Child Benefit for higher income families

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Author: Steven Kennedy

Section Social Policy Section

Child Benefit is a universal, non-taxable cash payment for families with children. It is currently worth £20.30 a week for the eldest eligible child, and £13.40 for each subsequent child. Around 7.9 million families receive Child Benefit at a total cost of £12 billion.

At the Conservative Party conference in October 2010 the Chancellor announced that from January 2013 Child Benefit would be withdrawn from families with a higher rate taxpayer. The measure was expected to affect 1.5 million families and save around £2.4 billion a year. A Library standard note, *Child Benefit for higher rate taxpayers*, gives further details.

Commentators highlighted a number of problems with the proposal, including the fact that while a lone parent or single earner couple earning just above the higher rate tax threshold would lose the full amount of Child Benefit, a dual earner couple both earning just under the threshold would escape the clawback. The "cliff edge" problem – whereby the full amount of Child Benefit was lost as soon as the higher rate tax threshold was reached – would also create potentially damaging incentives for people around that income level.

Revised proposals for a "high income Child Benefit charge" were presented in Budget 2012. Instead of clawing back the full amount when income reaches the higher rate threshold (currently £42,475), it is proposed to withdraw Child Benefit gradually at a rate of 1% for each £100 of income above £50,000 a year. Families subject to the full charge – those with a taxpayer with an income of £60,000 or more – may still claim Child Benefit, or alternatively elect not to receive Child Benefit and so avoid the clawback.

The new proposal would affect around 1.2 million families, of whom 70% would be subject to the full charge. Savings are estimated at £1.5 billion for the first full year, although the numbers affected and the revenue raised would increase in subsequent years if the income threshold remains fixed.

The latest proposals address the "cliff edge" problem, but not the single earner/dual earner issue. Other questions remain, including how HMRC will administer the charge and ensure compliance. It is expected that an additional 500,000 individuals will be subject to Self Assessment as a result of the measure.

Contents

1 Background

Child Benefit is a tax-free cash benefit paid to people responsible for children. In the case of couples, it is usually paid to the mother. It is payable in respect of each child or young person who is:

- under 16;
- over 16 and up to age 20, and in non-advanced education or training that qualifies for Child Benefit; or
- 16 or 17, has left education or training that qualifies for Child Benefit and is registered for work, education or training with an approved body

The amount paid depends only on the number of children in the family, with a higher rate for the eldest child (currently £20.30 a week). The rate for each subsequent child is £13.40 a week. Child Benefit is administered by HM Revenue and Customs.

.At August 2011 7.9 million families in the United Kingdom received Child Benefit for 13.7 million children.[1] Total expenditure in 2010-11 was £12.0 billion.[2] Take-up of Child Benefit is estimated at 96 per cent.[3]

Child Benefit is not the only source of financial assistance for families with children. Tax Credits (Child Tax Credit and Working Tax Credit) were introduced by the Labour Government in April 2003 to "tackle child poverty and help to make work pay."[4]

Total expenditure on tax credits in 2011-12 is projected to be £31.7 billion, but expenditure will fall as a result of a package of changes announced in the June 2010 Budget and October 2010 Spending Review aimed at "controlling the costs of tax credits" in order to "provide a fair and affordable platform for the introduction of the Universal Credit."[5] As a result of the changes, many middle and higher income families are no longer entitled to tax credits. In 2010-11, families could still receive some Child Tax Credit on incomes up to £58,000 (or more, in certain circumstances). From April 2012 however, the upper income limit for receiving tax credits fell to around £25,700 for most families with one child, to £32,300 for families with two children, and £38,800 for those with three children.[6]

1.1 The origins and purpose of Child Benefit

Child Benefit replaced the Family allowance and Child Tax Allowances. It first became payable in 1977, and was fully phased in by 1979.

