs, not only those that arise out of late notification of NTC but also those that arise out of LAs not taking action quickly enough on notified changes of circumstances. After all we will have queues of customers to see to.

The above is only the start. There will be increased costs in all aspects of benefit administration from staffing, software implications to paper and postage, not to mention the pressure placed on staff that will be trying to keep the system from collapsing.

All of this at a time when we have THBS changes, rent increases, council tax billing income uprating changes, preparing for pension credits (no easy task) and all the other difficulties we constantly face on a day-to-day basis…

...I could go on forever but that does not solve the problem. Just let us know what you expect and, as usual, we will do everything in our power to make it work with the minimum of fuss. The plea I make is don’t make us pay financially for something outside our control and please make sure that decisions made now do not come back to haunt us in the future with the threat of subsidy penalties and auditor inquisitions. Please be aware that the difficulties with NTCs do not only affect claimants moving from WFTC or new qualifiers but will be felt by all current and future benefit claimants along with landlords for some time.

Joy MacKenzie
Glenrothes Council
Dear Paul

The question we are being asked is “are prescription charges etc free when the person qualifies for Tax Credits”, I can’t find the answer in the guidance can you please advise?

We are also being told that Tax Credit notifications do not include the advice that any changes must be reported immediately to HB/CTB sections - If this is correct it will cause confusion, is it too late to amend the notifications that have not gone out yet?

Lyn Dixon
Benefits Manager
Fenland District Council

Dear Lyn

People on low incomes may be entitled to help - for further advice ask the customer to contact NHS Direct on 0845 46 47 (England and Wales), and 0800 22 44 88 (Scotland).

The award notice does not advise customers to tell the LA of any changes. However, the notes that accompany the award notice state clearly on the first page that the customer must tell you that they are in receipt of a tax credit. The notes also advise customers that they must let you know about any change in circumstances even if they don’t have to tell the Inland Revenue.

I hope this is helpful.

Paul

Dear Paul,

In Housing Benefit Direct 13 you ask for any outstanding questions on the Tax Credits.

We have been training our staff this week and one of the questions we couldn’t answer is, “What happens if the person finishes work, does the Working Tax Credit continue to be paid as it does at the moment with Working Families Tax Credit or does it cease as the person is no longer working?”

There is nothing in the guidance that tells us what will happen in this case.

I look forward to reading the 17th March special issue.

Vince Finn
Tameside

Dear Vince

Working Tax Credit is more responsive to in-year changes than WFTC/DPTC. Therefore, if a person ceases work during the tax year the tax credit award will end. The claimant will tell you that their earnings have ceased and, if the WTC is paid with their earnings, that their WTC has ceased to be paid - you should take normal change of circumstance action.

If CTC is in payment you should continue to take the amount shown on the original award notice into account until such time as you receive a revised award notice. You should then take into account the revised payment.

Best wishes

Paul

Dear Paul

I have read the latest issue of HB direct (no 13) and note that in the final paragraph of the editorial you have asked for general comments on the above.

My question is on the possibility of a direct IT link with the Inland Revenue. I am sure many people will ask this but is there any chance?

Robert Hopkins
Caerphilly

Dear Robert

I can well understand why you would like to see electronic links between LAs and the Inland Revenue. Local authority representatives on the tax credits working group have pressed strongly for such links, for example something similar to RATs. Although electronic links with Inland Revenue are not currently available, there will be a priority helpline and Inland Revenue have made a commitment to deal with written enquiries timeously. What we have also done is set up a feasibility study to examine the case for electronic links and how best such links could be established. The study will report by the Autumn and decisions made then. Your associations will be involved throughout. So the answer is yes, there is a chance but I can’t make any promises until we’ve examined the case.

Best wishes

Paul
What do we do with WFTC/DPTC payments?

Q1 We haven’t seen an award notice for some of our customers who are in receipt of WFTC, can we suspend payment of HB and CTB for all these customers?

