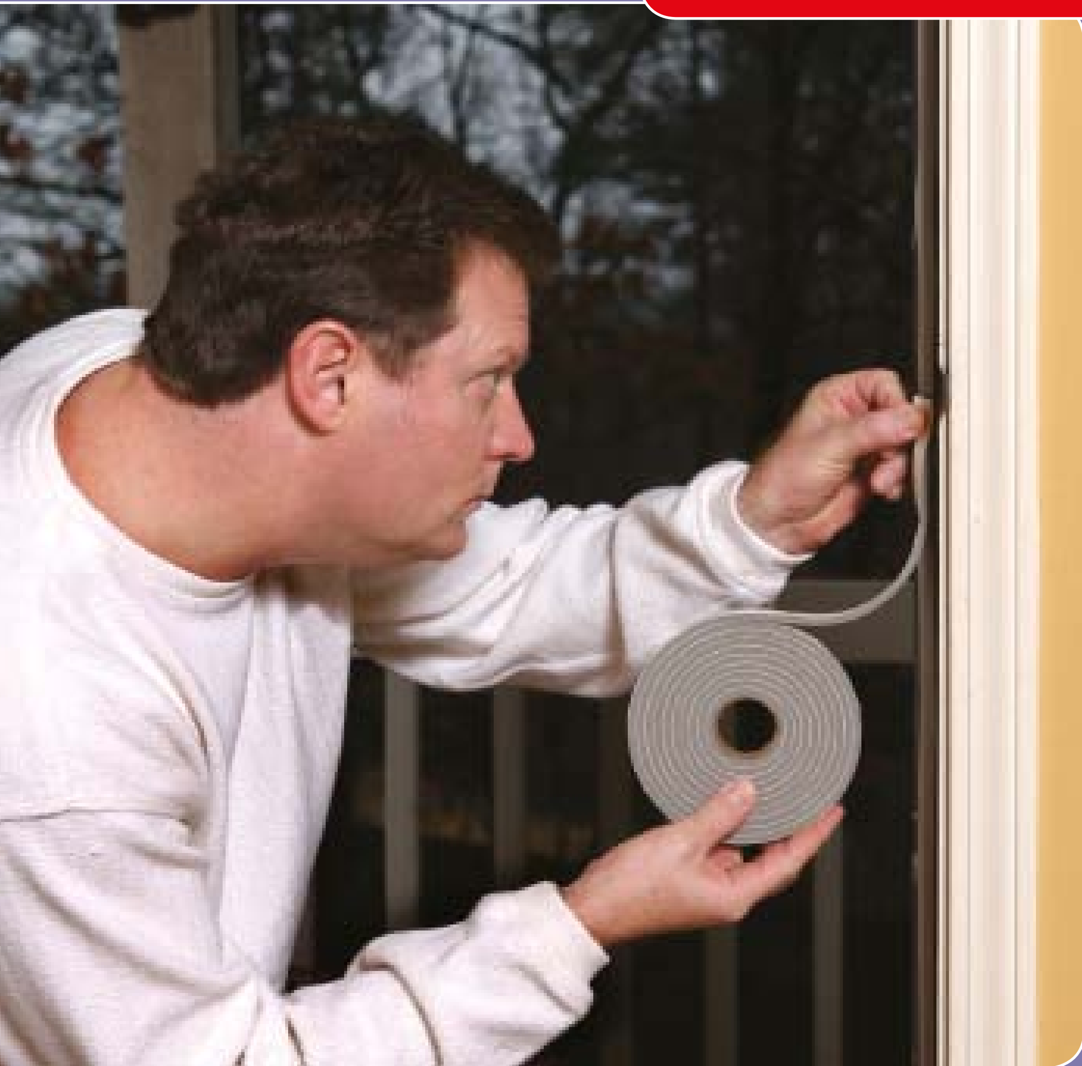
contact a family
for families with disabled children



A tax credit guide for self-employed parents

Information for families

Incorporating **The Lady Hoare Trust**

UK

Introduction

The rules for getting tax credits are very complicated, perhaps more so if you are a parent of a disabled child. And certainly if you or your partner happen to be self-employed.

This guide explains everything you need to know about claiming tax credits generally and some particular issues self-employed parents may need to be aware of. Tax credits interact with benefits for families on a low income, and you can find out more about this towards the end of the guide. For individual advice, ring our freephone helpline and we will arrange for a specialist adviser to talk to you.

Contents

Information in this guide

The information in this guide is based on the rules for claiming tax credits for self employed people for the tax year 2012/2013.

What are tax credits?

Many self-employed people are able to claim extra financial help in the form of tax credits. There are two tax credits offering financial support for families – Working Tax Credit and Child Tax Credit.

Working Tax Credit can be claimed by anyone who is responsible for a child and who works (including self-employment) for a minimum number of hours a week. Certain other self-employed people who don't have children can also apply.

Child Tax Credit can be claimed by families with children regardless of whether you work or not.

