Low Incomes Tax Reform Group.
A voice for the unrepresented.

Finance (No. 2) Bill 2023-24
Clause 5 – High income child benefit charge (increase in thresholds to £60,000 and £80,000)
Briefing from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

1.1 From 6 April 2024, this clause increases:

- the adjusted net income threshold at which the high income child benefit charge starts to apply, from £50,000 to £60,000, and
- the threshold at which child benefit is clawed back entirely via the charge, from £60,000 to £80,000.

There is also an administrative easement to prevent backdated child benefit payments triggering a charge in 2023/24.

1.2 The increase in both thresholds is a welcome step. However, the increase to the first threshold does not compensate entirely for inflation to date. The increase to the second threshold reduces the impact on marginal rates for those with income between the two thresholds, but broadens the band of taxpayers who are affected by those higher marginal rates and who would need to file a tax return because of the charge.

1.3 Although not included in the Bill, the Government also announced its intention to move assessment of the charge to a household basis from April 2026. While the detail is not yet available, we are concerned that this could be complex, costly and difficult to achieve through the tax system. We encourage a wider review of the policy so that the Government can clarify its objectives and explore how best to achieve them.

2 About Us

2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.

2.2 LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Detailed comments on Clause 5

3.1 *Clause 5(1) – increase of £50,000 threshold to £60,000*

3.1.1 LITRG has been making the case for an increase to the £50,000 threshold for a number of years.[1] The Government's decision to make an increase is therefore a welcome first step. The increase compensates – to some degree – for over 10 years of inflation and therefore brings the proportion of individuals (and, by extension, families) affected by the charge closer to what was envisaged when the charge was agreed by Parliament ahead of its introduction in 2013.

3.1.2 The reduction in the number of families affected by the charge also means that flaws in the basic policy will have reduced impact across the taxpayer population. These flaws include: perceived unfairness because the charge does not take into account total household income; lack of awareness leading to non-compliance; increased marginal tax rates for those affected; and individuals missing out on National Insurance credits through not claiming child benefit.[2] For example, there will be reduced costs in dealing with non-compliance, and increased work incentives for those otherwise hit by punitive marginal tax rates.

3.1.3 However, we note that the increase to £60,000 does not fully account for inflation from January 2013 to date. According to the Bank of England's inflation calculator, to do so would have meant setting the threshold at around £67,000.[3] Although we accept that a round figure is easier for taxpayers to understand and remember, we think that an increase to £70,000 would have been a closer reflection of the inflationary increases since the introduction of the charge. A £70,000 threshold would have also future-proofed the threshold to some degree, ahead of a potential move to household assessment from April 2026.

3.1.4 This point on indexing the HICBC thresholds falls within a wider concern about the impact of frozen thresholds in the tax system.[4] Frequently, tax measures diminish in value, or start to impact on those

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[1] See LITRG's 2020 Budget Representation.

[2] Ibid.

[3] Bank of England inflation calculator.

[4] See page 27 of our paper, A better deal for the low-income taxpayer, December 2020

not intended at the outset, because the Government fails to uprate thresholds, bands and allowances by an appropriate factor, such as inflation or earnings. The most obvious contemporary example of this is the freezing of the personal allowance which is impacting on many people (perhaps most especially pensioners for whom there is no benefit from the recent reductions in National Insurance contributions).[1] Other examples include: rent-a-room relief (which, although it was subject to a one-off increase from 6 April 2016 from £4,250 to £7,500 a year, has since remained static); the trading and property allowances and the unearned income threshold for student loan repayments. We believe automatic annual uprating of thresholds, bands and allowances should be put in place, unless, in a specific case, a clear rationale has been set out for not doing so. We would like to encourage the Government to review these issues more broadly.

3.2 ***Clause 5(2) – making the charge 1% of child benefit for each £200 above the threshold, rather than for each £100***

3.2.1 This subclause has the effect of halving the rate of clawback in the calculation of the charge, so that child benefit is fully withdrawn when the relevant adjusted net income reaches £20,000 above the initial threshold (i.e. £80,000). Until 5 April 2024, this was just £10,000 above the initial £50,000 threshold.

