

2002 No. 2008

TAX CREDITS

The Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002

Made - - - - 30th July 2002

Coming into force in accordance with regulation 1

Whereas a draft of this instrument, which contains the first regulations made under section 13(2) of the Tax Credits Act 2002(a), has been laid before, and approved by resolution of, each House of Parliament:

Now, therefore, the Treasury, in exercise of the powers conferred upon them by sections 8(1) to (3), 13(2) and (3), 65(1) and (7) and 67 of the Tax Credits Act 2002(b), hereby make the following Regulations:

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002 and shall come into force—

- (a) for the purpose of enabling claims to be made, on 1st August 2002;
- (b) for the purpose of enabling decisions on claims to be made, on 1st January 2003; and
- (c) for all other purposes, on 6th April 2003.

(2) These Regulations shall have effect for the tax year beginning with 6th April 2003 and subsequent tax years.

Interpretation

2. In these Regulations—

- “the Act” means the Tax Credits Act 2002;
- “the income threshold” has the meaning given by section 7(1)(a) of the Act;
- “period of award” shall be construed in accordance with section 5 of the Act;
- “the relevant income” has the meaning given by section 7(3) of the Act;
- “tax year” means a period beginning with 6th April in one year and ending with 5th April in the next.

Manner in which amounts to be determined for the purposes of section 7(1)(a) of the Act

3.—(1) This regulation prescribes the manner in which amounts are to be determined for the purposes of section 7(1)(a) of the Act.

(a) 2002 c.21. The first exercise of the power contained in section 13(2) is subject to approval by resolution of each House of Parliament by virtue of section 66(2)(c).

(b) Section 67 is cited because of the meaning it ascribes to “prescribed”.

(2) In the case of a person or persons entitled to working tax credit, the amount in relation to that tax credit is £5,060.

(3) In the case of a person or persons entitled to child tax credit, the amount in relation to that tax credit is £13,230.

Social security benefits prescribed for the purposes of section 7(2) of the Act

4. The following are social security benefits prescribed for the purposes of section 7(2) of the Act in relation to child tax credit and working tax credit—

- (a) income support under Part 7 of the Social Security Contributions and Benefit Act 1992(a) other than income support to which a person is entitled only by virtue of regulation 6(2) and (3) of the Income Support (General) Regulations 1987(b);
- (b) income support under Part 7 of the Social Security Contributions and Benefit (Northern Ireland) Act 1992(c) other than income support to which a person is entitled only by virtue of regulation 6(2) and (3) of the Income Support (General) Regulations (Northern Ireland) 1987(d);
- (c) an income-based jobseeker's allowance within the meaning of the Jobseekers Act 1995(e) or the Jobseekers (Northern Ireland) Order 1995(f).

Amounts prescribed for the purposes of section 7(3)(a) and (b) of the Act

5. The amount prescribed for the purposes of section 7(3)(a) and (b) of the Act is £2,500.

Manner of determining the rate at which a person is, or persons are, entitled to a tax credit

6. Regulations 7, 8 and 9 make provision as to the manner of determining the rate (if any) at which a person is, or persons are, entitled to a tax credit in any case where—

- (a) the relevant income exceeds the income threshold; and
- (b) his or their entitlement does not arise by virtue of section 7(2) of the Act.

Determination of rate of working tax credit

7.—(1) In relation to a person or persons entitled to working tax credit, the rate shall be determined by finding the rate for each relevant period and, where necessary, adding together those rates.

(2) “Relevant period” means any part of the period of award throughout which—

- (a) the elements of working tax credit (other than the child care element) to which the person or persons may be entitled, remain the same; and
- (b) there is no relevant change of circumstances for the purposes of the child care element of working tax credit, within the meaning of regulation 16(1) of the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002 (change of circumstances for the purposes of child care element).

