LITRG budget representation on the high income child benefit charge

Personal tax

03 March 2021

The Low Incomes Tax Reform Group has made a budget representation repeating its calls for the government to raise the £50,000 threshold for the high income child benefit charge to at least £60,000. It argues that the £50,000 threshold, which has applied since the introduction of the charge eight years ago, is no longer tenable once it is set to be overtaken by the higher-rate threshold from 6 April 2021.

The high income child benefit charge (HICBC) is controversial and complicated, and LITRG highlights that unrepresented taxpayers are especially liable to fall into its traps. This is evidenced by the number of cases in the First-tier Tribunal where taxpayers have faced payment demands of several thousand pounds in backdated HICBC assessments, as well as penalties for the failure to notify. Typically, these taxpayers were completely unaware of the charge; otherwise, they thought it did not apply to them because, for example, they did not realise that the £50,000 threshold tests total adjusted net income of the partner with the higher income and not simply the figure on their P60.

Taxpayers who are usually on a low income can also be brought within scope of the charge unexpectedly – for example, if they make large drawdowns from their pension or they receive some other one-off payment such as a redundancy package. LITRG therefore argues for a number of changes to the HICBC, both to exclude from its scope taxpayers who were never intended to be affected, and to address some of the flaws for those who are.

First, in the Spending Review on 25 November 2020, it was confirmed that the government will increase the 2021/22 personal allowance and higher-rate threshold in line with the September 2020 CPI figure. As a result, the higher-rate threshold for 2021/22 is set to be £50,270. This means that basic-rate taxpayers, for the first time, will be affected by the HICBC (with effect from 2021/22), given the existing

£50,000 threshold. This is directly contrary to the original policy intent of the HICBC announced in the Spending Review ten years earlier, which stated that the charge should only affect families with a higher-rate taxpayer.

Second, LITRG also recommends that the point at which child benefit is fully withdrawn should be increased from £60,000 to £75,000. This is because the greater the number of children for whom child benefit is claimed, the greater the impact on the effective marginal rate of a taxpayer between the applicable thresholds. For example, where the charge applies to withdraw a child benefit claim for two children, the taxpayer must pay £60 in tax and National Insurance for an additional £100 earned between £50,000 and £60,000. For three children, the rate increases to £67 for an additional £100 earned. The structure of the charge therefore appears to discriminate against larger families, which can be disproportionately represented within certain ethnic groups.

Finally, LITRG suggests that changes should be made to ensure that low-income taxpayers do not lose out on National Insurance credits because of not claiming child benefit where the charge is applicable. This is in line with a recommendation made by the Office of Tax Simplification in their Taxation and life events report. It argues that this particular issue is storing up problems for low-income taxpayers that will only come to light when they claim their state pension. By this point it may be too late to plug the gaps in their National Insurance record.

HMRC’s solution for this group is for child benefit claimants to opt out of receiving payments. But LITRG points out that unrepresented taxpayers may not go as far as claiming child benefit in the first place because of the existence of the charge. It also says that the concept of opting out of payment is not intuitive, as claimants are likely to view claiming child benefit and receiving payment of it as the same.

LITRG’s budget representation can be read here: www.litrg.org.uk/ref2391.