3.2.2 If an individual to whom the charge applies has adjusted net income between the two thresholds (that is, from 6 April 2024, between £60,000 and £80,000), their effective marginal rate in that range of income is increased because of the charge. Such an individual will likely owe tax at 40%, National Insurance at 2%, plus an additional amount depending on the amount of the child benefit entitlement in the year.[2] This change therefore halves the impact of the charge on such an individual's marginal rate of tax.

3.2.3 LITRG campaigned for an increase in this higher threshold to £80,000 back in 2020. We therefore welcome this change. It is a simple way of reducing the impact of one of the flaws of the policy design.

3.2.4 Another option might have been to claw back child benefit at a fixed rate, rather than over a fixed range of income.[3] This would have meant that the impact on marginal rates would not depend on

[1] See LITRG's blog post, Tax on state pensions: looking back and ahead, 1 February 2024.

[2] Child benefit for 2023/24 is £24 a week for the eldest child and £15.90 a week for each additional child. The annual entitlement for two children in 2023/24 is £2,074.80. For tax years up to 2023/24, this is withdrawn at a rate of one per cent for each £100 of income above the £50,000 threshold. Therefore, on an additional £100 of income within the £50,000 to £60,000 range, the partner with the higher adjusted net income in such a household likely suffers £20 of high income child benefit charge, £40 of tax and £2 of NIC: a total of £62. For three children, the weekly entitlement is £55.80, or £2,901.60 for 52 weeks. For an additional £100 of income within the £50,000 to £60,000 range, the figures are £29 of high income child benefit charge, £40 of tax and £2 of NIC: a total of £71.

[3] For further discussion, see the Tax Law Review Committee's paper, Thresholds in the tax system: Policy and administrative considerations, February 2024, paragraphs 2.28 onwards.

the amount of child benefit claimed, and thus would have been less discriminatory against larger families.

3.2.5 Because the clawback happens over a larger range of income, more individuals will be subject to a partial clawback of child benefit via the charge. For these taxpayers, not only are marginal rates increased by some degree (potentially affecting work incentives), but it also means they must file a self assessment tax return.[1] By contrast, having adjusted net income above the higher threshold means that the child benefit is clawed back entirely via the charge. This means that such an individual no longer faces the increased marginal rates mentioned above. It also simplifies their affairs – they may choose not to claim child benefit, or to opt out of receiving payment – so that no assessment of the charge is necessary.

3.2.6 Therefore, the change may be one in the direction of increased fairness, but a broader band of people will be in partial scope of the charge and will have more complex affairs.

3.3 *Clauses 5(3) to 5(7) – the deeming of backdated child benefit to arise in 2024/25 instead of 2023/24*

3.3.1 The change in thresholds will mean that some taxpayers may no longer be liable to the charge, or otherwise become liable to a charge which is less than 100% of the child benefit received. Such taxpayers may wish to start claiming child benefit or start receiving child benefit payments (as the case may be).[2]

3.3.2 When making a new claim for child benefit, the claim is automatically backdated by three months, provided the claimant is eligible for child benefit in that period. We understand it is not possible to choose the date you wish to backdate to. Therefore, an individual claiming child benefit between 6 April 2024 and 8 July 2024[3] may have some of the backdated payments being treated as an entitlement of the 2023/24 tax year. As the higher HICBC thresholds only apply from 2024/25 onwards, this may mean that a small liability to the charge would be triggered for 2023/24 but for the clause 5(3) to 5(7) provisions.

3.3.3 For example, suppose an individual has adjusted net income of £60,000 from PAYE employment each year and has two children. They do not currently claim child benefit because there would be no financial benefit and they do not require the National Insurance credits associated with a child benefit claim. They do not file self assessment tax returns. As a result of the change, HICBC no longer applies from 2024/25, so the individual makes a claim to child benefit on 6 May 2024. Two of the

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[1] In a written ministerial statement on 18 July 2023, the Financial Secretary to the Treasury announced that the government would introduce an option for PAYE taxpayers to pay the charge through their tax code without needing to file a self assessment tax return. However, no implementation date has been announced yet.

[2] Taxpayers might claim child benefit but opt out of receiving payments so that the claimant receives the National Insurance credit associated with the child benefit claim, and/or so that the child automatically receives a National Insurance number at age 16.

