FARM FUTURE CLINIC

In these difficult financial times tax credits are a very important source of income for many farming families and when your accountant prepares the annual farm accounts it is important to consider not only the income tax position but also the impact of the trading result on tax credits available.

Changes to the tax credit system with the introduction of Universal Credit have been well publicised but until April 2014 the tax credit system in Northern Ireland will remain unchanged. In this article we cover entitlement to tax credits, the impact of business profits on tax credit claims and the claims procedure.

Q. Who is entitled to Tax Credits?

There are two types of tax credit, Working Tax Credits (WTC), available to those aged 16 and over who are working, and Child Tax Credits (CTC), available to those responsible for children under the age of 16 or with children in full-time secondary education and who are aged under 20. The WTC is available to both employed and self-employed. The basic eligibility requirement is for the claimant to be aged over 25 and working over 30 hours each week. This requirement is reduced if the individual is responsible for a child either solely or as part of a couple. An individual responsible for a child will be entitled to WTC if aged over 16 and working over 16 hours each week and couples with a child are eligible when they jointly work at least 24 hours each week with one of them working over 16 hours.

Q. How is a claim affected by income?

The Tax Credit entitlement is calculated by computing the maximum entitlement based on circumstances and reducing the maximum by a factor to reflect income.

The income reduction factor is 41% of income over £6,420 for claimants of CTC and WTC and 41% of income over £15,910 for claimants of CTC only.

For example, a couple with two children on low income and eligible for CTC and WTC could be entitled to a tax credit claim of up to £10,665 per year. The amount of the claim is reduced as income rises but it is worth noting in this example that the couple would receive tax credits on joint annual income of up to just over £32,000. The amount of the tax credit claim and the upper earnings limit increase with the number of children and when eligible childcare costs are incurred. 70% of eligible childcare costs of up to £175 per week for one child and £300 per week for two or more children can be claimed.

The tax credit award is normally based on income in the previous tax year, with revision to reflect income in the year of claim, if income fluctuates above or below certain limits. One difficulty for claimants who are self-employed is that their taxable profits for the previous tax year may not be known when submitting the claim. To deal with this the claim can be submitted with estimated income amounts with the correct amounts being submitted by 31st January after the end of the tax year. Another difficulty for the self-employed is to determine whether their business profits will fall below the upper income limit. To deal with this the Tax Credit Office will accept a provisional claim even if the estimated income is above the upper income limit. If the business profits are subsequently determined at a lower level the claim can be revised.

It is important that you keep your accountant informed about tax credit applications as the treatment of trading losses, capital allowance claims, averaging claims etc in your tax return will have a significant impact on tax credit claims.

It is worth noting that for joint tax credit claims the trading losses of one partner can be set against the other partner's income, including earnings for employment.

Q How do you apply for Tax Credits?

The claim procedure is straight forward. An application form can be obtained by calling the Tax Credit Helpline on 0345 300 3900. The application form should be completed to reflect actual or estimated income for the previous tax year. Your accountant should be able to assist you provide this information. As mentioned at the outset tax credits will change with the introduction of universal credits but for now remain available. Government has advised that after April 2014 existing tax credit claimants will be protected under transitional provisions to ensure they are not disadvantaged with the introduction of universal credits.

The mentoring programme provides an opportunity to take an overview of your current farm and family circumstances, as well as your future needs. Make time, and take time out to do this with an independent person to assist your thinking and planning process. This is a confidential process and free to farm families.

Financial assistance of £250 is available for professional legal and/ or financial advice.

To raise a question in confidence or to request an application form please telephone: 0845 026 7539, email: mentoring@countrysiderural.co.uk or visit www.countrysiderural.co.uk