

CHILD BENEFIT MAY CREATE A TAX CHARGE FOR THOSE WITH HIGH INCOME

Parents and carers need to be aware that if either of the couple have 'adjusted net income' in excess of £50,000 then the one with the higher income will potentially be charged to tax on some or all of the child benefit and will need to request a self-assessment tax return to report the amount of child benefit received in the tax year. The High Income Child Benefit Charge (HICBC) was introduced in 2012/13 and imposes a 1% charge on the amount of child benefit received for every £100 that the taxpayer's adjusted net income exceeds £50,000. 'Adjusted net income' is an individual's total taxable income before any allowances, but after deducting Gift Aid, pension contributions, and trade union subscriptions.

Where the adjusted net income is £60,000 or more, then 100% of the child benefit is charged, effectively fully clawing back the child benefit. Note that the £50,000 threshold has not been increased since it was introduced in 2012 which means that more and more parents are being caught by the HICBC each year. It has recently been announced that in future years the government plans to deduct HICBC directly from salaries via PAYE.

It is possible to opt out of receiving Child Benefit payments where adjusted net income exceeds £60,000. Consequently, the HICBC would not apply and the child benefit would not need to be reported on the tax return. That may mean that a taxpayer who has their tax collected under PAYE would not be required to submit a self-assessment tax return. It is important to still fill in the Child Benefit claim form but state on the form that you do not want to get payments. That is important as the claimant would then receive National Insurance credits for that year, which count towards their State Pension entitlement.

One of the problems with the HICBC is that those taxpayers who pay their tax under PAYE are not normally required to file a self-assessment tax return. However, if they are parents and one of the couple is in receipt of child benefit then they are required to request a self-assessment tax return from HMRC to report the child benefit if their adjusted net income exceeds £50,000 a year. HMRC have started assessing taxpayers to HICBC where they have not reported their child benefit in earlier years. Several taxpayers have successfully challenged these assessments through the courts in a number of recent tax cases. Whether or not a successful appeal can be made will depend on the circumstances in each case.