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HIGH INCOME CHILD BENEFIT CHARGE

Budget Representation by Association of Taxation Technicians in respect of the Spring Budget 2024

1 Introduction

- 1.1 We think the threshold from which the High Income Child Benefit Charge (HICBC) applies should be increased. Inflation since the measure was introduced in 2013 has driven up wages and the cost of living, whilst the point at which the clawback of child benefit applies via the HICBC has remained unchanged at £50,000. We think that threshold should be increased to reflect inflation since 2013, and index-linked to avoid repetition of the current situation. If this is not considered practical, we think the HICBC threshold should be aligned with the income tax higher rate threshold, achieving the HICBC's original policy intent of it only applying to higher rate taxpayers. It would also offer at least two tax simplifications: matching the HICBC threshold to an existing income tax threshold, and avoiding the need for basic rate taxpayers to consider the HICBC.
- 1.2 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members, who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

2 Our recommendation

- 2.1 We think that the point at which the HICBC applies should be adjusted to reflect inflation since its introduction, and should track the rate of inflation going forward.
- 2.2 As a minimum, the HICBC threshold should be matched to the higher rate income tax threshold, to align with the original intent when it was first proposed. This would also have beneficial consequences for tax simplification.

3 Background to our recommendation

- 3.1 The HICBC was introduced with effect from 7 January 2013. Its effect is to clawback child benefit paid to individuals where their, or their partner's, income for a tax year is £50,000 or more. The clawback is progressive, such that by the time adjusted net income reaches £60,000, the full amount of child benefit received in the year must be repaid by way of the HICBC. The £50,000 threshold has remained unchanged since the HICBC was introduced.
- 3.2 According to figures from the Bank of England¹, the rate of inflation since January 2013 has been 34%. We propose that the HICBC threshold should be updated to reflect inflation since the measure was introduced, and be index-linked going forward.

- 3.3 Applying that inflation figure to the current HICBC threshold of £50,000 would increase it to £67,100. The point at which full clawback of child benefit receipts occurs is currently £60,000. Adjusting for inflation since 2013, this would equate to approximately £80,500.
- 3.4 Updating the HICBC threshold for inflation would accommodate wage growth and increases in the cost of living since 2013, allowing working families to keep more of the child benefit they receive.
- 3.5 We acknowledge that updating the HICBC threshold to account for inflation and index-linking it going forward would have financial implications. If these are considered to be too high, our alternative suggestion would be to match the level of income at which the HICBC applies to the threshold for higher rate income tax.
- 3.6 In England and Wales the higher rate threshold has been £50,270 since 2021/22, and is expected to be frozen at this level through to 2027/28.
- 3.7 However, the point at which the HICBC applies has remained £50,000 since its introduction in 2013. As a consequence, the HICBC affects basic rate taxpayers. This is directly contrary to the original policy intent announced in the Spending Review in October 2010², which stated that the charge should only affect families with a higher-rate taxpayer.
- 3.8 Aligning the HICBC threshold with the higher rate income tax threshold would not only match the original policy intent, it would also represent a tax simplification as basic rate taxpayers would never need to consider it.
- 3.9 A second tax simplification benefit would arise due to the removal of the separate HICBC threshold figure, meaning taxpayers would only need to consider the income tax threshold values.
- 3.10 Linking the HICBC threshold to the income tax higher rate threshold would offer a further simplification benefit if tax thresholds revert to being index-linked after April 2028, as there would be no need to revise the HICBC threshold separately in order for it to keep pace with inflation.
- 3.11 Increasing the HICBC threshold would decrease the number of taxpayers it affects. This would reduce HMRC's workload in undertaking compliance action pursuing taxpayers who fail to declare liability to the HICBC.
- 3.12 Consideration would need to be given to how this proposal would impact Scottish taxpayers. Complications arise due to the different higher rate tax thresholds applying to non-savings and savings income for Scottish taxpayers (as set by the Scottish Government) compared with the higher rate threshold for dividend income (which is aligned with the rest of the UK). To ensure equality, it may simplest to set the HICBC threshold at the UK-wide higher rate threshold, acknowledging that the simplification benefits above would not be fully realised in Scotland.

4 Contact details

- 4.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact our technical team on atttechnical@att.org.uk.

The Association of Taxation Technicians

23 January 2024

¹ <https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>

² https://assets.publishing.service.gov.uk/media/5a7f0a11e5274a2e8ab49c3e/Spending_review_2010.pdf

5 Note

5.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has more than 9,800 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.