



Working Tax Credit

A brief guide for self-employed people aged over 50, from PRIME

Tax year 2007 – 2008

Find out how tax credits can guarantee your income and help you launch your business

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50+ self-employment & enterprise



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Founder and President: HRH The Prince of Wales. PRIME was founded by Prince Charles to help older people rejected by the labour market find a way back into work by setting up in business for themselves. PRIME is a registered charity, number 261794-2, linked to Age Concern England. It is independent of government and dedicated to helping people over 50 investigate self-employment and start and run their own businesses.

Disclaimer: This booklet is only a general guide to Working Tax Credit, and not a full and authoritative statement of your entitlement under the law. We have made every effort to ensure that the information in this booklet is correct and up-to-date at the time of writing (March 2007).

The rates and thresholds used in the examples come from the HM Treasury's official Budget 2007 report, and should hold good for all of the 2007 to 2008 tax year.

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Are you self-employed?

Then Working Tax Credit can provide you with a guaranteed minimum income when you most need it. This PRIME guide explains how the scheme applies to self-employed people over the age of 50. Despite the bad press Working Tax Credit often receives, PRIME believes that for the self-employed it can be a valuable lifeline and you should certainly read on to find out whether you are entitled to it.

Working Tax Credit (WTC) is particularly useful for those new to self-employment whose businesses are not yet making much money. But you can get it any time your income is low and for as long as your income is low. So it can also help out with your basic living expenses if your business is going through a bad patch.

Think of WTC as a kind of reverse income tax – with the tax people giving you money rather than taking it away. WTC can be particularly valuable as an income bridge for those moving off benefit and into self-employment. Indeed this is especially true for the over 50s, as you receive extra money for a year if you are returning to work in these circumstances.

What is Working Tax Credit?

Working Tax Credit is a payment to top up the earnings of working people on low incomes. It is administered by HM Revenue & Customs (formerly known as the Inland Revenue), who also pay it to you. The amount you receive depends on your income and circumstances – including how much you earn and how many hours per week you work.

Self-employed people on low incomes can get Working Tax Credit (WTC), just like those working for an employer. It sets a floor below which your income can't fall. So while minimum wage legislation isn't any help to the self-employed, WTC has a similar effect.

How is WTC paid?

HM Revenue & Customs will pay it either weekly or four-weekly, depending on what you request, into your bank, building society or Post Office account.

Eligibility for WTC

You must normally live in the UK and be in paid work – either employed or self-employed. You can claim at any age – you are never too old to get it. You must be working 30 hours a week or more if you are already in work, though you need fewer hours to qualify if you have dependent children or a disability.

There's also a concession on the required hours if you are aged 50 or over and returning to work after at least six months on certain benefits (see opposite for the list). In this case you become eligible for WTC as soon as you are working 16 hours a week – you don't have to wait till you reach 30 hours.

Extra money for the over 50s

In recognition of the disadvantages people over 50 face in the job market, there's additional money if you are over 50 and are returning to work after having been out of work for at least six months. The “50-plus back-to-work element” of WTC is paid for the first 52 weeks after restarting work or going into self-employment, if you've been receiving one or more of the qualifying benefits.

This extra support could make a significant difference during your first year of trading if you are self-employed. For those considering self-employment – or taking a low-paid job with a regular employer, the 50-plus element of Working Tax Credit is an incentive.

It is paid at two rates depending on the number of hours you work. You get less if you are only working from 16 to 29 hours a week. In practice most self-employed people are entitled to claim the higher 50-plus element. When you take into account legitimate business activities like marketing, bookkeeping, and preparing quotes your weekly hours can easily climb above the 30-hour threshold.

Who qualifies for the 50-plus back-to-work element?

You must have received, for a minimum of six months, one or more of the following benefits to qualify: Jobseeker's Allowance, Incapacity Benefit, Severe Disablement Allowance, Pension Credit or Income Support.

You will also qualify for the 50-plus element if you have been receiving a combination of these benefits or National Insurance credits for six months or more. You may also be eligible if you have been in receipt of Carers Allowance or Bereavement allowance, or if your partner has been receiving an increase in benefit for you.

If you are above state pension age (currently 65 for men and 60 for women) then fewer of the benefits that you are likely to be getting qualify. But remember that you can still claim Working Tax Credit itself for its other elements – age itself is no barrier.