(3) The rate for each relevant period shall be found in accordance with the following steps—

Step 1 — finding the daily maximum rate for each element other than the child care element

For each element of the tax credit (other than the child care element) to be included in the case of the person or persons entitled to the tax credit, find the daily maximum rate using the following formula—

$$\frac{MR}{NI}$$

(a) 1992 c.4.

(b) S.I. 1987/1967. Regulation 6 was renumbered paragraph (1) of that regulation and paragraphs (2) and (3) of that regulation were added by regulation 2(3) of S.I. 1999/2556.

(c) 1992 c.7.

(d) S.R. 1987 No. 459. Regulation 6 was renumbered paragraph (1) of that regulation and paragraphs (2) and (3) of that regulation were added by regulation 2(3) of S.R. 1999 No. 381.

(e) 1995 c.18.

(f) S.I. 1995/2705 (N.I. 15).

where—

“MR” is the maximum rate in relation to that element for the tax year to which the claim for the tax credit relates;

“N1” is the number of days in that tax year.

Step 2—finding the maximum rate for the relevant period for each element other than the child care element

For each element of the tax credit to be so included, find the amount produced by multiplying the daily maximum rate (found under Step 1 and rounded up to the nearest penny) by the number of days in the relevant period.

Step 3—finding the income for the relevant period

Find the income for the relevant period by using the following formula—

$$\frac{I}{N1} \times N2$$

where—

“I” is the relevant income for the tax year to which the claim for the tax credit relates;

“N1” is the number of days in that tax year;

“N2” is the number of days in the relevant period.

Step 4—finding the threshold for the relevant period

Find the threshold for the relevant period using the following formula—

$$\frac{\pounds 5,060}{N1} \times N2$$

where—

“N1” is the number of days in that tax year;

“N2” is the number of days in the relevant period.

Step 5—finding the amount of the reduction

Find the amount which is 37% of the amount by which the income for the relevant period (found under Step 3 and rounded down to the nearest penny) exceeds the threshold for the relevant period (found under Step 4 and rounded up to the nearest penny).

Step 6—reducing the elements of the tax credit (other than any child care element)

If the amount found under Step 5 (rounded down to the nearest penny) is less than or equal to the total of the amounts found under Step 2 for the elements of the tax credit, deduct the amount found under Step 5 (rounded down to the nearest penny) from the total of those amounts found under Step 2.

Step 7—finding the actual weekly child care costs for the relevant period

Find the relevant child care charges for the relevant period in accordance with regulation 15 of the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002.

Step 8—finding the actual child care costs for the relevant period

Multiply the result of Step 7 by $\frac{52}{N1} \times N2$.

Here N1 and N2 have the same meanings as in Step 3.

The result of this step is the amount of actual child care costs for the relevant period.

Step 9 — finding the prescribed maximum child care costs for the relevant period

Divide whichever of the maxima in regulation 20(3) of the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002 is applicable by 7, round the result up to the nearest penny and multiply the resulting figure by the number of days in the relevant period.

The result of this is the prescribed maximum child care costs for the relevant period.

Step 10 — finding the child care element for the period

Take the lesser of the results of Steps 8 and 9.

Multiply that figure by 70% and round the result up to the nearest penny.

The result of this step is the maximum rate of the child care element for the relevant period.

Step 11 — reducing the elements of the tax credit (including any child care element)

If the amount found under Step 5 (rounded down to the nearest penny) exceeds the total of the amounts found under Step 2 for the elements of the tax credit—

- (a) deduct the excess from the amount found under Step 10 for any child care element; and
- (b) reduce the total of the amounts found under Step 2 for the other elements of the tax credit to nil.

Step 12 — finding the rate for the relevant period

Add together—

- (a) the total of the amounts found under Step 2 for the elements of the tax credit (other than any child care element) after reduction in accordance with Step 6 or Step 11; and
- (b) the amount found under Step 10 for any child care element after any reduction in accordance with Step 11.

This is the rate for the relevant period.

- (4) “Child care element” has the meaning given by section 12(2) of the Act.