The *Child Benefit Bill* was introduced in May 1975 by the Labour Government, with all party support. Introducing the Bill at Second Reading, the then Secretary of State for Social Services, Barbara Castle, said:

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1 HMRC, *Child Benefit Geographical Statistics*

2 *HM Revenue and Customs Annual Report and Accounts 2010-11 Accounts*, HC 981 2010-12

3 HMRC, *Child Benefit, Child Tax Credit and Working Tax Credit Take-up rates 2009-10*

4 HM Treasury, *The Child and Working Tax Credits: The Modernisation of Britain's Tax and Benefit System*, Number 10, April 2002, para 1.2

5 *2010 Spending Review*, Box 2.6, p68

6 The income limit may however be higher if the family is in receiving help with childcare costs, or if there is a disabled child or adult; see Entitlement tables for tax credits at the HMRC website.

> It gives me the greatest pleasure to introduce the Bill, which I am sure will be accepted on all sides of the House. It achieves a long overdue merger between child tax allowances and family allowances into a new universal, non-means tested, tax-free cash benefit for all children, including the first, payable to the mother. In this way it ensures that the nation's provision for family support is concentrated first and foremost where it is needed most on the poorest families; and that it goes to the person responsible for caring for the children and managing the budget for their food, clothing and other necessities.[7]

Later, she said:

> What will the child benefit scheme achieve? First and most important the poorer families who have not been able to take advantage of child tax allowance in full, if at all, because of their low incomes, will in future do so, as the new benefit extends the cash advantage of the allowance to all these families. Those who are dependent on means-tested benefits will receive a larger part of their income from benefits as of right. Secondly, child benefit will be paid for every single child in the family, thus extending the benefit of a payment to the first child in 4 million families drawing family allowance as well as to the 3 million single child families, thus doubling the number of children receiving benefit. Thirdly, once the scheme is operating, we shall have for the first time a single universal system of family support.[8]

While there has been speculation on a number of occasions that Child Benefit might be abolished, means-tested or otherwise limited to certain groups, successive governments have – until now – affirmed support for a universal benefit for all families with children.

Child Benefit has been said to perform a number of functions, and different functions have been emphasised at different points in time. A March 1999 report by the former Social Security Committee acknowledged the "multi-purpose role" of Child Benefit in-

- Promoting "horizontal" equity between people of similar incomes, with and without children;
- Providing a contribution from society as a whole to the next generation;
- Supplementing parents' earnings, in recognition of the fact that wages do not take into account, and thereby helping to overcome unemployment and poverty traps;
- Giving a stable element at times of financial insecurity caused by, for example, insecure employment or family breakdown; and
- Offering an independent income for women[9]

In a briefing in August 2006, the Child Poverty Action Group summarised the arguments in support of Child Benefit and similar benefits as follows:

> - **Horizontal redistribution**. Since those with children have higher costs than those without, they need additional support at whatever level of income they live on, in order to equalise the tax contribution between those with and those without children.

[7] HC Deb 13 May 1975 c330
[8] HC Deb 13 May 1975 c334
[9] HC 114 1998-99

- **Lifecycle redistribution**. Most people have children at some point, and that is a time when needs are higher and income tends to be lower; so child benefit helps to redistribute resources (and the tax contribution) over the lifecycle.

- **Intergenerational redistribution**. Since everyone – childless people, as well as those with children – will benefit in due course from the productivity of children being brought up now, society should share the cost of bringing up those children with their parents, as an investment by us all in the next generation.

- **Value placed on children**. A payment to all children is concrete evidence of the value placed on children and child-rearing by society. In 1999, the Chancellor of the Exchequer described children as 20 per cent of the population but 100 per cent of our future.[10]

A further argument in favour of *universal* Child Benefit has a political dimension. The CPAG briefing noted the "resilience" of Child Benefit over the last 30 years, in contrast with means-tested support for children, which had been reformed several times. It added:

> A benefit which goes to virtually all children is of course expensive. But it can also be argued that it is more likely that such a benefit will have 'substantial and wide-ranging support', and may be difficult to abolish; provision for the poorest children only, whilst cheaper, is often more precarious.[11]

Further information on the history of Child Benefit and its function is given in Library standard note SN05732, *Child Benefit for higher rate taxpayers*.

