TAX CREDITS – MOVING ON TO UNIVERSAL CREDIT

April 2022

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We work to understand what causes poverty and the impact it has on children's lives, and how it can be prevented and solved – for good.

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

Introduction

There are two types of tax credit: child tax credit (CTC) for people with children and working tax credit (WTC) for people in work. You may get either or both. Tax credits are administered by Her Majesty's Revenue and Customs (HMRC).

Universal credit (UC) is a means-tested benefit for people of working age, payable in or out of work, for people with or without children and includes amounts for housing costs. UC is administered by the Department for Work and Pensions (DWP).

Tax credits are being replaced by UC. If you are currently getting tax credits, you can continue to get them unless you make a claim for UC. You will be able to renew your claim until you are notified that your tax credits are ending and you need to claim UC. The process of moving most people from tax credits to UC is expected to happen between 2022 and 2024.

The government is encouraging claimants to move to UC by choice. If you claim UC, your tax credits award will be terminated and you will not be able to go back to tax credits.

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

Main differences between tax credits and universal credit

Claims and administration

Tax credits

It is no longer possible to make a new claim for tax credits in most cases. You can only make a new claim for tax credits if:

- you already get child tax credit you can claim working tax credit;
- you already get working tax credit you can claim child tax credit;
- you were entitled to a tax credit in one tax year you can claim in the following tax year (ie, a renewal claim, but may also apply in other cases); *or*
- you are a refugee claiming child tax credit, backdated to the date you applied for asylum in the UK.

Claims must be made by telephone.

If you are already getting tax credits, you can continue to get them until you are invited to claim UC. Tax credit claims can be renewed and some changes reported online.

If you get CTC, you may also be getting 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 getting:

- housing benefit
- council tax reduction

Universal credit

Claims must be made online but in exceptional circumstances may be taken by telephone. Most ongoing contact should also be online.

You must be under pension age to claim UC or have a partner who is under pension age.

You must usually be aged at least 18 (some 16 and 17 year olds can claim).

If you make a claim UC, your tax credits are automatically terminated from the day you claim UC (even if you are not entitled to UC) and you will not be allowed to go back to tax credits.

If you get UC, you stop getting any of the benefits it replaces:

- income support
- income-based jobseeker's allowance
- income-related employment and support allowance
- housing benefit (except for specified supported and temporary accommodation)
- tax credits

If you claim UC, you can get a two-week run-on of housing benefit, income support, income-based jobseeker's allowance or income-related employment and support allowance (but not 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

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 permanently 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

Universal credit (UC) has no rules about how many hours you must work. 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. UC also replaces housing benefit, which can be claimed whether in or out of work, regardless of hours but depending on income.

You can get UC whether you are in or out of work, and you continue to get it if you stop working.

There are rules about conditionality in UC. 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 times 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 number of hours the DWP expects you to work – usually 35 hours a week.

Main differences between tax credits and universal credit

Childcare costs

Tax credits

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.

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.

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 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 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.

Universal credit

To get help with childcare costs in universal credit (UC), you must be working, irrespective 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 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 get help with childcare costs in UC 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 report your actual childcare costs by the next monthly assessment period after the one in which you paid them, or late with good reasons. 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 to the Flexible Support Fund at the Jobcentre or request a budgeting advance of UC.

Main differences between tax credits and universal credit

Income

Tax credits

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.

You must declare or confirm your actual income at the end of 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.

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 £6,770, you are entitled to your maximum tax credits award. For child tax credit, if your income is below the threshold of £17,005, you are entitled to maximum child tax credit. If your income exceeds the 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.

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.

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.

There is no capital limit for tax credits, but interest and other payments from some savings and investments count as income.

Universal credit

Universal credit (UC) 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 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.

Income other than earnings reduces your UC award pound for pound.

Your UC 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 (£335 a month if housing costs are included in your UC, or £557 if you do not get a housing element for rent), which is the amount you are allowed to earn before your UC starts to be reduced. Your UC award is then reduced at a rate of 55% of your earnings above your work allowance, so that in effect you keep 45p in every pound.

Whether your income goes up or down, UC should be adjusted to reflect your actual income each month.

