

PRE-BUDGET BRIEFING ON CHILD BENEFIT

Briefing from the Women's Budget Group – February 2024

SUMMARY

The High Income Child Benefit Charge (HICBC) undermines the effectiveness of a universal child benefit.

- The HICBC claws back Child Benefit via the tax system when the recipient, and/or their partner, earns £50,000 or more a year, a funding cut to families now estimated to total around £4bn a year.
- Child Benefit should be regarded as a contribution that the community as a whole makes to all children, recognising that raising a child is a social good. Universal benefits that target all children rather than those on lower incomes are better at reducing and preventing poverty.

The thresholds for the HICBC do not reflect the economic changes introduced since 2013.

- Inflation has dragged more families into the HICBC since established in 2013, affecting thousands of children.
- Lone parent households, most of which are headed by women, are particularly disadvantaged by the HICBC, and in high-cost areas like London, an income of £50,000 for a two-child household is lower than median costs of rent, childcare and energy.

The HICBC contradicts the principle of independent taxation

- Making one partner's tax liability dependent on the other's income undermines the right to independent taxation, which is an important contribution to gender equality.
- The administrative burden of claiming and repaying child benefit means many families choose not to claim it, impacting non-earning parents' (usually women) pensions because child benefit is connected to national insurance contributions for non-earning parents.
- For women and children subjected to economic abuse, child benefit may be their only independent source of money.

RECOMMENDATIONS

- **The HICBC should be abolished**, and Child Benefit should return to its original **universal** nature. All children have a right to an adequate standard of living, independent of their parents' income. Raising a child is a social good that calls for contributions from everyone in society, and this should be reflected in the design of Child Benefit.
- The **amount of Child Benefit should be increased to £50 per week for all children**, to account for the real terms fall in value it has experienced since 2010.
- Reforms to Child Benefit should be part of a **holistic review of social security** and taxation aimed at reducing inequalities, providing income security for all, and upholding the principles of independent taxation. In addition to removing the benefit cap and two-child limit, this should include scrapping the marriage allowance, which would save the exchequer an estimated £580 million and could contribute to removing the HICBC.

BACKGROUND

Ahead of the Spring Budget 2024, it has been rumoured that the Chancellor is considering extending Child Benefit to hundreds of thousands more families, by either abolishing the High Income Child Benefit Charge (HICBC) or increasing the HICBC starting salary threshold, requiring between £1bn and £4bn respectively. The HICBC claws back Child Benefit via the tax system when the recipient, and/or their partner, earns £50,000 or more a year.¹

Child Benefit is paid to most parents or guardians to help with the cost of raising children. It is paid every four weeks (or weekly in some cases), at a rate of £24 per week for the first child, and £15.90 per week for any additional children². This equals to around £104 per month for one child, or £173 per month for two children. Child Benefit is usually paid to the mother or to another main carer she nominates. Women make up 87% of all Child Benefit claimants.³

Before 2013, Child Benefit was a virtually universal benefit for most parents or carers of children (with some exceptions due to residence conditions). Its universal nature has been compromised by the High Income Child Benefit Charge (HICBC). Those with an annual income over £50,000 with one or more children living in their household must pay back some or all of the Child Benefit received by themselves or their partner, unless they have chosen not to claim it.

In practice, those earning above £60,000 lose the benefit entirely⁴. When the threshold was introduced in 2013, one in eight families lost some or all of their Child Benefit (around 1 million households). The threshold has since been frozen, and soon will affect almost one in three families, or nearly 2.5 million households.⁵

PROBLEMS WITH THE HICBC

1. *The High Income Child Benefit Charge is arbitrary and ineffective.*

- As the threshold for the HICBC has remained at £50,000 since 2013, inflation has meant that thousands of families who were eligible for the full amount of Child Benefit now have to pay some or all of it back.⁶
- Single parents are particularly affected by the HICBC., and women make up the majority of lone parents (85%).⁷ Women with higher earning partners may lose access to Child Benefit even when they are not earning an income on their own while they care for their children. The HICBC effectively taxes parents at a different rate from other taxpayers.

¹ The Times, (2023), available at <https://www.thetimes.co.uk/article/jeremy-hunt-could-extend-child-benefit-in-tax-handout-at-budget-9qxxgxbkw>

² Gov.UK, (2024), Child Benefit, available at <https://www.gov.uk/child-benefit>

³ HMRC, (2022), <https://www.gov.uk/government/statistics/child-benefit-statistics-annual-release-august-2022/child-benefit-statistics-annual-release-data-at-august-2022#trends-in-child-benefit-claimants-2012-to-2022>

⁴ As the tax charge amounts to 1% of the total Child Benefit received for every £1000 earned above £50,000.