2 The original proposal

The June 2010 Budget announced that Child Benefit rates would be frozen for three years, and in his speech to the Conservative Party conference on 4 October 2010 the Chancellor went further, announcing that Child Benefit would also be withdrawn from higher rate taxpayers:

> We still pay over a billion pounds a year in child benefit to higher rate taxpayers.
>
> Believe me, I understand that most higher rate taxpayers are not the super-rich.
>
> But a system that taxes working people at high rates only to give it back in child benefit is very difficult to justify at a time like this.
>
> And it's very difficult to justify taxing people on low incomes to pay for the child benefit of those earning so much more than them.
>
> These days we've really got to focus the resources where they are most needed.
>
> We've got to be tough but fair.
>
> That's why we will withdraw child benefit from households with a higher rate taxpayer.[12]

The proposal was highly controversial, and provoked strong reactions in certain sections of the media. There was some confusion initially about what exactly the Government was

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[10] Fran Bennett with Paul Dornan, *Child benefit: fit for the future*, CPAG, August 2006, p12
[11] *Ibid.* p30
[12] Conservative Party website, *George Osborne: Our tough but fair approach to welfare*, 4 October 2010

proposing. Hints from Government sources that transferable tax allowances might be introduced to mitigate the effects of the measure came to nothing; and suggestions that Child Benefit might in future be "rolled up" with Universal Credit were denied. Media sources suggested that the announcement of the withdrawal of Child Benefit from higher rate taxpayers had led to "panic stations" at the Treasury, where some thought that the policy would be "unenforceable."[13]

Commentators highlighted a number of problems and issues raised by the proposed clawback, including:

- The fact that a dual earner couple each earning just below the higher rate threshold would retain their Child Benefit in full, while a single earner couple or lone parent earning just above the threshold would lose it;

- The "cliff edge" problem whereby Child Benefit would be withdrawn completely at the higher tax rate threshold, with a potentially damaging impact on incentives;

- The scope for families to avoid the charge by "tax planning" or other means, including transferring the claim to someone outside the household;

- Administrative problems, including the need to link individuals' tax records and Child Benefit records;

- The implications for independent taxation, including whether couples would be forced to disclose financial details and details of benefits received to each other;

- How to claw back Child Benefit – which paid on a weekly basis – through the tax system, where calculations are on an annual basis;

- How to deal with changes in circumstances over the tax year – eg where a partner moves in, or a couple split up;

- How to identify who is a higher rate taxpayer – eg where a person receives a bonus at the end of the tax year which pushes them above the higher rate threshold;

- How to determine whether two people are "living together" for the purposes of the charge – and when two people are to be regarded as no longer living together;

- How HMRC would ensure compliance with the new charge, and cost of doing so;

- The fact that the charge would be a "couple penalty" – eg it could be disincentive for a lone parent to move in with a higher rate taxpayer;

- The impact on women and children of the loss of an independent source of income, if they are encouraged by their partner to give up their claim for Child Benefit; and

- Implications for future entitlement to State pensions, given that people who are not in work and who are receiving Child Benefit for a child under 12 receive National Insurance credits.

Further information on these and other issues can be found in Library standard note SN05732, *Child Benefit for higher rate taxpayers*.

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13 See Library standard note SN05732, *Child Benefit for higher rate taxpayers*, sections 2-3

Further discussion and analysis can be found in:

- A note of 18 January 2012 by Robin Williamson of the Low Incomes Tax Reform Group, *Child benefit and tax – uncomfortable bedfellows?*

- Chapter 11 from the January 2011 Institute for Fiscal Studies *Green Budget*, Withdrawing Child Benefit from better-off families: are there better options?

- A Child Poverty Action Group briefing published in March 2012, *Save Child Benefit*

3 The revised proposal

In an interview with *The House* magazine in January the Prime Minister hinted that the Government might modify its Child Benefit proposals.[14]

Revised proposals were presented in Budget 2012 on 21 March. Further details are given in a The Tax Information and Impact Note on *Child Benefit: Income Tax Charge for Those on Higher Incomes* published alongside Budget 2012. HMRC has also produced FAQs on the *Child Benefit income charge*. Provisions implementing the charge are in Schedule 1 of the *Finance (No. 4) Bill 2010-12*.

