Understanding the Child Benefit Charge

7 January marked the fifth anniversary of the tax on child benefits, an imposition that is still not widely understood.

The High Income Child Benefit Charge (HICBC), to give child benefit tax its correct name, was introduced in a rush by George Osborne – so much so that it began three months before the start of the 2013/14 tax year. It was, and remains, a classic example of the type of tax system tweaking beloved of Chancellors and disliked by those who have to deal with the consequences.

The HICBC represented an attempt to use the income tax system to withdraw child benefit from parent(s) (married or not) where one had income exceeding £50,000. Its introduction was poorly publicised, leaving many people – particularly PAYE earners – unaware of their potential liability.

Caught by 'failure to notify'?

If proof were needed of the flaws in HICBC, it arrived in November 2018. That was when HMRC announced it would be reviewing 'Failure to Notify" penalties for 2013/14, 2014/15 and 2015/16 "to customers *[sic]* who did not register for the High Income Child Benefit Charge" and therefore did not pay the HICBC tax. Unusually for HMRC, it is not looking for the taxpayer to provide a "reasonable excuse" before considering a refund. It may be hoping to avoid a flood of letters from those affected.

The income trigger for the HICBC remains at £50,000. That means that for 2019/20 the trigger matches the UK higher rate threshold. When it began, the charge started at over £7,500 above the then threshold.

The tax is levied in a unique way: for each £100 of income above the threshold, tax is payable equal to 1% of the child benefit received. For example, an income of £56,000 would mean an HICBC of 60% of total child benefit – 60% of £1,789 (=£1,073) for a two child family.

Failure to claim child benefit can mean a loss of national insurance credits, so it's important to avoid this pitfall. If you or your partner are, or may be, caught by HICBC, there are several planning options to consider, which we would be happy to discuss.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.