COVID-19: High income child benefit charge: reductions in income

General Features

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LITRG looks at some of the impacts in respect of the high income child benefit charge on those entitled to child benefit who have seen their income reduce as a result of the coronavirus pandemic.

The coronavirus (COVID-19) pandemic is causing many people to see a reduction in their income. Consequently, liability to the high income child benefit charge (HICBC) may change or be eliminated completely. The HICBC applies where a child benefit claimant or their partner has adjusted net income of over £50,000 in a tax year. Those liable to the charge who do not already file self-assessment tax returns must register to do so by 5 October following the end of the tax year in which they become liable, otherwise HMRC may charge 'failure to notify' penalties.

The HICBC is an additional tax which is paid by the partner with the higher adjusted net income. The amount of the extra tax is equal to 1% of the child benefit received by them (or their partner) for each £100 above the £50,000 threshold.

Claiming child benefit or reinstatement of payments

As the value of the child benefit is fully clawed back by the tax charge once adjusted net income exceeds £60,000 in a tax year, those with income above this level might not have claimed child benefit, or might have claimed it but opted out of receiving payments. Where income subsequently falls, it is important to determine which of these situations the taxpayer is in. It is also important to appreciate that liability to the HICBC is assessed according to adjusted net income for the tax year, even though child benefit is a weekly benefit. This is illustrated in examples 1 and 2.

Example 1: child benefit not previously claimed

James earns £6,000 gross a month from employment and makes gross pension contributions of £500 a month. His adjusted net income would normally be £66,000 a year. He has a 5 year-old son with his partner, Sam, who earns £20,000 a year. They decided not to bother claiming child benefit because they thought they would just have to pay it all back via the HICBC. However, James lost his job on 1 February 2020 and they therefore decided to claim child benefit, backdated for three months (to 1 November 2019). James has no other income for the year.

James's adjusted net income for the year is £55,000 (10 months at £5,500 a month). Even though the child benefit was claimed after James lost his job, he must still pay a HICBC equal to 50% of the child benefit received for the year.

From 1 November 2019 to 5 April 2020, they received £455.40 in child benefit. The tax charge is therefore £227 (rounded), so the net child benefit after HICBC is effectively £228.40.

Example 2: child benefit previously claimed but not paid (opted out)

Let's assume the same scenario as James above, but with child benefit having been claimed throughout the 2019/ 20 tax year and the claimant partner of the couple having opted out of it being paid. In this case, it would be possible to reinstate the child benefit payments for up to the two previous tax years if there is a change in circumstances, compared with just three months for a backdated child benefit claim.

In the event of James losing his job, the child benefit could then have been reinstated back to 6 April 2019, meaning they would have received £1,076.40 in child benefit for the full year. The HICBC is still levied at 50%, so amounts to £538 (rounded), but this time the net child benefit after applying the charge is £538.40; i.e. £310 more than in example 1.

Unfortunately, the situation in example 1 cannot be remedied retrospectively. However, it is worth taxpayers noting for future the importance of claiming child benefit and opting out of payment even if they think their income is 'safely' above £60,000.

The other reason for claiming child benefit and opting out of payment in this scenario is so that a lower earning (or non-earning) spouse or partner might qualify for national insurance credits by reason of the child benefit claim. Even if the other partner does not need these credits, it is also worth noting that they would be available for transfer to other family members providing childcare, under the Specified Adult Childcare credit provisions (described in LITRG's article here). Claiming child benefit also means the child is automatically issued with a National Insurance number when they turn 16, rather than potentially having to attend an evidence-of-identity interview.

A switch in liability?

Another scenario worth considering in these turbulent times is whether the HICBC liability might switch unexpectedly from one partner to the other. Liability to the charge rests with the partner with the higher adjusted net income. In households where both partners have adjusted income over the £50,000 threshold, it is important to understand with whom the liability sits.

Example 3: liability to HICBC moving from one partner to the other

Let's say Elise and Sachie have a daughter. Elise earns £65,000 and Sachie earns £58,000. Elise was furloughed in late March 2020 and anticipates that, if her work resumes as normal on 1 July 2020, for 2020/ 21 her adjusted net income will be £56,250. Sachie's work continues unaffected throughout the pandemic.

It could well follow that liability to the charge will switch from Elise to Sachie. The couple should consider whether they need to reinstate payments (if they had opted out of receiving them) and Sachie might need to register for self-assessment by 5 October 2021 to pay the charge, if she does not already complete tax returns.

Liability to HICBC ceases

As a result of a reduction in adjusted net income to £50,000 or less for the year, liability to the HICBC will cease. Those in this situation would, as above, need to claim child benefit if they have not claimed it previously or reinstate payments if they have previously opted out. It may no longer be necessary for those in this situation to file a self-assessment tax return. HMRC may withdraw a return that has been issued if the taxpayer no longer meets the self-assessment criteria.

Further information can be found on this topic in LITRG's more extended article here.