

HICBC hits basic rate taxpayers (Lecture P1248 – 10.11 minutes)

The Low Incomes Tax Reform Group, who describe themselves as 'a voice for the unrepresented', recently pointed out that the threshold for the high income child benefit charge (HICBC), which was introduced in 2013, needs to rise in order to prevent it hitting basic rate taxpayers in 2021/22. They say that, if this happens, it will be contrary to the original policy intent.

The high income child benefit charge is imposed on an individual who is, or whose partner is, in receipt of child benefit and whose 'adjusted net income' (see S58 ITA 2007) exceeds £50,000 in a tax year. If both partners have an adjusted net income in excess of £50,000, the charge falls on the partner with the higher income. The amount of the charge is 1% of the child benefit for every £100 of income above £50,000. If the individual's adjusted net income equals or exceeds £60,000, the charge is on the full amount of the child benefit received. The child benefit itself remains tax-free, but the charge effectively claws back this sum in arriving at the individual's tax liability.

Illustration 1

In 2020/21, James has an adjusted net income of £56,000. James and his wife have two young children. James' wife does not work. The weekly child benefit entitlement for James' wife is:

	£
First child	21.05
Second child	<u>13.95</u>
	<u>35.00</u>

The child benefit received by her in 2020/21 is $52 \times £35 = £1,820$. Based on James' adjusted net income, the relevant clawback percentage is 60%. James' high income child benefit charge is therefore $60\% \times £1,820 = £1,092$. This sum is added to his income tax liability for 2020/21.

The personal allowance and higher rate threshold have been announced for 2021/22:

	£
Personal allowance	12,570
Ceiling of basic rate band	<u>37,700</u>
Higher rate threshold	<u>50,270</u>

In other words, this exceeds for the first time the £50,000 starting-point beyond which the high income child benefit charge bites. The Low Incomes Tax Reform Group therefore suggest that this figure should be increased to £60,000 in order to 'compensate for eight years of inflation and rising wages'.

The Low Incomes Tax Reform Group also call for the figure at which child benefit is fully clawed back to rise from £60,000 to £75,000. Although they do not specify the point, this would also involve adjusting the appropriate clawback percentage formula in S681C ITEPA 2003.

The main purpose of this recommendation is to address the fact that families with children can face higher marginal income tax rates where they are liable to the charge. For example, in the case of a family with two children where the individual with the higher adjusted net income has, say, salaried earnings in the £50,000 – £60,000 range for 2020/21, the individual will suffer the following amounts for each additional £100 of income:

	£
High income child benefit charge (rounded down)	18.00
Higher rate income tax	40.00
Class 1 NICs	<u>2.00</u>
	<u>60.00</u>

This represents an effective rate of 60%. If the family have three children, the effective rate goes up to 67%.

Contributed by Robert Jamieson