The 50-plus back-to-work element ceases after 52 weeks. But it is important to realise that all the other elements of WTC you are eligible for continue to be paid after the first year is over. So people aged over 50 earning low incomes should make sure that they don't lose out – WTC is not just for the newly self-employed, but for anyone on a low income.

How much WTC will you get?

The amount of WTC you will receive is based firstly on your circumstances and secondly on your income. Your personal circumstances determine which elements of WTC you are entitled to, so let's start with these. If you are eligible at all you will get the basic element, plus as many of the other elements as apply.

Elements of WTC	Weekly Amount (approx)	Annual Amount
Basic element	£33.26	£1,730
Couple or partner element	£32.69	£1,700
Lone parent element	£32.69	£1,700
30-hour element	£13.55	£705
50-plus element for working 30 or more hours	£34.03	£1,770
50-plus element for working 16 to 29 hours	£22.78	£1,185
Disabled worker element	£44.42	£2,310
Severe disability element	£18.84	£980
Childcare element: Maximum eligible cost for one child Maximum eligible cost for two or more children Percentage of costs covered – 80%	£175 £300	

For example if you work more than 30 hours you are entitled to the basic element plus the 30 hours element. If you have recently returned to work you may also get the 50-plus back-to-work element, the amount you are entitled to depending on the hours you work. And depending on your family circumstances you may get the couple element, or the lone parent element – but not both.

So which elements of WTC you receive is based on your circumstances. But this is just the first step in calculating the actual amount you will get. What it establishes is the **maximum** you could receive based on the elements you qualify for. There's a second step – before arriving at the final amount HMRC will also take into account your income.

How income affects the amount

If your income is below about £100 a week (or to be precise £5,220 a year) it's straightforward – you will receive the maximum amount of all the elements to which you qualify. So you can just tot up the weekly amounts in the table opposite for all the elements you are eligible for – and that's what you'll get.

If your income is more than the £100 a week income threshold you can still get WTC, but your award will be reduced. It is reduced at the “withdrawal rate” of 37p for every pound your income exceeds £100 a week, so you'll get steadily less WTC as your income rises.

We can illustrate the way WTC payments taper off as your income rises with a simple example. Suppose you are entitled to basic, 30 hours and 50-plus back-to-work elements, which add up to approximately £81 a week.

How WTC tapers off as income rises for a person entitled to three elements totalling £81 (basic plus 30 hours plus 50+ back-to-work)

Weekly Income	WTC payment you actually get (approx)
£100	£81
£200	£44
£300	£7

So if your income is at or below the income threshold of £100 a week you will get the whole £81 weekly – a useful top-up payment while your income is low. If your income is twice this at £200 then you will get £81 with £37 taken away from it ($£200 - £100 = £100$ times 37p), or £44. This may also be worth having given that your income is still pretty low. And if your income is £300 a week (£15,660 a year) you would get £74 (a withdrawal of £200 times 37p) taken off, leaving a weekly WTC payment of only £7.

At a certain point WTC stops being worth claiming. But it's worth investigating which elements you are entitled to and doing a rough calculation before assuming this applies to you.

The breakeven point depends on your circumstances. For a single person in circumstances similar to the above it is going to be around £16,000 a year. But for a 50+ couple with one partner working full-time, it is likely to be around £19,000.

What counts as “income”?

If you are self-employed the majority of your income is likely to be that provided by your business. For a self-employed sole trader this income will be the same as your net profit – in other words the difference between your turnover and your allowable business expenses.

This is a very important point. Don't assume you're not eligible for WTC because your turnover seems high – your turnover is not relevant. What matters when working out your income is your net profit. HMRC is used to dealing with businesses and understands the difference between turnover and profit.

The calculation of income for WTC is usually based on the previous tax year's income (or profit). But you can opt to use your current year's forecast profit as the basis of your income instead. This is important if you are just moving into self-employment. Most new businesses will have low or even negative net profits during the first 12 months.

Obviously it depends on the type of business you are setting up, but it often takes time to build up a customer base yet you still have unavoidable start-up expenses. In these circumstances your income (net profits) could well fall below the WTC income threshold, so you'd get the full whack. This could make all the difference to your enterprise's survival.

