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Child Benefit and Tax-free Childcare: your choices now

For many families, receiving Child Benefit payments has been ruled out by the High Income Child Benefit Charge (HICBC). If that's been your experience, Spring Budget 2024 might have tipped the balance in your favour.

This Briefing discusses the new HICBC rules, and also looks at the government's Tax-free Childcare (TFC) scheme. With take-up of TFC less than expected, we outline eligibility conditions and suggest how high earners can retain entitlement.

Who can claim Child Benefit?

You can be eligible to claim Child Benefit if you are responsible for a child:

- aged under 16
- or aged under 20, if staying in approved education or training
- and you live in the UK.

From 6 April 2024, the weekly rate is £25.60 for the eldest (or only) child; and £16.95 for any other children. Only one person can get Child Benefit for a child, but there is no limit to the number of children claimed for.

Not just about money

The advantages of claiming aren't just financial. The claim also means that:

- If your child is under 12, you get National Insurance credits. These count towards State Pension entitlement, and can fill gaps in your contributions record if you aren't working, or don't currently earn enough to pay National Insurance.
- The child will automatically get a National Insurance number, usually just before their 16th birthday, without needing to apply for it.

The claims procedure

Child Benefit claims are made online on gov.uk; using HMRC's app; by post or by phone. They are usually made at the time of birth or adoption, though they can be made at a later stage. You can also stop a claim at any time; restart a claim; or claim and choose not to get any payments.

This last option means you get National Insurance credits, and a National Insurance number for your child in due course, but don't have to worry about the HICBC rules. Opting out of payment is done simply by ticking the relevant box on the Child Benefit application form. Though it may sound counter sense, opting out of payment is still considered as claiming Child Benefit, and means there is still a responsibility to report any relevant changes of circumstances to HMRC.

High Income Child Benefit Charge

The charge works to effect a tapered withdrawal of Child Benefit where income is above a certain limit. In practice, what actually happens — unless you opt out of payment — is that you receive payment in full and then have to repay some, or all of it, under self assessment.

The HICBC has not had a good press. It's been called unfair and illogical, and a poor track record of communication by HMRC has added to the challenge. So too has the fact that it's the higher earner who pays the HICBC — even if they aren't the one making the Child Benefit claim. This is something that can be a particular problem in households where couples keep their finances separate, and one party may not even know that the other claims.

Rules and thresholds to 5 April 2024

The rules apply the charge where either you, or your partner, individually, has adjusted net income above £50,000, and:

- one of you gets Child Benefit
- or someone else gets Child Benefit for a child living with you, and they contribute at least an equal amount towards the child's upkeep.

For the HICBC, 'partner' means spouse, civil partner, or someone you live with as if you were married.

Adjusted net income means taxable income after the deduction of any personal pension contributions and Gift Aid payments, but including taxable interest from savings and dividends.

For every £100 of income between £50,000 and £60,000, Child Benefit is withdrawn at a rate of 1%. By the time income has reached £60,000, any financial advantage of receiving Child Benefit payment is lost entirely.

Latest changes

Spring Budget 2024 tackles some of the problems. It changes the income threshold at which you start to lose Child Benefit payments, and the upper threshold at which payment is lost entirely.

Thresholds from 6 April 2024

From 6 April 2024, the threshold at which the HICBC kicks in is £60,000, and the rate of charge is cut by half. So instead of withdrawing Child Benefit at a rate of 1% for every £100 of income above the threshold, it's withdrawn at a rate of 1% for every £200. This pushes the upper threshold to £80,000. So you may be better off claiming, even with income up to this level. Overall, the changes mean that basic rate taxpayers should no longer be impacted by the charge.

Example: Veronique earns £65,000 per year. Under the rules to 5 April 2024, she loses all benefit of receiving Child Benefit payment, so she decides not to claim. But under the rules from 6 April 2024, she loses only 25% entitlement. If she claims: she will receive 100% payment; keep 75%; and need to repay 25% by way of HICBC, under self assessment.

What are your options?

Income over £80,000: If your income, or your partner's, is over £80,000, the HICBC would equal any Child Benefit payment received. You can decide not to claim; or you can claim and opt out of payments, as described above.

