

## Budget 22 June 2010:

### Benefits and Tax Credits

This overview highlights announcements made by the Chancellor which will affect individuals entitled to tax credits and child benefit.

### Main Announcements

#### Main Changes to Tax Credits and Child Benefit

- The Government will reduce tax credit eligibility for families with household income above £40,000 from April 2011 and make further changes in 2012-13;
- The Government will increase both withdrawal rates to 41%;
- The Government has announced the removal of a number of elements from the Tax Credits system including the baby addition (6 April 2011) and the age 50+ element (6 April 2012);
- The Government will use the Consumer Price Index (CPI) to uprate all of those elements of tax credits due to be uprated by RPI from April 2011. The child element of the Child Tax Credit will increase by £150 above CPI. The rate of Child Benefit will remain at current levels until April 2014 which will help fund increases in the child element of the child tax credit;
- The backdating provisions have been shortened to one month with effect from 6 April 2012 from the current 93 days and amendments will also be made to the income disregard for income increases from 6 April 2011 and an introduction of a disregard for income falls from 6 April 2012; and
- Whilst the Government has chosen to continue with the previously announced decision on Working Tax Credits of the over 60s, they have reversed the March 2010 announcement to increase for those with children aged one or two.

More details of each of the measures are given under “Other Announcements” below.

#### Health in Pregnancy Grant - Ending of entitlement

The Health in Pregnancy Grant is a £190 one-off payment to all expectant mothers that is made irrespective of income.

The Government proposes to abolish Health in Pregnancy Grant from 1 January 2011. Women who reach the 25<sup>th</sup> week of pregnancy before 1 January 2011 will still be entitled to the grant providing they satisfy the conditions of the grant.

## Other Announcements

### **Reducing the tax credits backdating provision from 93 days to one month**

A claimant who makes a tax credits claim can have this backdated by up to 93 days if they meet all the entitlement conditions. From 6 April 2012, this period will be reduced from 93 days to one month.

### **Working Tax Credits - Reduce the income disregard for income increases from £25,000 to £10,000**

Tax Credits awards are normally based on the household income of the previous year. A customer only has to report a change of income during the year if it is more than £25,000 higher than the previous year. When finalising the previous year's award any income increase below £25,000 is ignored. This figure will reduce on

- 6 April 2011 from £25,000 to £10,000; and
- 6 April 2013 from £10,000 to £5,000.

### **Tax Credits - Introduction of an income disregard of £2,500 for falls in income**

From 6 April 2012, an income disregard of £2,500 for falls in income will be introduced. This will mean that any reduction in income in a year of less than £2,500 will have no impact on a tax credits award.

### **Working Tax Credits - Reduction in tax credits for higher earners**

The Government will reduce tax credit eligibility for families with household income above £40,000 by reducing the family element threshold from £50,000 to £40,000 from April 2011 and tapering the family element immediately after the child element from 2012-13. The second withdrawal rate will increase to 41 per cent from 6 April 2011.

### **Working Tax Credits - Remove age 50+ element**

Currently, a claimant who is 50 or over and who has returned to work after receiving a qualifying out of work benefit for at least six months can qualify for the 50+ element of Working Tax Credit (WTC). This only applies for the first 12 months. The 50+ element will no longer apply from 6 April 2012.

### **Working Tax Credits for the over 60s**

The Government has confirmed that from the from 6 April 2011, people aged 60 and over will qualify for Working Tax Credits if they work at least 16 hours a week.

### **Child Tax Credit - Reverse increase in child element for those aged one or two**

The Government will reverse the decision announced in the March 2010 Budget to increase the Child Tax element for those families with children aged one to two from 6 April 2012.

### **Child Tax Credit - Removing the baby addition**

Currently, a claimant who has recently had a child is entitled to the baby addition of Child Tax Credit for the first 12 months after the child is born. The addition will no longer be available from 6 April 2011.

### **Future Rates of Tax Credits and Child Benefit**

The Child element in the Child Tax Credit will increase in April 2011 by £150 and April 2012 by £60 above indexation. The first withdrawal rate for tax credits will increase from 39 per cent to 41 per cent from 6 April 2011.

Rates of tax credits and other benefits which are normally changed in line with the Retail Price Index will instead be increased in line with the Consumer Price Index from 2011-12.

The rate of Child Benefit will remain at current levels until April 2014.