

TAX CREDITS ACT 2002

EXPLANATORY NOTES

BACKGROUND

6. The Act is concerned with support for families with children and working households facing disadvantage, including those which include a worker with a disability.
7. The Act replaces the following existing forms of support for families with children, low-income households and disabled workers:
 - the child-related elements of income support and income-based jobseeker's allowance;
 - child dependency increases (CDIs) paid as additions to some non-means tested benefits;
 - the existing tax credits, working families' tax credit (WFTC), disabled person's tax credit (DPTC) and the children's tax credit; and
 - the New Deal 50plus employment credit.
8. Income support and income-based jobseeker's allowance are social security benefits which provide a minimum income to a claimant who is working fewer than sixteen hours a week and whose partner (if any) is working fewer than twenty-four hours a week. Entitlement is calculated on a weekly basis. The amount to which a person is entitled is the difference between their income and their applicable amount. Different applicable amounts are prescribed, depending on whether the claimant has a partner, any dependent children or is disabled. A person is not entitled to income support or income-based jobseeker's allowance if their capital exceeds a prescribed amount.
9. CDIs are included in the weekly rate of some non-means-tested benefits. The benefits in question are:
 - incapacity benefit;
 - residual severe disablement allowance;
 - invalid care allowance;
 - widowed mother's allowance;
 - widowed parent's allowance; and
 - retirement pension.
10. WFTC is a payable tax credit introduced in October 1999 by the Tax Credits Act 1999, replacing family credit. It is available to an individual or couple with dependent children, provided that the individual or at least one partner in the couple works sixteen or more hours a week. It includes help for child care costs which, for couples, is available where both partners work sixteen or more hours a week. WFTC is income-related and awards are fixed for six months. Payment is usually made through

*These notes refer to the Tax Credits Act 2002
(c.21) which received Royal Assent on 8 July 2002*

employers, although couples can arrange for payment to be made directly to a non-working partner by the Inland Revenue.

11. DPTC replaced disability working allowance at the same time as WFTC was introduced. It is administered in the same way as WFTC but is available to disabled people who work sixteen or more hours per week, irrespective of whether they have children.
12. The children's tax credit is an income tax relief introduced in April 2001. It is limited to the lower of the maximum amount of children's tax credit (set for each tax year) and amount of income tax which would be payable. It is available to individuals and couples with a child under 16 living with them for at least part of the tax year. The children's tax credit is gradually withdrawn where a claimant has income in the higher rate band for income tax. From April 2002, a higher rate of children's tax credit became available in respect of children born in the tax year.
13. New Deal 50plus is a voluntary programme which was launched nationally in April 2000. The programme aims to help people aged 50 or over to go back to work. People receiving jobseeker's allowance, incapacity benefit, severe disablement allowance or income support for six months or more are eligible for New Deal 50plus. Support is also available in respect of dependent partners of people receiving these benefits. Those who have received invalid care allowance or the bereavement and widowed parent's allowances for a period of six months have immediate access to the programme on successfully claiming one of the four qualifying benefits. New Deal 50plus offers jobseekers a tax-free employment credit for those going into full-time or part-time work, depending on the level of their income, and an in-work training grant. These are also available to those entering self-employment.
14. The Act transfers responsibility for child benefit and guardian's allowance to the Inland Revenue. Child benefit is a social security benefit paid universally to those who are responsible for children under 16 (or 19 if they are in full-time, non-advanced education). Guardian's allowance is a social security benefit paid to those who look after a child whose parents have died or one of whose parents has died and the other is in prison or their whereabouts are unknown. Neither benefit is means tested.