TAX CREDITS – MOVING ON TO UNIVERSAL CREDIT

April 2024

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).

You cannot get tax credits and UC at the same time. 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, or you are notified that your tax credits are ending and you need to claim UC by a specified date. This process, known as 'managed migration', has started already for all claimants getting tax credits only, and is intended during 2024/25 to include those getting tax credits and other legacy benefits.

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 2023/24 you can claim in 2024/25 (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, before UC was introduced.

Claims must be made by telephone.

If you are already getting tax credits, you can continue to get them until you are notified to claim UC. Tax credit claims can be renewed and 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 AND CONDITIONALITY

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. Self-employment must be on a commercial basis with a view to making a profit.

Universal credit

UC replaces in-work support provided by WTC but does not have a fixed number of hours you must work to qualify. It replaces out-of-work benefits (income support, income-based jobseeker's allowance and income-related employment and support allowance). 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 (or less may be agreed if you have a disability or caring responsibilities).

A sanction may be imposed on you even if you are working 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. This does not usually apply for the first 12 months of your UC claim.

If you stop work or your earnings reduce, you may lose transitional protection (see managed migration).

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 average weekly childcare costs, up to a maximum of £175 for one child or £300 for two or more children, which means the most you can receive 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.

If you have started paying for childcare, you can declare estimated childcare costs and then report if the actual amount changes.

Universal credit

To get help with childcare costs in universal credit (UC), you must be working, any 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 so the most you can get is £1,014.63 for one child, or £1,739.37 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, and evidence may be required. If you need help with upfront childcare costs before the childcare is provided, you can apply to the Jobcentre for help from the Flexible Support Fund, which does not have to be paid back (once they have been paid, the costs can also be included in the assessment of your childcare costs for UC). You can also request a budgeting advance of UC, but this must be repaid.

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 £7,955, you are entitled to your maximum tax credits award. For child tax credit, if your income is below the threshold of £19,995, 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 £2,500 or less, 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 £2,500 or less, 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 date 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 (£404 a month if housing costs are included in your UC, or £673 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, your capital over £16,000 will be ignored for 12 monthly assessment periods.

MAIN DIFFERENCES BETWEEN TAX CREDITS AND UNIVERSAL CREDIT

AMOUNTS (APRIL 2024 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)

- £4,170 a year (= £347.50 a month)

OR

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

- £5,850 a year (= £487.50 a month)

Disabled workers

In WTC, an additional element is payable for a disabled worker of £3,935 a year. This is payable if you who work at least 16 hours a week, get a benefit such as PIP/ADP, 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)

- £156.11 a month (= £1,873.32 a year)

OR

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

- £487.58 a month (= £5,850.96 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 £404 a month (or £673 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 £793.17 a month, an assessment is only carried out if you already get PIP/ADP/DLA).

MOVING ON TO UC: NATURAL MIGRATION

You can choose to claim UC at any time, but you should get advice before claiming to make sure you will be better off. Some changes mean that 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.

Some people are worse off as a result of claiming UC. The only transitional element to make up for the loss of income is for severely disabled claimants who were getting an extra amount in legacy benefits. Some people may find they are not entitled to UC, but making the claim causes tax credits to end and cannot be reinstated.

Some changes do not cause your tax credits to 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.

MOVING ON TO UC: MANAGED MIGRATION

You can continue to get tax credits until you are individually notified that your tax credits are ending, and you need to claim UC. This letter is known as a migration notice. You must be given at least three months to claim UC, and you can request an extension with good reason. Your tax credits will be terminated as soon as you claim UC. If you do not claim UC by the deadline, your tax credits will be terminated.

If you claim UC by the deadline, or within one month from the deadline, an additional amount (transitional element) may be payable. This is intended to ensure that you are not worse off on UC compared to tax credits, at the point of transfer, with circumstances unchanged. This amount depends on your current tax credits award being as accurate as possible. HMRC will contact some claimants directly to carry out a ‘pre-migration check’. There is also protection for people with capital over £16,000 and for students who would not be entitled to UC under the usual rules.

IN-YEAR FINALISATION

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 final tax credits award may reflect your actual income up to the point you claim UC, which is apportioned over a year and compared with your previous year income.

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: 0800 328 5644
NGT Text Relay: 18001 then 0800 328 5644
Textphone: 0800 328 1344

Universal Credit Migration Notice helpline: 0800 169 0328
NGT Text Relay: 18001 then 0800 169 0328
Website: gov.uk/guidance/tax-credits-and-some-benefits-are-ending-move-to-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/what-we-do/project-work/early-warning-system

CPAG in Scotland's Advising low-income families service is funded by the Scottish Government.