The biggest revolution since Beveridge

In Budget 1999, the Government announced plans to reform the benefits system by bringing together the different strands of support for children into a single integrated child credit and extending in-work support to low paid workers without children. Its intention, to create “a seamless system of financial support” for children, and a “single, visible instrument, underpinned by the National Minimum Wage to make work pay”, will see the introduction of two new tax credits from April 2003 – Child Tax Credit and Working Tax Credit. According to the Chancellor of the Exchequer the reforms will mark “the biggest revolution to the tax and benefits system since Beveridge.”

The new payments, to be administered by the Inland Revenue, represent a radical restructuring of the benefits system in that they will replace, from April 2003 –

- Working Families’ Tax Credit;
- Disabled Person’s Tax Credit;
- Children’s Tax Credit;
- New Deal 50+ Employment Credit; and
- the child dependant additions in new claims for National Insurance and ‘earnings replacement’ benefits (e.g. Incapacity Benefit).

In addition Child Tax Credit will replace the child elements in Income Support and income-based JSA from April 2004. NB – Child Benefit (CB) is not affected by the introduction of the new tax credits. Its administration will however transfer to the Inland Revenue in April 2003.

The new tax credits will be means tested. However, unlike means tested benefits, there will be no capital limit and gross income will be assessed on an annual basis. Working Tax Credit (except for any childcare element payable) will be paid to the worker through the wage packet, and Child Tax Credit will be paid to the main carer along with the childcare element of Working Tax Credit.

Common eligibility rules

Entitlement to the new credits will require applicants to be aged 16 or over; not subject to immigration control (subject to prescribed exceptions); resident & present in the UK; and satisfy a means test.

In addition, applicants will need to satisfy specific rules, relating to work and children, which govern entitlement to each of the individual tax credits.

Who will be eligible for Child Tax Credit?

In addition to satisfying the common eligibility rules, to be entitled to Child Tax Credit the claimant or their partner must be ‘responsible’ for a qualifying child or young person – ie a person who normally lives with them and who is –

- a child, until the beginning of the September following their 16th birthday;
- under 19 and in full-time, non-advanced education; or
- under 18 and registered with, for example, the Careers Service or Connexions. (However in such circumstances s/he will only be a qualifying young person for a maximum of 20 weeks.)

Who will be eligible for Working Tax Credit?

Having satisfied the common eligibility rules, there are four possible routes to Working Tax Credit entitlement –

Route 1: Responsibility for a child

The claimant or their partner must be working for 16 hours or more each week and one of them must be ‘responsible’ for a child or young person who normally lives with them – see rules relating to Child Tax Credit above.

Route 2: Disability

The disabled person must be working for 16 hours or more each week; be at a disadvantage in getting a job because of a physical or mental disability; and satisfy a qualifying benefit test.

The disadvantage test – A person is deemed to be at a disadvantage in getting a job if they have difficulty in carrying out one or more prescribed functions (from a list of twenty) that include not being able to –

- keep their balance when standing, unless they continually hold onto something;
- hear a telephone ring when they are in the same room as the telephone, if appropriate using a hearing aid they normally use;
- normally sustain an 8 hour working day or a 5 day working week due to a medical condition or intermittent or continuous severe pain; or
- because of mental illness s/he receives regular treatment under the supervision...
of a medically qualified person, or due to mental disability is often confused or forgetful.

NB – On an initial claim, a person will also satisfy the disadvantage test if s/he is undergoing a period of habilitation or rehabilitation as a result of an illness or accident.

The qualifying benefit test is satisfied if the disabled person –
- is entitled to Disability Living Allowance (DLA), or Attendance Allowance (AA) (or their equivalents in a War Pension or Industrial Injuries Disablement Benefit (IIDB));
- for at least 1 day in the previous 26 weeks, received a disability or higher pensioner premium with Income Support, income-based JSA, Housing Benefit (HB) or Council Tax Benefit (CTB); Incapacity Benefit (IB) at the short-term higher or long-term rate; or Severe Disablement Allowance (SDA);
- for at least 1 day in the previous 8 weeks was in “training for work” and, within the 8 weeks before the training commenced, received either IB at the short-term higher or long-term rate, or SDA; or
- has an invalid vehicle.

