

Melissa

Melissa, a lone parent, works full time, earns £65,000 a year, and has two children (3 and 5 years of age) for whose care she pays her approved childcare provider £350 a week. What is her tax credits entitlement for 2008/09?

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

	£	£
Daily rates		
WTC basic	4.94	
WTC lone parent	4.85	
WTC 30 hour	2.02	
CTC child element x 2	<u>11.44</u>	
Total without childcare	23.25 x 365 =	8,486.25
Childcare:		
- maximum for 2 children £300p/w x 52 @ 80%		<u>12,480.00</u>
Maximum tax credits		<u>20,966.25</u>

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

Gross up maximum tax credits by 39%:		
£20,966.25 x 100/39		53,759.62
Add 1st income threshold		<u>6,420.00</u>
Slow taper starts at		<u>60,179.62</u>
Family element (daily rate) £1.50 x 365		547.50
Income	65,000.00	
Less (start of slow taper)	<u>60,179.62</u>	
	£4,820.38 x 6.67%	<u>321.52</u>
Melissa's tax credit entitlement is		<u>£225.98</u>

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.