
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Tax Credits (Definition and Calculation of Income) Regulations 2002 (S.I 2002/2006) (“the principal Regulations”), mainly as a consequence of the enactment of the Income Tax (Earnings and Pensions) Act 2003 (c. 1: “ITEPA”). ITEPA replaces the provisions of the Income and Corporation Taxes Act 1988 (c. 1) on the taxation of employment income, pension income and social security income.

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

Regulation 3 introduces the amendments to the principal Regulations.

Regulation 4 amends regulation 2 of the principal Regulations, inserting definitions of “earnings” and “ITEPA” and deleting references to “Schedule E” and “emoluments”, which are rendered obsolete by ITEPA.

Regulation 5 amends regulation 3 of the principal Regulations. It clarifies the operation of the rules on calculating trading income, changes the method of calculation in respect of claimants who are not domiciled, resident and ordinarily resident in the United Kingdom, and makes it clear that income which is exempt from UK taxation by virtue of a double taxation agreement is to be taken into account in calculating income for tax credits purposes. Finally, it provides a method of calculating the amount of a claimant’s income where it is paid to him in a currency other than sterling.

Regulation 6 amends regulation 4 of the principal Regulations to reflect the new statutory provisions relating to the taxation of employment income in ITEPA. In addition it provides new disregards in respect of the provision of transport or payment of expenses on transport, credit-tokens and vouchers, and vouchers free or subsidised meals on which no liability for income tax arises. It also provides disregards for certain new payments made by the Department for Work and Pensions under section 20 of the Employment and Training Act 1973 (c. 50), and permits a deduction in respect of payroll giving.

Regulation 7 amends regulation 5 of the principal Regulations to reflect the new statutory provisions relating to the taxation of pension income in ITEPA. It also provides disregards for tax-free lump sums, and for free coal (and allowances in lieu) for former colliery workers and their widows and a deduction in respect of payroll giving.

Regulation 8 amends regulation 7 of the principal Regulations (social security income) to provide disregards for statutory adoption pay and statutory paternity pay, and a deduction in respect of payroll giving.

Regulation 9 makes a correction to Table 4 in regulation 10 of the principal Regulations.

Regulation 10 amends regulation 12 of the principal Regulations to reflect the new statutory provisions on foreign income contained in ITEPA.

Regulation 11 amends regulation 19 of the principal Regulations. It adds a new general disregard in Table 6 in respect of payments under the Supporting People programme run by the Office of the Deputy Prime Minister. It extends the disregard in Table 8 in respect of income arising from payments to claimants who are providing accommodation on a temporary basis under social services legislation, and makes a drafting correction to that Table.