In addition, there is a “fast track” route to satisfying the qualifying benefit test, designed to assist those who become sick or disabled whilst in work. This requires that the person had, on the basis of their incapacity for work, been in receipt of occupational sick pay; Statutory Sick Pay (SSP); IB at the short-term lower rate; Income Support; or National Insurance (NI) credits. Entitlement needs to have lasted for at least 20 weeks, and have ended within the previous 8 weeks. The person also has to have a disability which is likely to last for at least 6 months from the date of claim (or for the rest of their life if they are expected to die sooner) and be earning less – by the greater of £15 per week or 20% of their gross earnings – than before the illness or disability began.

Route 3: Aged 50+

The claimant or their partner must be aged 50 or over; have started work, for 16 hours or more each week (on or after 6 April 2003 and within 3 months of claiming tax credits); and, for at least 6 months before starting work –
- the worker was in receipt of Income Support, JSA, IB, SDA, Retirement Pension/Minimum Income Guarantee combined, or NI credits;
- their partner claimed one of the above, with a dependant addition for the worker; or
- the worker or their partner got Carer’s Allowance (known as Invalid Care Allowance before April 2003); Bereavement Allowance; or Widowed Parent’s Allowance for some of the 6 months, followed by one of the above benefits or dependant additions.

Route 4: Aged 25+

The claimant must be aged 25 or over and work at least 30 hours/week.

### Rates and thresholds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic element</td>
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</tr>
<tr>
<td>Couple/lone parent</td>
<td>1500</td>
</tr>
<tr>
<td>Disability element</td>
<td>2040</td>
</tr>
<tr>
<td>Severe disability element</td>
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</tr>
<tr>
<td>30 hour element</td>
<td>620</td>
</tr>
<tr>
<td>50+ 16 – 29 hrs element</td>
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<tr>
<td>30+ hrs element</td>
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</tr>
<tr>
<td>Childcare (up to 70% of)</td>
<td>135</td>
</tr>
<tr>
<td>2+ children (weekly rate)</td>
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<td>Childcare (up to 70% of)</td>
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<td>2+ children (weekly rate)</td>
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<tr>
<td>Family element</td>
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<tr>
<td>Baby addition</td>
<td>545</td>
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<tr>
<td>Child element</td>
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</tr>
<tr>
<td>Disabled child</td>
<td>2155</td>
</tr>
<tr>
<td>Severeely disabled child</td>
<td>865</td>
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</table>

<table>
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<tr>
<th>Thresholds</th>
<th>Amount (£)</th>
</tr>
</thead>
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<td>First threshold</td>
<td>5060</td>
</tr>
<tr>
<td>Second threshold</td>
<td>13230</td>
</tr>
<tr>
<td>(annual figures 2003–2004)</td>
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</tbody>
</table>

### The means test

The tax credit calculation uses annual figures throughout – although if a person applies part way through the tax year or there is a relevant change in circumstances, the figures used are pro-rated for the relevant period.

First the claimant’s maximum tax credit (the sum of their maximum Working Tax Credit and maximum Child Tax Credit) is calculated according to their circumstances – eg whether they are single or a member of a couple, have children, are working, or have a disability. Then the claimant’s income is compared to threshold figures. If their income is less than or equal to the relevant threshold, maximum tax credits are awarded. If their income exceeds the threshold, the maximum tax credit figure is reduced.

NB – if the claimant is in receipt of Income Support or income-based JSA, they will automatically be entitled to maximum Child Tax Credit.

Step 1: Work out maximum tax credit

The applicant’s maximum tax credit is the sum of their maximum Working Tax Credit and maximum Child Tax Credit.

To calculate the applicant’s maximum Working Tax Credit add together any of the following elements that are applicable –
- Basic element – included in every calculation;
- Couple/lone parent element – included in addition to the basic element. However couples will not be entitled to this element if they only qualifying for Working Tax Credit through the 50+ route, unless one of them works for 30 hours or more/week;
- Disability element – included if the claimant or their partner qualify through the disability route. If both members of a couple satisfy the disability criteria, two disability elements are included;
- Severe disability element – included, regardless of whether the disabled person is in work, if s/he is entitled to the higher rate of the care component of DLA or the higher rate of AA. If both members of a couple are in receipt of one of these benefits, two severe disability elements are included;
- 30 hour element – included if the claimant or their partner works 30 hours/week or more or, in the case of a couple with responsibility for a child/young person, where one is working at least 16 hours/week if the total hours worked by them equals 30 hours/week or more;
- 50+ element – included, for a maximum of 12 months, for those aged 50 or over. Paid at two rates depending on whether the person is working 16–29 hours, or 30 or more hours/week. If both members of a couple satisfy the criteria, two 50+ elements are included; and
- Childcare element – included in respect of charges for “approved” childcare – eg registered childminders, nurseries, after school clubs, holiday play-schemes – for each child to the September following their 15th birthday (or following their 16th birthday if the child is in receipt of DLA, or is registered blind). Included for lone parents where s/he is working 16 hours/week or more, and for couples if both are working 16 hours or more each week, or one works 16 hours or more.
more and their partner is incapacitated (eg – is in receipt of a disability or higher pensioner premium in HB/CTB; or DLA, AA, the short-term higher rate or long-term rate of IB, or SDA).

