



The High Income Child Benefit Charge: one and two earners

How we might resolve an unfairness.

The High Income Child Benefit Charge (the Charge) has come in for very considerable criticism from the time of its introduction in 2012 to today. The major issue is the high level of marginal rates of tax, in particular for large families, as the benefit is progressively withdrawn through the tax system. This is now affecting many more families as the threshold has not been indexed at a time of high inflation.

The purpose of this note is not, however, to consider these wider issues, but to focus in particular on the treatment of single earners, whether lone parents or single earner couples (whether married or cohabiting), by comparison with two earner families and to suggest how the current unfairness could be removed.

When the Charge was first introduced, both the Prime Minister (David Cameron) and the Chancellor of the Exchequer (George Osborne) said that it was intended to affect the best off 15% of child benefit claimants¹. Putting this in terms of income, the claimants would be people in the top half of the second decile and in the top decile of the income distribution.

However because no distinction is made in the Charge between one and two earners, in the event it has applied to single earners in the eighth and seventh and even the sixth decile, not far above the median income. By contrast, two earner couples may escape the Charge even if they are in the top decile, if, for example, both earners have income in the high £40,000s.

The difference in the impact of the Charge on single and two earners has been widely seen as unfair since the Budget and Finance Bill debates in 2012. However Treasury Ministers' argument has always been that to make any distinction would not be practicable because of income tax independent taxation. This was still the line taken by the Financial Secretary to the Treasury when the matter was last debated in Westminster Hall on 2 February 2023 on a motion by Martyn Day MP². Ministers have never put forward any argument on the merits of the matter.

In this note we make a proposal seeking to make the position fairer which would not compromise the principle of independent taxation in any way at all. What we are proposing is that, for the purposes of the Charge, the income³ of a single earner, whether a lone parent or a single earner couple, would be reduced by a fraction. One could well argue that, since the comparison is between one income and two, that fraction should be a half: in that event the Charge would apply to a single earner whose income exceeded £100,000 and the advantage provided by the child benefit would be removed completely if the income exceeded £120,000. If however that were thought to be too favourable to single earners, the fraction could be three-eighths in which case the Charge would apply when incomes were between £80,000 and £96,000, or one-third in which case it would apply between incomes of £75,000 and £90,000.

¹ Hansard, 7 March 2012, Col 841 and Hansard, 6 March 2012.

² Hansard, 2 February 2023, Cols 190 - 206 WH.

³ Strictly, this is the adjusted net income – the actual income less any gift aid payments grossed up and any pension contributions.

To give an example - on the first of these hypotheses, if someone's actual income were £88,000, it would be treated for the purposes of the Charge as £44,000 and so it would be below the threshold and they would not be liable to it. On the second hypothesis, the income would be treated as £55,000 so that they would be liable in part.

A subsidiary issue would be whether, in the case of a one earner couple, the fractional reduction would apply even if the non-earning partner had a small amount of income, and, if so, what that income might be. It could be argued for example that it should be a fixed sum such as £1,000 or as high as the personal allowance, ie £12,570. There would also be a debate whether there should be a cliff edge removal of the fraction if the de minimis figure were exceeded, or, at the expense of some complexity, a marginal relief.

It is not the purpose of this note to suggest detailed answers to these questions, but rather, whatever those answers might be, to point out that they would pave the way towards finding a much needed answer to the one earner/two earner question which would introduce a measure of fairness into the working of the Charge and which would not go against independent taxation. If therefore Treasury Ministers continued to resist, they would have to argue on the merits of the proposal rather than solely on practical arguments which would no longer apply.

One issue to be addressed is how to find a forum in which this matter could be addressed. In past years the Budget Resolutions included an Amendment of the Law Resolution which enabled any tax matter to be discussed in the Finance Bill debates provided that it did not impose a charge. Such a Resolution is no longer included, with the result that any new clause on the Charge would not be in order and so could not be discussed in a Finance Bill debate except in a year when the Government had itself introduced a Resolution on the Charge.

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