

High Income Child Benefit Charge - how employers can help

The High Income Child Benefit Charge applies to a taxpayer who has income over £50,100 in a tax year where either they or their partner, if they have one, are in receipt of Child Benefit for the tax year.

How does it work?

The total annual child benefit entitlement is reduced by 1% for each whole £100 of income in excess of £50,000 of the individual or of the partner with the highest income. If the individual or partner with the highest income has an income in excess of £60,000 the whole of the child benefit is clawed back.

Incomes in excess of £60,000

An election can be made not to receive the child benefit, for example where it is known that one income will be in excess of £60,000 and therefore all child benefit would be clawed back.

How is the clawback repaid?

This is repaid via the self assessment system. The tax is due on 31 January following the end of the tax year. This will have a knock-on effect on payments on account.

Example for 2019/20

The child benefit for two children amounts to £1,789 per annum. The taxpayer's adjusted net income is £55,000. The income tax charge will be £894. This is calculated as:

$£1,789 \times 50\%$
 $(£55,000 - £50,000 = £5,000/£100 \times 1\%).$

What is income for these purposes?

Broadly this is taxable income before personal allowances less deductions such as trading losses, pension contributions, allowable loan interest and gift aid donations.

The Marginal Tax Rate

This 'tax charge' will create all sorts of different marginal tax rates depending on individual family circumstances. Generally larger families will have higher marginal rates of tax, and when entitlement to tax credits are also factored in additional income such as bonuses for those with income between £50,100 and £60,000 can actually leave the employee worse off. There will be tax planning opportunities in many cases.

Planning

Employees with income in the key band of £50,000 - £60,000 can improve their position by reducing their taxable income. This can be achieved if employers are able to provide flexible benefit options.

Salary sacrifice arrangements reduce taxable income where the benefit received is tax free. This includes things such as:

- Pension contributions
- Childcare vouchers
- Cycle to work scheme
- Work place parking
- Mobile phones
- Additional holiday
- Payroll charitable giving

Pension contributions and childcare vouchers are likely to be the most effective options and allowing employees greater flexibility to make one off pension contributions in lieu of bonuses, could be beneficial in many cases.

The employee and employer are also likely to benefit from a National Insurance saving under these arrangements.

Other tax deductions that might be available for individuals to reduce taxable income are charitable gift aid donations, personal pension contributions and business mileage (if the employer pays below the HMRC approved rates).

Couples should also consider how assets are held and who receives the income from these.

Please get in touch

If you think this may affect your employees, we can discuss your options and any planning that can be put in place to minimise the impact of the charge.

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