



Tax Credits – Do you now qualify?

In the current economic climate many people may be suffering reduced profits / income and therefore are more likely to qualify.

Main qualifying conditions – All tax credits

The two tax credits (Working Tax Credit – WTC and Child Tax Credit – CTC) have separate qualifying conditions, but some conditions are common to both. These are that the claimant is:

- Aged at least 16, and
- Resident in the UK

Qualifying conditions – Working Tax Credit (WTC)

Working tax credit is only paid to those claimants (or their partners) who are working.

A person will be entitled to Working Tax Credit if:

- They are working (either employed or self-employed) at the date of claim, or will commence work within 7 days and either
 - Are aged at least 16 and working for not less than 16 hours per week and
 - Has a child for whom he or his partner is responsible, or
 - Has a physical or mental disability that puts him at a disadvantage,
 - or
 - Is aged at least 25 and undertakes not less than 30 hours work per week, or
 - Is aged at least 50 and working at least 16 hours per week and has left benefit.

Company Directors

Where a director of an owner managed company seeks to claim tax credits there are a number of difficulties to overcome. Where the company is not profitable, there may be a challenge to the status of the work as “renumerative”. If there is no likely prospect of payment, and therefore profits out of which to pay, then the claimant may not qualify. There is also the issue of contract of employment. If a director wishes to qualify for WTC they should be engaged under a contract of employment, which is not normally required for directors and small companies. The contract of employment would then mean that the director must be paid National Minimum Wage and this of itself may be undesirable because of the NIC consequences.

Child Tax Credit

Child Tax Credit is due to a claimant who has a qualifying child or young person living with them during the fiscal year. There is no requirement that the claimant be working or be the parent of the child concerned. In general terms CTC will be due to the recipient of child benefit in respect of that child.

Qualifying child or young person

You are able to:

- Claim up to 1 September after age 16
- Continue to claim at ages 17, 18 or 18 if in full time education
 - School or college
 - Studying for qualification at or below NVQ level 3, A levels, Scottish highers NOT University
 - Studying at least 12 hours per week in term time (excluding unsupervised study)

Young person – additional 20 weeks' payment

A claimant may claim a further 20 weeks CTC after the child no longer qualifies under the above rules when the young person has:

- Left full time education, and
- Does not have a job, but is
 - Registered for work or training with local careers service, or
 - Connexions service, or similar

The credit is paid directly to the main carer, usually the mother. Where a child spends some time with each parent who live apart the award will normally follow the child benefit payments. It is not possible for an award to be shared.

Once the award has been calculated by reference to the individual's circumstances, the available credits are reduced by the taper rate. This requires a calculation of the individual's income for the relevant period and then tapering the award at the appropriate rate.

Child care costs

Tax credits also contribute to child care costs to support working parents. If claimed by a single claimant, the claimant must be working for at least 16 hours per week. If claimed by a couple, they must both be working at least 16 hours per week, or one must work for 16 hours and the other be disabled, or in hospital or prison. Generally speaking, tax credits are payable in respect of care provided for a child by a registered child minder or an accredited organization.

Where the care is provided by a family member, claims are very limited, even if the family member is a registered child minder. Childcare payments will never be made in respect of costs paid to a relative of the child who cares for the child in the child's home. Childcare can be claimed until 1 September following a child 15th birthday.

Tax credits annual timeline

Tax credits are awarded for a fiscal year. The claim should normally be made within three months of the start of the year for the first claim. After that the renewal date is 31 July each year. If a claim is made at any other time the Revenue will consider back dating your claim by three months.

If you think you may qualify for Tax Credits you can order a tax credits claim pack from the HMRC Tax Credit Helpline on 0845 300 3900. If you would like us to assist you with your review and completion of the necessary claim form, please call Lee Pimlett or me.