

CLAIMING CHILDREN'S TAX CREDIT WHEN YOUR CIRCUMSTANCES CHANGE

This Help Sheet will help you fill in box 16.26 in the Children's Tax Credit (CTC) section on page 7 of your Tax Return and also tells you what extra information you will need to provide in the 'Additional information' box, box 23.5 on page 9 of your Tax Return.

It explains how the CTC rules are modified if your circumstances changed **during the year to 5 April 2003**

You will not need this Help Sheet if you lived:

- with your husband or wife, **or**
- your unmarried partner, as husband and wife

throughout **the whole of the year to 5 April 2003, or**

- if you separated from, married or started living with your married or unmarried partner prior to 6 April 2002.

In these circumstances, all of the information you should need to complete your CTC claim can be found in your Tax Return Guide (pages 28 to 31).

This Help Sheet covers a number of commonly occurring events and demonstrates how your entitlement to CTC may be affected if your circumstances changed during the year to 5 April 2003.

On page 2 you will find:

- a summary of the rules where a 'change of circumstances' occurred during the year to 5 April 2003 (change of circumstances is explained in the next column), **and**
- guidance about separation from your partner in that year.

There are two examples to help you - one about a child who lives with one parent after separation, and one about a child who continues to live with both parents after the separation.

Pages 3 to 5 explain:

- the effect if one or both partners are liable to the higher rate of tax,
- what happens if you started living with a partner in the year to 5 April 2003, **and**
- what happens if you move in with a new partner after separating in the year to 5 April 2003.

Again, there are examples to help you.

Page 6 tells you what happens if you can't agree how to split CTC with any other claimants.

If you do not understand any issue we will be able to help. Guidance on completing all other questions that are relevant to your CTC claim can be found in your Tax Return Guide. In addition, comprehensive guidance on the CTC rules can be found

in our Independent Taxation Handbook, which may be viewed at any Inland Revenue Enquiry Centre.

The CTC rules use the phrase a *change of circumstances* to describe the events listed below. This Help Sheet will also use the phrase when explaining the consequences and practical effects of a change of circumstances on your entitlement to CTC.

A change of circumstances will have occurred if **in the year to 5 April 2003** you were involved in one of the four events listed below **and** either of the two points relating to your child applied.

The four events are:

- a marriage
- an unmarried couple starts living together as husband and wife
- a husband and wife cease to live together
- an unmarried couple who have been living together as husband and wife cease to live together as husband and wife.

The two points relating to the child are:

- immediately before the event the child was a *qualifying child* for both partners involved in one of the four events listed above, **or**
- as a result of the event the child stops or becomes a *qualifying child* in respect of any person.

For CTC a *qualifying child* means a child who lives with you for some part of the tax year, who was under 16 at the start of the tax year, and was:

- your own child (your own child by birth, a child legally adopted by you, or a step-child if you are married to the child's mother or father), **or**
- a child maintained by you at your own expense (we accept that you maintain a child at your own expense if you meet at least half the total cost of maintaining the child while they live with you).

The death of your married or unmarried partner in the year to 5 April 2003 is not treated as a separation and consequently it is not treated as a change of circumstances for CTC purposes. This means that, as long as there is not another event which triggers a change of circumstances in the year to 5 April 2003, there is no need to complete box 16.26 on page 7 of your Tax Return. Instead, CTC is allocated using the normal rules for a married, or unmarried couple living together as husband and wife, which are covered on pages 28 to 31 of your Tax Return Guide.

SUMMARY OF RULES WHERE A 'CHANGE OF CIRCUMSTANCES' OCCURRED DURING THE YEAR TO 5 APRIL 2003.

The CTC rules apply to both married and unmarried couples who live together. The amount of CTC the partners in a couple can receive is restricted to one CTC tax saving credit worth, in cash terms, £529 (the tax allowance of £5,290 given at the rate of 10%) irrespective of how many children you may have. The amount of CTC you can claim is increased to £1049 where a child lives with you who was born during the period 6 April 2002 to 5 April 2003. This increased rate of CTC is known as the 'baby rate'. The rules for deciding who can claim that credit where the partners lived together for the whole tax year are contained in your Tax Return Guide.

If your circumstances changed during the year to 5 April 2003, for example, because you separated from your partner, or you married, the one amount of CTC available to a couple still needs to be allocated between the partners. However, instead of looking at how the partners can divide up their entitlement to CTC for the whole tax year, the tax year is split into shorter periods and each partner's entitlement to CTC for each shorter period is calculated, totalled up and then is available to the partner to set against their own tax bill.

