# EXPLANATORY MEMORANDUM TO

# THE TAX CREDITS UP-RATING REGULATIONS 2011

## 2011 No. [XXXX]

**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

2.1 These Regulations change, from 6th April 2011, various monetary elements and thresholds within the Child and Working Tax Credits, as announced in the 22nd June Budget and 20th October 2010 Spending Review and subsequently published by HMT on 2nd December 2010

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

3.1 None

## 4. Legislative Context

4.1 These Regulations are revised on an annual basis and set the various monetary elements within the Child and Working Tax Credit for 2011-2012.

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 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 2011.

## 5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom

## 6. European Convention on Human Rights

The Economic Secretary to the Treasury, Justine Greening, has made the following statement regarding Human Rights:

In my view the provisions of the Tax Credits Up-rating Regulations 2011 are compatible with the European Convention of Human Rights

## 7. Policy background

- **What is being done and why**

7.1 The Government has been clear that it sees reducing the economic deficit as its most urgent task. The Budget and Spending Review made reforms to the tax credits system to tackle the deficit in a fair way to ensure that tax credits are targeted at those who need them most.

7.2 The Government has taken action in the June Budget and this Spending Review to help low-income families. To ensure support is better-targeted at low-income families with children, the Government has recycled some welfare savings into the Child Tax Credit. The child element of the Child Tax Credit will be increased by £180 above indexation in 2011-12 and £110 above indexation in 2012-13. These steps have ensured that there is no measurable impact on child poverty from all modelled Budget and Spending Review changes to 2012-13.

7.3 To pursue those objectives the regulations change certain rates and thresholds.

- to increase the withdrawal rate of Working Tax Credit and CTC from 39% to 41%.
- to increase the CTC withdrawal rate (family element) from 6.67 % to 41%
- to freeze the rate of the Working Tax Credit basic and the 30 hour element.
- The income threshold for CTC only is decreased to £15,860 per year.
- Remove the baby element, currently available to families with a baby aged under one.
- to reduce the threshold by which families are eligible to receive tax credits from incomes of £50,000 to £40,000.
- to reduce the income disregard for in-year rises in income from £25,000 to £10,000.
- Increase the child element of CTC by £180 above indexation
- Working Tax Credit elements in the schedule have increased by 3.1% per cent or have remained the same.
- **Consolidation**

7.4 None

## 8. Consultation outcome

8.1 No formal consultation has taken place

## 9. Guidance

9.1 HM Treasury has issued a press release setting out the rates of tax credits for tax Credits from 2011-12.

## 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 is £2.3b million in 2011-12.

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

## 11. Regulating small business

11.1 The legislation does not apply to small business.

## 12. Monitoring & review

12.1 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

Rachel Varndell at HM Revenue and Customs Tel: 0207 147 3617 or email: rachel.varndell@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 overall level of prices as measured by the change in the Consumer Price Index from September 2009 to September 2010 has increased by 3.1 per cent. Not all of the monetary amounts have retained or increased their value in relation to the general level of the prices in the United Kingdom. The table attached shows:

(a) the current rate (2010-11 tax year) of each element/threshold;

(b) the proposed rate of each element/threshold for the new tax year (2011-12), as announced in the June 2010 Budget and the 22 October 2010 Spending Review;

(c) the difference between the current rates and the proposed new rates announced in the Budget and the Spending Review and published in the “Annual up-rating of certain tax and tax credits rates and thresholds”; and

(d) the amount of each element/threshold if the rate had been changed in line with the change 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)** | **2010-11 RATES (£)** | **2011-12 RATES ANNOUNCED AT PBR (£)** | **CHANGE (£)** | **RATE IF CHANGED IN LINE WITH PRICES (£)** |
|---|---|---|---|---|
| Basic Element Schedule 2 | 1920 | 1920 | 0 | 1980 |
| Second Adult Element Schedule 2 | 1890 | 1950 | +60 | 1950 |
| Lone Parent Element Schedule 2 | 1890 | 1950 | +60 | 1950 |
| 30 Hour Element Schedule 2 | 790 | 790 | 0 | 815 |
| Disability Element Schedule 2 | 2570 | 2650 | +80 | 2650 |
| Severe Disability Element Schedule 2 | 1095 | 1130 | +35 | 1130 |
| 50 + Element (16-29 hours) Schedule 2 | 1320 | 1365 | +45 | 1365 |
| 50 + Element (30+hours) Schedule 2 | 1965 | 2030 | +65 | 2030 |
| **Section 9 Tax Credits Act 2002 (The Child Tax Credit Regulations 2002)** | | | | |
| Family Element (Normal) Reg 7(3)(b) | 545 | 545 | 0 | 565 |
| Family Element (Baby Addition) Reg 7(3)(a) | 1090 | 0 | 0 | *[1] |
| Child element Reg 7(4)(c) | 2300 | 2555 | +255 | 2375 |
| Disabled Child element Reg 7(4)(a) | 5015 | 5355 | +340 | 5175 |
| Severely Disabled Child Element Reg 7(4)(b) | 6110 | 6485 | +375 | 6305 |
| Disabled young person Reg7(4)(d) | 5015 | 5355 | +340 | 5175 |
| Severely disabled young person Reg7(4)(e) | 6110 | 6485 | +375 | 6305 |
| Any other qualifying young person Reg7(4)(f) | 2300 | 2555 | +255 | 2375 |
| **Section 7(1)(a) and 13 Tax Credits Act 2002 (The Tax Credits (Income Thresholds and Determination of Rates)** | | | | |

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| **Regulations 2002)** | | | | |
|---|---|---|---|---|
| WTC (First Income Threshold) | Reg 3(2) | 6420 | 6420 | 0 | 6620 |
| CTC (First Income Threshold) | Reg 3(3) | 16190 | 15860 | -330 | 16210 |
| Second Income Threshold | Reg 7 (3) | 50000 | 40000 | -10000 | 51530 |
| Income Rise Disregard | Reg (5) | 25000 | 10000 | -15000 | 25765 |

1. As announced in the June Budget 2010, the Family Element (Baby Addition) will be removed from April 2011.