A1 We strongly advise against this. Provision for suspension of HB/CTB is in Part III of the HB/CTB (Decisions and Appeals) Regulations 2001. Reg 11 lets you suspend HB where it thinks that an issue arises as to entitlement. Reg 13 lets you suspend where there has been a failure to comply with the requirements of regulations regarding the provision of information. Judgements under either provision must be made by reference to a particular case - it is not open to an LA to impose a blanket suspension in any WFTC case.

Q2 Can we take a notional amount of tax credit into account if we think someone is entitled to either the Child Tax Credit or the Working Tax Credit?

A2 No - there is no provision to take a notional income into account even if you think that someone would be entitled to a tax credit. You may only take into account the award actually in payment.

Q3 We have several customers who are in receipt of WFTC/DPTC but who have not yet received an award notice - can we continue to take their WFTC/DPTC into account after 7th April?

A3 No - WFTC and DPTC should not be taken into account as income in a claim for HB/CTB from Monday 7th April. There is no provision to take a notional income into account even if you think that someone would be entitled to a tax credit.

Q4: When do we stop taking WFTC/DPTC into account as income?

Q5 When do we start taking the new tax credits into account as income?

A4/5 7th April in both cases. Although the last payment of WFTC/DPTC will be made in the week commencing Monday 7th April and entitlement to the new tax credits begins on Sunday 6th April, we have introduced regulations to ensure that the change of circumstance in respect of both these changes occurs on, and takes effect from, Monday 7th April - regardless of other changes of circumstance occurring at the same time.

Change in circumstances

Q6 If people “float off” IS or JSA(IB) and have to make a claim to standard HB is this a change in circumstances?

A6 Yes! It is a change that affects their entitlement to HB and CTB and therefore is a change in circumstances. It should be shown on the relevant MIS forms as such.

Q7 Those people who previously had the Children’s Tax Credit included in their tax code will no longer be receiving this tax relief and therefore may be receiving a lower amount of take home pay than before. Should we be reassessing their earnings from the start of April?

A7 If the claimant notifies you of a change in the amount of their take home pay then, yes, you should be using the new take home pay rate. Even if you had wanted to, there is no provision in the regulations to disregard this change as it is not a change in the amount of personal tax relief but an abolition of a tax relief.

Q8 If a person ceases to be entitled to WFTC/DPTC and becomes entitled to WTC/CTC is this a change in circumstances?

A8 Yes – it is a change that alters someone’s entitlement to HB/CTB and is therefore a change in circumstances. It should be entered on the relevant MIS forms as such.

Disability element

Q9 Receipt of DPTC gave entitlement to the disability premium in HB and CTB - does receipt of the disability element in the Working Tax Credit do the same?

A9 Yes - although in the majority of cases the person concerned will also be in receipt of another qualifying benefit eg: DLA.

30 hours earnings element

Q10 Where can I find regulation 20(1)(c) of the Working Tax Credit Regulations and what does it say?

A10 Regulation 20(1)(c) can be found in the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002 - Statutory Instrument Number 2002/2005. The regulation prescribes the people who are entitled to the 30 hour element of the WTC. These are:

- single claimants aged 25 or over who work for 30 or more hours per week;
- a couple, one of whom is aged 25 or over and works for 30 or more hours per week;
- a couple, at least one of whom is responsible for a child and at least one of whom works for at least 16 hours per week and the total of their hours are at least 30 per week.

The tax credit award notice will indicate the number of hours the claimant works if the 30 hour element is included in the award.

Q11 We have a couple without children both over 25, one of whom works over 30 hours a week. They apply for WTC but don’t qualify because their income is just too high. However, they are eligible for HB. Do we give them the 30 hour employed earnings disregard in their HB calculation or must they be actually receiving WTC to get it?

Q12 We have a childless couple receiving WTC – one is over 25 and the other is under 25. The person who works over 30 hours is under 25. Can you confirm the position on the credit and the disregard?

A11/12 You can apply the 30 hour earnings disregard even if the claimant is not in receipt of WTC. However if the family premium is not included in the applicable amount for the HB/CTB claim the person working for 30 hours or more must also be aged 25 or over.
**FREQUENTLY ASKED QUESTIONS (continued)**

**Q13** Can we aggregate the number of hours worked by a couple to decide if the 30 hour earnings disregard can be applied?

