Finance (No.2) Bill 2023-24: LITRG briefing high income child benefit charge changes

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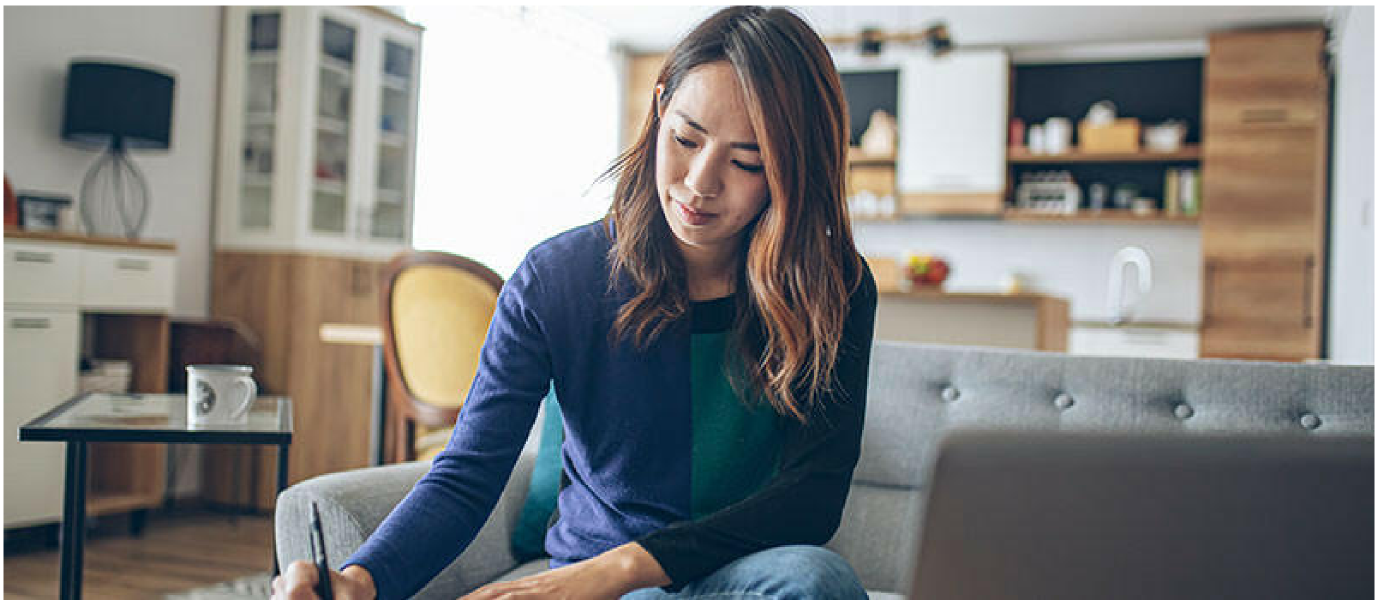

24 April 2024

LITRG has submitted a briefing to MPs on the changes to the high income child benefit charge from 6 April 2024. The group also comments on the proposed change to household assessment from 6 April 2026.

Clause 5 of Finance (No.2) Bill 2023-24 increases, from 6 April 2024:

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

There is also an administrative easement to prevent some backdated child benefit payments triggering a HICBC in 2023-24. LITRG says that this provision is broadly sensible, even if it may mean some unfairness compared with those who were already claiming child benefit prior to 6 April 2024.

LITRG says that the increase in both thresholds is a welcome step, but observes that the increase to the first threshold does not compensate entirely for inflation to date. According to the Bank of England’s Consumer Price Index calculator, to do so would have meant setting the threshold at around £67,000. As a round figure is likely to be easier for taxpayers to understand and remember, an increase to £70,000 (rather than £60,000) would have been a better reflection of the inflationary increases since the introduction of the charge. Such an increase could also have future-proofed the threshold to some degree ahead of a potential move to household assessment from April 2026.

The increase to the level at which child benefit is fully clawed back, to £80,000, reduces the impact of the HICBC on marginal rates for those with income between the two thresholds, but widens 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.

On household assessment, the Spring Budget 2024 framed this as part of a wider move to target support to households (including economic support in times of crisis). LITRG says that household assessment of the HICBC would be challenging to achieve through the tax system, and will likely breach the principle of independent taxation even more than the HICBC does at present. It calls for the government to issue a call for evidence that sets out its objectives and tries to understand alternative ways of meeting them. A full range of options should be considered, including abolishing the charge altogether (thus reinstating the original intention of child benefit as universal), abolishing the charge and making child benefit taxable, or means-testing child benefit via the benefits system. Alternatively, the government might abolish both the charge and the benefit, and instead provide additional support to families with children via means-tested benefits. LITRG looks forward to responding to the consultation in due course.

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