TAX CREDITS – MOVING ON TO UNIVERSAL CREDIT

CHILD POVERTY ACTION GROUP IN SCOTLAND

Child Poverty Action Group works on behalf of the one in four children in Scotland growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good.

We provide training, advice and information to make sure hard-up families get the financial support they need.

Tax credits – moving on to universal credit is one of a series of Child Poverty Action Group in Scotland leaflets giving guidance to advisers and those working with families in Scotland about aspects of the tax credit system of particular concern.

May 2018. This factsheet will be updated online. Check for the latest version at: **www.cpag.org.uk/scotland/factsheets**

INTRODUCTION

There are two types of tax credit; *child tax credit (CTC)* and *working tax credit (WTC)*. You claim them together and may get either or both. Tax credits are administered by Her Majesty's Revenue and Customs (referred to as HMRC in this leaflet).

Universal credit (UC) is a new means-tested benefit for people of working age, payable in or out of work, and includes amounts for adults, children and housing costs. You can currently only claim it depending on the area you live in. Universal credit is administered by the Department for Work & Pensions (DWP).

Tax credits are gradually being replaced by universal credit. If you are currently getting tax credits, you can continue to get them unless you make a claim for universal credit. You will be able to renew your claim until you are transferred onto universal credit. The process of transferring most people from tax credits to universal credit is planned to happen between 2019 and 2022.

This leaflet explains what happens to your tax credit award with the introduction of universal credit, and the differences between the two systems.

MAIN DIFFERENCES BETWEEN TAX CREDITS AND UNIVERSAL CREDIT

Claims and administration

Tax Credits	Universal credit
Claims must be made in writing on Form TC600 or can be accepted by telephone if it is within three weeks of the UC full service date for your postcode. Tax credit claims can be renewed and some changes reported online.	Claims must currently be made online but in exceptional circumstances may be allowed by telephone. Most ongoing contact should also be online.
There is no upper age limit for claiming tax credits. You must be aged at least 16, but if you do not have children and are not a disabled worker, you must be at least 25 to qualify for WTC.	You must be under pension credit age to claim UC. You must usually be aged at least 18 (some 16/17 year olds can claim, including those responsible for a child).
You can still make a new claim for tax credits as long as you are not entitled to universal credit and you do not live in a UC full service area. You can still renew tax credit claims in all areas.	You can only claim UC if you live in an area where the 'full service' has been introduced. To check if you are in a UC full service area, enter your postcode at **https://universalcreditinfo.net/**
You cannot make a new claim for tax credits if you live in a full service area, unless you have three or more children, or you or your partner are over pension credit age. You cannot make a new claim for tax credits if you were entitled to UC as part of a couple within the last month, or your UC claim was refused or ended within six months because your earned income was too high.	Until 1 February 2019, you cannot make a new claim for UC if you have three or more children, even if you live in a 'full service' area.
If you get CTC, you may also be entitled to other benefits for adults such as: ■ income support ■ income-based jobseeker's allowance ■ income-related employment and support allowance If you get CTC or WTC, you may also be entitled to: ■ housing benefit ■ council tax reduction	If you get UC, you cannot get any of the benefits it replaces: ■ income support ■ income-based jobseeker's allowance ■ income-related employment and support allowance ■ housing benefit (except for in specified supported and temporary accommodation) ■ tax credits If you get UC, you may also be entitled to council tax reduction.

MAIN DIFFERENCES BETWEEN TAX CREDITS AND UNIVERSAL CREDIT

Working hours

Tax Credits	Universal credit
The tax credits system has strict rules about how many hours you must normally work to be entitled to WTC. You can qualify for WTC if you are working: ■ at least **16 hours** a week, *and* – you are a single claimant responsible for a child; *or* – you are part of a couple responsible for a child, and your partner is disabled, a carer, in hospital or prison; *or* – you are a disabled worker; *or* – you are aged 60 or over. ■ at least **24 hours a week**, and you are part of a couple responsible for a child (and you do not fall into the above category of 16 hours). You can combine your hours, as long as one of you is working at least 16 hours a week. If only one of you works for at least 24 hours a week, you qualify. ■ at least **30 hours a week**, and aged 25 or over If you stop working enough hours to qualify for WTC, you must report this to HMRC. There is a four-week run-on after stopping work during which you are still entitled to WTC. There is no conditionality or threat of sanctions in tax credits. An extra element is paid if working at least 30 hours a week.	Universal credit has no rules about how many hours you must work to qualify. It also replaces income support, income-based jobseeker's allowance and income-related employment and support allowance. You cannot normally qualify for these benefits if you are working 16 hours a week or more, or if your partner is working 24 hours a week or more. Universal credit also replaces housing benefit, which can be claimed whether in or out of work, regardless of hours but depending on income. You can get universal credit whether you are in or out of work, and you continue to get it if you stop working. There are rules about conditionality in universal credit, so that if you are doing some work you may be expected to look for more work, as much as you are able to do, or until you are earning at least 35 x the minimum wage a week. A sanction may be imposed on you even if you are working some hours but are not doing enough to meet your work-related requirements to increase your hours or pay. If you are self-employed, you may be assumed to be earning at least the minimum wage for the amount of hours you have declared.