These credits are administered by Her Majesty's Revenue and Customs (referred to here as the Revenue) and, depending on your circumstances, it is possible to qualify for either or both. Although tax credits are income based you should not assume that you have too much money to qualify.

This publication is intended as a general guide for families who are looking after a child with a disability where a parent is self-employed. It includes ready-reckoner tables to give you an indication of how much tax credit a family in your circumstances should receive.

If you would like a full breakdown of your likely entitlement, or require any further information on tax credits, please call our freephone helpline.

From October 2013, tax credits will begin to be replaced by the Universal Credit, a new means tested benefit for working age people. No new claims for tax credits will be accepted from 6 April 2014 and existing tax credit claimants will be moved onto the Universal Credit between 2014 and 2017. Call our freephone helpline on 0808 808 3555 for information about the introduction of the Universal Credit.

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

Who is included in my claim?

Couples must make a joint claim. This includes couples living with a same sex partner. You can claim for:

- a child who normally lives with you, up until the September after their 16th birthday
- a young person up until the age of 19 where they are on a full-time course of non-advanced education or unwaged work-based training. This can be extended up to the young person's 20th birthday, so long as they are completing a course of education or training that they started, or were accepted on to, before turning 19.

If a young person starts to claim certain benefits in their own right (such as Income Support, income-based Jobseeker's Allowance or Employment and Support Allowance) this will mean that you can no longer receive tax credits for them.

Can I claim Working Tax Credit?

In order to claim Working Tax Credit you must be:

- aged 16 years or over, and
- living in the UK and not subject to immigration control (with some exceptions), and
- be responsible for at least one child and also be treated as working a required number of hours a week.

If you are a lone parent you must be working at least 16 hours a week. If you are a member of a couple with dependent children then you are normally expected to work at least 24 hours a week (these hours can either be worked by one partner or shared between you so long as one person is working at least 16 hours). **However, some couples, including certain carers, can claim despite only working 16-23 hours a week in total.**

You are exempt from the 24 hour rule if you are a couple with a dependent child and:

- one partner works 16 hours or more and the other partner is entitled to Carer's Allowance. This applies not only if you get Carer's Allowance, but also if you have an 'underlying entitlement' to this benefit (that is, you have claimed Carer's Allowance but are not actually receiving payments because you get another benefit instead), or
- one partner works at least 16 hours

and the other partner is incapacitated, or in hospital or in prison, or

- the working partner is either a disabled worker or someone aged 60 and they are working at least 16 hours. This latter group of couples can claim Working Tax Credit even if they have no dependent children.

You are treated as working for the number of hours you 'normally perform for payment or in expectation of payment'. This includes both work done and billed to the customer, and the time spent on 'activities necessary to your employment'. This might include:

- trips to wholesalers
- visits to potential clients
- time spent cleaning the business premises or cleaning a vehicle used as part of the business
- time spent advertising, canvassing, or book-keeping.

The work you do must be 'in expectation of payment'. This means more than a mere hope that payment will be made at a future date. There should be a probability rather than just a possibility that a payment will be made. If you reasonably expect payment for work done, but the customer does not pay, then the condition is satisfied. However, if you knew before starting the work that payment was unlikely to be made, you will struggle to meet this condition.

Some self-employed people work irregular hours, which vary from week to week. In these cases the Revenue will ask you for details of all the hours you have been working in order to try and assess what your 'normal' weekly hours are.

If you have stopped working because you are taking leave due to maternity, paternity, adoption or because you are ill or incapable of work, you can still be treated as working for a temporary period.

Also, if you stop working altogether or reduce your hours below the required number of hours, you can continue to receive Working Tax Credit for four weeks. However, you must tell the Revenue about this change in circumstances within one month. Contact the helpline for further details.

Please note some self-employed people without children (for example, self-employed people with disabilities) are also able to claim Working Tax Credit. If you do not care for a child you should seek advice from a local citizens advice bureau (CAB) or welfare rights service.

Extra money in Working Tax Credit for childcare costs

If you spend money on childcare when you work, your claim for Working Tax Credit may include help with 'eligible childcare costs'. In order for your childcare costs to be taken into account you must be either:

- a lone parent who works at least 16 hours per week, or
- a couple who both work 16 hours or more per week, or

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

- a couple where one member of the couple works 16 hours or more a week and the other is entitled to Carer's Allowance, or
- a couple where one member works 16 hours or more per week and the other receives certain disability/incapacity benefits (or they are in hospital or prison).

Before April 2012 it was not possible to get help with childcare costs if one partner worked 16 hours or more and the other was entitled to Carer's Allowance. If you are in this category and have been paying for childcare, make sure that you tell the tax credits office about this, so that you can start to have your childcare costs taken into account.

What type of childcare can be taken into account?

Only registered or approved childcare can be taken into account. This includes registered childminders, nurseries and other schemes run by approved providers. Care in the child's own home can also be counted if it is provided by someone who is registered. Childcare provided by a relative in the child's home is not counted – even if that relative is a registered childminder. Depending on where in the UK you live, you may also be refused help with the costs of registered childcare provided by a close relative in their home.