[3] Clause 5(4)(a)

three months of the backdated entitlement would fall into 2023/24, which (absent this provision) would have triggered a high income child benefit charge for 2023/24 of around £359.[1] They would have needed to register for self assessment to file a tax return for 2023/24 so that this liability could be declared and paid, but would have needed to de-register from 2024/25 onwards as the charge no longer applies.

3.3.4 This clause appears to be an easement, to prevent the administrative costs to the taxpayer and to HMRC of filing a tax return as a one-off in the above situation. For this reason, the inclusion of this provision seems, on balance, broadly sensible. However, we do note that it may be seen as unfair by those currently claiming child benefit in certain situations.

4 Household assessment

4.1 Though not part of the Finance Bill, we offer some initial comments on the Government's plans to consult on a system of household assessment for the high income child benefit charge. It is proposed that such a system would be introduced from April 2026. The move to household assessment is understood to be part of a wider move to target support to households (including economic support in times of crisis).[2]

4.2 One much-criticised aspect of the charge is that it can apply in full to a single-earner household where adjusted net income is £60,000, but not at all to a dual-earner household where combined adjusted net income is up to £100,000. Under the new thresholds from 6 April 2024, these figures become £80,000 and £120,000. A move to household assessment is one way in which this unfairness might be addressed.

4.3 However, LITRG believes this would be challenging to do through the tax system. We suspect that it will be complex, costly and difficult to achieve. The high income child benefit charge in its present form already breaches the principle of independent taxation. In effect, the tax system is being used as a workaround to partially means-test child benefit by considering the income of the partner with the higher adjusted net income.

4.4 This already causes practical problems where couples may wish to keep their tax affairs confidential from each other. In addition, a policy which means that a benefit claim by one person can trigger a tax charge on another is a recipe for potential financial coercion between the couple.

4.5 A move to household assessment via the tax system would seem to be a retrograde step which does not address any of these wider policy flaws. Such a move also raises important questions about what level the household threshold would be set at. If it is set at double the current individual threshold, then many more families will be taken out of the charge's ambit. If it is set at some figure less than double the current individual threshold, then there will inevitably be some people who are brought

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[1] Weekly child benefit rates in 2023/24 are £24 for the first child and £15.90 for each subsequent child. Thus, the total entitlement for 9 weeks would be (£24 + £15.90) x 9 = £359.10.

[2] Spring Budget 2024, section 6.4, under 'Exploring options to better target support to households'

within scope of the charge (or have the benefit withdrawn under a new form of means-testing) for the first time.

4.6 For these reasons, rather than consult only on amending the high income child benefit charge itself, we urge the Government take a step back, issuing a call for evidence on broader possibilities. Such a call for evidence should set out the Government's objectives and seek ideas on the best way of meeting those objectives.

4.7 For example, one alternative option may be to abolish the charge entirely and either make child benefit taxable,[1] or to means-test child benefit on a household basis via the benefits system. Unlike the tax system, the benefits system is used to considering household circumstances, so this would seem like a more natural place for household assessment to sit – though this would not resolve the difficulties in understanding what the household unit is in more complex situations (e.g. in the case of separated couples) and there would remain the question of what the household income threshold should be set at.

4.8 Or the Government might go even further with simplification, abolishing both the charge and the benefit, and instead provide additional support to families with children via existing means-tested benefits, such as universal credit.

4.9 The simplest option, of course, is to abolish the charge entirely so that child benefit is once again truly universal. This would recognise the original rationale behind the universality of child benefit when it was introduced in 1977, i.e.:

> "[…] at whatever income level the presence of children increases living costs. It represents an acknowledgment that society as a whole has an interest in making a contribution to the welfare of the next generation. It supplements the earnings of parents, in recognition of the fact that wages do not take account of family size. As a result it acts as a work incentive for families, avoiding the unemployment and poverty traps because it is not withdrawn as income rises."[2]

4.10 We look forward to engaging further on these issues in due course when the consultation is published.

LITRG
5 April 2024

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[1] The taxation of child benefit was considered 25 years ago by the Select Committee on Social Security – see their Fourth Report of the 1998-99 session (paragraph 25 onwards).

[2] Ibid. (paragraph 12)