Income between £60,000 and £80,000: If your income, or your partner's, is between these limits, you should be eligible for some payments, but the HICBC will claw some back, as described above.

Changing tack

Tip: your choice now

New thresholds from 6 April 2024 change the position for many people. If your income ruled you out of receiving Child Benefit payments in the past, it may be worth reassessing the position now.

If in the past you have decided:

- not to claim Child Benefit payments, you may want to make a claim
- to claim Child Benefit, but have opted out of getting payments, you may want to restart payments.

Child Benefit is automatically backdated for three months (or to the child's date of birth, if later). If you make a new Child Benefit claim on or after 6 April 2024, any backdated payments will fall under the new 2024/25 rules, with the new income threshold of £60,000 for HICBC purposes.

If you decide to opt back into Child Benefit payments, note that you may be liable to pay the HICBC for 2023/24, if payments restarted before 6 April 2024. For payments restarting after this date, the new limits apply.

Moving from individual to household income

Spring Budget 2024 also announced that the government aims to move to a system based on household income, rather than individual income, by April 2026, with a consultation in due course. Turning the promise into reality is likely to prove challenging for HMRC, whatever the timescale involved.

How and when the charge is paid

It is your responsibility to tell HMRC if your income is such that you're liable to the charge – and there are time limits involved. If you don't already submit a self assessment tax return, you need to tell HMRC within six months of the end of the tax year (by 5 October of the following tax year). Failure to do so can mean a penalty for non-notification. If you are liable to pay the HICBC, you need to file a self assessment tax return, even if you are an employee and usually pay tax through PAYE.

The government announced in July 2023 that it would simplify the process, to allow employees to pay the HICBC through their tax code, rather than having to register for self assessment. But as yet, there is no further detail.

Tax-free Childcare

TFC helps working parents with the cost of approved childcare. It's available on a per child basis, for children aged 11 or under. For disabled children, the age limit is 16 or under. TFC applies in all parts of the UK: England, Scotland, Wales and Northern Ireland. It can be used at the same time as the 30 hours free childcare scheme in England, and equivalent schemes in the rest of the UK. One application covers both TFC and the 30 hours scheme in England.

TFC involves setting up an online childcare account via Government Gateway and paying in money towards childcare costs. The account then receives a government top-up payment, and funds in the account are used to make payments to the childcare provider. There is also a requirement to confirm your details are up to date every three months. TFC cannot be claimed alongside Universal Credit, tax credits or childcare vouchers.

TFC payments mirror the basic rate of Income Tax of 20%. So for every £8 paid into the TFC account, the government adds £2. The top-ups are capped at £500 every three months, up to a maximum of £2,000 per year. For disabled children, the cap is £1,000 every three months, up to a maximum of £4,000 per year.

What are the requirements?

Eligibility conditions for TFC include a minimum earnings requirement. Generally, both you and your partner must expect to earn on average, at least an amount equal to 16 hours at the relevant minimum wage rate each week; though some types of income, such as dividends and interest do not count towards the minimum requirement. The process may look slightly different for company directors who are not paid regularly; and for the self-employed, whose income may be uneven.

HMRC research suggests that many parents fail to apply because they think their income is too high. In fact, eligibility only stops where adjusted net income is £100,000 or more per year.

Your options

When TFC was introduced, the availability of Employer-Supported Childcare (ESC), an employer-provided childcare voucher scheme, usually offered as a salary sacrifice arrangement, meant it was worth asking whether you were better off staying with vouchers or moving to TFC. But since ESC is no longer open to new applicants, the issue now for most people is simply whether you are eligible to claim TFC, or not.

It should be noted that the upper income threshold is a cliff-edge cut-off, and where adjusted net income is over £100,000, all entitlement to TFC is lost. Making strategic pension contributions may be a solution in these circumstances.

In the news: Further childcare support for eligible working parents is being rolled out in England. This extends free childcare hours to younger children, in stages, from April 2024. By September 2025, eligible working parents with a child from nine months old, up to school age, will be entitled to 30 hours of childcare a week.

Different schemes apply elsewhere in the UK.

Working with you

Even after the Budget changes to the HICBC, the system is still complicated. Please do contact us with any questions you may have.