

*These notes refer to the Tax Credits Act 1999 (c.10)
which received Royal Assent on 30 June 1999*

TAX CREDITS ACT 1999

EXPLANATORY NOTES

SUMMARY AND BACKGROUND

3. This Act provides for the introduction of:
- Working Families' Tax Credit (replacing Family Credit); and
 - Disabled Person's Tax Credit (replacing Disability Working Allowance).

These new tax credits were announced by the Chancellor of the Exchequer in his Budget Statement on 17 March 1998.

The new tax credits

4. Both the tax credits will be introduced from 5 October 1999. Initially they will be paid by the Inland Revenue direct to recipients. In the case of employees, however, from 6 April 2000 the credits will, where appropriate, be paid by employers in wage packets. The Act includes the necessary provision for this. The self-employed will continue to receive their tax credits direct from the Inland Revenue.
5. The level of the tax credits will be set by statutory instrument.
6. The Working Families' Tax Credit will go to around 1½ million families at a cost of around £4.9 billion.

Working Families' Tax Credit

7. The award of Working Families' Tax Credit (WFTC) will be based on circumstances at the date of the claim and will run for 26 weeks. The main qualifications for entitlement will be that claimants must be working at least 16 hours a week and be responsible for children. It is available to both lone parents and those with a partner.
8. The WFTC will consist of:
- (i) an adult tax credit;
 - (ii) child tax credits for each child in the family (varying depending on the age of the child);
 - (iii) a 30 hour tax credit (if more than 30 hours a week are worked);
 - (iv) a childcare tax credit, providing help towards childcare costs.
9. The childcare tax credit is new (replacing the childcare disregard currently within Family Credit). It will provide 70% of eligible childcare costs up to a maximum spent of £100 a week for one child, and £150 for two or more children.
10. The total amount of the tax credit award will be withdrawn at the rate of 55 pence for each additional £1 of net earnings over a threshold - income net of income tax and NIC, of £90 per week.

Disabled Person's Tax Credit

11. Disabled Person's Tax Credit (DPTC) is similar to WFTC but eligibility will be based on disability affecting the applicant's ability to work rather than responsibility for children - other eligibility rules will be the same. As with WFTC an award will be based on circumstances at the date of claim and run for 26 weeks. In addition to the tax credits making up the WFTC (including the new childcare tax credit) the DPTC will have:
 - a couples tax credit, and
 - a disabled child's tax credit
12. The total of these is the maximum award but, where earnings calculated under the rules exceed a threshold, DPTC - like WFTC - will be withdrawn at 55 pence for every additional pound of net earnings. Unlike WFTC, the DPTC will have separate thresholds for single people on the one hand and couples and lone parents on the other.
13. Like WFTC, the legislation establishes that it will be introduced in October 1999 and from April 2000 it will be paid, where appropriate, by employers through the wage packet.