AWFM Fact File

"Calculating Tax Credits"

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2014/5 tax year Case Study showing how to calculate:

The couple and their circumstances...
John & Janet are married. John earns £47,500 per annum and has investment income of a further £5,000 per annum gross. Janet is self-employed and has made a loss in this tax year of £6,000 but normally makes about £15,000 per annum profit. Janet also has rental income from a property she used to live in which produces a profit of about £2,500 per annum.

Janet gave birth to twins on 3rd January 2014, returning to work on 2 April 2014. They pay £225 per week in childcare for their two daughters. Janet claims £33.70 per week in child benefit. Both John & Janet work more than 30 hours per week.

First establish the maximum potential claim...
They first need to establish the various elements that might be included in their claim, as follows:

Working Tax Credit basic element	£1,940
Working Tax Credit Couple or lone parent element	£1,990
Working Tax Credit 30 hour element	£800
Child Tax Credit child element (£2,750 per child)	£5,500
Child Tax Credit family element	£545
Working Tax Credit childcare element - maximum eligible cost when 2 or more children is £300 per week (but they only pay £225) and maximum percentage of cost covered is 70% (£225 x 70% x 52)	£8,190
Total maximum potential claim	£18,965

Then calculate the couple's joint income for tax credit purposes...

John's earned income	£47,500
Janet's earned income (loss in this year)	(£6,000)
Joint Property & Investment income (Investments £5,000 & £2,500 rent)	£7,500
Total income	£49,000
Less first £300 of property and or investment income	(£300)
Total joint income assessment for tax credit purposes	£48,700

The figure of £48,700 exceeds the income threshold of £6,420 by £42,280. The tax credits claim is therefore reduced by 41% (the withdrawal rate) of £42,280. The *reduction* is **£17,335**.

For this tax year therefore, the amount of tax credits paid will be £1,630 (£18,965 - £17,335).

How to claim...
HMRC form TC600 must be completed jointly by John & Janet. The tax credits will then be paid weekly or 4-weekly direct to Janet's bank or building society account.

Important things to note...
In a normal income year for Janet, where she earns £15,000 the couple's joint income would be £69,700.

This is £63,280 over the income threshold of £6,420 and therefore the balance of £63,280 at the withdrawal rate of 41% gives a reduction sum greater than the potential claim. In this case, there would be no Working or Child Tax credits available to John & Janet.

Care needs to be taken in ensuring that only the relevant parts of the calculation are used in an individuals' personal situation.

The introduction and eventual full roll-out of the Universal Tax credit will mean changes to the way tax credits are calculated.

Child Benefit income tax charge...
A further consideration for John & Janet is that they may currently be losing part their Child Benefit due to the income tax charge and the way their finances are run.

If just one of the couple's adjusted net income exceeds the £50,000 per annum limit, this will reduce the entitlement to the £34.05 per week child benefit (£1,771 per annum).

John has adjusted net income of £52,500 which exceeds the threshold by £2,500. The charge is 1% for every £100 over the income threshold. In John & Janet's case therefore they will lose 25% of the entitlement which equates to a loss of £442.75 per annum in child benefit.

If John & Janet were to agree to transfer perhaps half or more of John's portfolio to Janet outright, she would then receive part of the investment income and the child benefit might be retained, in full, saving them the £442.75 reduction.

If you have any questions or need an independent review of your financial arrangements,
please contact us to discuss your situation further.
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If you wish to have an assessment of your own situation, you should contact the office for advice.