If a child is on Disability Living Allowance (DLA) or is registered blind, childcare costs can be included until the September after their 16th birthday. Otherwise, childcare costs can only be included until the September after their 15th birthday.

The amount of childcare costs that can be included

The maximum amount of childcare that can be taken into account is £175 per week for one child, and £300 per week for two or more children. Only 70 per cent of childcare costs can be met. This means that the most that can actually be included towards childcare costs is £122.50 per week (70 per cent of £175) for one child, and £210 per week (70 per cent of £300) for two or more children. These are the maximum amounts payable and the actual amount that you will get depends on your income and family circumstances.

If I get extra tax credits towards my childcare costs will this affect any Housing Benefit or Council Tax Benefit that I get?

You should always tell the office that pays you Housing Benefit or Council Tax Benefit about any changes to your tax credit payments. But in most cases these benefits will not be reduced if you start getting extra tax credits towards childcare costs. This is because of a special earnings disregard (the amount of money that is not counted) that is linked to your childcare costs when calculating these benefits. However, no special earnings disregard applies if you are a couple where one partner works 16 hours and the other is entitled to Carer's Allowance. Couples in this category are likely to find that the extra tax credits they get towards childcare leads to a reduction in Housing and Council Tax Benefit payments.

Can I claim Child Tax Credit?

In order to claim Child Tax Credit you must be:

- aged 16 years or over, and
- living in the UK and not subject to immigration control (with some exceptions), and have the right to remain in the UK, and
- be responsible for at least one dependant child.

Child Tax Credit can be claimed regardless of whether you are working or not and is paid on top of any Child Benefit you get. The amount of Child Tax Credit that you receive may be higher if you have a child on Disability Living Allowance (DLA). This is because an extra amount, known as the 'disability element', is added to your tax credit calculation for each child who is on DLA or is registered blind.

If your child gets the highest rate of the DLA care component a further 'severe disability element' is added. Child Tax Credit can either be paid by itself or alongside Working Tax Credit.

How are tax credits paid?

Working Tax Credit (except for any childcare element) is paid to the parent who is working. Child Tax Credit and any Working Tax Credit towards childcare costs are paid to the child's main carer. Payments are usually by direct transfer into a bank account. You can choose weekly or four-weekly payments.

Calculating my tax credit award

The amount of tax credit that you receive depends on your family's personal circumstances and on your gross annual income.The personal circumstances that are taken into account are:

for Working Tax Credit

- whether or not you are a lone parent or a member of a couple
- whether you work 30 hours or more a week (it is usually possible to add you and your partner's hours together)
- whether you have a disability
- whether you or your partner get the high rate DLA care component
- whether you have eligible childcare costs.

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

for Child Tax Credit

- the number of dependent children you have
- the number of children who get any rate of DLA or are registered blind
- the number of children who get the high rate DLA care component.

How income affects a tax credits award

Your entitlement to tax credits will also depend on your annual income. If you are a member of a couple then your partner's income is also counted. A dependent child's income is never taken into account. Your tax credit award is usually assessed on your income from the previous tax year. This means that if your annual income increases it will normally have no effect on your tax credit award until the beginning of the new tax year. The only exception to this is if your income for 2012/2013 is likely to exceed your income in 2011/2012 by more than £10,000. In such circumstances the current year's estimated income minus £10,000 is used.

Because of this £10,000 disregard, your profits can rise without necessarily affecting your current tax credit award. However, you need to remember that the following year's tax credit award will be affected and could fall. You should try and budget accordingly. From April 2013 the rules will change so that only the first £5,000 of an increase in income is disregarded.

What if I expect my current year's income to be lower than last year?
If your annual income goes down from the previous year but the reduction is £2,500 or less, your award will still be based on your previous year's income. If your income drops by more than £2,500 then your award will be based on your current year's income plus £2,500 (that is, on a figure that is £2,500 higher than your actual income this year).

Even if you think that your income is too high to get tax credits it is still worthwhile making a claim. This will protect your right to backdating of tax credits if you have an unexpected reduction in income later in the year. Tax credit claims can only usually be backdated for one month, so making a protective claim at the beginning of the year will make sure that you do not lose out if your income unexpectedly drops later.

How do I calculate my annual income for tax credit purposes?

As a general rule income that is taxable is taken into account. If you have a spouse/partner remember to include their income.

Step one
Add together:

- pension income
- investment income (for example, taxable income from savings and shares)
- property income (rental from a property where this is not conducted as part of a business. If you do rent property as part of a business then this is treated as trading income from self-employment instead)
- income from abroad
- notional income (income you are treated as having by the Revenue. For instance this may apply where you have deprived yourself of income in order to claim more tax credit, or where you have reduced or waived earnings and the person receiving the service could have afforded to pay the full rate).

If the total is £300 or less, ignore it. If it is more, deduct the first £300.

Step two
Add together:

- any gross earnings (that is, if you or your spouse/partner have any earnings as an employee)
- taxable social security income (some benefits such as Carer's Allowance are taxable)
- miscellaneous taxable income.