To calculate the applicant’s maximum Child Tax Credit add together any of the following elements that are applicable –

- **Family element** – included once in all assessments, and paid at a higher rate where the family have a child aged under 12 months;
- **Child element** – included for each child/young person;
- **Disabled child element** – included for each child/young person who is in receipt of DLA or who is (or was within the last 28 weeks) registered blind; and
- **Severely disabled child element** – included for each child/young person who is in receipt of the higher rate of the care component of DLA.

**Step 2: Calculate income**

Entitlement will usually be based on applicants’ gross income from the previous tax year. (Couples will claim jointly and have their joint income taken into account.) However, for awards covering the tax year 2003–2004, gross income from the tax year 2001–2002 will be used.

NB – In addition there is scope for awards to be revised either during or at the end of the tax year to reflect any fall in income, or any rise in excess of £2500. (Although the first £2500 of any increase will be disregarded in any reassessment).

In general only taxable income is taken into account in the tax credit calculation, for example –

- earnings from employment or self employment;
- taxable welfare benefits. In consequence, benefits that are ignored will include Income Support, income-based JSA, HB and CTB, CB, DLA and AA; and
- income from investments, property etc.

Rather than capital limits, actual taxable income on capital will be taken into account.

NB – Statutory Sick Pay and Statutory Maternity Pay are treated as earnings rather than benefits, although SMP attracts a £100/week disregard. State retirement pensions, occupational and personal pensions are all treated as pension income that are added to income from capital and attract a £300/year disregard. Child maintenance of any description is ignored completely.

**Step 3: Compare income to threshold … and apply the taper**

Since Angelina satisfies the rules for both WTC and CTC, the appropriate threshold is £5060. Only if Angelina’s income is less than or equal to the threshold will she be entitled to maximum tax credits.

However her income, £12000, exceeds the threshold by £6940. As a result, her maximum tax credit will be reduced … by 37% of the excess income figure.

Angelina’s tax credit entitlement is therefore –

\[
\begin{align*}
&… \text{maximum tax credit from step 1} \quad £8875.00 \\
&… \text{minus 37% x £6940} \quad – £2567.80 \\
&\text{maximum tax credit} \quad £6307.20
\end{align*}
\]

NB – Because of her excess income, Angelina cannot be paid her maximum tax credit. Since tax credit elements in respect of children are paid first, her tax credit award will be made up as follows …

- Family element of Child Tax Credit £ 545
- Other Child Tax Credit elements £1445
- Childcare element of Working Tax Credit £1820

These child-related elements of £3810 will be paid directly to Angelina. The remaining elements of Working Tax Credit will be used to pay the balance of the £6307.20 award. Angelina will therefore receive £2497.20/year through her wage packet.

**Claims and payments**

Claims need to be submitted in writing – or via the electronic facility on the Inland Revenue website @ www.taxcredits. inlandrevenue.gov.uk – on the approved claim form – TC600. Only one form needs to be completed even if the application relates to both tax credits.

NB – Once a claim is established, it is automatically renewed at the end of each tax year.

**Backdating** – Entitlement can be automatically backdated for 3 months. In addition, there is scope for further backdating, for those applying through the disability route, where –

- an application for Working Tax Credit is refused on the basis that the claimant does not satisfy the disability route criteria; and
At the time of the tax credit application, s/he was waiting to hear the outcome of a claim for a qualifying disability benefit; and

- the disability benefit claim is subsequently successful; and

- a further claim for Working Tax Credit is submitted within 3 months of the determination of the disability benefit claim.

The tax credit claim can then be back-dated to the date of determination of the disability benefit claim or, if later, the date of the original Working Tax Credit claim.

