EXPLANATORY MEMORANDUM TO

THE TAX CREDITS UP-RATING REGULATIONS 2009

2009 No.

1. This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

These Regulations increase, from 6th April 2009, various monetary elements and thresholds within the Child and Working Tax Credits, as set out in the Pre-Budget Report on 24th November 2008.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Context

4.1 These Regulations are the annual uprating of various monetary elements and thresholds within the Child and Working Tax Credit.

4.2 Section 41 of the Tax Credits Act 2002 requires the Treasury, in each tax year, to review certain elements of tax credits in order to determine whether the elements have retained their value in relation to the general level of prices as estimated by the Treasury in such manner as it considers appropriate.

4.3 In consequence of that review, which was laid before each House of Parliament on 9th February 2009 and published, the Chancellor in his 2008 Pre Budget Report announced tax credits rates and thresholds for 2009-10. A copy of that review is attached as an Annex to this memorandum. The Treasury have made these Regulations, which amend the rates of certain elements and thresholds within tax credits from 6 April 2009.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Financial Secretary to the Treasury, Stephen Timms, has made the following statement regarding Human Rights:

In my view the provisions of the Tax Credits Up-rating Regulations 2009 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 Tax Credits are part of the Government's commitment to tackle child poverty and make work pay. The consequences of child poverty are far reaching and extend beyond the individual, impacting on families, communities, the taxpayer and the economy. This is why the Government remains committed to eradicating child poverty. Since 1998-99 substantial progress has already been made, with 600,000 children lifted out of relative poverty and absolute poverty halved. Measures announced since Budget 2007 will lift around a further 500,000 children out of relative poverty. To pursue those objectives the regulations increase certain rates and thresholds.

For the Child Tax Credit

- The Child Tax Credit child element increases by £75 above earnings indexation from £2085 to £2235. This brings forward from April 2010 to April 2009 the planned increase of the child element of £25 over earnings.

- The disabled child element and severely disabled elements rise with inflation. Note, the figures in these regulations include the child element which rises with average earnings.

- The income threshold for CTC only rises to £16,040 per year..

For the Working Tax Credit

- The Working Tax Credit elements in the schedule have increased in line with prices or have remained the same.

- ***Consolidation***

7.2 None.

8. Consultation outcome

No formal consultation has taken place.

9. Guidance

HM Treasury has issued a press release setting out the rates of tax credits for tax Credits from 2009-10.

10. Impact

10.1 This instrument has no impact on business, charities or voluntary bodies.

10.2 The estimated cost of the increases to rates and thresholds is £1.77 billion in 2009-10. This is included in the updated public finance projections given in the Pre Budget Report of 2008.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

The instrument does not apply to small business.

12. Monitoring & review

The rates of tax credits will be reviewed in accordance with Section 41 of the Tax Credits Act 2002 which requires the Treasury, in each tax year, to review certain elements of tax credits in order to determine whether the elements have retained their value in relation to the general level of prices.

13. Contact

Simon Manclark at Her Majesty's Revenue and Customs Tel: 020 7147 2506 or email: simon.manclark@hmrc.gsi.gov.uk can answer any queries regarding the instrument.

Report required under section 41 of the Tax Credits Act 2002

Section 41 of the Tax Credits Act 2002, requires a review, each tax year, of certain monetary amounts that are prescribed in regulations, to see whether they have retained their value in relation to prices. A report of that review must be laid before each House of Parliament, stating what each amount would have been, if it had retained its value against prices.

The requirement applies to any monetary amount prescribed under the following provisions:

- The income thresholds at which each tax credit will start to be withdrawn: these are prescribed under section 7(1)(a) of the Act.
- The income threshold at which the family element of the child tax credit will start to be withdrawn: this is prescribed under section 13(2) of the Act.
- Any thresholds relating to changes in income between the current tax year and the previous tax year as prescribed under section 7(3).
- The amounts for the various elements of child tax credit as prescribed under section 9 and for those of working tax credit under section 11 of the Act.

The table attached shows:

(a) the current rate (2008-09 tax year) of each element/threshold;

(b) the proposed rate of each element/threshold for the new tax year (2009-10), as announced in the Pre Budget Report (PBR) in November 2008.

(c) the difference between the current rates and the proposed new rates announced in PBR; and

(d) the amount of each element/threshold if it had been up-rated in line with the rise in the general level of prices.

Report required under Section 41 of the Tax Credits Act 2002

Section 11 Tax Credits Act 2002 **(The Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002)**		**2008-09 RATES (£)**	**2009-10 RATES ANNOUNCED AT PBR (£)**	**CHANGE (£)**	**RATE IF INCREASED WITH PRICES (£)**
Basic Element	Schedule 2	1800	1890	+90	1890
Second Adult Element	Schedule 2	1770	1860	+90	1860
Lone Parent Element	Schedule 2	1770	1860	+90	1860
30 Hour Element	Schedule 2	735	775	+40	775
Disability Element	Schedule 2	2405	2530	+125	2530
Severe Disability Element	Schedule 2	1020	1075	+55	1075
50 + Element (16-29 hours)	Schedule 2	1235	1300	+65	1300
50 + Element (30+hours)	Schedule 2	1840	1935	+95	1935
Section 9 Tax Credits Act 2002 **(The Child Tax Credit Regulations 2002)**					
Family Element (Normal)	Reg 7(3)(b)	545	545	+0	575
Family Element (Baby Addition)	Reg 7(3)(a)	1090	1090	+0	1150
Child element	Reg 7(4)(c)	2085	2235	+150	2190
Disabled Child element	Reg 7(4)(a)	4625	4905	+280	4860
Severely Disabled Child Element	Reg 7(4)(b)	5645	5980	+335	5935
Disabled young person	Reg7(4)(d)	4625	4905	+280	4860
Severely disabled young person	Reg7(4)(e)	5645	5980	+335	5935
Any other qualifying young person	Reg7(4)(f)	2085	2235	+150	2190
Section 7(1)(a) and 13 Tax Credits Act 2002 **(The Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002**					
WTC (First Income Threshold)	Reg 3(2)	6420	6420	+0	6745
CTC (First Income Threshold)	Reg 3(3)	15575	16040	+465	16355
Second Income Threshold	Reg 7 (3)	50000	50000	+0	52500
Income Rise Disregard	Reg (5)	25000	25000	+0	26250