Step three
Add together the amounts from steps one and two.

Step four
Work out your taxable profits from self-employment.

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

Accounting periods and assessing taxable profits for tax credits

Tax credits are awarded for the tax year April to April but some businesses have accounting periods which are not in line with the tax year. In calculating earnings from self-employment, 'previous year's income' actually means 'taxable profits in the accounting period that ends before the beginning of this tax year'. 'Current year's income' means the taxable profits in the accounting period which ends during this tax year.

If your accounting period ends between 31 March and 5 April, then it will correspond to the tax year. However, if your accounting period ends earlier in the tax year then working out the correct annual income will be more complex.

For example, if your accounting period ends on 31 July, then, for a tax credit award covering April 2012/April 2013, your previous year's income will be based on the accounting period August 2010/July 2011 (the accounting period ending in the year before April 2012). Current year's income will be based on the accounting period August 2011/July 2012 (the accounting period that ends within the year April 2012/April 2013).

If you have an accounting period that ends early in the tax year, problems can emerge if your income from self-employment suddenly drops unexpectedly. In such circumstances it is possible to experience reduced income from your business alongside low tax credit entitlement and high tax bills.

Example
Ms Khan runs her own business and has an accounting period that ends on the 31 July. She claims tax credits and, for the year April 2012/April 2013, her award is based on her previous year's income – which means the accounting period August 2010/July 2011. In late 2012, Ms Khan's business loses a major contract and her profits fall substantially.

If Ms Khan asks for her award to be based on an estimate of her current year's income instead, this will not help. This is because her current year's income is actually based on the accounting period August 2011 - July 2012. Since the drop in Ms Khan's income occurred after July 2012, it cannot be taken into account in assessing her tax credit award for April 2012/April 2013.

It is possible to switch your accounting year end to between 31 March and 5 April. However, you should speak to your accountant about this in more detail since making such a switch can take a number of years. Also, there may be other reasons why a specific accounting period is particularly suitable to your business. If you do not have an accountant you can seek advice from your local tax office.

Add this figure to the figure in step three.

If you have a loss, subtract it from the figure in step three.

Finally deduct any:

- bank conversion charges/commission on any income you have received in other currencies
- gross gift aid, payroll giving or give-as-you-earn donations in the current year
- gross pension contributions.

How do I work out my taxable profits?

This is the amount of profit for the tax year once allowable expenses have been deducted from annual turnover. If you are a partner in a business, then it is your taxable profit from your share of the business that is counted. Your taxable profit is shown on your tax return for the relevant year. If you have not yet submitted a tax return, the notes accompanying the tax credit claim form downloadable at www.hmrc.gov.uk/forms/tc600-notes.pdf explain how to work out your taxable profit.

Please note that your taxable profit is unlikely to be the same as your accounting profit. This is because not all expenses are allowed by the Revenue as tax deductable, even where they are valid for accounting purposes.

More detailed advice on calculating taxable profits is available from the Revenue's Self-Assessment Helpline on 0845 9000 444.

Trading loss

If your business has made a loss, then your income for the tax year is nil, unless you have other income taken into account for that year. If you do have other assessable income, deduct the trading loss from that other income. If you do not have enough other income to offset the whole amount of any loss, any loss left over can be carried forward and deducted from profits of the same trade in future years.

Working out your taxable income for the previous and current years should be relatively straightforward so long as your accounting period ends between 31 March and 5 April. However, if your accounting period ends on a different date, you need to make sure that you base your annual income on the correct accounting period (see page 10).

What income is ignored?

Some income is completely ignored for tax credits purposes. This includes:

- maintenance payments
- most forms of student income
- adoption/fostering payments (but not any reward element)
- Disability Living Allowance
- Attendance Allowance
- Child Benefit
- Guardian's Allowance
- Income Support

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

- Income-based Jobseeker's Allowance
- Income-related Employment and Support Allowance
- Bereavement Payment
- Maternity Allowance
- the first £100 per week of any Statutory Maternity, Statutory Paternity or Statutory Adoption Pay
- Severe Disablement Allowance
- transitional long-term Incapacity Benefit (that is, in payment since before 13 April 1995)
- Industrial Injuries Benefit
- rental income from a property under the rent-a-room scheme (this allows you to rent furnished accommodation in your home and to earn up to £4,250 per annum tax free).

This list is not exhaustive – some other forms of income are also ignored.

What if I have a lot of capital or savings?

There is no capital limit preventing a claim for tax credits. Instead, any taxable income you receive from your capital is counted, for example interest on your savings (unless this is in a tax free savings account such as an ISA).

How much tax credit will I get?

The Revenue uses your family's circumstances to work out a 'maximum tax credits entitlement'. If you get Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or Pension Credit you are automatically entitled to the maximum amount of tax credit.

Otherwise you need to compare your annual taxable income to a set threshold. This is £15,860 if you are only eligible for Child Tax Credit and £6,420 if you are also eligible for Working Tax Credit.