The amount of CTC a couple who separate, or come together, during the year to 5 April 2003 is still restricted to one CTC amount of £5,290 (or £10,490 if you can claim the baby rate) irrespective of how many children the couple have. The only exception to this rule is where a partner(s) shares a claim to CTC with another individual, or couple, for a different child. The aggregate amount an individual claimant can receive in these circumstances is, however, still limited to £5,290 (or £10,490 if one of the children qualifies for the baby rate). We can help you if you think you may be able to claim for different children.

A series of examples best explains the rules.

WHAT HAPPENS IF I SEPARATED FROM MY PARTNER DURING THE YEAR TO 5 APRIL 2003?

If you stopped living with your partner, the rules about sharing CTC as a couple apply to the part of the year before you and your partner split up. After you split up, you may be able to claim part of the credit for the rest of the year, provided your child still lives with you. If the child you are claiming for also lives with your former partner for part of the tax year after you split up, you will need to agree with him or her what shares you will both claim.

Example 1 (a child lives with one parent only after separation)

David and Rachel had been married for several years and initially decided to share their entitlement to CTC equally. They separated on 30 July 2002 and their daughter went to live with Rachel. Both are basic rate taxpayers. Rachel has received a Tax Return for the year to 5 April 2003 and needs to work out her entitlement to CTC to complete box 16.26.

Their separation is a change of circumstances because one of the four events relating to the couple applies (a husband and wife cease to live together) and one of the events relating to their child applies (immediately before the event the child was a qualifying child for both partners. In fact the other point would also apply – the child stops being a qualifying child for David). So the tax year needs to be split into two parts.

For the first part of the tax year, from 6 April 2002 to 29 July 2002 (115 days), the couple live together. The CTC is worth £5,290 for a full year. So for this period it is worth

$$\frac{\pounds 5,290 \times 115}{365} = \pounds 1,667$$

which means for this part of the year it is worth up to £833.50 for David and £833.50 for Rachel.

For the second part of the tax year, from 30 July 2002 to 5 April 2003 (250 days), their daughter lived with Rachel. For this period the credit is worth

$$\frac{\pounds 5,290 \times 250}{365} = \pounds 3,623$$

to Rachel only.

Therefore, over the whole year it is worth up to £833.50 for David and £4,456.50 for Rachel (£833.50 + £3,623). As CTC tax relief is given at the rate of 10%, in cash terms this is worth £83.35 (£833.50 x 10%) to David and £445.65 (£4,456.50 x 10%) to Rachel.

Rachel now has sufficient information to complete her Tax Return. She should enter **£4,457** (£4,456.50 rounded up) in box 16.26. She should also give David's full name and address and, if known, his National Insurance number in the 'Additional information' box, box 23.5 on page 9 of her Tax Return. She doesn't need to complete boxes 16.17 to 16.25 on her Return. David should tell his Inland Revenue office that he has agreed his claim to CTC totals **£834** (£833.50 rounded up). They will then check to see whether David is due a tax refund, or if he owes more tax because he received too much CTC through his tax coding.

NB If David and Rachel's child had been born in the period 6 April to 30 July 2002 the CTC value of £5,290 appearing in the calculation above would be increased to £10,490 (the baby rate).

Example 2 (a child continues to live with both parents after separation)

Peter and Jackie were not married but they lived together as husband and wife until they separated on 1 November 2002. They have two children. They decided that their children should live with Jackie during the week (five nights) and with Peter at weekends (two nights). Both are basic rate taxpayers. Peter has received a Tax Return for the year to 5 April 2003 and needs to work out his entitlement to CTC so that he can complete box 16.26 on page 7. They can only claim CTC in the year to 5 April 2003 for one of the children.

Their separation is a change of circumstances because one of the four events relating to the couple applies (an unmarried couple who have been living together as husband and wife cease to live together as husband and wife) and one of the events relating to their child applies (immediately before the event the child was a *qualifying child* for both partners). So the tax year must be split into two parts.

For the year to 5 April 2003 they both decide to claim half of the CTC credit for the period up to separation. For the period from separation they agree to Jackie receiving 70% (which broadly equates to a claim based on the number of nights the child lives with her) and Peter receiving 30%.

For the first part of the tax year, from 6 April 2002 to 31 October 2002 (209 days), the couple live together. The CTC is worth £5,290 for a full year. So for this period it is worth

$$\frac{\underline{£5,290} \times 209}{365} = £3,029$$

which means for this part of the year it is worth up to £1,514.50 for Peter and £1,514.50 for Jackie.

