

Child Benefit: Income Tax Charge for Those on Higher Incomes

Who is likely to be affected?

The charge will be applied to taxpayers whose income exceeds £50,000 in a tax year and who are in receipt of Child Benefit and to taxpayers whose income exceeds £50,000 and whose partner is in receipt of Child Benefit. In the event that both partners have an income that exceeds £50,000, the charge will apply only to the partner with the highest income.

General description of the measure

A new income tax charge will apply to those taxpayers affected by this measure to reduce or remove the financial benefit of receiving Child Benefit. For taxpayers with income between £50,000 and £60,000, the amount of the charge will be a proportion of the Child Benefit received. For taxpayers with income above £60,000, the amount of the charge will equal the amount of Child Benefit received. The amount of Child Benefit payable will be unaffected by the new tax charge.

Policy objective

In order to address the fiscal deficit the Government believes that it is right to ask those on higher incomes to contribute more.

Background to the measure

The policy to withdraw Child Benefit from higher rate taxpayers was set out in the Spending Review 2010.

Detailed proposal

Operative date

The measure comes into effect from 7 January 2013. HM Revenue & Customs (HMRC) will contact people earning over £50,000 about the new charge from autumn 2012.

Proposed legislation

Legislation will be introduced in Finance Bill 2012 that applies a new income tax charge to taxpayers who receive Child Benefit themselves or whose partner receives Child Benefit. The charge will only apply to taxpayers whose income is more than £50,000 for the tax year. If both partners have income of more than £50,000 for the tax year, the charge will apply only to the partner with the highest income.

A partnership comprises:

- a married couple living together;
- civil partners living together;
- a man and a woman who are not married to each other but who are living together; or
- a man living with a man or a woman living with a woman who are living together as if they were civil partners.

For taxpayers whose income is between £50,000 and £60,000, the amount of the charge will be one per cent of the amount of Child Benefit for every £100 of income that exceeds £50,000. A taxpayer whose income exceeds £60,000 will be liable to the charge on the full amount of Child Benefit. For example, Child Benefit for two children is £1,752. For a taxpayer whose income is £54,000, the charge will be £700.80 – i.e. £17.52 for every £100 earned above £50,000. For a taxpayer whose income is £62,000, the charge will be £1,752.

An individual who has income above £50,000 but is not entitled to Child Benefit themselves will only be liable to the charge for any period of the tax year during which they are living with a Child Benefit claimant whose own income is below £50,000.

Child Benefit itself is not being made liable to tax and the amount that can be claimed is unaffected by the new charge. It can continue to be paid in full to the claimant even if they or their partner have a liability to the new charge. Child Benefit claimants will be able to elect not to receive the Child Benefit to which they are entitled if they or their partner do not wish to pay the new charge. The claimant may subsequently decide to withdraw that election if they or their partner are no longer liable to pay the charge.

The measure of income that will be used will be the individual's adjusted net income. This is an existing method of determining an individual's income and is currently used to work out entitlement to personal allowances for someone aged 65 or over or who has income over £100,000.

Adjusted net income is calculated in a series of steps. The starting point is "net income" which is the total of the individual's income subject to income tax less specified deductions, the most important of which are trading losses and payments made gross to pension schemes. This net income is then reduced by the grossed-up amount of the individual's gift contributions and the grossed-up amount of the individual's pension contributions which have received tax relief at source. The final step is to add back any relief for payments to trade unions or police organisations deducted in arriving at the individual's net income. The result is the individual's adjusted net income.

The amount of the charge will be collected through self assessment (SA) and PAYE. Individuals who think they may be affected by these proposals do not need to do anything now. HMRC will be writing to taxpayers with income above £50,000 in the autumn.

Summary of impacts

The assessment here measures the impact of the introduction of the new charge.

Exchequer	2012-13	2013-14	2014-15	2015-16	2016-17			
impact (£m)	-185	-690	-630	-	-			
	These figures are set out in Table 2.1 of Budget 2012 and have been certified by the Office for Budget Responsibility. They measure the Exchequer impact of the changes from the originally announced policy. More details can be found in the policy costings document published alongside Budget 2012.							
Economic impact	The new charge will reduce disposable incomes for those households affected. Individuals within these households might respond by changing their labour supply, consumption, and savings. The overall macroeconomic effects of this are expected to be small.							
Impact on individuals and households	The new tax charge in relation to Child Benefit will affect approximately 1.2 million families. Approximately 70 per cent of these households will lose all of their Child Benefit, and 30 per cent will only lose a portion. The average loss for those that lose will be roughly £1,300 per year. 90 per cent of families in the Child Benefit population will continue to benefit from some							

	or all of their Child Benefit.							
	The taper will be implemented through SA and PAYE, with a potential overall increase in the SA population of up to 0.5 million. Marginal tax rates on the taper will be higher for larger families.							
Equalities impacts	Analysis suggests that this policy would affect the 51 to 65 age group more than other age groups, but this is because they are generally more likely to be higher earners with children. No other significant affects on protected groups have been identified.							
Impact on business including civil society organisations	The charge will apply to individuals so there will be no direct impact on business or civil society organisations. To the extent that there are changes in labour supply, businesses may be affected. The introduction of a taper raises the marginal tax rate for households in the taper range. Affected households will have an increased incentive to reduce their gross income, for example through increasing non-taxable contributions or working less.							
Operational	2012-13	2013-14	2014-15	2015-16	2016-17			
impact (£m) (HMRC or	22-25	20-23	22-25	22-25	22-25			
other)	The additional costs for HMRC over the first 5 years are estimated to be £8-13 million for computer system requirements (development and running costs), approx. £100 million for staff resources, and £5 million for customer information. The taper will be implemented through SA and PAYE, with a potential overall increase in the SA population of up to 0.5 million.							
Other impacts	No additional impacts have been identified.							

Monitoring and evaluation

The measure will be monitored through information collected from tax returns.

Further advice

Summary information on the implementation of this measure can be found on the HMRC website (hmrc.gov.uk), with more detailed information being published in due course. HMRC will directly contact all individuals to whom the tax charge will apply.