MAIN DIFFERENCES BETWEEN TAX CREDITS AND UNIVERSAL CREDIT

Childcare costs

Tax credits	Universal credit
To get help with childcare costs in working tax credit, you must be working at least 16 hours a week if you are a lone parent. If you are part of a couple, you must both be working at least 16 hours a week, unless the non-working partner is disabled, a carer or in hospital or prison.	To get help with childcare costs in universal credit, you must be working, regardless of the number of hours. If you are part of a couple, you must both be working, unless the non-working partner has been assessed as having limited capability for work, or is a carer or is temporarily absent. It does not matter how many hours you work, as long as the amount of childcare is not considered excessive.
The amount of help you can get is restricted to 70% of your actual costs, within weekly limits which mean the most you can get is £122.50 a week for one child, or £210 a week for two or more children.	The amount of help you can get is 85% of your actual costs, within monthly limits of £646.35 for one child, or £1,108.04 for two or more children.
You can only get help with childcare costs once you start work, and the work must be expected to last at least 4 weeks. If you stop work, or drop below 16 hours a week, there is a four-week run-on during which you can still get help with childcare costs.	You can get help with childcare costs in universal credit before you start work, if you have an offer of a job that is due to start in the next month. Your childcare costs can include a charge for a deposit or advance costs. If you stop work, you can still get help with childcare costs for the following month.
You must calculate your average weekly childcare costs when you claim. You only need to report a change in childcare costs if they go up or down by of at least £10 a week for four weeks in a row. You must check your childcare costs shown on your award notice and in the annual review.	You must usually report your actual childcare costs paid on a monthly basis. If you do not report childcare costs within the time allowed, you may lose out on help with the costs for that month. You usually only receive an amount for childcare costs in UC after you have paid them, and evidence may be required. If you need help before you can pay for childcare, you can apply for a discretionary budgeting advance of UC.

MAIN DIFFERENCES BETWEEN TAX CREDITS AND UNIVERSAL CREDIT

Income

Tax credits	Universal credit
Tax credits take into account annual income in a complete tax year, from 6 April in one year to 5 April the next. It is your gross taxable income, before tax and national insurance but after any contribution to a pension scheme. If you are a couple, it is joint income.	Universal credit takes into account your income in a monthly assessment period. This is a period that ends on the same day in each calendar month. It is your net earnings, after tax, national insurance and contribution to a pension scheme. If you are part of a couple, it is joint income.
You must declare or confirm your actual income at the end to the tax year, in the annual declaration, as part of the annual review. HMRC may use information on wages from your employer but you must check this is correct and declare any other income that is not disregarded.	You do not usually need to declare your earnings as an employee. Information on how much you have been paid should be provided to HMRC by your employer, and available to the DWP. You must still declare pensions, self-employed earnings, contributory benefits, and any other income that is not disregarded.
Your tax credits award is initially based on your income in the previous tax year. For working tax credit, if your income is below the threshold of £6,420, you are entitled to your maximum tax credits award. If your income exceeds this threshold, your tax credits are reduced at a rate of 41%, so that in effect you keep 59p in every pound. However, your tax credits also count as income for housing benefit.	Income other than earnings reduces your universal credit award pound for pound.
If your income goes up from one year to the next, there is a disregard of £2,500. This means that if your income goes up by less than £2,500, your tax credits award for the current year is not reduced to reflect your higher income. This serves as an incentive to start work or increase earnings, but can also lead to overpayments or a sudden drop in the tax credits award in the following year.	Your universal credit award is based on your actual earnings in a month. If you are responsible for children or have limited capability for work, you have a work allowance (£409 a month if housing costs are not included in your UC, or £198 in other cases), which is the amount you are allowed to earn before your universal credit starts to be reduced. Your universal credit award is then reduced at a rate of 63% of your earnings above your work allowance, so that in effect you keep 37p in every pound.
If your income goes down from one year to the next, there is a disregard of £2,500. This means that if your income goes down by less than £2,500, your tax credits award for the current year is not increased to reflect your lower income.	Whether your income goes up or down, universal credit should be adjusted to reflect your actual income each month.
There is no capital limit for tax credits, but interest and other payments from some savings and investments count as income.	You cannot usually get universal credit if you have more than £16,000 in capital. If you are getting tax credits and you have savings or investments of more than £16,000 when you are moved onto universal credit between 2019 and 2022, the government has said you will be entitled to a protected payment.

