

WORKING FAMILIES' AND DISABLED PERSON'S TAX CREDIT

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1. Purpose

1.1 To inform Members about the Working Families' and Disabled Person's Tax Credit (WFTC and DPTC).

2. The New Tax Credits

2.1 WFTC and DPTC are part of the Government's policy to encourage people off benefits and into work. They will be payable to many working families on middle or low incomes. The two tax credits were a key part of the Chancellor's 1998 budget speech and will be introduced from 5th October 1999. WFTC will replace Family Credit while DPTC will replace Disability Working Allowance. Both will be paid through the pay packet in appropriate cases from April 2000.

2.2 The new credits will build on the successful elements of the former credit and allowance and will be administered by the Inland Revenue.

(a) Working Families' Tax Credit is designed to help working families with children; and

(b) Disabled Person's Tax Credit is designed to help disabled people who work.

2.3 They can both include the Childcare Tax Credit. This is not a separate credit as applicants need to be entitled to WFTC or DPTC to have this included in their award.

2.4 A summary of each tax credit is attached for information.

2.5 A full information pack, including a presentation, information handouts and questions and answer sheets has been received from the WFTC/DPTC Communications Team. In addition information will be available via seminars, information updates and in other forms between now and April 2000. This information is important for:

(a) Childcare partnerships;

(b) Welfare Rights Officers;

(c) Social Services Departments; and

(d) Housing Benefit and Council Tax Benefit Departments

3. **Implications**

- 3.1 Until April 2000 the employer will continue to be asked to provide details of earnings etc that are currently needed under the Family Credit and Disability Working Allowance schemes, but they will provide this information to the Inland Revenue instead of the Benefits Agency.
- 3.2 From April 2000 employers will pay tax credits to employees who receive an award in appropriate cases. Employers will be able to set tax credits paid to their employees against the PAYE tax and National Insurance Contributions (and student loan recoveries), deducted from their whole workforce, which they are due to pay to the Inland Revenue each month or each quarter as appropriate. This means that the amount of PAYE tax and National Insurance Contributions employers have to pay to the Inland Revenue may be reduced by the tax credits they have paid to their employees.

THE TAX CREDITS

Working Families' Tax Credit:

There will be four parts to WFTC:

- Basic tax credit - payable to all who are entitled to WFTC (£52.30).
- 30 hour tax credit - payable when either the applicant or their partner work 30 hours or more each week (£11.05).
- Tax credit for each eligible child - with different rates according to the child's age, ranging from £19.85 up to age 11, £20.90 for ages 11 to 15 and £25.95 for ages 16 to 18. From April 2000 the under 11 child tax credit will go up by a further £1.10 over and above any inflation rises.
- Childcare tax credit - payable when there are eligible childcare costs incurred.

For WFTC, applicants can earn £90 (net income) per week before their maximum credit begins to be reduced by 55 pence for £1 of income above £90.

From October 2000 there will be an additional disabled child's tax credit for WFTC.

Disabled Person's Tax Credit:

There will be 5 parts to DPTC:

- Basic tax credit - payable to all who are entitled to DPTC (£54.30 single no children and £83.55 for lone parents and couples).
- 30 hour tax credit - which is the same as WFTC.
- Tax credit for each eligible child - same as WFTC.
- Disabled child's tax credit - payable when a dependent child is in receipt of Disability Living Allowance or registered blind.
- Childcare tax credit - payable when there are eligible childcare costs incurred.

As with WFTC the same rates apply for couples and lone parents (ie ... £90), however single applicants with no children will be able to earn £70 per week before their maximum credit begins to reduce by 55 pence for each £1 of income above these amounts.

Childcare Tax Credit:

A maximum of 70% of eligible childcare costs:

- up to costs of £100 per week for 1 child (ie up to an extra £70 per week); and
- and £150 for 2 or more children (ie up to an extra £105).

Eligible Childcare:

In order to qualify, parents must be both earning and working 16 hours per week or more. The exception to this is where one parent is working 16 hours or more and other non-working parent is in receipt of a qualifying disability benefit. Lone parents must be earning and working 16 hours or more per week. The age limit for eligible childcare has been increased to the first Tuesday in September following the child's 15th birthday (the first Tuesday following their 16th birthday if child in receipt of DLA or registered blind).

They must also use eligible childcare ie playschools, nurseries, registered childminders etc and, for children aged 8 and over childcare run by a school, or on school premises, or by a local authority. These can be breakfast clubs, after-school clubs and holiday playschemes.

Tax Credits and Benefits:

The tax credits do not take into account any Housing Benefit or Council Tax Benefit as income when calculating entitlement. However, Housing Benefit and Council Tax Benefit will include WFTC and DPTC as income. Housing Benefit includes help with childcare in line with WFTC.

More detail regarding the Working Families and Disabled Person's Tax Credits is available on request.