Child Benefit from 7.1.2013

Child Benefit is a tax-free payment that is aimed at helping parents cope with the cost of bringing up children.

Under current rules, most claimants can claim child benefit for children aged 16 and under (in some cases, aged up to 20 years). A parent can claim £20.30 a week for the first child and £13.40 a week for other children, irrespective of a couple's annual income. For a couple with one child this amounts to £1,055 per year, for two children £1,752 per year and for a couple with three children £2,449.

From 7 January 2013 new rules come into force for those claiming child benefits and will affect those individuals whose net adjusted income exceeds £50,000. Child benefit will continue to be paid as a universal benefit and it will not be liable to tax. However, the Government will 'claw back' the benefit from individuals whose adjusted net income exceeds £50,000 a year.

The claw back will take the form of a new High Income Child Benefit Charge (HICBC) in cases where the net income of the claimant, or their partner, exceeds £50,000. Where net income is £50,000 to £60,000 the benefit will be clawed back on a sliding scale, and when net income exceeds £60,000 the child benefit will effectively be withdrawn.

When does it apply?

Child benefit itself is not liable to tax and the amount that can be claimed is unaffected by the HICBC. But, a HICBC is levied in the following circumstances:

- A single person in a household has annual adjusted net income of more than £50,000.
- A person in a household partnership has an annual adjusted net income of more than £50,000.
- Both partners in a household have net incomes in excess of £50,000; the HICBC will apply to the partner who has the highest income.
- A household partnership where child benefit is being claimed for a child that is not your own child and you have net income above £50,000.

A two person household will not be affected if each were to have net income below £50,000 so both persons could each have net incomes of £49,999 without being affected! – an anomalous situation. The following examples highlight the effects of the new rules in households with differing incomes.

Income of household	**Effect of the new rules**
Single person household: income of £49,000	As income is less than £50,000, this family will retain the full child benefit
Single person household: income of £55,000	As income is more than £50,000, some of the benefit must be repaid – this will be 1% per £100 earned over £50,000. In this example, 50% of the child benefit claimed must be repaid
Two person household: incomes: £45,000 + £25,000	Although joint income is over £50,000, no single earner earns more than £50,000 so they will keep all the child benefit
Two person household: incomes: £62,000 + £20,000	Because one partner earns over £60,000, the full amount of any child benefit claimed must be repaid

How is the High Interest Child Benefit Charge calculated?

Where partners to a household are in receipt of child benefit and one of the partners, or both, have adjusted net income (ANI) above £50,000, a HICBC will be levied at 1% of the child benefit for every £100 by which income exceeds £50,000 in a tax year. Once income reaches £60,000, the HICBC will be 100% of the child benefit received so that full amount of child benefit received will be clawed back.

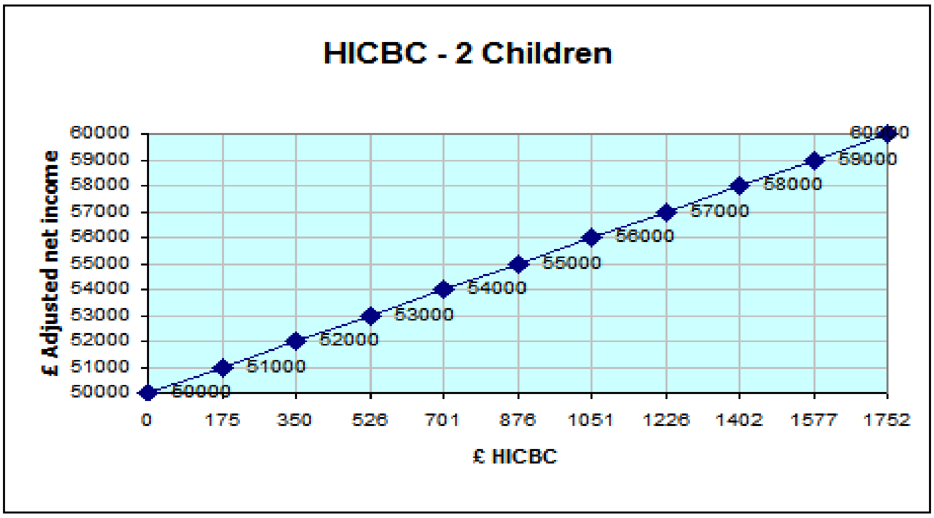
For example, Peter and Becky is a household claiming child benefit for 2 children. Peter has ANI £55,000 and Becky ANI of £20,000. Assume they claim child benefit of £1,752 for the tax year (£33.70 per week x 52 weeks). As Peter has ANI above £50,000, a percentage of the child benefit claimed will be clawed back. This is worked out as follows:

$$\frac{£55{,}000 - £50{,}000}{100} = 50\%$$

Therefore, 50% of £1,752 = £876 will be clawed back by the Government by way of a HICBC on Peter, through his tax return.

The following figures and related graph shows how the HICBC varies in a household where child benefit is being claimed for two children where one person has ANI between £50,000 and £60,000, and the % of child benefit clawed back.

