**UNIVERSAL TAX CREDITS**

Over the next few years the Universal Tax Credit system will gradually replace a number of current welfare benefits, in particular Working and Child Tax Credits, Unemployment and Housing Benefits.

**Background**

At the present time Universal Tax Credits are being piloted in one area (Tameside) in the North West of England. Further pilot areas (Oldham, Wigan and Warrington) are to be added to the pilot scheme shortly. From October 2013 all new claimants will have to use the Universal Tax Credit system. After April 2014 current Tax Credit claimants will gradually be transferred over to the Universal Tax Credit system. This gradual transfer is expected to take until 2017 to complete, at which point there will be in excess of 12 million Universal Tax Credit claimants.

The Government’s stated aim of Universal Tax Credits is to ensure claimants will be financially better off in work (employment or self-employment). Depending upon personal circumstances some claimants will be better off than under existing Tax Credits but others will not. However, in the short term transitional arrangements should ensure that current Tax Credit claimants are no worse off under the new system following a compulsory transfer.

**Key Features**

The important aspects of the Universal Tax Credits system to be aware of are as follows:-

* Unlike the Tax Credit system which operated by reference to income on an annual basis with provisional awards being made subject to possible revision as and when actual income figures became available, the Universal Tax Credit system will work on the basis of monthly periods.
* Entitlement to Universal Tax Credits will partially be determined by the claimant’s level of income from employments, self employments, pensions (and certain other state benefits) and maintenance received less pension contributions paid. Unlike current Tax Credits which are assessed by reference to gross income before tax on an annual basis the Universal Tax Credit system will be assessed by reference to net of tax (and national insurance) earnings on a month by month basis.
* Once a claimants date of first entitlement is established then that claimant’s monthly basis period will be at monthly rests from the first date of claim, e.g. if the first date of claim is 15 May, the first period of claim will run to 14 June, the second to 14 July and so on. Universal Tax Credits will be paid on a monthly basis.
* Employment income will be declared to the Department of Work & Pensions via employer Real Time Information submissions to HM Revenue & Customs. Benefits in kind will be ignored in respect of the calculation of Universal Tax Credits and in theory no action whatsoever will be required by the claimant as the information on wages and salary payments should be automatically submitted from the employer via HMRC to the Department of Work & Pensions.
* The self employed will be required to submit details (within 7 days of the monthly accounting period end date) of business income and expenditure on a monthly basis by reference to their particular monthly claim period. The information to be submitted will be business receipts and expenses paid (such expenses having to be incurred, wholly, exclusively and reasonably for business purposes). If the result is a negative figure then it is treated as nil and the negative balance cannot be carried forward. As payments will include such items as quarterly VAT bills, annual insurance premiums and bi-annual income tax payments, the self employed may well need to manage their expenditure from one month to another to ensure that unrelieved losses do not occur.
* In addition to the accounting issues for the self employed there is also an assumed minimum income level (except in the first year of any business) which will broadly be £220 per week. This level of income will be assumed to have been earned where the accounting figures produce a lower result.
* Individuals who trade via companies which trade in a similar way to sole traders or partnerships will be deemed to earn in a personal capacity any (net) income of their company.

* It should be noted that investment income is not of itself taken into account in connection with Universal Tax Credit calculations. However, where a claimant has more than £16,000 (including amounts held by a spouse, civil partner or equivalent) worth of investment assets (excluding the main residence, personal possessions and assets used in the course of a business) no claim will be permitted. In addition, where such capital is over £6,000 then a notional income will be assumed to have been earned thereon which will be taken into account in calculating Universal Tax Credit entitlement.
* Self employed Universal Tax Credit claimants will be permitted to use the cash in/out basis of accounting for income tax purposes, provided their annual turnover is less than £158,000 (double the £79,000 limit applicable to all other taxpayers). This is to try and allow income tax returns to be easily completed by adding together the monthly Universal Tax Credit returns made in the tax year. However, as the two bases are not to be identical the conversion of Universal Tax Credit income returns to income tax returns may not be as straight forward as claimed.
* As Universal Tax Credits are focussed at encouraging work, there will be a requirement for claimants to seek work and/or take steps to help them obtain work, e.g. preparing CVs, attending training courses, applying for vacancies, etc. Objectives will be set at face to face meetings and reviewed. Reductions in or indeed total removal of payments can be applied in respect of those who do not comply. Exemptions will however apply for claimants with limited capability to work and certain carers.
* The requirement under the current system for parents to work for more than 16 hours per week to receive childcare cost support will not apply to Universal Tax Credit claimants.

For employed earners the new system should, in theory, operate relatively seamlessly once a Universal Tax Credit entitlement has been established. However, for the self employed there are likely to be considerable obligations, complications and issues arising out of firstly calculating the relevant amount of business income and expenditure and secondly the requirement to submit (within 7 days) such information online to the Department of Work & Pensions. The effort involved would appear to be considerably more than that previously required under the Tax Credit system which in the main was based upon income as calculated for tax purposes and was therefore readily available once the appropriate year end tax return form had been completed. In view of this position it is important that our self employed clients let us know if and when they make a claim for Universal Tax Credits or if and when any existing Tax Credit claim is transferred onto the new Universal Tax Credit system. If, in the meantime, should you need to discuss your personal position then please do not hesitate to contact us accordingly.