For the second part of the tax year, from 1 November 2002 to 5 April 2003 (156 days) the credit is worth up to

$$\frac{\underline{£5,290} \times 156}{365} = £2,261$$

So Peter will receive £678.30 (£2,261 × 30%) and Jackie £1,582.70 (£2,261 × 70%). Therefore, over the whole year it is worth up to £2,192.80 to Peter (£1,514.50 + £678.30) and £3,097.20 to Jackie (£1,514.50 + £1,582.70). As CTC tax relief is given at the rate of 10%, in cash terms this is worth £219.28 (£2,192.80 × 10%) to Peter and £309.72 (£3,097.20 × 10%) to Jackie.

Peter should enter **£2,193** (£2,192.80 rounded up) in box 16.26 of his Tax Return. He should also give Jackie's full name and address and, if known, her National Insurance number in the 'Additional information' box, box 23.5 on page 9 of the Tax Return. He doesn't need to complete boxes 16.17 to 16.25.

Jackie should tell her Inland Revenue office that she has agreed her claim to CTC totals **£3,098** (£3,097.20 rounded up). They will then check to see whether Jackie is due a tax refund, or if she owes more tax because she received too much CTC through her tax coding.

WHAT IF ONE OR BOTH PARTNERS WERE LIABLE TO TAX AT THE HIGHER RATE PRIOR TO SEPARATION?

The rules about dividing the tax year into shorter periods still apply, but there are restrictions on who within the couple can claim CTC during the part of the tax year while the partners lived together. The CTC restrictions mean that, for the period while the partners lived together, the credit **must** go to the partner with the higher income. This is because their entitlement to CTC will be reduced on the basis of how much of their income exceeds the basic rate tax limit. This reduction is only applied when we work out your tax bill or, when you do, if you choose to do it.

Example 3

Richard and Pam, who had been married for several years, separated on 1 May 2002. They decided that their son should live mainly with Pam. Between 1 May 2002 and 5 April 2003 their son stayed with Richard for 70 nights and Pam 270 nights. Richard has the higher income and pays tax at the higher rate.

Richard has received a Tax Return for the year to 5 April 2003 and so needs to work out his entitlement to CTC to complete box 16.26 on page 7 of his Return.

Their separation is a change of circumstances because one of the four events relating to the couple applies (a husband and wife cease to live together) and one of the events relating to their child applies (immediately before the event the child was a *qualifying child* for both partners). So the tax year must be split into two parts.

As Richard has the higher income and pays tax at the higher rate only he can claim CTC for the period up to 30 April 2002. Pam cannot claim CTC for this period. For the period from separation they agree that Pam will receive 80% (which broadly equates to a claim based on the number of nights the child lives with her) and that Richard will receive 20%.

For the first part of the tax year, from 6 April 2002 to 30 April 2002 (25 days), the couple lived together. The CTC credit is worth £5,290 for a full year. So, before taking into account Richard is a higher rate taxpayer, for this period it is worth

$$\frac{\underline{£5,290} \times 25}{365} = £362$$

to Richard only.

For the second part of the tax year, from 1 May 2002 to 5 April 2003 (340 days), the credit is worth

$$\frac{\underline{£5,290} \times 340}{365} = £4,928$$

Richard will receive £986 (£4,928 × 20%) and Pam will receive £3,942 (£4,928 × 80%). Therefore, over the whole year it is worth up to £1,348 to Richard (£362 + £986) and £3,942 to Pam.

The rules explaining how Richard's entitlement to CTC is reduced, as he is liable to tax at the higher rate, are briefly covered on page 4. More details can be found on page 29 of your Tax Return Guide.

Although the tax year must be split into shorter periods to work out who can claim CTC, you must still take your income for the whole year when deciding who had the higher income and consequently whether you were liable to tax at the higher rate for the year to 5 April 2003.

Example 3 - continued

Richard should enter **£1,348** in box 16.26 on page 7 of his Tax Return. This figure will then be reduced either by us if you asked us to work out the tax, or by Richard when he does his own calculation. He should also give Pam's full name and address and also, if known, her National Insurance number in the 'Additional information' box, box 23.5 on page 9 of his Tax Return. He doesn't need to complete boxes 16.17 to 16.25 on his Tax Return. Pam should tell her Inland Revenue office that she has agreed her claim to CTC totals £3,942. They will then check to see whether she is due a tax refund, or if she owes more tax because she received too much CTC through her tax coding.

– So, what happens to Richard's CTC as he is liable to tax at the higher rate?

Because Richard is liable to tax at the higher rate, his entitlement to CTC (in the above example £1,348) is reduced at the rate of £2 of allowance for every £3 of his income chargeable at the higher rate. If, in the year to 5 April 2003, Richard's income from his employment was £35,000 and he had bank interest of £200 the adjustment of his CTC would be as follows. Richard is entitled to a personal allowance of £4,615

The first £4,615 of his income is covered by his basic personal allowance.