MAIN DIFFERENCES BETWEEN TAX CREDITS AND UNIVERSAL CREDIT

Amounts

Tax credits	Universal credit
Disabled children The amount for a child who is entitled to disability living allowance (DLA) or a young person entitled to personal independence payment (PIP) in tax credits is: Disabled child element (DLA/PIP any rate) ▪ £3,275 a year (= £272.92 a month) *OR* Severely disabled child element (DLA highest care or PIP enhanced daily living): ▪ £4,600 a year (= £383.33 a month)	**Disabled children** The amount for a child who is entitled to disability living allowance (DLA) or a young person entitled to personal independence payment (PIP) in universal credit is: Disabled child element lower(DLA/PIP any rate) ▪ £126.11 a month (= £1,513.32 a year) *OR* Disabled child element higher (DLA highest care or PIP enhanced daily living): ▪ £383.86 a month (= £4,606.32 a year)
Two child limit In CTC, a child element is payable for all children born before 6 April 2017. The two child limit only affects children born on or after 6 April 2017 where there are already two or more other children in the family.	**Two child limit** In UC, a maximum of two child elements will be payable, regardless of the dates of birth of the children. Until 31 January 2019, a child born before 6 April 2017 is not affected by the two child limit where there are already two or more children in the family.
Disabled workers In WTC, an additional element is payable for a disabled worker of £3,090 a year. This is payable if you work at least 16 hours a week, get a benefit such as PIP, or were getting a benefit such as ESA before starting work, and have a disability which puts you at a disadvantage in getting a job.	**Disabled workers** In UC, there is no disabled worker element, but claimants with limited capability for work qualify for a work allowance, which means you can earn up to £198 a month (or £409 a month if you don't get a housing element for rent), before your UC is reduced.

CHANGES OF CIRCUMSTANCES

Some changes, such as becoming part of couple or separating, mean that your tax credits claim comes to an end, and if you live in a full service area, you must claim UC. But there other changes that do not bring your tax credits claim to an end, so you do not have to claim UC. For example, if you are already getting CTC and you start work, you can claim WTC and do not have to claim UC. Similarly, if you are already getting WTC and have a child, you can claim CTC and do not have to claim UC.

STOPPING TAX CREDITS

If you are already getting tax credits when universal credit is introduced, you can continue to get tax credits. But some changes may mean you need to claim UC. For example, if you are a lone parent and your income support has stopped because your child has turned 5, and you live in a full service area, you will need to claim universal credit for yourself, so your CTC will stop. If you become part of a couple with someone who gets universal credit, your tax credits claim stops and you become part of a joint universal credit claim. Otherwise, your tax credit award may be renewed for 2018/19 and subsequent years, until HMRC/DWP writes to you to notify you that your tax credits award is being stopped and you are being moved onto universal credit.

When your tax credits stop because you have become entitled to universal credit, your tax credits award may be finalised during a tax year rather than waiting for the annual review at the end of a tax year, as is currently the case. Your tax credits award will be finalised by using an income figure based on what you have actually earned up to the point in the year when you move onto universal credit. This means your tax credits award may reflect your actual income at the point when you move onto universal credit, which is apportioned over a year and compared with your previous year income.

TOP-UP PAYMENTS

An additional amount may be payable in some cases when you are moved onto universal credit between 2019 and 2022 (but not if you claim it following a change in circumstances, or become part of a joint claim) to ensure that you are not worse off when you stop getting tax credits. There is also provision to allow an advance payment so that you are not left without any money while waiting for your first payment of universal credit, which will be paid monthly.

OVERPAYMENTS

If you have an outstanding overpayment of tax credits when you move onto universal credit, it can be deducted from your universal credit award, but not if there is an outstanding dispute about recovery or mandatory reconsideration/appeal about tax credits. Even if you stop getting universal credit, it can still be treated as an overpayment of universal credit and collected or pursued by the DWP. Overpayments of universal credit are treated in a similar way to tax credits; all overpayments are recoverable and there is no right of appeal against the decision to recover. You can ask the DWP to use its discretion not to recover overpayments.

FURTHER INFORMATION

CHILD POVERTY ACTION GROUP IN SCOTLAND

0141 552 0552 advice line for advisers on benefits and tax credits,
Monday to Thursday 10am to 4pm, Friday 10am to 12 noon

Email: advice@cpagscotland.org.uk
email advice for advisers on benefits and tax credits

Website: www.cpag.org.uk/scotland/taxcredits
for more tax credit leaflets from CPAG in Scotland

CPAG publishes the *Welfare Benefits and Tax Credits Handbook*, a comprehensive guide to benefits and tax credits for claimants and advisers.

CPAG in Scotland's advice line is only for advisers. If you are having problems with your own tax credit or benefit claim and are in need of advice you should contact your citizens advice bureau or other local welfare rights service.

HM Revenue and Customs

Tax Credit Helpline
Telephone: 0345 300 3900
Textphone: 0345 300 3909

Website: www.hmrc.gov.uk

Department for Work & Pensions

Universal Credit Helpline
Telephone: 0800 328 9344
Textphone: 0800 328 1344

Website: www.gov.uk/universal-credit

CHILD POVERTY ACTION GROUP IN SCOTLAND

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