**A13** If the HB or CTB applicable amount for the couple includes the family premium, or a higher pensioner premium or a disability premium the hours can be aggregated provided at least one member of the couple works for 16 or more hours per week. If the applicable amount does not include one of those premia then the hours cannot be aggregated.

**Arrears of tax credits**

**Q14** I know that arrears of tax credit are treated as capital and, in some cases, are disregarded as capital for 52 weeks but how will I know when I can and when I can't disregard them?

**A14** Arrears of tax credit paid as a result of a change of circumstance in the tax credit claim are disregarded as capital for 52 weeks. Arrears of tax credit paid because of, for example, the backdating of a new claim for a tax credit are not disregarded but added to the claimant's other capital.

Generally the award notice will make clear that this is why the payment has been made but if you are in any doubt telephone the priority helpline.

**Child Tax Credit**

**Q15** I thought we could continue to include the additional amount for a child on the death of a child but I don't know for how long I can continue to include it as I can't find a reference in the regulations.

**A15** Regulation 20 of The Child Benefit (General) Regulations 2003 (S.I. 2003/493) prescribes that entitlement to child benefit continues for eight weeks after the death of a child (or until the Monday in the week following the week in which the child would have reached age 19 if this is shorter).

We have amended Regulation 13 of the HB Regulations (Reg. 5 for CTB) so that the child can continue to be treated as a member of the family in such unfortunate cases.

Therefore both the additional amount for the child and, if appropriate, the family premium can continue to be included in the applicable amount for up to 8 weeks. Any relevant child care charges that are being incurred can also continue to be deducted from the earnings of the claimant for a similar period.

**Q16** The child care element, for some cases, is being paid with the Child Tax Credit but MIS 122 and 123 refer to a split between WTC and CTC - how do I show the child care element?

**A16** As the MIS form does not ask you to provide a breakdown of the credits but simply to show the actual credits in payment ie: either the WTC or the CTC or both, it does not matter that the child care element may be paid with the CTC.

However, as the child care element is an element of the WTC there may be a few cases where the amount of WTC in payment is shown as Nil but the child care element (and therefore part of the WTC award) is payable with the CTC. In such cases the MIS form should be completed to show that WTC is in payment.

**Miscellaneous topics**

**Q17** When will the helpline number be available to us?

**A17** A letter will be sent to all Benefit Managers giving details of the helpline number as soon as the number is live.

**Q18** A customer has complained that the rate of their tax credit award is incorrect and wishes to appeal - what do I do?

**A18** If the customer thinks the amount of the tax credit award is incorrect they may appeal against the tax credit award decision - details of how to go about this are given on page 4 of the tax credit award notice. Once the award decision has been reviewed, if it is amended, the customer should ask for a review of the HB/CTB claim based on a relevant change of circumstance.

**Q19** The tax credit award notice does not show a break down of the various elements of the awards.

**A19** For the purposes of deciding a claim for HB/CTB, the only elements of a tax credit award you need to be aware of are:

- the disability element; and
- the 30 hour element.

If the disability element is in payment the award notice will show, on page 2, that the claimant is disabled. If the 30 hour element is included then page 2 will show the number of hours the claimant(s) work.

**Q20** I thought tax credits were weekly amounts - why are we having to divide the award by 366 and multiply by 7?

**A20** This is because tax credits awards are annual amounts and therefore, in line with HB and CTB regulations, the annual amount has to be divided by the number of days in the year and the result multiplied by 7. 2004 is a leap year and so the 2003/04 tax year has 366 days and not 365.

**MIS Forms**

**Q21** Section 7 of the guide indicates that we still need entries for WFTC and DPTC after April on Stats 122 and 123 - do we?

**A21** No! The Stats forms were designed before we introduced regulations that ensured WFTC and DPTC were not taken into account from 7th April - the forms will be amended in due course.

**Q22** I have to show the separate entries for WTC and CTC on Stats 122 and 123 - what is the child care element?

**A22** Although the child care element can be paid with either the WTC or the CTC it is an element of the WTC award and should be entered as such on the relevant stats forms.

Department for Work and Pensions working with LAs ... Department for Work and Pensions working with LAs ...