You cannot usually get UC 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 and you are notified to claim UC under the managed migration process between 2022 and 2024, your capital over £16,000 will be ignored for 12 months.

Main differences between tax credits and universal credit

Amounts (April 2022 rates)

Tax credits

Disabled children

For a child or young person who is entitled to:

- disability living allowance (DLA)
- child disability payment (CDP)
- personal independence payment (PIP) or
- adult disability payment (ADP)

the extra amount in tax credits is:

Disabled child element lower rate (DLA/CDP/PIP/ADP any rate)

- £3,545 a year (= £295.42 a month)

OR

Higher rate for a severely disabled child (DLA/CDP highest rate care or PIP/ADP enhanced rate daily living):

- £4,975 a year (= £414.58 a month)

Disabled workers

In WTC, an additional element is payable for a disabled worker of £3,345 a year. This is payable if you who 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 you have a disability which puts you at a disadvantage in getting a job.

Universal credit

Disabled children

For a child or young person who is entitled to:

- disability living allowance (DLA)
- child disability payment (CDP) or
- personal independence payment (PIP) or
- adult disability payment (ADP)

the extra amount in universal credit (UC) is:

Disabled child element lower rate (DLA/CDP/PIP/ADP any rate)

- £132.89 a month (= £1,594.68 a year)

OR

Disabled child element higher rate (DLA/CDP highest rate care or PIP/ADP enhanced rate daily living):

- £414.88 a month (= £4,978.56 a year)

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 £335 a month (or £557 a month if you don’t get a housing element for rent), before your UC is reduced. You may get an extra amount of UC, depending on a work capability assessment (but if you earn over £658.66 a month, an assessment is only carried out if you already get PIP or DLA).

Changes of circumstances

Some changes, such as becoming part of couple or separating, mean that your tax credits claim comes to an end. You can claim UC instead. 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, 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, you will need to claim UC for yourself and your child, so your CTC will stop. If you become part of a couple with someone who gets UC, your tax credits claim stops and you become part of a joint UC claim. Otherwise, your tax credit award may be renewed for 2022/23 and subsequent years, until HMRC/DWP writes to you to notify you that your tax credits award is being stopped and you must claim UC.

When your tax credits stop because you have become entitled to UC, 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 UC. This means your tax credits award may reflect your actual income at the point when you move onto UC, which is apportioned over a year and compared with your previous year income.

Transitional payments

An additional amount (transitional element) may be payable in some cases when you are notified that you must claim UC as part of the managed migration process between 2022 and 2024 (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 no run-on of tax credits when you move onto UC but you can request an advance so that you are left without any money while waiting for your first payment of UC, which will be paid monthly.

Overpayments

If you have an outstanding overpayment of tax credits when you move onto UC, the debt can be transferred to the DWP and it can be recovered by deductions from your UC award. The debt should not be transferred if you have an ongoing dispute or appeal with HMRC about the overpayment. Even if you stop getting UC, it can still be collected or pursued by the DWP.

Overpayments of UC 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 adjust the level of repayment due to hardship.

FURTHER INFORMATION AND ADVICE

CPAG IN SCOTLAND'S ADVICE LINE FOR ADVISERS AND SUPPORT WORKERS

Scotland
0141 552 0552 Monday to Thursday, 10am to 4pm, Friday 10am to 12 noon
Email: advice@cpagscotland.org.uk for any benefit issue

CPAG'S advice lines are only for frontline workers. If you are having problems with your own universal credit claim and are in need of advice you should contact your local Citizens Advice Bureau or other local welfare rights service.

HM Revenue and Customs

Tax Credit Helpline
Telephone: 0345 300 3900
NGT Text Relay: 18001 then 0345 300 3900
Website: hmrc.gov.uk

Department for Work and Pensions

Universal Credit Helpline
Telephone: 0800 328 5644
NGT Text Relay: 18001 then 0800 328 5644
Textphone: 0800 328 1344
Website: gov.uk/universal-credit

EARLY WARNING SYSTEM

The Early Warning System gathers information and case studies about how changes to the benefit system are affecting the wellbeing of children, families and the communities and services that support them. This helps us explain the impact on families and work for improvements in the system, to deliver better outcomes for children.

Find out more and how to get involved at cpag.org.uk/policy-campaigns/early-warning-system

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