

Melissa

Melissa, a lone parent, works full time, earns £57,500 a year, and has two children (3 and 5 years of age) for whose care she pays her approved childcare provider £300 a week. What is her tax credits entitlement for 2011/12?

To find the point at which Melissa's fast taper credits stop, compute maximum credits:

| | £ |
|---|-------------------------------|
| | Daily rates |
| WTC basic | 5.25 |
| WTC lone parent | 5.33 |
| WTC 30 hour | 2.16 |
| CTC child element x 2 | <u>13.98</u> |
| | <u>26.72</u> |
| Total without childcare | $26.72 \times 366 = 9,779.52$ |
| Childcare: | |
| - maximum for 2 children £300p/w x 52 @ 70% | <u>10,920.00</u> |
| Maximum tax credits | <u>20,699.52</u> |

To ascertain level of income at which WTC and CTC (apart from family element) are tapered away:

| | |
|--------------------------------------|--|
| Gross up maximum tax credits by 41%: | |
| £20,699.52 x 100/41 | 50,486.63 |
| Add 1st income threshold | <u>6,420.00</u> |
| Slow taper starts at | <u>56,906.63</u> |
| Family element (daily rate) | $£1.49 \times 366 = 545.34$ |
| Income | 57,500.00 |
| Less (start of slow taper) | <u>56,906.63</u> |
| | $£593.37 \times 41\% = \underline{243.28}$ |

Melissa's tax credit entitlement is £302.06

It will be seen from this example that the generous rates of support for children and childcare can push tax credit entitlement into quite high income brackets despite the lowering of the second income threshold in 2011-2012 from £50,000 to £40,000.