Whose income counts?

For WTC purposes what matters is the joint household income. So if you have a spouse or civil partner who you are living with their income counts as well. You will need to make a joint WTC claim with them.

”Income” means their gross income before Income Tax is paid if they are in a regular job, or their net profit if they are self-employed. Some benefits (such as contribution-based Jobseeker’s Allowance) are counted as income for WTC purposes. Income support, income-based Jobseeker’s Allowance and state pension credit (which men as well as women can now get from the age of 60) are not counted.

If you have children and they work, their income is disregarded. If you have any capital (such as property, shares or unit trusts, or deposits in bank or building society accounts) this is not normally taken into account when working out your entitlement to WTC.

However, if you receive income from your savings or investments (for instance, rent from property or interest from unit trusts or building society accounts), this will be counted as income and may affect the amount of WTC you receive. But the first £300 of income per year from capital is disregarded, so you only need to report on the tax credit claim form the amount over £300 that your household gets.

Examples of what different people get

Remember the amount that HMRC awards depends firstly on your circumstances, which determine which elements of WTC you are entitled to. The exact amount is then calculated as a second step, taking into account your household income.

Example One: A person coming off benefit into self-employment

Circumstances: He or she is now working 38 hours a week. Prior to becoming self-employed they were on one of the qualifying benefits for over six months. The person is aged over 50.

Entitlement: These circumstances entitle the person to three elements (basic + 30 hour + 50-plus element at higher rate), giving a maximum WTC before their income is taken into account of £4,205

Calculation of amount of WTC payable based on their income	
Total WTC elements (basic + 30 hour + 50-plus element higher rate)	£4,205
Net profit predicted during first 12 months	£5,000
Other household income	£0
Total household income	£5,000
As this is less than the income threshold (£5,220 a year), the person gets their maximum WTC	
Total WTC payable	£4,205 or approximately £81 a week

Example Two: A couple coming off benefit into self-employment

Circumstances: One partner is working 45 hours a week, while the other half of the couple is not working. Prior to becoming self-employed the working partner was on one of the qualifying benefits for over six months. The working partner is aged over 50.

Entitlement: These circumstances entitle the couple to four elements (basic + couples + 30 hour + 50-plus back-to-work element at higher rate), giving a maximum WTC before their income is taken into account of £5,905

Calculation of amount of WTC payable based on their income	
Net profit predicted during first 12 months	£5,000
Other household income	£1,000
Total household income	£6,000
Subtract the standard £5,220 WTC income threshold	£780
Apply 37% WTC withdrawal rate to £780 to get deduction	£289
Total WTC elements this couple is entitled to (basic + couples + 30 hour + 50-plus element at higher rate) giving maximum of	£5,905
Less the % deduction	(£289)
Total WTC payable	£5,616 or approx £108 a week

Example Three: A couple, one already self-employed, with a child

Circumstances: The self-employed partner is working 25 hours a week, while the other half of the couple is working part time. They care for a child under 15. The partner working the most hours is aged over 50, but because he or she is already in employment they are not entitled to the 50-plus back-to-work element.

Entitlement: These circumstances definitely entitle the couple to two elements (basic + couples), giving a maximum WTC before their income is taken into account of £3,430. However if the second partner is working more than 16 hours a week the childcare element of WTC should also apply, allowing them to claim 80% of approved childcare costs up to a maximum of £175 a week.

Calculation of amount of WTC payable based on their income	
Total WTC elements (basic + couples)	£3,430
Net profit predicted during first 12 months	£7,000
Other household income	£3,000
Total household income	£10,000
Less £5,220 threshold	£4,780
37% of £4,940 is	£1,769
Maximum WTC for this couple (all the WTC elements above)	£3,430
Less the % deduction	(£1,769)
Total WTC payable	£1,661 or approx £32 a week

With this couple getting only £32 a week from the other elements of working tax, the element designed to help with childcare costs is clearly critical. It can be used to claim up to 80% of the costs of approved childcare – which means nurseries, playgroups, childminders and out of school clubs run by properly registered people on approved premises. Potentially worth £140 a week for one child, or £240 for two, it might make the differences between both partners being able to work or not.

What's more the childcare element doesn't taper off with income at the same rate, and the income threshold at which the taper starts is much higher. In this case they'd keep the lot.