Determination of rate of child tax credit

8.—(1) In relation to a person or persons entitled to child tax credit, the rate shall be determined by finding the rate for each relevant period and, where necessary, adding together those rates.

(2) “Relevant period” means—

- (a) in the case of a person or persons entitled to child tax credit only, any part of the period of award throughout which the maximum rate at which he or they may be entitled to the tax credit remains the same;
- (b) in the case of a person or persons entitled to both child tax credit and working tax credit, any part of the period of award throughout which the maximum rate of child tax credit to which he or they may be entitled remains the same and both sub-paragraphs (a) and (b) of regulation 7(2) are met.

(3) The rate for each relevant period shall be found in accordance with the following steps—

Step 1 — finding the daily maximum rate for each element

For each element of the tax credit to be included in the case of the person or persons entitled to the tax credit, find the daily maximum rate using the following formula—

$$\frac{MR}{NI}$$

where—

“MR” is the maximum rate in relation to that element for the tax year to which the claim for the tax credit relates;

“NI” is the number of days in that tax year.

Step 2 — finding the maximum rate for the relevant period for each element

For each element of the tax credit to be so included, find the amount produced by multiplying the maximum rate (found under Step 1 and rounded up to the nearest penny) by the number of days in the relevant period.

Step 3 — finding income for the relevant period

Find the income for the relevant period by using the following formula—

$$\frac{I}{N1} \times N2$$

where—

“I” is the relevant income for the tax year to which the claim for the tax credit relates;

“N1” is the number of days in that tax year;

“N2” is the number of days in the relevant period.

Step 4 — finding the threshold for the relevant period

Find the amount produced by the following formula—

$$\frac{\pounds 13,230}{N1} \times N2$$

where—

“N1” is the number of days in that tax year;

“N2” is the number of days in the relevant period.

The threshold for the relevant period is—

- (a) in the case of a person or persons entitled to child tax credit only, that amount;
- (b) in the case of a person or persons entitled to both child tax credit and working tax credit—
 - (i) that amount; or
 - (ii) if greater, the lowest amount of income for the relevant period (found under Step 3) which, disregarding regulation 9, would result in a determination in accordance with regulation 7 providing for no rate of working tax credit in his or their case for that period.

Step 5 — finding the amount of the reduction of the elements of the tax credit (other than the family element)

Find the amount (if any) which is 37% of the amount by which the income for the relevant period (found under Step 3 and rounded down to the nearest penny) exceeds the threshold for the relevant period (found under Step 4 and rounded up to the nearest penny).

Step 6 — reducing the elements of the tax credit (other than the family element)

If the amount found under Step 5 (rounded down to the nearest penny) is less than the total of the amounts found under Step 2 for the elements of the tax credit (other than the family element), deduct the amount found under Step 5 (rounded down to the nearest penny) from the total of those amounts.

Step 7 — reducing the elements of the tax credit (other than the family element) to nil

If the amount found under Step 5 (rounded down to the nearest penny) is equal to or exceeds the total of the amounts found under Step 2 for the elements of the tax credit (other than the family element), reduce the total of those amounts to nil.

Step 8 — finding the amount of the reduction of the family element

Find the amount (if any) which is 6.67% of the amount by which the income for the relevant period (found under Step 3 and rounded down to the nearest penny) exceeds—

- (a) in any case where the total of the amounts found under Step 2 for the elements of the tax credit (other than the family element) would be reduced in accordance with Step 7 to nil if the relevant income were £50,000 or less, “X”;
- (b) in any other case, “Y”;

where—

“X” is the amount found in accordance with Step 9 and rounded up to the nearest penny;

“Y” is the lowest amount of income for the relevant period (found under Step 3 and rounded up to the nearest penny) which would result in the total of the amounts of the elements of the tax credit (other than the family element) being reduced to nil in accordance with Step 7.