He is then taxed as follows:

- 10% on the next £1,920 of his income (at the starting rate)
- 22% on the next £27,980 of his income (the difference between the starting rate and the basic rate)
- 40% on the remaining £685 of his income.

His CTC is reduced by $£685 \times 2 \div 3 = £456$. Therefore Richard's CTC is worth $£1,348 \text{ minus } £456 = £892$ (so, in cash terms his CTC is worth $£89.20$ ($£892 \times 10\%$)). To ensure Richard receives the correct amount of CTC he **must** make sure he enters £1,348 in box 16.26 on page 7 of his Tax Return. The tax calculation we use automatically reduces the CTC entitlement so he must **not** enter £892 in box 16.26 as this net amount would be reduced a second time.

WHAT IF I START LIVING WITH MY PARTNER?

If you have a child and start living with a partner, the rules about sharing CTC between couples will apply from when you start living together. If your new partner is not the natural parent of your child, they will be able to claim a share of the CTC only if they are meeting at least half the total cost of maintaining your child. If you alone are responsible for the cost of maintaining your child, the whole of the CTC will be allocated to you.

Example 4 (a new partner who maintains the child)

Jennifer, who was widowed in 1999, has her 6 year old daughter living with her. On 1 August 2002 she moved in with Tony, her new partner. From 1 August Tony maintains Jennifer's daughter at his own expense and is therefore able to make a claim to CTC. Both are basic rate taxpayers. From 1 August Tony and Jennifer decide to share their entitlement to CTC equally. Both Jennifer and Tony have Tax Returns for the year to 5 April 2003 and must work out their entitlement to CTC to complete box 16.26 on page 7.

A change of circumstances occurs when they start living together because one of the four events relating to the couple applies (an unmarried couple start living together as husband and wife) and one of the events relating to the child applies (the child becomes a *qualifying child* for Tony). So the tax year needs to be split into two parts.

For the first part of the tax year, from 6 April 2002 to 31 July 2002 (117 days), the child lived just with Jennifer. The CTC is worth £5,290 for a full year. So for this period it is worth

$$\frac{£5,290 \times 117}{365} = £1,696$$

to Jennifer only.

For the second part of the tax year, from 1 August 2002 to 5 April 2003 (248 days), the CTC is worth

$$\frac{£5,290 \times 248}{365} = £3,594$$

which means for this part of the year it is worth up to £1,797 for Tony and £1,797 for Jennifer.

Therefore, over the whole year it is worth up to £1,797 for Tony and £3,493 for Jennifer ($£1,696 + £1,797$). As CTC tax relief is given at the rate of 10%, in cash terms this is worth £179.70 ($£1,797 \times 10\%$) to Tony and £349.30 ($£3,493 \times 10\%$) to Jennifer.

Jennifer and Tony now have sufficient information to complete their Tax Returns. Jennifer should enter **£3,493** and Tony **£1,797** in box 16.26 on their Tax Returns. They should also give details of each other including, if known, their National Insurance number in the 'Additional information' box, box 23.5 on page 9 of their Tax Returns. Neither need complete boxes 16.17 to 16.25.

(If Jennifer and Tony had married on 1 August 2002, without having previously lived together, Tony would have been able to claim CTC as Jennifer's daughter would be a qualifying child of his because she would be his step-daughter. The rules relating to sharing CTC by a married couple would need to be applied for the period 1 August 2002 to 5 April 2003.)

Example 5 (a new partner who does not maintain the child)

The circumstances of Anne and Hugh are the same as Jennifer and Tony except that Hugh does not maintain Anne's daughter.

As Hugh is not married to Anne (therefore the child is not his step-daughter) and neither is he maintaining the child at his own expense, Anne's daughter cannot be a *qualifying child* of his (see page 1).

This means a change of circumstances has **not** occurred. Although an unmarried couple started living together as husband and wife, neither of the two points relating to the child can apply.

It is therefore only Anne who can claim the CTC of £5,290, subject to any reduction if she was liable to tax at the higher rate. In these circumstances, she need only complete boxes 16.14 to 16.16 on page 6 of her Tax Return. All other CTC claim boxes, 16.17 to 16.26 can be ignored. Hugh should not complete any of boxes 16.14 to 16.26 on his Tax Return.

WHAT IF I MOVE IN WITH A NEW PARTNER AFTER MY SEPARATION?

The CTC treatment all depends on whether your separation and moving in with a new partner both occur in the same tax year. If both events occur in the same year then there could be two changes of circumstances to consider. If the events occur in different tax years you will need to consider the change of circumstances rules when working out your CTC entitlement for both years.