The proposals are as follows:

- The "high income Child Benefit charge" will apply where a person has an income in excess of £50,000 in a tax year and they, or their partner, receive Child Benefit.

- The charge will also apply to single people and couples who, although they have a child living with them, are not in receipt of Child Benefit because another person who is "contributing towards the cost of providing for the child" receives the benefit and that person would not be subject to the charge because of their income.

- In the case of couples, where both partners have an income over £50,000, the charge will apply to the partner with the higher income.

- For the purposes of the new charge, a "partnership" includes not only married couples and those in civil partnerships living together, but also men and women who are not married but who are living together as if they were married, and same-sex couples living together as if they were civil partners.

- An individual would only be subject to the charge for such periods as they were living in a household with a child for whom Child Benefit was payable. So, for example, where someone separates from their partner part way through the tax year and the partner receives the Child Benefit, they will only be liable for the charge for the period up to the date of the split.

- The amount of the charge will be 1% of the Child Benefit received for every £100 of income in excess of £50,000. So, for example, for a family where the partner with the highest income has an income of £55,000, the charge will be equal to half of the Child Benefit received. The clawback will equal 100% of the Child Benefit received on incomes of £60,000 and above.

14 David Cameron interview, *The House*, 12 January 2012

- Families affected by the charge may elect not to receive Child Benefit, and so avoid paying the charge. However, non-working partners will have to register a claim for Child Benefit even if they elect not to receive it, in order to qualify for National Insurance credits to help protect their future entitlement to the State pension.

- The charge will be collected through Self Assessment and Pay As You Earn (PAYE).

- The Government expects that the number of individuals subject to Self Assessment will increase by up to 500,000 as a result of the measure.

- The charge will apply to Child Benefit paid from 7 January onwards. For the 2012/13 tax year, payments will not become due until after the end of the tax year.

The Government's original proposals would have affected around 1.5 million families and resulted in savings of £2.2 billion a year in the first full year of operation (2013-14), rising to £2.5 billion a year by 2016-17. Under the revised proposals, savings in 2013-14 are estimated at £1.5 billion and £1.7 billion a year in 2014-15.[15] The Budget 2012 *Red Book* does not give figures for the years 2015-16 and beyond.

It is expected that the revised proposal will affect approximately 1.2 million families, of whom 70% (790,000 couples and 30,000 lone parents in 2013-14) will lose the full amount of their Child Benefit. A further 330,000 couples and 20,000 lone parents affected by the charge in 2013-14 will lose a proportion of their Child Benefit. The average loss for those who lose is estimated at roughly £1,300 a year.[16]

How many individuals are affected by the charge in future years – and the amount of additional revenue raised – will depend on the income limit and/or taper rate. The *Finance (No.4) Bill* provides for the Treasury to vary both the income limit and/or taper rate via a statutory instrument subject to affirmative procedure in the House of Commons.[17]

The Government estimates that the additional cost to HMRC over the first five years will be £8-13 million for computer systems (development and running costs), plus approximately £100 million for staff resources, and £5 million for "customer information."[18]

4 Analysis

By tapering off Child Benefit between £50,000 and £60,000, the "cliff edge" problem with the Government's original proposals, highlighted by the Institute for Fiscal Studies and others, is avoided.

However, the revised proposal does not address the single earner/dual earner problem – for example, families with a single earner on £60,000 a year will have the full amount of Child Benefit clawed back, while couples where both partners earn just under £50,000 will retain their Child Benefit in full. The Government estimates that in 2013-14 approximately 670,000

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[15] Budget 2102, HC 1583 2010-12, Table 2.2

[16] HMRC Tax Information and Impact Note on *Child Benefit: Income Tax Charge for Those on Higher Incomes*; HC Deb 27 March 2011 c1093w

[17] Schedule 1; new section 681F inserted in the *Income Tax (Earnings and Pensions) Act 2003*