If your income is at or below the threshold you will receive the maximum tax credits award for your circumstances. If your annual taxable income is higher than the relevant threshold the award will be reduced – for every £1 of income you have above the threshold, your maximum tax credits entitlement is reduced by 41p.

Even if your income means that you don't qualify for tax credits, it is still worth making a claim. Although you will get a decision saying that you have a nil award, this will protect your right to backdating of tax credits in the event that your income unexpectedly drops later in the year.

Although tax credits are income-based, you should not assume that you have too much money to qualify. For example if you have a large family or high childcare costs you can still qualify for tax credits even if your income is over £50,000. Use our ready-reckoner tables to get an idea of how much tax credits you might receive.

Using the tables to calculate your award

The following pages include a number of ready-reckoner tables to help you estimate the amount of tax credit you might be entitled to. Although tax credits are usually calculated as an annual award, the tables show the weekly equivalents.

All amounts are rounded down to the nearest pound.

If neither you nor your partner work for the necessary number of hours to be eligible for Working Tax Credit, use Table 1. There are separate columns depending on the number of children you have and how many of them are disabled. A child is classed as disabled if they are registered blind or if they are in receipt of DLA at any rate. Use the appropriate column to get an idea of how much tax credits a family in your circumstances might receive (remember, the weekly amount is given in the tables).

If either you or your partner work the necessary number of hours (see earlier section 'Can I claim Working Tax Credit'), the table you should turn to depends on the number of children in your family and how many of them are disabled.

A child is classed as disabled if they are registered blind or they are in receipt of DLA.

- if you have one child and that child is disabled use Table 2
- if you have two children and one of them is disabled use Table 3
- if you have two children and both of them are disabled use Table 4
- if you have three children and one of them is disabled use Table 5
- if you have three children and two of them are disabled use Table 6.

Using the tables if you have eligible childcare costs

The amount of tax credits you receive may be higher if you are paying for eligible childcare. Tables 2-6 have extra columns showing the tax credits award parents might receive where they are paying the maximum amounts towards eligible childcare. See the earlier section on 'Extra money in Working Tax Credit for childcare costs' for details on when childcare is counted. Help with childcare costs is not possible if you are only eligible for Child Tax Credit.

Table notes

***Table 1 note:**

If you have a child in receipt of the high rate of DLA care component, you may qualify for higher payments.

****Table 2,3,4,5 and 6 notes:**

These tables assume that families with incomes of £10,000 and above are working for 30 hours a week or more.

Higher payments may be made to families with a disabled worker or with a family member on the high rate of DLA care component.

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

Table 1: eligible for child tax credit only*

Annual taxable income	Family with one child who is disabled (£) weekly	Family with two children, one is disabled (£) weekly	Family with two children, both are disabled (£) weekly	Family with three children, one is disabled (£) weekly	Family with three children, two are disabled (£) weekly
£15,860 and under	118	170	226	221	278
£20,000	86	137	194	189	245
£25,000	46	98	155	149	206
£30,000	7	59	115	110	167
£35,000	nil	19	76	71	127
£40,000	nil	nil	36	31	88
£45,000	nil	nil	nil	nil	49
£50,000	nil	nil	nil	nil	9
£55,000	nil	nil	nil	nil	nil

Table 2: Working family with one child, that child being disabled**

Annual taxable income	No eligible childcare costs (£) weekly	Includes maximum childcare costs (£) weekly
£6,420 or under	193	315
£10,000	180	302
£15,000	140	262
£20,000	101	223
£25,000	62	184
£30,000	22	144
£35,000	nil	105
£40,000	nil	66
£45,000	nil	26
£50,000	nil	nil
£55,000	nil	nil

Table 3: working family with two children, one of whom is disabled**

Annual taxable income	No eligible childcare costs (£) weekly	Includes maximum childcare for one child (£) weekly	Includes maximum childcare for two or more children (£) weekly
£6,420 or under	245	367	455
£10,000	232	354	442
£15,000	192	314	402
£20,000	153	275	363
£25,000	113	235	323
£30,000	74	196	284
£35,000	34	156	244
£40,000	nil	118	205
£45,000	nil	78	166
£50,000	nil	39	126
£55,000	nil	nil	87

Table 4: working family with two children, both of whom are disabled**

Annual taxable income	No eligible childcare costs (£) weekly	Includes maximum childcare for one child (£) weekly	Includes maximum childcare for two or more children (£) weekly
£6,420 or under	301	423	511
£10,000	288	410	498
£15,000	249	371	459
£20,000	209	331	419
£25,000	170	292	380
£30,000	131	253	341
£35,000	91	213	301
£40,000	52	174	262
£45,000	12	134	222
£50,000	nil	95	183
£55,000	nil	56	143

Table 5: working family with three children, one of whom is disabled**

Annual taxable income	No eligible childcare costs (£) weekly	Includes maximum childcare for one child (£) weekly	Includes maximum childcare for two or more children (£) weekly
£6,420 or under	296	418	506
£10,000	283	405	494
£15,000	244	366	454
£20,000	204	326	414
£25,000	165	287	375
£30,000	126	248	336
£35,000	86	208	296
£40,000	47	169	257
£45,000	7	129	217
£50,000	nil	90	178
£55,000	nil	51	138

