



## **Tax credits – an update**

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If you are in business you may find your income somewhat reduced as we move into recession. You may also artificially reduce your income by investing in equipment or other assets that allow you to write off the investment against your earnings.

In both cases this may give rise to a reduced level of earnings, perhaps for just one year that would allow you to make a claim for tax credits.

Tax credits fall into two classes. Working Tax Credits (WTC) and Child Tax Credits (CTC).

As you would expect the conditions for eligibility are complicated. Essentially if your income is below certain minimum levels, you are 16 years or over and you are resident in the UK, and all the other detailed conditions are met, you can make a claim.

To make a claim for a full tax year you must submit your application before the 5 July. (A three month carry back is allowed.)

A particular problem arises for working directors of small companies. As long as there is no formal contract of employment, directors are not obliged to pay themselves remuneration that complies with the National Minimum Wage regulations. In this way they can justify taking low levels of salary from their company. Unfortunately if you don't have a contract of employment you are not considered to be employed for WTC purposes – so no claim is possible.

If therefore you consider your net earnings will be reduced, for whatever reason, you may be advised to make an application for tax credits.

If you would like to discuss any of these topics, or indeed any other issues, please call.

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