

CHILD BENEFIT

HIGH INCOME TAX CHARGE

Proposed Changes

As part of the reforms to the welfare system announced in the 2012 Budget, it was confirmed that Child Benefit will be withdrawn from households that include certain higher earners.

Although the change applies from January 2013 the calculation to decide whether or not a household is affected by the reform includes the full income for 2012/13.

So those households that include higher earners need to be aware of the rules **now** so they can plan to ensure they don't miss out unnecessarily.

Who will the rules apply to?

- Legislation will impose a new charge (*the High Income Child Benefit charge*) on a taxpayer who has adjusted net income over £50,000 in a tax year where either they or their partner, if they have one, are in receipt of Child Benefit for the year.
- Where there is a partner and both partners have adjusted net income in excess of £50,000 the charge will apply to the partner with the higher income.

Weekly complications

- As the charge is by reference to weeks, the charge will only apply to those weeks of the tax year for which the partnership exists.
- If the couple break up, the partner with the highest income will only be liable for the period from 6 April to the week in which the break up occurs. Conversely, if a couple come together and Child Benefit is already being paid, the partner with the highest income will only be liable to the charge for those weeks from the date the couple start living together until the end of the tax year.

Inequity

- One couple with £60,000 of adjusted net income will lose all of the Child Benefit, whilst a couple with adjusted net income of £49,999 each will retain it all.

- Therefore, equalising income for those who are able, becomes important.

What is the £50,000 made up of?

- It can be seen that the rules revolve around '*adjusted net income*', broadly:
 - net income (total income subject to income tax less specified deductions e.g. trading losses and payments made gross to pension schemes),
 - reduced by grossed up Gift Aid donations and pension contributions which have received tax relief at source.
- It may be that a couple would want to donate more to charity, for example, to reduce or avoid the charge.

Who is a partner?

- A person is a partner of another person at any time if any of the following conditions are met at that time; the persons:
 - are a man and a woman who are married to each other and not separated; or
 - are a man and a woman who are not married to each other but are living together as husband and wife.
- Similar rules apply to same sex couples.

The charge

- An income tax charge will apply at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000, rounded down to the nearest pound.
- The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid.

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Example

- The Child Benefit for two children amounts to £1,752 per annum,
 - The taxpayer's adjusted net income is £54,000.
 - The income tax charge will be £700.80.
 - This is calculated as **£1,752 x 40%** (£54,000 - £50,000 = £4,000/£100 x 1%).
- It may well be that neither you and/or your partner currently receive a tax return but this may well change for 2012/13. Remember the need to tell HMRC by 6 October 2013 if you think a charge may be due.
 - HMRC will contact people earning over £50,000 about the new charge from autumn 2012.

Administration

- Interestingly, the requirement to notify liability to income tax and capital gains tax by 6 October following the tax year is amended to include situations where the person is liable to this charge. In addition, the charge is included in PAYE regulations so that it can be collected through PAYE, using a reduced tax code, unless the taxpayer objects.

Continue claiming?

- 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. However, this will not affect the credit available (for state pension purposes) to certain people who stay at home to look after children.
- An election can be revoked if a person's circumstances change.

When does the new charge apply?

- This charge will have effect for any week beginning on or after 7 January 2013 and for 2012/13 will apply to the Child Benefit paid from that date to the end of the tax year. The income taken into account will be the full income for 2012/13.

Further help

- HMRC have released a series of FAQs at www.hmrc.gov.uk/budget2012/cb-income-tax.htm to explain the change, essential reading for many families.
- However, if you are unsure about anything to do with this new charge or would like to discuss things further including how we might be able to minimise the tax charge which will apply to your family, please do not hesitate to get in touch.

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