Payment hierarchy – Where the maximum tax credit cannot be paid because the applicant has excess income, the tax credit payment will be made up of elements according to a strict hierarchy to ensure that tax credits in respect of children and childcare are paid before (the non-childcare elements of) Working Tax Credit. In consequence the elements of Working Tax Credit other than the childcare element are tapered away first, then the childcare element, then the elements of Child Tax Credit other than the family element. Only those with incomes above the second threshold will have the family element of Child Tax Credit tapered away.

Awards

The Inland Revenue’s decision on the claim is effectively provisional, based on previous year income and current circumstances, and will run to the end of the tax year. (Although awards will be brought to an end earlier if, for example, a joint claim stops being a joint claim, a single claim stops being a single claim, or if the Inland Revenue have “reasonable grounds” for believing the award is wrong.)

At the end of the tax year, a notice will be issued to the claimant advising of the circumstances and income on which the award was based. The claimant will then have the opportunity to confirm or amend the details. A final reconciliation decision is then made taking into account any relevant changes, which could result in an underpayment or overpayment for the year. The details in the end of year notice are also treated as the basis of the claim for the subsequent year.

NB – Whilst certain changes in circumstances – for example, changes in the number of children in the household; the number of hours worked; or entitlement to one of the tax credit elements – can be reported at the end of the year, failure to report an advantageous change within 3 months will result in the award increasing only from the date of the notification, rather than the date of the change. Other changes must be reported within 3 months – for example, a change in the number of adults in the household or reductions in childcare costs of more than £10/week that are expected to last for at least 4 weeks. Failure to report such a change can result in the imposition of a penalty.

Interaction with other benefits

Income Support/income-based JSA – Those in receipt of Income Support/income-based JSA at April 2003 will see no immediate change other than that both will be uprated to ensure that allowances paid in respect of children will equal Child Tax Credit rates. Between April 2003 and April 2004, parents in receipt of tax credits who claim Income Support/income-based JSA (for example because they are no longer in employment) will retain Child Tax Credit although it will count as income in the assessment of their Income Support/income-based JSA. From April 2004 all child elements in Income Support/income-based JSA will be replaced by entitlement to Child Tax Credit.

Housing Benefit and Council Tax Benefit – From April 2003, tax credits will count as income for Housing Benefit and Council Tax Benefit purposes. However, the family premium included in the HB/CTB means test will be paid at a higher rate where a Child Tax Credit award includes the baby element.

National insurance/earnings replacement benefits – Child dependant additions in new claims for benefits such as Incapacity Benefit, the State Retirement Pension and Carer’s Allowance will be replaced by entitlement to the Child Tax Credit from April 2003. Existing claimants will however receive transitional protection from the new rules and continue to be entitled to child dependant additions with their National insurance/earnings replacement benefits.

Pension Credit – On its introduction in October 2003 Pension Credit will not include allowances for children. Instead claimants with children will be entitled to Child Tax Credit.

Social Fund payments – Where Working Tax Credit entitlement includes a disability element, or if Child Tax Credit is awarded at a rate higher than the family element (including the baby element where relevant), the recipient will also be entitled to funeral and maternity payments from the Social Fund.

NB – As we go to press it remains unclear whether those who are no longer eligible for Income Support/income-based JSA but instead receive tax credits will retain access to, for example, Community Care Grants and Budgeting Loans from the discretionary Social Fund.

Help with NHS Costs – The Department of Health advises that those in receipt of Working Tax Credit or Child Tax Credit (except those only entitled to Working Tax Credit who are not eligible for a disability addition) will qualify for full help with NHS Costs – eg prescriptions, dental treatment, and sight tests – provided their gross annual income is less than £14,200 per year.

Free school meals – The Government has announced that “we intend to make an order which will protect the school meal entitlement of around 100,000 children whose families will cease to receive Income Support and income-based JSA. It will also extend free school meals to an additional 89,000 children.”

Challenging decisions

In addition to scope for the Inland Revenue to revise tax credit awards – eg following specified changes in circumstance; if a decision was based on an official error; or there are “reasonable grounds” for believing that an award is wrong – the claimant will also have a right of independent appeal against most decisions. These appeals will be heard in the first instance by benefit appeal tribunals administered by the Appeals Service, an executive agency of the Department for Work and Pensions. However it is the Government’s intention that responsibility for tax credit appeals will eventually be transferred to the Tax Commissioners, on completion of its review of their role and function.