⁵ IFS, (2022), Reforms, Roll-outs and Freezes in the Tax and Benefit System, available at <https://ifs.org.uk/events/reforms-rollouts-and-freezes-tax-and-benefit-system>

⁶ WBG, (2022), Who loses from benefit uprating changes? A gendered analysis, available at <https://wbg.org.uk/analysis/who-loses-from-benefit-uprating-changes-a-gendered-analysis/>

⁷ WBG, (2022), The cost crisis: A gendered analysis, available at <https://wbg.org.uk/analysis/the-cost-crisis-a-gendered-analysis/>

- The HICBC is collected through self-assessment. The bureaucracy required to claim and then effectively return all or part of Child Benefit via the HICBC poses an additional barrier for parents, many of whom choose to relinquish their Child Benefit instead, rather than pay the HICBC. Take-up of Child Benefit has decreased since the introduction of the HICBC in 2013. Before the policy was introduced, 96 per cent of eligible children were in families claiming Child Benefit⁸. This had dropped to 91 per cent in 2022. Increasingly, new parents are not finding claiming Child Benefit worthwhile, with take-up being remarkably lower for children aged under one (75%), and one (80%). By August 2022, 683,000 families had simply opted out of receiving Child Benefit⁹. 85% of the claimants who have opted out of receiving payments are female.¹⁰
- While parents can choose not to claim Child Benefit to avoid paying the HICBC, giving it up may result in losing credited contributions towards the state pension. This is because parents who claim Child Benefit are credited with National Insurance Contributions even when they are not earning an independent income. Unless deliberate action is taken to maintain this right, those who choose to relinquish Child Benefit miss out on such credits and the benefits they bring. This disproportionately affects women, as they are much more likely to give up paid work to look after children than their male partner, although steps are being taken to address this.¹¹

CONTEXTUALISING THE HICBC... A LONE PARENT IN LONDON

- The average monthly take home pay on a £50k salary is £3,100, excluding any pension contribution or deductibles other than income tax and National Insurance.¹²
- Median rent in London for a two-bedroom property is £1,650.¹³
- The average monthly cost of a full-time nursery place for a child under two is £1,709 per month in London, and £1,618 in outer London.¹⁴
- In Q4 of 2022, the average monthly energy direct debit per unique user in London was £186.16.¹⁵

The average rent of a two-bed property, childcare fees for one child under two, and average energy bill alone comes to £3,545.16... more than the monthly take home pay of someone on a £50k salary.

⁸ HMRC, (2022), <https://www.gov.uk/government/statistics/child-benefit-statistics-annual-release-august-2022/child-benefit-statistics-annual-release-data-at-august-2022#trends-in-child-benefit-claimants-2012-to-2022>

⁹ Ibid.

¹⁰ Ibid.

¹¹ See the Paternity Leave (Amendment) Regulations 2024, available at <https://www.legislation.gov.uk/ukdsi/2024/9780348256116/contents>.

¹² Reed Tax Calculator, (2023), <https://www.reed.co.uk/tax-calculator/50000>

¹³ ONS, (2023), Private Rental Market Summary Statistics in England, available at <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/privaterentalmarketsummarystatisticsinenland> (Table 1.4). Figures from September 2023.

¹⁴ Coram, (2023), Childcare Survey 2023, available at https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Childcare%20Survey%202023_Coram%20Family%20and%20Childcare.pdf (Table 4, p.13) WBG calculation of weekly figures (x 52, ÷ by 12).

¹⁵ Centre for cities, (2023), Cost of Living Tracker, available at <https://www.centreforcities.org/data/cost-of-living-tracker/>

2. The HICBC contradicts the principle of independent taxation.

- By charging tax on income that may be received by someone else, the principle of independent taxation is compromised. Making one partner's tax liability dependent on the other's income undermines the right to independent taxation, which is an important contribution to gender equality.
- This measure also disregards the impact of financial abuse. For some women, Child Benefit might be the only income they receive in their own right, regardless of whether their partner earns above the threshold. Losing access to CB due to the HICBC not only weakens women's bargaining power but can also have significant implications for children. Evidence shows that labelling payments as being intended for children and paying them to the main carer make it more likely that they will be spent on children¹⁶. In situations of financial abuse, where resources are being withheld from children as well as women, the HICBC may exacerbate this.