Adjusted Net Income £	Effective Child Benefit £	HICBC £	clawback %
50,000	1,752	0	0
51,000	1,577	175	10
52,000	1,402	350	20
53,000	1,226	526	30
54,000	1,051	701	40
55,000	876	876	50
56,000	701	1,051	60
57,000	526	1,226	70
58,000	350	1,402	80
59,000	175	1,577	90
60,000	0	1,752	100



What is a partner?

A person is regarded as a partner in the following circumstances:

- they are a man and a woman who are married to each other and are neither separated under a court order, nor separated in circumstances where the separation is likely to be permanent.
- a couple, who are not married to each other but are living together as man and wife, that is as partners.
- the persons are two men, or two women, who are civil partners of each other and are neither separated under a court order, nor separated in circumstances in which the separation is likely to be permanent.
- the persons are two men, or two women, who are not civil partners of each other but are living together as if they were civil partners.

What is adjusted net income?

This is net income that is taxable less certain tax reliefs such as trading losses, pension payments and gift aid payments.

Income which is taxable will include salaries, dividends, benefits in kind (such as company car and fuel and medical insurance), property income, interest from savings and any self-employed income or casual earnings.

High Interest Child Benefit Charge 2012/13

As the new rules only come into effect on 7.1.2013, the first year of the tax charge will be the tax year 2012/13. The full year's total adjusted net income for the tax year 2012/13 will be taken into account but the HICBC will only apply to child benefit claimed for the period from 7.1.2013 to 5.4.2013.

So, for Peter (ANI £55,000) and Becky above, the child benefit they will have claimed for the period 7.1.203 to 5.4.2013 will be £33.70 x 13 weeks = £438.10, and the HICBC will be 50% of this, that is, £219.05. Peter will be charged a HICBC of £219.05 via his tax return.

Election not to receive child benefit

If a claimant or their partner does not want to suffer the HICBC because they are caught by the new rules, they may elect not to receive the child benefit. They can claim to stop receiving the benefit at any time. However, the election will only take effect in respect of the weeks beginning after the election is made.

Note that the right to make the election rests solely with the person who receives the child benefit and in most cases this is the mother of the children.

Revocation of election not to receive child benefit

If a claimant or their partner subsequently find that they may not come within the charge to the HICBC, fully or partially, they can revoke the election not to receive child benefit.

It is the recipient of the child benefit who has to stop the payment, not the high earner.

Changes in household partnerships

The HICBC is calculated by reference to weeks so it will only apply to those weeks in respect of which a household partnership exists.

- If child benefit is being claimed and a couple starts to live together, the HICBC will only apply from the time they live together as a household, on the higher earner.
- If a partnership breaks up, the higher earning partner will be liable for the HICBC from 6 April to the date the partnership breaks up.

So who claims child benefit if a couple has split up?

Both parents might try to claim, even if they live apart, but only one of them will get it.
If somebody is responsible for a child, they normally get the benefit for it. So, usually, the parent with whom the child lives receives the benefit. In most cases this is the mother.

However, the other parent can get child benefit even if their child does not live with them.
This only happens when they pay towards their upkeep and what they pay is at least the same as the amount of child benefit - so they do not profit; and the person the child lives with is not already receiving child benefit.

Claim or not?

Note that there is a difference between claiming child benefit and actually receiving it. It is important to make the claim and establish that you are entitled to receive it as claiming child benefit earns you national insurance credits that may increase your entitlement to a state pension and help protect your entitlement to other benefits. HMRC says that if you are currently receiving child benefit and opt out, you will still get the credits.

It is also important to make a claim for child benefit for any new children in order to qualify for NI state credits – it will also ensure that your child automatically receives a national insurance number before their 16th birthday.

Potential problems

- Both partners are required to disclose their income with this legislation and if you want to avoid this then you may wish to disclaim the child benefit. HMRC may help in circumstances where either partner does not want to disclose their income to the other by providing basic information.
- It will be the higher earner who is taxed, so they will need to know whether the other partner is claiming child benefit
- The person who is liable to pay the HICBC will need to inform HMRC by registering for self-assessment and completing a tax return
- If you and your partner are affected by the new rules, you will have work out your income and HICBC before you decide whether or not to continue receiving child benefit. Alternatively, continue to receive the child benefit and suffer the HICBC via your tax return.

HMRC Calculator

If you think you will be caught by the new rules, HMRC provide a calculator on their website that will work out what the HICBC will be. The link is:

https://www.gov.uk/child-benefit-tax-calculator

TAX PLANNING

It may be possible to minimise or avoid the HICBC depending on your or your partner's circumstances. As the HICBC is based on adjusted net income, it may be possible to reduce this by using various options available. These could be one or more of the following:

- Making pension contributions.
- Making charitable gift aid donations.
- Delaying salary and/or dividends until after a tax year.
- In family type companies, transferring income between spouses where total income is less than £100,000.
- Using salary sacrifice arrangements such as childcare vouchers so as to reduce gross salary.

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1 Oldbury Vale, Oldbury Wells, Bridgnorth, Shropshire WV16 5JB. Registered in England. Company No: 4890599.
tel 01746 767288 mob 07947 845364/07949 642480 email vandpltd@btconnect.com web www.vapltd.co.uk

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