
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).