If you can get the childcare element of WTC, it is probable that you will also be entitled to Child Tax Credit. The rules here are very complicated and beyond the scope of this booklet, but here are the basics so you can decide whether it's worth investigating further.

Child Tax Credit

Like WTC, Child Tax Credit is run by HM Revenue & Customs, so you can claim from the same place. What makes Child Tax Credit complicated is the very precise and sometimes non-obvious way everything is defined. You can claim if you or your partner are responsible for at least one qualifying child, a child being roughly someone under the age of 16, although this can go up to 19 if they are in certain types of higher education.

Like WTC, Child Tax Credit is split into elements. The family element, worth £545 a year, is the equivalent of WTC's basic element, and goes to eligible households containing at least one child. If you are caring for a baby under one year of age you also get the family element baby addition, worth another £545.

Then for every qualifying child (including under-one babies) you get a child element, worth £1,845. If your child is disabled you will also receive a disability element of £2,440 on top, and possibly also a severe disability element of £980.

Child Tax Credit employs a similar two-step method to WTC to work out what you will actually get. First you tot up all the elements you are entitled to, giving a maximum amount. Then you start chopping money off the total based on your income.

The difference is that with Child Tax Credit the threshold income is very much higher before anything is removed from the total, and the withdrawal rate is less. This means that if you qualify to get any WTC at all you should get the full amount of the elements you are entitled to under Child Tax Credit.

The order in which your maximum tax credit amounts are reduced as your household income rises above £5,220 is:

1. WTC (apart from childcare element)
2. Childcare element of WTC
3. Child element(s) of CTC
4. Family element of CTC

This means that as your incomes rises you will still get at least some Child Tax Credit even after you have lost all WTC payments. The breakeven point for whether it's worth claiming Family Tax Credit is very high. You don't start losing the family element till your household income climbs above £50,000, and the taper is then so mild you will still get something for claiming even if your household income is over £58,000.

An increasing number of people over 50 have responsibility for children (or grandchildren) – roughly a quarter of those contacting PRIME. If this applies to you and you think you might be eligible for WTC then you should certainly look into Child Tax Credit, as you are likely to be eligible for that too.

Since the entitlement to Child Tax Credit is not dependent on the adult's age we do not go into more details here, as there are other independent sources of advice available. Good starting points are www.entitledto.com and the Citizen's Advice Bureau web site www.adviceguide.org.uk

What if my income or circumstances change?

Changes to your circumstances are most important as they may effect you legal entitlement to the different elements of Working Tax Credit (or Child Tax Credit, where the rules are more complicated).

You must tell HM Revenue & Customs if:

- You claim tax credits as a single person and you begin living with someone as a couple
- You claim tax credits as a couple, but you stop living together
- Your childcare costs go down significantly for at least four weeks in a row
- You change the numbers of hours you work so you fall into a different band – for example your hours drop below 30 hours per week.

HMRC also needs to know about significant changes to your household income. But this doesn't mean you have to keep giving them revised profit forecasts. HMRC is familiar with business and know that for many self-employed businesses revenue fluctuates over the year. If your prediction looks like being out by more than £25,000 either way you do need to tell them promptly. But lesser amounts can wait till you know the true figure.

HMRC has the legal power to claw back overpayments. Its efforts to do this caused much of the negative press coverage in the years immediately following the introduction of Child and Working Tax Credits in April 2003. Apart from the bad press HMRC faced an enormous administrative burden, particularly in calculating the correct amounts of Child Tax Credit as family incomes and circumstances change frequently.

Two years ago the Chancellor of the Exchequer announced a huge increase in the “income disregard” from £2,500 to £25,000, and it remains at the higher level. This means HMRC are generally not interested in income (or net profit) changes from one year to the next of less than £25,000.

Apart from reducing the fear of facing an unexpected claw-back bill because you've got your profit prediction wrong, setting the disregard at this high level has another important benefit – it eliminates a possible poverty trap for couples.

Because WTC is calculated on the basis of household income if a member of a couple who previously wasn't working suddenly starts working it will of course affect the WTC calculation. And you do have to tell them of this major change in your circumstances and income promptly.

But does this mean you will have to give back WTC payments you receive from when the person starts working till when the new WTC amount is calculated by HMRC? At the time of the big tax credits backlog this delay could be substantial.