Table 6: working family with three children, two of whom are disabled**

Annual taxable income	No eligible childcare costs (£) weekly	Includes maximum childcare for one child (£) weekly	Includes maximum childcare for two or more children (£) weekly
£6,420 or under	353	475	563
£10,000	340	462	550
£15,000	301	423	511
£20,000	261	383	471
£25,000	222	344	432
£30,000	182	304	392
£35,000	143	265	353
£40,000	103	225	313
£45,000	64	186	274
£50,000	25	147	235
£55,000	nil	106	195

How do I claim tax credits?

Child Tax Credit and Working Tax Credit are administered by the Revenue and both are claimed on application form TC600. This is available from your local Revenue office or by calling the Tax Credits Helpline:
Tel: 0345 300 3900
Textphone: 0345 300 3909

Backdating tax credits

Since April 2012 claims can only be backdated up to one month (previously it was 93 days). Generally, the Revenue automatically consider backdating. However, there have been cases where this has not happened. To ensure that backdating is considered in your case, you should either attach a written backdating request to your claim pack or call the Tax Credits Office to request it.

Getting a decision on your claim

Once the Revenue has processed your claim they should send you an award notice. This will outline not only the amount of tax credits that you are being paid but also the family circumstances on which your award was based (for example, your annual taxable income, the total number of dependent children you have, and the number of children classed as disabled).

It is important that you check this information to make sure that it is accurate. If it is not, then it could lead to either an underpayment or overpayment of tax credits.

At the end of the tax year

Once awarded, tax credits normally last until the end of the tax year. The Revenue then carry out an annual review. They issue you with a review pack outlining the personal details used to calculate your existing award, which you must check for accuracy. You will be asked to complete a declaration form, confirming or amending your details and also confirming your annual taxable income for the year that's just ended. If you made more than one claim for tax credits in the previous year (for example, because you separated from your partner and made a new claim as a lone parent), you will receive a separate review pack for each claim – you should complete each pack, even if they ask for the same information. This must be done by a date specified on the form – usually the 31 of July.

Once the Tax Credits Office receives your completed declaration form they will use this information to help calculate your tax credits award for the new tax year. They will also use these details to check whether you have received the correct amount of tax credits in the year just past.

If you have been underpaid tax credits you should receive a lump sum for any arrears. If you have been overpaid tax credits, the Revenue may seek to recover the excess paid – usually by reducing your award for the new tax year (see the section on 'What happens if I have been overpaid tax credits').

You must respond to the Tax Credits Office by the 31 July (unless the form is sent to you after 1 July in which case you get 30 days to reply). If you cannot supply definite details of your taxable income for the year by that date, for example because your accounts have not been finalised, then you must provide an estimated figure instead. This estimated figure will then be used to calculate a provisional award for the new tax year. It is important that you provide as accurate an estimate as you can, as if you underestimate your income you are likely to end up with an overpayment.

You will then need to confirm your actual taxable income by the end of January (in other words, the same deadline for filing your tax self-assessment).

What happens if I am late in returning my tax credit declaration?

If you fail to return your tax credit declaration by 31 July, your tax credit payments will stop. You will then be given an extra 30 days to return the declaration. So long as you do so your claim will be restored. However, if you miss this deadline the Revenue will also seek to recover any payments you have received since the beginning of that new tax year.

If you return your declaration after the deadline, the Tax Credits Office may agree to backdate your award in full. However, they will only do this if you can show good cause for not returning the papers in time and you respond before the end of January.

If you miss the January deadline or you cannot establish good cause you will need to make a fresh claim for tax credits. This will only be backdated for a maximum of one month. Consequently, any provisional payments that you received between the start of the tax year and your new claim starting will have to be repaid.

In addition to losing out on tax credits, failing to renew your claim in time can also attract a penalty. The Revenue can charge a penalty of up to £300 for failure to submit an annual declaration, plus up to £60 per day if the failure continues after the initial penalty is imposed. These are not automatic penalties, and will not be charged if the person had a reasonable excuse for the delay and renewed as soon as possible.

There are also much higher penalties for fraudulently or negligently making an incorrect statement in response to an end of year notice.

What if my circumstances change during the tax year?

Although a tax credit award will normally run until the end of the tax year, it can be adjusted during the year if there is a relevant change of circumstances. Certain changes must be reported to the Tax Credits Office within one month or you will face a £300 penalty. These are:

- a change in the number of adults claiming (for example, going from a couple to a lone parent or vice versa)
- a reduction in average childcare costs by £10 or more for at least four weeks in a row
- if you or your partner go abroad for more than eight weeks (12 weeks if you go abroad due to a family illness or bereavement)

- if you stop working the minimum number of hours required for Working Tax Credit (this is either 16 or 24 hours a week depending on your circumstances)
- if your working hours drop from 30 hours or above to below 30 hours
- if you stop being responsible for a dependent child or young person, for example if they are no longer normally living with you
- if a young person in your family ceases to qualify for support via tax credits. For instance, this might happen because a young person leaves full-time non-advanced education or because they start claiming Employment and Support Allowance or Income Support in their own right
- if a dependent child or young person dies.
- if you are a person from abroad and have lost your 'right to reside' in the UK.