[18] HMRC Tax Information and Impact Note on *Child Benefit: Income Tax Charge for Those on Higher Incomes*

households with family income above £60,000 a year, and 170,000 households with an income over £80,000, will retain at least some of their Child Benefit.[19]

The only way to address this problem would be to introduce some form of household means test. However, the Government has said repeatedly that it has no intention of doing so. This was confirmed by the Chancellor when he gave evidence to the Treasury Committee on 27 March. Pressed by Pat McFadden on whether it was fair for one household with an income of almost £100,000 to keep their Child Benefit while withdrawing it from another household with an income of £60,000 a year, the Chancellor replied:

> The alternative, implied in your question, is to assess total household income for people on household incomes of £40,000, £50,000, £60,000, £70,000, which is not something that the Government do. We would have to create an entirely new system to assess the total household income of 6, 7, 8 million people. I do not think we need to do that. Let me be blunt: we do not assess the household income of anyone sitting around this table. The tax system does not do that because the welfare system does it. Of course, people on higher incomes are not in the tax credit system or the welfare system.
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> The only way to remove child benefit from better-off families in a way that assesses household income is to create a system that means-tests every household and assesses every household income. I thought a simpler thing to do was to say, "If someone in your family has an income of over £50,000, we will taper away your child benefit through a tax charge." That is a much more administratively simple way of doing it than means-testing every single household in the country.[20]

Some experts believe however that the system proposed by the Government could be complex and burdensome to administer. In evidence to the Treasury Committee on 27 March, John Whiting of the Chartered Institute of Taxation and the Office of Tax Simplification, said:

> …the sheer amount of extra administration and checking that the process will bring in must not be underestimated. There is a great deal more work to be done for the Revenue and for a cadre of people in pursuing them.[21]

Asked by Mark Garnier whether there was a better way the Government might go about raising the revenue, Mr Whiting replied:

> You could say that there would be an easier way of doing it, which would be to scrap child benefit and just compress it and fold it into tax credits, but that has a major impact and huge distributional shifts. Almost as soon as you say that you want to withdraw child benefit from a sector of those who would collect it, you are imposing an administrative burden, with all the connotations of people mixing it up, having to repay, misclaims, and all the rest of it that we saw so much of with tax credits. We start from a very simple all-but-universally-taken-up relief and are putting an administrative burden on it.

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[19] HC Deb 27 March 2012 c1913w

[20] Q330: Uncorrected evidence to be published as HC 1910-ii 2010-12**. The transcript is not yet an approved formal record of these proceedings. Neither witnesses nor Members have had the opportunity to correct the record**.

[21] Q225. Uncorrected evidence to be published as HC 1910-ii 2010-12. **The transcript is not yet an approved formal record of these proceedings. Neither witnesses nor Members have had the opportunity to correct the record.**

> I totally agree with the points… about [the Government's latest proposal] being better than it was, but I am simply saying that the administrative load must not be underestimated. There is a big need for proper and careful communication, and for making sure that people do not get the wrong message about things such as having to give it up, or not staying on the register in case they lose their job. It is all an extra problem.[22]

Integrating Child Benefit with the tax credit system is favoured by the Centre for Social Justice which argues that this would address the "couple penalty" problem, as well as the single earner/dual earner issue (see below).[23]

4.1 Administering the charge

The Government's latest proposals give some further information on how the Child Benefit charge will be implemented, but question marks remain.

Individuals with an income in excess of £50,000 will be required to inform HMRC if they or their partner are in receipt of Child Benefit. However, it is not clear what would happen in the situation where someone either does not know, or claims not to know, whether their partner is getting Child Benefit. In the absence of a legal obligation on partners to share information on benefit receipt, it is unclear what the tax authorities would do.

Similar problems could emerge where both partners have an income in excess of £50,000. In this situation, the charge would apply to the partner with the higher income. To avoid the charge being applied twice, the partners would presumably have to share information with each other on their incomes and coordinate responses in their respective Self Assessment forms, or HMRC would have to implement some mechanism to link together individuals' tax records to decide which partner is liable for the charge.