No. With income disregard now set at £25,000 it is approximately equal to the average UK annual salary. This means that as long as you tell HMRC promptly when your partner or spouse gets a job you are unlikely to face claw back even if there are administrative delays.

Full details of what you should do when your circumstances or income change are given in HMRC's guide number WTC 2.

Special issues when coming off benefit

While WTC can be a useful way of supplementing your income if you have just come off benefit into self-employment, it doesn't completely overcome the benefit trap it is easy to get into after a long period without work.

Some benefits (like Jobseekers Allowance) cease as soon as you start working, while others (such as Housing Benefit) are means-tested and stop or reduce once a certain amount of money starts to come in. You need to know when these various payments will end to avoid a dangerous income gap and to plan your business start up properly.

Unfortunately several different parts of government administer the tax and benefit system so it can be hard to get all the information you need. Jobcentre Plus is supposed to be able to provide you with a "better-off calculation" on request that will take into account the impact of returning to work on ALL the benefits and credits available to you – including the ones administered by local councils and HMRC. We strongly recommend you ask your Jobcentre to do this.

Housing Benefit and Council Tax Benefit, both potentially large items, are administered by local councils, so you could also check with your local council.

Useful tips and the future

If you don't currently qualify for WTC because your income is too high, but you think your income could fall during the year, it is always worth making a protective claim. This will speed up receiving payments should the fall happen.

After the first 52 weeks, you will have to work 30 hours a week or more to remain eligible for WTC unless you are caring for a child or have a disability. 16 hours isn't enough.

This guide provides examples for the tax year starting on the 6th April 2007 and ending the 5th of April 2008.

This guide provides examples for the tax year starting on the 6th of April 2007 and ending the 5th of April 2008. After that there are some changes.

From April 2008 you will be able to earn £1,200 more before you lose any of your entitlement, with the income threshold going up from the present level of £5,220 to £6,420 per annum.

However once your income (or net profit) is over the new threshold the amount you get will taper off more quickly. From April 2008 the withdrawal rate on tax credits will be 39p in the pound for every pound your income exceeds the income threshold rather than the present 37p.

How to claim

Working Tax Credit is run by HM Revenue & Customs. If you are already self-employed, contact your nearest HMRC Enquiry Centre (or tax office), or apply online or by phone.

Apply online at www.hmrc.gov.uk/menus/credits.htm

The HMRC telephone help line is open 8.00am-8.00pm.

Telephone **0845 300 3900** or **0845 603 2000** if you live in Northern Ireland.

Textphone (for the hearing impaired) **0845 300 3909**

For those not currently working but considering a return to work you can enquire about WTC as above, or you can apply via your local Jobcentre Plus. It's advisable to make an appointment so you see the right Jobcentre adviser.

You may find the following HMRC booklets helpful. They can be obtained from the web site above or HMRC Enquiry Centres.

WTC 1: Child Tax Credit and Working Tax Credit – an Introduction

WTC 2: Child Tax Credit and Working Tax Credit – a Guide

WTC 5: Help with the costs of childcare – information for parents and childcare providers.



Are you missing out?

Tax credits can guarantee your income and help you launch your business

Working Tax Credit is a kind of reverse income tax that you should get if your household income falls below a certain level. It is something you are entitled to as a working taxpayer and it is run as part of the tax system by HM Revenue & Customs.

This PRIME guide explains how the scheme applies to self-employed people over the age of 50. Despite the bad press Working Tax Credit often receives, PRIME believes that for the self-employed it can be a valuable lifeline, and you should certainly read on to find out whether you are entitled to it.

PRIME is independent of government. It is a registered charity, number 261794-2, linked to Age Concern England. PRIME stands for the Prince's Initiative for Mature Enterprise. It was set up on the personal initiative of HRH The Prince of Wales in response to letters he was receiving from people desperate to work but unable to find anyone to employ them - because of their age.

PRIME helps the over 50s set up in business for themselves. You can find out more at www.primebusinessclub.com

**To claim Working Tax Credit contact HM Revenue & Customs
Helpline: 0845 300 3900 (0845 603 2000 if you live in Northern Ireland).**

www.hmrc.gov.uk/menus/credits.htm



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