Example 6 (I separate and move in with a new partner during the same tax year)

Martin and Kay separate on 31 May 2002. They decide their son will continue to live for part of the week with each of them. On 1 December 2002 Kay moves in with a new partner, Peter. Peter supports both Kay and her son and so claims CTC on the basis that he is maintaining the child at his own expense.

Martin, Kay and Peter all receive Tax Returns and each needs to complete box 16.26 of their Return.

The separation of Martin and Kay is a change of circumstances because one of the four events relating to the couple applies (a husband and wife cease to live together) and one of the events relating to their child applies (immediately before the event the child was a *qualifying child* for both partners). However, when Kay moves in with Peter this is also a change of circumstances because one of the four events relating to the couple applies (an unmarried couple start living together as husband and wife) and one of the events relating to the child applies (the child becomes a *qualifying child* in respect of Peter).

Example 6 - continued

Martin earned more than Kay and was liable to tax at the higher rate, but Kay and Peter were only liable to tax at the basic rate.

So, this time, the tax year needs to be split into three periods:

- 6 April to 30 May – when Martin and Kay lived together
- 31 May to 30 November – when Martin and Kay lived apart
- 1 December to 5 April – when Martin lived apart and Kay and Peter lived together.

Each period needs to be considered separately and only at the end should they total their respective proportions of CTC.

For the first part of the tax year, from 6 April 2002 to 30 May 2002 (55 days), Martin and Kay lived together. The CTC credit is worth £5,290 for a full year. So for this period it is worth

$$\frac{£5,290 \times 55}{365} = £797$$

As Martin was the higher earner and liable to tax at the higher rate only he could claim CTC.

For the next part of the tax year, from 31 May 2002 to 30 November 2002 (184 days), Martin and Kay lived apart and could each claim a share of CTC. They agreed that Kay would claim 60% and Martin 40%. So for this period it is worth

$$\frac{£5,290 \times 184}{365} = £2,667$$

which means for this part of the year it is worth up to £1,600 to Kay and £1,067 to Martin.

For the final part of the year, from 1 December 2002 to 5 April 2003 (126 days), Martin lived apart and Kay and Peter lived together. As Kay and Peter are an unmarried couple living together as husband and wife they must allocate their share of CTC using the rules relating to couples. As neither is liable to tax at the higher rate they decide to share their proportion of CTC for this period equally. Kay and Peter agree with Martin that the sharing arrangements of 60% and 40% should continue.

So for this period it is worth

$$\frac{£5,290 \times 126}{365} = £1,826$$

which means for this part of the year it is worth up to £548 to Kay ($£1,826 \times 60\% \times \frac{1}{2}$), £548 to Peter (again $£1,826 \times 60\% \times \frac{1}{2}$) and £730 to Martin ($£1,826 \times 40\%$)

So for the whole year the CTC is worth to

Martin	£2,594 (£797 + £1,067 + £730)
Kay	£2,148 (£1,600 + 548)
Peter	£548

These figures should now be transferred to box 16.26 on their respective Tax Returns. Even though Martin must enter £2,594, this figure will ultimately be reduced either by us if Martin asks us to work out the tax, or by him when he does his own calculation, because he is liable to tax at the higher rate. In addition each claimant should record in the 'Additional information' box, box 23.5 on page 9 of their Returns the full name, address and, if known, the National Insurance number for each of the two other claimants. None of the claimants need to complete boxes 16.17 to 16.25 on their Tax Returns.

AGREEING SPLITS OF CTC WITH OTHER CLAIMANTS

This Help Sheet has been produced on the basis that all splits of CTC had been agreed with all other claimants. This is because the CTC rules require you to agree what proportions of CTC you are claiming, when you make your claim. However, it is not always possible to agree a split with other claimants, perhaps because of an acrimonious separation. If you have not been able to agree a split of CTC by the time you send me your Tax Return you must make an estimate of what you consider your share will be. If you make an estimate you should tick box 23.2 on page 9 of your Return and in the 'Additional information' box, box 23.5, enter the name of the child and the names and addresses and, if known, National Insurance numbers, of all other claimants who are also claiming.

If you are unable to agree what your share of CTC should be, the independent General Commissioners for Income Tax will make a decision. You should contact us as soon as it becomes clear to you that you are not going to be able to agree a split. You should not delay sending your Tax Return if you cannot enter an agreed amount. However, once you have an amount, whether by agreement or decided by the General Commissioners, you should write to us to amend your Return if the figure you entered as an estimate differs from that amount.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.