Further difficulties might emerge where someone not expecting to come within the income bracket for the Child Benefit charge discovers at the end of the tax year that their income exceeded the limit (eg a self-employed person who, on preparing their accounts, finds that their income was greater than they expected, or an employee who receives a larger than expected bonus). HMRC would then apply the charge retrospectively, but in order to do so would have to have full details of the person's cohabitation history for the year ended. The potential for disputes is obvious.

Frank Nash of chartered accountants Blick Rothenberg has said that "Proving eligibility, or a claim for child benefit, where earnings fluctuate above £50,000 will be a chore for many and may cost more to administer than it is worth."[24]

The Government estimates that the Child Benefit charge will require an increase of around 500,000 in the number of people subject to Self Assessment.

4.2 Defining a "partnership"

Under the proposals, the charge will apply to taxpayers with an income over £50,000 if they or their partner are in receipt of Child Benefit, unless their partner has a higher income.

For these purposes, a "partnership" comprises:

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[22] Ibid. Q226

[23] Centre for Social Justice press release, *A missed chance to tackle family breakdown*, 21 March 2012

[24] 'Budget 2012: pulling back from child benefit cliff edge still leaves dangers', *The Guardian*, 21 March 2012

- A married couple living together;
- Civil partners living together;
- A man and a woman who are not married but who are living together as husband and wife; or
- A same-sex couple who are not in a civil partnership but who are living together as if they were civil partners

The "living together as husband and wife" test is a long-standing feature in the social security system and, since their introduction, tax credits. Under the test, couples "living together as husband and wife" are treated in exactly the same way as married couples. Same-sex couples in civil partnerships, and cohabiting same-sex couples not in a civil partnership but living together as civil partners, are also treated as a single "unit" for means-tested benefit and tax credits purposes.

In deciding whether, for benefits purposes, two people are living together as husband and wife (or, in the case of two people of the same sex, living together as civil partners), the DWP should take into account a range of factors. Volume 3, Chapter 11 of the DWP *Decision Makers' Guide* contains the current guidance on decisions about whether two people are living together as husband and wife or as civil partners.[25]

The term "living together as husband and wife" (or as civil partners) is not defined further in social security or tax credits legislation. Case law does however point towards certain factors which may be taken into account when decisions on individual claims are made. In addition, administrative guidance produced for benefit staff has been described as providing "signposts' to assist those making decisions. Factors which may be taken into account include, for example:

- Duration and stability of the relationship
- Financial arrangements
- Sexual relations (although a person should not be asked about this)
- The degree of interdependence and devotion
- How other people see the relationship

As this indicates, a number of factors should be taken into account when it is being determined whether or not two people are living together. No single factor is conclusive; nor is there a "score card" to enable the authorities to come to a conclusion. It is the "general relationship" of the two people that is important. However, it is a necessary condition that the two people are actually members of the same household.

The "living together as husband and wife" test is a well-established feature of the social security system, but its extension to the tax system raises a range of issues and could lead to complaints about intrusiveness. Furthermore, whether or not a "partnership" exists will have to be determined on an ongoing basis throughout the tax year, not just at a single point in time.

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[25] The corresponding guidance for tax credits is in paragraphs guidance is in paragraph TCTM09300 et seq of the *Tax Credits Technical Manual* available at the HMRC website.

Individuals may not be aware of the need to report changes in their personal circumstances to the tax authorities. HMRC research on families claiming tax credits found widespread confusion about how to apply the requirement to report changes in circumstances to real-life situations. Claimants had particular problems understanding the concept of living together "as husband and wife", which lacked a clear definition.[26]

The potential for people to commit fraud by denying the status of their relationship in order to avoid the Child Benefit charge should also be acknowledged. The DWP estimates that of the £2 billion overpaid to claimants of Income Support, income-based Jobseeker's Allowance, Pension Credit and Housing Benefit in 2010-11 due to fraud and error, £182 million was accounted for by "living together" fraud or claimant error. This was the second most important cause of fraud and error, after failure to disclose earnings/employment (with accounted for £501 million).[27]

4.3 Child Benefit paid to people not living with the child

The general situation is that a person may be entitled to Child Benefit for a child if they are responsible for him or her. A person is treated as "responsible" for a child if the child lives with them, or if they are contributing towards the maintenance of the child at a rate of at least the amount of Child Benefit.[28] The claimant does not therefore need to be living in the same household as the child to receive Child Benefit.

