

CHILD BENEFIT CHARGE

You will probably be aware that from January 2013 the Government is implementing the **Child Benefit Charge** for those with high income. This will mean that Child Benefit will effectively be withdrawn gradually from those where one parent/child carer or their partner has taxable income of more than £50,000, and withdrawn entirely from those families where taxable income of one parent/child carer or their partner is more than £60,000 per annum.

HM Revenue & Customs should shortly be sending out letters outlining the position and should it apply, the options available, which will be to withdraw from receiving child benefit completely or suffer the above tax charge.

This charge applies to the highest earner of a married couple, civil partnership, or those living together as if married or in a civil partnership. It also applies to someone who receives a financial contribution towards the upkeep of a child from a non household member who receives child benefit for that child.

Child benefit is currently paid at the rate of £20.30 per week for the first child and £13.40 per week for each additional child, i.e. £1,056 annually for one child, £1,752 for two children and £2,449 for three children, etc. The tax charge is 1% of the child benefit received for every £100 of taxable income between £50,000 and £60,000. As the charge is a percentage of the actual child benefit received, the effective rate is much higher than the 1% headline rate and varies depending upon the amount of child benefit received. Where child benefit is received for one child for the whole year the effective tax rate is 10.56%, two children 17.52%, three children 24.49%, etc. These rates will be effected where child benefit claims start or end in a particular year and/or marriages, civil partnerships and their equivalent start or end in a particular year. For 2012/13 the effective rates will be reduced by three quarters as the child benefit charge does not commence until January 2013.

Parents/child carers will need to ascertain if one or both spouses etc earn over the thresholds noted above and if so which individual has the higher level of income. Income included for this purpose is not just salary, but dividends, benefits in kind, income from properties including holiday homes, self-employed earnings, interest, pensions and any other taxable income. Pension contributions made and gift aid payments may however be deducted.

Anyone affected by the charge will need to complete a tax return to declare the resultant liability to HM Revenue & Customs. This may not be the person receiving child benefit but their partner if they have income at a higher level. They may be in employment and only have PAYE income but they will now need to complete a return to comply with this legislation. If you do not share your financial details with your spouse etc it may be difficult to ascertain if there is any claw back or completion of a tax return required. If this applies please let us know accordingly.

If one taxable income is over £60,000, then to avoid the Child Benefit Charge and cost of making tax return entries, Child Benefit can be disclaimed, but this can have other consequences. If child benefit is simply not claimed then the Class 3 NI credit (Home Responsibilities Protection) is lost but if the benefit is claimed and then an election is made for all payments not to be made then the NI credits should continue. Note that elections made not to receive Child Benefit can be revoked (and backdated up to two years) if they subsequently prove not to be beneficial. If you believe an election not to receive Child Benefit may be appropriate for you/your spouse etc then please let us know as soon as possible.

The new tax charge starts in January 2013 in the tax year 2012/2013 which ends on 5 April 2013. If there is a requirement to complete a tax return for an individual who is not already in the self assessment system this needs notifying to HM Revenue & Customs by 5 October 2013. For all cases it will be necessary to determine whether a Child Benefit Charge applies and if so to whom. It is therefore important that 2012/13 tax return information is provided as soon as possible after 5 April 2013.

There are potentially more complications with this new tax charge, not least exactly how the details will be included on tax returns and whether such details will need to be included for all taxpayers or only those taxpayers with income over £50,000 or just those liable to the charge. To help us identify those clients potentially affected we should be grateful if you would complete and return the attached to ensure that we will be completing your tax return correctly, and identify any requirement to complete one for your partner(s).

Should you wish to discuss in more detail please contact us accordingly.

INFORMATION REQUIRED RE CHILD BENEFIT CHARGES

- 1) As of 7 January 2013 do you expect to be living in a household with a spouse, civil partner or a partner equivalent to a spouse, civil partner Yes/No

- 2) If the answer to question 1 is yes, please state the name of your spouse, civil partner or equivalent who is expected to be resident in your household as of 7 January 2013

- 3) As of 7 January 2013 do you expect to have any children living in your household under the age of 18 Yes/No
If yes please provide names and Dates of Birth

- 4) Do you or your spouse, civil partner or partner claim child benefit Yes/No
If yes please state who receives the benefits and the amount if known

- 5) Does your spouse, civil partner or partner expect to receive taxable income over £50,000 in the tax year 2012/13 (salary, dividends, interest, pensions, rents etc.) Yes/No

- 6) Does your spouse, civil partner or partner expect to receive taxable income over £60,000 in the tax year 2012/13 (salary, dividends, interest, pensions, rents etc.) Yes/No

- 7) Does your partner pay any pension contributions or make gift aid payments. Yes/No
If yes please give an estimate

- 8) Do you or your spouse, civil partner or partner receive a financial contribution towards the upkeep of a child from a non household member who also receives child benefit. Yes/No
If yes please give the name of the person

NAME:-

Date:-

Note – Answers to questions 5, 6 and 7 are not required if we already complete self assessment returns for your spouse, civil partner or partner.

Following receipt of the above information we will be able to determine if you will be affected by the new legislation and we will contact you further in due course in respect of any further information needed and thereafter any appropriate action required.