



# **The Carbon Accountancy**

## **Guide to Child Benefit**

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The government has changed the child benefit system therefore it is important to understand the tax implications. This guide sets out the general rules applicable to most taxpayers in relation to child benefits. It is not intended to be a substitute for proper professional advice from your accountant or tax adviser.

### **Why is this important?**

Claiming child benefit earns you national insurance credits which can ensure you are still entitled to a full state pension. There are ways for you to plan your tax affairs to keep child benefit payments/national insurance credits.

### **What is happening?**

From Monday 7 January 2013, any household in which someone earns more than £50,000 will no longer be entitled to the full payment. Households which include someone earning more than £60,000 will not be entitled to any child benefit at all.

However, rather than just paying parents less the government will continue to pay the full amount and claw back overpayments through the tax system and a new High Income Child Benefit Charge – unless you opt not to receive the payments.

The opt out date has now passed (the deadline was midnight on 6 January 2013).

### **What if I missed the 6 January deadline to opt out?**

Do not panic. For a start, it only applies if you or your partner are earning more than £60,000, otherwise you will probably want to receive the benefit and keep hold of the portion to which you are still entitled.

If you do stand to repay the whole amount through self-assessment, cancelling a few days late means you will only face a small repayment next year, and HMRC has suggested there may be some flexibility for people who call in the few days after the deadline to opt out.

### **How will that work?**

Anyone who is affected by the change will need to fill in a self-assessment tax return. The first one will need to be filed by 31 January 2014 and will cover any payments received between 7 January 2013 and the end of the tax year, 5 April 2013.

The tax charge has been set so the more you earn in excess of £50,000 the more you need to pay back. It is set at 1% of the amount of child benefit for each £100 of income you receive beyond £50,000. If, for example, you earn £54,000, you will need to repay 40% of the benefit you have received over the tax year – £422.24 of the £1,055.60 you will receive for your first child. Once you reach earnings of £60,000 the tax charge is equal to the entire child benefit payment.

### **How much is child benefit worth?**

The current rate of child benefit is £20.30 a week for the oldest child and £13.40 a week for each subsequent child. The payments are made every four weeks into one parent's bank account.

**I earn less than £50,000, but my partner earns £55,000. What now?**

If your partner is a spouse, someone you are in a civil partnership with or someone you are living with as if you were married or civil partners, he or she will need to pay the High Income Child Benefit Charge. HMRC may have written to confirm this, but even if no letter has been received the charge still stands.

There is a calculator on the HMRC website where you can work out [how much will need to be repaid](#).

You will continue to receive the whole payment every four weeks unless you decide to opt out entirely and lose the whole benefit. It is the recipient who has to stop the payment, not the high earner. If your partner does not live with you and has not done so during this tax year, their income will not have an impact.

**I earn less than £50,000, but my partner earns £60,000. What now?**

As in the above example, you need to be living with your partner for his or her income to have an impact on your entitlement. You will still receive the full benefit every four weeks, but your partner will face a tax charge for the entire amount when self-assessment time arrives.

Some families will decide that it is easier to opt out of receiving the payment than to take it and pay it all back. It is the recipient who has to stop the payment, not the high earner.

**If I cancel will I have future problems claiming my state pension?**

Claiming child benefit earns you national insurance credits which can ensure you are still entitled to a full state pension. HMRC says that if you are currently receiving child benefit and opt out, you will still get the credits.

If you do not have a child now but do later on and earn more than £60,000 or have a partner that does so, you will be able to protect your NI contributions by filling in the application form for child benefit but indicating that you want to opt out of receiving it. Slightly confusing, but it should protect your pension.

**No one in my family earns more than £50,000 – will we still get it?**

You will still be entitled to receive the full amount of child benefit. If you get a pay rise during the year you will need to notify HMRC.

**Is there any way I can avoid losing my child benefit?**

Yes. The income that is taken into account by HMRC is a person's "adjusted net income" – that is the income after pension contributions and charitable donations and after money is taken out through any salary sacrifice schemes like childcare vouchers and buying extra holiday. You could reduce your income, and how much tax you have to pay, through any of these schemes. [Contact us](#) for more details.