

# Briefing document

## Tax Charge on Child Benefit

### Introduction

Child benefit payments received are subject to a tax charge where the claimant and/or his or her partner has income of over £50,000 in the tax year to which the payment relates. For every £100 that the higher earner's income exceeds £50,000, he or she will suffer an income tax charge of 1% of the child benefit received. Where the income is £60,000 or more, a 100% charge applies, thus cancelling out the cash benefit. Please note that even if there is a 100% charge, it is still appropriate to complete the child benefit claim forms to preserve other potential benefits – see non-cash benefits below.

In some cases where the claimant does not live with the child, but is entitled to claim on the basis of financial support, the charge may be extended to the higher earner in the household where the child lives. This will occur where neither the claimant nor his or her partner earns more than £50,000 but an individual living with the child does earn more than £50,000.

The charge will need to be declared on the higher earner's self-assessment tax return. If the higher earner does not already file self-assessment tax returns, he or she will need to notify HMRC of the requirement to do so by 5 October following the end of the relevant tax year, i.e. by 5 October 2020 for a 2019/20 charge. The charge forms part of the self-assessment liability, which is normally due on 31 January following the end of the tax year, i.e. by 31 January 2021 for the 2019/20 liability.

### What is a partner?

For the purpose of this charge, partners are defined as the following:

- A husband and wife who are married to each other and neither separated under a court order nor separated in circumstances that are likely to be permanent;
- Civil partners who are neither separated under a court order nor separated in circumstances that are likely to be permanent; or
- Two individuals who are neither married nor in a civil partnership but who live together as husband and wife or civil partners.

If a couple are only together for part of the year, the partner of the claimant is only potentially liable to a charge on the claimant's child benefit for the weeks during which they were treated as partners.

### Measuring income

The income figure that is used for determining which member of a couple is the higher earner and for calculating the percentage charge to apply is called "adjusted net income". "Adjusted net income" is the individual's total taxable income after deducting reliefs (including pension contributions and gift aid donations) but before deducting allowances. It does not include capital gains. Income is always calculated on a full tax year basis, even if the benefit giving rise to the charge only relates to part of the year.

### What payments are caught?

The charge applies to child benefit payments for weeks beginning in the tax year in question, e.g. for Monday 8 April 2019 to Monday 30 March 2020 inclusive for 2019/20. This does not necessarily match the amounts actually received in the tax year because payments are normally made in four-weekly instalments covering the current week plus three weeks in arrears, e.g. a payment on Monday 8 April 2019 would normally cover four

Mondays from 18 March to 8 April, inclusive, but only the part relating to the final week is taken into account in 2019/20.

Where the claimant elects to stop receiving the payments, those entitlements will not be subject to the tax charge. There is also an exemption for payments related to the death of a child.

### **Electing not to receive child benefit payments**

Where a claimant expects child benefit payments to give rise to a tax charge, he or she may elect to stop receiving payments. The election will only be appropriate where the tax charge is expected to be 100% of the benefit (i.e. the individual who is liable earns £60,000 or more). Where the income level is between £50,000 and £60,000, the tax charge will always be less than the benefit entitlement, so post tax income is maximised by claiming the full cash benefit for the year and paying the tax charge.

The election is intended to relieve the administrative burden of receiving the full benefit, only to have to pay an equivalent amount back via the self-assessment system. The overall effect on net income for the couple should be neutral. However there will be differences in cash flow, and in some circumstances the partner paying the tax charge (the higher earner of the two) will not be the one who claimed the benefit.

The election takes effect from the Monday following submission, so to fully avoid a 2019/20 tax charge it would normally have been necessary to file the election before 8 April 2019. If it transpires that the income level is less than £60,000, the election may be revoked within 2 years of the end of the tax year, and the historic child benefit will then be paid. The online election form and further guidance can be found at <https://www.gov.uk/child-benefit-tax-charge/stop-child-benefit>

### **Non-cash benefits**

In addition to the weekly payment, child benefit claims help to secure national insurance credits for the parent, which can affect entitlement to state pension in the future, as well as ensuring that the child is issued with a national insurance number at age 16. Where new children arrive, [child benefit claim forms](#) should still be completed to secure these other benefits even if there is effectively no cash benefit due to the level of income (the election not to receive payments can be made on the same form). This is also beneficial if income unexpectedly drops below £60,000, e.g. due to high tax reliefs or loss of employment, as the full benefit for the year can be paid on revocation of the election. A late claim, by contrast, can only be backdated by up to three months.

### **Find out more...**

This note reflects the law in force as at 6 April 2020. Please be aware that it does not cover all aspects of this subject. To find out more about any aspect of the above, please discuss with your usual Deloitte contact. If you do not have a usual contact, please contact Patricia Mock ([pmock@deloitte.co.uk](mailto:pmock@deloitte.co.uk)).

For further information visit our website at [www.deloitte.co.uk](http://www.deloitte.co.uk).

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