THE SOLUTIONS

1. Abolish the HICBC and return to a universal Child Benefit, payable without regard to parents' or carers' incomes.

- Child Benefit should be regarded as a contribution that the community as a whole makes to all children, recognising that raising a child is a social good and ensuring the fundamental right of children to live free from poverty is upheld. All children should have access to Child Benefit, independent of their parents' background. Universal benefits that target all children rather than those on lower incomes are better at reducing and preventing poverty.¹⁷
- Child Benefit should continue to be paid to the mother/main carer by default. The principle of independent taxation should be respected by removing the HICBC and supporting parents' access to an independent income.

2. Increase Child Benefit to £50 per week per child.

- In real terms, the value of Child Benefit has fallen by 20 per cent since 2010. This means that, for a family with one child, Child Benefit is worth £300 less in 2023/2024. For a family with two children, it is worth £500 less¹⁸. These cuts have disproportionately affected women, as 87% of recipients of Child Benefit are women.¹⁹
- We recommend an above inflation increase to counter this. Child Benefit should be given at the same full rate to all children in the family, and should be subject to regular uprating in line with inflation in the same way as other benefits are. Increasing Child Benefit to £50 per week would see 960,000 children lifted out of poverty, at an additional cost of £14.2 billion annually, or 0.5 per cent of GDP²⁰.

¹⁶ Goode, J, Lister, R and Callender, C, (1998), *Purse or wallet? Gender inequalities and income distribution within families on benefits*. London: Policy Studies Institute

¹⁷ Barcena-Martin, E., Blanco-Arana, M.C. & Perez-Moreno, S. (2018) 'Social transfers & child poverty in European countries: pro-poor targeting or pro-child targeting?', *Journal of Social Policy* 47(4): 739-758.

¹⁸ CPAG, (2023), *Money Well Spent*, available at <https://cpag.org.uk/sites/default/files/2023-10/Money%20Well%20Spent.pdf>.

¹⁹ HMRC, (2022), [Child Benefit Statistics: annual release, data at August 2022 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/108421/child_benefit_statistics_annual_release_data_at_august_2022.pdf)

²⁰ WBG calculations using UKMOD B1.09 with 2019 FRS data.

3. Improve the Social Security system.

- Reforms to Child Benefit should be part of a holistic review of social security and taxation, including the way the benefit is funded. The marriage allowance, a transferable tax allowance that allows the lower earning partner to give additional resources to the higher earning partner, undermines the principle of independent taxation, and costs taxpayers around £580 million annually²¹. The marriage allowance should be scrapped, contributing to universal Child Benefit that meets the needs of children and families.

UNIVERSAL CHILD BENEFITS IN OTHER OECD COUNTRIES

FINLAND²²

Finland pays a child benefit to all children aged 0-17 with permanent residency in the country, regardless of their parents' income. The amount of child benefit starts at EUR 94.88 per month for the first child and increases with every additional child, up to EUR 192.69 for the fifth and any subsequent children²³. Single parents receive an additional supplement of EUR 73.30 per child. The payment is considered tax-free income. It was paid to 1 million children in 2017.

GERMANY²⁴

Germany offers a Child Benefit (Kindergeld) of EUR 250 per month to every child until the age of 18, regardless of their parents' income, and extendable until 25 years of age if certain conditions are met. The amount is the same for all children in a household. It was paid to 14.97 million children in 2017. The poverty reduction as a result of the universal Child Benefit in households with children is estimated to be of around 6 percentage points.

AUSTRIA²⁵

All children in Austria are entitled to a Child Benefit and a child tax credit. The Child Benefit is paid until children reach the age of 19, or 24 if certain conditions are met. The amount the child gets depends on the age of the child, with monthly rates starting from EUR 120.6 from birth to EUR 174.7 from age 19. The monthly total amount of child benefit is increased for each child if there are additional children in the household, staggered for each additional child.

UK Women's Budget Group, February 2024

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²¹ House of Commons, (2023), Income Tax Allowance for Married Couples, available at <https://researchbriefings.files.parliament.uk/documents/SN00870/SN00870.pdf>

²² Kela, (2024), Child Benefit, available at <https://www.kela.fi/child-benefit>

²³ These amounts will be increased in April 2024.

²⁴ ODI and UNICEF, (2020), Universal Child Benefits: Policy Issues and Options, available at <https://www.unicef.org/media/72916/file/UCB-ODI-UNICEF-Report-2020.pdf>

²⁵ European Commission, (2024), Austria: Family Benefits, available at <https://ec.europa.eu/social/main.jsp?catId=1101&langId=en&intPageId=4401>