

Susan I – Low-income claimant, basic computation

Susan is a lone parent working 35 hours a week, with one child aged six and tax credits income of £10,000. She gives birth to her second child on 6 July 2008.

Susan's tax credits computation for 2008/09 will be as follows:  
For first relevant period 6.4.08 to 5.7.08 (91 days)

	£	£
WTC – basic	4.94	
WTC – lone parent	4.85	
WTC – 30 hour	2.02	
CTC – child element	<u>5.72</u>	
Total	17.53 x 91	1,595.23
Income (£10,000 x 91/365)	2,493.15*	
Less: First threshold (£6,420 x 91/365)	<u>1,600.61**</u>	
	<u>892.54 @ 39%</u>	<u>(348.09)</u>
		1,247.14
CTC – family element £1.50 x 91		<u>136.50</u>
Total		<u>1,383.64</u>

For second relevant period 6.7.08 to 5.4.09 (274 days)

WTC – basic	4.94	
WTC – lone parent	4.85	
WTC – 30 hour	2.02	
CTC – child element x 2	<u>11.44</u>	
Total	<u>23.25 x 274</u>	6,370.50
Income (£10,000 x 274/365)*	7,506.84	
Less: Threshold (£6,420 x 274/365)**	<u>4,819.40</u>	
	2687.44 @ 39%	<u>( 1,048.10)</u>
		5,322.40
CTC family element (baby rate) £3.00 x 274		<u>822.00</u>
Total		<u>6144.40</u>

Overall total for 2008/09 (£1,383.64 + £6,144.40) = £7,528.04

\*The income and reduction are rounded down to the nearest penny

\*\*The threshold is rounded up to the nearest penny

Once the first income threshold of £6,420 is reached, the 39 per cent fast taper withdraws credits in the following order:

- WTC elements other than childcare;
- then WTC childcare element;
- then CTC child elements.

Finally the slow taper is applied to the family element.

For those entitled to both WTC and CTC, the CTC elements do not start to be withdrawn until income reaches £15,575, or (if higher) the income figure at which WTC is fully withdrawn. This higher figure is ascertained by grossing up the maximum WTC entitlement and adding the first income threshold - so that in Susan's case the result would show:

Maximum WTC entitlement	£ 4,310.65*
Gross up by 100/39	11,052.95
Add 1st income threshold	<u>6,420.00</u>
Total	<u>17,472.95</u>

\*Made up as follows:

	£
- Basic	4.94
- Lone parent	4.85
- 30 hour	<u>2.02</u>
Total daily rate	11.81 x 365 = £4,310.65

It will be seen that the amount withdrawn by the fast taper in Susan's case, a total of £1,396.19, is wholly within her WTC entitlement and does not affect her CTC entitlement at all. For that to happen her income would have to be £17,472.95 or more.

<sup>1</sup> made up of £348.09 from the first 'relevant period' and £1048.10 from the second 'relevant period'

## Susan 2 – Income increasing within the disregard

Susan (see Susan 1) gets a new job on 6 October 2008 earning £32,000 a year. She has already received tax credits of £3,446.73 to 5 October 2008 ( $£1,383.64 + (6,144.40 \times 92/274)$ ). Her new job will take her income for the tax year 2008/09 to £21,000. This will not affect her tax credit entitlement in 2008/09, but next year – 2009/10 – her initial award will be based on her actual income for 2008/09, or £21,000.

Susan would be well advised, therefore, to tell the Tax Credit Office her 2008/09 earnings will actually be £21,000, so that her provisional payments\* for 2009/10 can be calculated on the basis of the higher income figure. Otherwise Susan's provisional payments\* for 2009/10 will be based upon the last known income figure (i.e. £10,000 per annum) and she will risk building up an overpayment between the start of the tax year 2009/10 on 6 April 2009 and the time when the TCO receive and act upon her annual declaration giving the actual figure for 2008/09.

\* 'Provisional payments' – the 'run-on' payments made at the start of a new tax year until the claimant completes and returns their renewal forms and HMRC issue the 'initial award' for that tax year based on last year's income as declared. Provisional payments are based on the claimant's last known income and circumstances. See further in [Renewing a claim](#)