The provisions in the *Finance (No. 4) Bill* address the potential loophole whereby people might have sought to avoid the charge by transferring the Child Benefit claim to someone in another household (eg a grandparent) with an income under the £50,000 threshold. In this situation, a person living with the child is, for the purposes of the charge, treated as if they were receiving the Child Benefit. It is unlikely that there will be many such cases, but the new rule adds a further layer of complexity.

4.4 Incentives

The Government's latest proposals address the "cliff edge" whereby families would have lost all of their Child Benefit on reaching a particular income threshold. Instead, the Child Benefit paid will be clawed back gradually for taxpayers with income between £50,000 and £60,000. The taper will reduce the incentive for individuals to reduce their taxable income, although some may still seek to keep their income just below the threshold to avoid the charge by "tax planning" or other means.

For households in the taper range, the claw back will increase marginal tax rates - by around 11% for those with one child, 18% for those with two children, and 24% for those with three children. Families with eight or more children will face a marginal tax rate of over 100%, although there are likely to be relatively few such families.

The Government's *Budget 2012 policy costings* paper states that an adjustment has been made to the estimates of the Exchequer impact of the Child Benefit charge to take account of behavioural responses to increased marginal tax/deduction rates. It notes that "there is some evidence that these responses could be stronger for the self-employed".[29]

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[26] Internal HMRC research, cited in HMRC/DWP, *Tackling fraud and error in the benefit and tax credits systems*, October 2010, p15

[27] DWP, *Fraud and Error in the Benefit System: 2010/11 Estimates (Great Britain)*, 2012

[28] Section 143(1) *Social Security Contributions and Benefits Act 1992*

[29] HM Treasury, *Budget 2012 policy costings*, p9

4.5 Couple penalties

The Child Benefit charge would introduce a new "couple penalty". The charge could for example be a disincentive for a lone parent considering moving in with a higher income person. It could also create an incentive for couples to split up, where one partner has a high income. For people with several children, partnering decisions could have significant financial implications.

The Centre for Social Justice has been particularly critical of this aspect of the Government's plans which, it argues, "could threaten a new wave of family instability and breakdown" and which "flies in the face of their commitment to 'shared parenting'".[30]

4.6 National Insurance credits

At present, people who are not in work and who receive Child Benefit for a child under 12 receive National Insurance credits to enable them to build up entitlement to State Pensions. The Government's original announcement led to concerns about the impact on the future pension entitlements of women in particular if families stopped claiming Child Benefit. The Government said from the outset that no-one would miss out on NI credits as a result of the Child Benefit changes, but it was not clear how it proposed to ensure this.[31]

Under the latest proposals, people entitled to Child Benefit in families affected by the charge may elect not to receive it. But a claim for Child Benefit will still have to be made in order to receive NI credits. The FAQs published by HMRC make this clear:

> Q8: Can I stop claiming Child Benefit so that I or my partner do not have to pay the tax charge?
>
> A8: If you think it is the right decision for you, you will be able to choose not to receive your Child Benefit payments which would mean that you/your partner would not be liable to the new income tax charge. But you should continue to complete claims for any new children even though you will not receive any Child Benefit payments for them. This is because for each week that you are entitled to Child Benefit you could qualify for National Insurance credits which can help to protect your future entitlement to State Pension. You can get credits if you are entitled to Child Benefit for children under the age of 12. This continues until your youngest child reaches the age of 12.

Whether people can be persuaded to make "credits only" Child Benefit claims when it is of no immediate financial benefit to them remains to be seen.

[30] Centre for Social Justice press release, *A missed chance to tackle family breakdown*, 21 March 2012

[31] HC Deb 19 October 2010 c643w