Step 9 — finding “X” for the purposes of Step 8

Find “X” using the following formula—

$$\frac{\pounds 50,000}{N1} \times N2$$

where—

“N1” is the number of days in that tax year;

“N2” is the number of days in the relevant period.

Step 10 — reducing the family element

Deduct any amount found under Step 8 (rounded down to the nearest penny) from the amount found under Step 2 for the family element.

Step 11 — finding the rate for the relevant period

Add together—

- (a) the total of the amounts found under Step 2 for the elements of the tax credit (other than the family element) after any reduction in accordance with Step 6 or Step 7; and
- (b) the amount found under Step 2 for the family element after any reduction in accordance with Step 10.

This is the rate for the relevant period.

(4) “The family element” means the family element of child tax credit within the meaning given by section 9(3) of the Act.

Cases in which there is no rate of tax credit

9.—(1) In the case of a person or persons entitled to working tax credit only or child tax credit only, where the rate at which the person or persons would be entitled to the tax credit (as determined in accordance with regulation 7 or 8) would be less than £26.00, there is no rate in his or their case.

(2) In the case of a person or persons entitled to both working tax credit and child tax credit, where the total of the rates at which the person or persons would be entitled to the tax credits (as determined in accordance with regulations 7 and 8) would be less than £26.00, there are no rates in his or their case.

*Jim Fitzpatrick
John Heppell*

30th July 2002

Two of the Lords Commissioners of Her Majesty’s Treasury

EXPLANATORY NOTE

(This note is not part of the Regulations)

Section 7(1) of the Tax Credits Act 2002 (c.21) (“the Act”) provides that the entitlement of a person or persons to a tax credit is dependent on “the relevant income” (defined in subsection (3) of that section) not exceeding an income threshold or exceeding the income threshold by only so much as will result in there being a rate of the tax credit in his or their case. These Regulations prescribe the manner in which the income threshold is to be determined and also prescribe amounts in relation to the definition of “the relevant income”.

Subsection (2) of section 7 of the Act provides for an exception to subsection (1) of that section in the case of a person or persons entitled to any social security benefit prescribed for the purposes of subsection (2) of that section. These Regulations prescribe those social security benefits.

Section 13 of the Act provides for the rate of a tax credit. Subsection (1) of that section provides that, where the relevant income does not exceed the income threshold, the rate is the maximum rate. Subsections (2) and (3) of that section provide that regulations shall make provision as to the manner of determining the rate (if any) in any other case. Accordingly, these Regulations provide also for the determination of rates in any such case.

Regulation 1 provides for citation, commencement and effect, and regulation 2 for interpretation.

Regulation 3 prescribes the manner in which the income thresholds are to be determined.

Regulation 4 prescribes social security benefits for the purposes of section 7(2) of the Act.

Regulation 5 prescribes amounts for the purposes of section 7(3)(a) and (b) of the Act (the definition of “the relevant income”).

Regulation 6 introduces the regulations providing for the manner of determining the rate at which a person is, or persons are, entitled to working tax credit and/or child tax credit.

Regulation 7 provides for the manner of determining the rate of working tax credit in such a way that any child care element of the tax credit is reduced last.

Regulation 8 provides for the manner of determining the rate of child tax credit in such a way that the tax credit is reduced only after the rate of any working tax credit to which a person is, or persons are, entitled has been reduced to nil. Where the rate of child tax credit is reduced, the family element of the tax credit is reduced last. The reduction of the family element is calculated in a different way from that in which the reduction of the individual element of the tax credit is calculated. In particular, the family element is not reduced where the relevant income is £50,000 or less.

Regulation 9 provides that in cases where the rate of a tax credit would be less than £26.00, or the rates of tax credits would total less than £26.00, there is no rate for either or both tax credits.

A regulatory impact assessment in respect of the Act has been prepared and placed in the Library of each House of Parliament and is available on the Inland Revenue website (www.inlandrevenue.gov.uk).

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