Other changes in your circumstances do not have to be reported until the end of the year. However, it may be in your interests to report some changes sooner. There is a one month backdating rule which means that you may lose money if you delay in telling the Revenue about a change that would increase your tax credit award (for example having a new baby).

The earlier section 'Calculating my tax credit award' gives a brief overview of the kinds of changes in circumstances that affect your award.

Avoiding overpayments and underpayments

If a change in circumstances reduces your tax credits award, that reduction is always backdated in full and you will have been overpaid. If a change will lead to an increase in your award then you may miss out on money if you don't tell them within three months.

If you would like to avoid overpayments or underpayments you should inform the Tax Credits Office of any relevant changes in circumstances as they happen.

Starting to get Disability Living Allowance (DLA) for the first time or an increase in DLA

Although there is a general rule limiting backdating to one month there are some exceptions. If your child is awarded DLA, or has an existing DLA award increased to the high rate for personal care, this can lead to extra Child Tax Credit payments.

So long as you notify the Tax Credits Office within one month of getting the DLA decision, any extra tax credits will be backdated in line with the DLA award. You should take similar steps if you or your partner have health problems and get DLA in your own right.

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

Changes in income

If you have a change in income, you can choose to tell the Revenue straightaway or leave it until the end of the tax year. If your annual income increases, it will have no affect on your current year's award, unless it goes up by more than £10,000. However, the increased income will be counted for tax credits in the following tax year. Because of this, it is a good idea to tell the Revenue as soon as your income increases.

If you choose to wait until the end of the year before telling them, you run the risk of being overpaid 'provisional payments' when you are waiting for the renewal of your claim. This is because your provisional payments for the early part of the new tax year will be based on an artificially low income.

If your annual income in the current year drops by £2,500 or less this will not be taken into account until the start of the following tax year. If your income drops by more than £2,500 the Tax Credits Office will re-calculate your tax credits straightaway, but they will ignore the first £2,500 of the drop in your income (that is, treat you as having an income that is £2,500 more than you actually receive).

Ultimately, if you wish to avoid overpayments or underpayments of tax credits, it is in your interests to report significant increases or drops in income as they happen.

What happens if I have been overpaid tax credits?

If you have been overpaid tax credits, the Revenue will normally try to recover the overpayment by reducing your tax credit payments.

The Revenue should not recover an overpayment that is a result of official error so long as you have met all of your responsibilities as a claimant. Your responsibilities include providing accurate and up-to-date information, notifying them of any changes of circumstances, checking both the information in your award notice and the payments made into your bank account to make sure they are correct, reporting any errors within one month and contacting the Revenue if you do not understand your award notice.

If an overpayment was caused by an official error and you met all of your responsibilities, none of it should be recovered. If it was caused by official error but you also failed to meet any of your responsibilities, the Revenue may still agree to write off part of the overpayment.

If there is an error in your award notice the Revenue expect you to tell them within 30 days. If you take longer than 30 days to tell them, they are likely to try and recover any overpayment that had built up in the period before you notified them – even if that overpayment was originally caused by their mistake. However, the Revenue's guidance also says that in 'exceptional circumstances' they may agree not to recover an overpayment. For example, if your caring responsibilities meant you couldn't tell them within 30 days of an error in your decision notice, you should argue that these are exceptional circumstances and ask them not to recover any overpayment.

The Revenue also have the discretion not to recover an overpayment if you can show that this will cause you hardship.

Seek further advice from our helpline if you are told by the Revenue that you have been overpaid or that you are likely to be overpaid. If you dispute that an overpayment has happened, or dispute the amount of the overpayment, you can appeal (see below).

If you accept that you have been overpaid, you cannot appeal against the Revenue's decision to claim back the overpaid money. Instead, you must 'challenge' their right to recover the money by completing Form TC846. This is available from the Tax Credit Helpline or at www.hmrc.gov.uk/forms/tc846.pdf

If they subsequently insist on recovery you can challenge this further through the Revenue's complaints procedure. If you are disputing the recovery of an overpayment on the basis of official error, the Revenue should suspend further deductions until they have made a decision on your case. For more information about tax credit overpayments phone our helpline.

How can I appeal a tax credit decision?

The Revenue can revise a decision (look at it again) if there is a change of circumstances, if they have made a mistake, or if they think that your award is wrong.

If you disagree with a Revenue decision you can appeal.

The time limit for appealing is 30 days from the date of the decision. An appeal must be in writing and must give the reasons you are appealing. Appeals can be made on form TC623, found at the end of leaflet WTC/AP available from the Revenue.

Unless you are reporting a change of circumstances it is usually better to request an appeal rather than a revision. The reason for this is that the appeal deadline of 30 days is not extended if you ask for a revision and this is turned down.

Late appeals are sometimes possible up to one year and 30 days after a decision. However, a late appeal is only granted in limited circumstances, so you should always try and ensure you meet the normal appeal deadline.

Tax credits and other help for families on low incomes

For detailed advice on how a tax credit claim will affect any benefits you get now, please call our freephone helpline.

Income Support and income-based Jobseeker's Allowance

Child Tax Credit replaces any payments for children made as part of your

Freephone helpline: **0808 808 3555**
www.cafamily.org.uk

Income Support or income-based Jobseeker's Allowance.

In addition any Working Tax Credit that you receive is treated as income and deducted from your Income Support entitlement. In some cases claiming tax credits can lead to an Income Support award stopping – contact the helpline if you want to know how a claim for tax credits will impact on your current benefits.

Housing Benefit and Council Tax Benefit

Ongoing payments of tax credits are counted as income when calculating rent and Council Tax rebates (unless you are over pension credit qualifying age, in which case Child Tax Credit payments are ignored). However, payments for arrears of tax credits are often not counted. Contact our helpline for further advice.

Health benefits

You can get full help with health costs if your annual taxable income is less than a fixed threshold and you get:

- Working Tax Credit and Child Tax Credit, or
- Working Tax Credit with a disability element, or
- Child Tax Credit and you are not eligible for Working Tax Credit.

The annual threshold is currently £15,276.

Vouchers for free milk, fruit and vegetables

If you are pregnant or have a child under four, receive Child Tax Credit (but not Working Tax Credit) and have an annual taxable income of less than £16,190, you should qualify for vouchers which you can then use towards milk and fresh or frozen fruit and vegetables. You may also be able to access free vitamin supplements. This help is provided by the Healthy Start Scheme and more information is available from the Healthy Start Helpline, Tel: 0845 607 6823 or via their website, www.healthystart.nhs.uk

Free school meals

You will be able to get free school meals if your annual taxable income is less than £16,190 (15,860 in Scotland), you are entitled to Child Tax Credit and neither you nor your partner are working 16 hours or more per week. This applies across the whole UK.

In Scotland, you can also get free school meals if you get Working Tax Credit alongside Child Tax Credit, but only if your annual taxable income is less than £6420.

In Northern Ireland you can also get free school meals if you get Working Tax Credit alongside Child Tax Credit and have an income of less than £16,190. But this only applies to children born on or after 2 July 2000 who attend a nursery, primary or special school full-time, or where a child has a statement of special educational needs that says they need a special diet.

Sure Start Maternity Grant and Funeral Grants

You may be able to claim these if you meet certain qualifying conditions and get:

- Working Tax Credit with the disability or severe disability element
- Child Tax Credit at a rate higher than the basic 'family element'.

You must also meet other criteria, please seek further advice.

Contacts for further information and advice

If you would like further advice regarding tax credits or other social security benefits please call the Contact a Family freephone helpline on 0808 808 3555 (Mon-Fri 9.30am-5pm) or email helpline@cafamily.org.uk

This guide is one of a range produced by Contact a Family which includes *Benefits, tax credits and other financial help* and *Money when your child reaches 16 years of age*. For copies, and to find out about other parent guides, call the Contact a Family freephone helpline.

You can contact Her Majesty's Revenue and Customs Tax Credits Helpline on 0345 300 3900
Textphone: 0345 300 3909

If you would prefer to speak to someone face-to-face then you should try contacting your local Citizen's Advice Bureau or a welfare rights project.

Written by Derek Sinclair

This information applies to tax credits, claims and rules for the tax year April 2012-March 2013 and is up to date as of October 2012.

Social networking

Contact a Family is on Facebook and Twitter. Join us at:

Facebook
www.facebook.com/contactafamily

Twitter
www.twitter.com/contactafamily

Podcasts

You can download podcasts from our website at:
www.cafamily.org.uk

Videos

You can watch videos on our YouTube channel at:
www.youtube.com/cafamily

Getting in contact with us

Free helpline for parents and families
0808 808 3555
Open Mon–Fri, 9.30am–5pm
Access to over 170 languages

www.cafamily.org.uk
www.makingcontact.org

Contact a Family Head Office:
209-211 City Road, London EC1V 1JN
Tel **020 7608 8700**
Fax **020 7608 8701**
Email **info@cafamily.org.uk**
Web **www.cafamily.org.uk**

Language Line services

Other information booklets available

This guide is one of a series produced for parents and groups concerned with the care of disabled children:

- A guide to claiming Disability Living Allowance for children (UK)
- Aids, equipment and adaptations (UK)
- The tax credits guide (UK)
- Holidays, play and leisure(UK)
- Disabled children's services
- Getting direct payments for your disabled child
- Understanding your child's behaviour
- Fathers
- Siblings
- Benefits, tax credits and other financial help.

A full list of Contact a Family publications is available on request or can be downloaded from our website www.cafamily.org.uk

Order code: i2