EXPLANATORY MEMORANDUM TO

THE TAX CREDITS UP-RATING REGULATIONS 2014

2014 No. (XXXX)

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

2. Purpose of the instrument

These regulations set, from 6th April 2014, various monetary elements and thresholds of the Child Tax Credit (CTC) and the Working Tax Credit (WTC), as announced in the Autumn Statement 2012.

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

None.

4. Legislative Context

4.1 These regulations are made by the Treasury in exercise of the powers conferred upon them by sections 7(1), 7(3), 9, 11, 13, 65 and 67 of the Tax Credits Act 2002 (the Act).

4.2 Section 41of the Act requires the Treasury, in each tax year, to review certain elements of the 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. A copy of that review is attached as an annex to this memorandum.

4.3 Section 7 of the Act allows regulations to be made for the imposition of an income test on claimants for both tax credits. The powers in section 7(1) have been used to increase the Child Tax Credit (CTC) only threshold from £15,910 to £16,010.

4.4 Section 9 of the Act provides for regulations to prescribe the maximum rate at which a person or persons may be entitled to various "elements". This power has been used in this instrument to set certain elements of the Child Tax Credit found in regulation 7(4) of the Child Tax Credit Regulations 2002, namely the disabled and severely disabled elements in respect of a child or qualifying young person. The child and qualifying young person elements of Child Tax Credit are to be increased by 1 percent by means of a separate "no-procedure" instrument pursuant to section 2 of, and paragraph 2(b) to, the Welfare Benefits Up-rating Act 2013 (c. 16) ("the 2013 Act").

4.5 Section 11 of the Act provides for regulations to prescribe the maximum rate at which a person or persons may be entitled to WTC by reference to various "elements". This power has been used in this instrument to set certain elements of WTC found in Schedule 2 of the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002, namely the disability and severe disability elements only. The basic element, the 30 hour element, the second adult and the lone parent element are all to be increased by 1 percent by means of a

separate "no-procedure" instrument pursuant to section 2 of, and paragraph 2(a) to, the 2013 Act.

4.6 Section 66 of the Act provides that an instrument containing regulations, *inter alia*, prescribing certain monetary amounts reviewed under section 41 (whether or not together with other provisions) must be subject to the draft affirmative procedure. This instrument, in addition to increasing certain monetary amounts reviewed under section 41, also contains provisions amending other elements of the tax credits calculation and is therefore made subject to the draft affirmative procedure.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Economic Secretary to the Treasury, Nicky Morgan MP, has made the following statement regarding Human Right:

In my view the provisions of the Tax Credits Up-rating Regulations 2014 are compatible with the Convention Rights.

7. Policy background

- **What is being done and why**

7.1 These regulations change certain rates and thresholds, to increase certain elements of the Working Tax Credit and the Child Tax Credit in line with inflation by 2.7 per cent whilst a separate (no-procedure) instrument will increase certain elements of Working Tax Credit and Child Tax Credit by 1 percent.

8. Consultation outcome

8.1 None.

9. Guidance

Following the Chancellor of the Exchequer's announcement in the Autumn Statement 2012, HM Treasury have published the following, which sets out the revised rates for 2014/15.
https://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2014-15/tax-and-tax-credit-rates-and-thresholds-for-2014-15
Leaflets will be up-dated to reflect the new rates in due course.

10. Impact

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

10.2 There is no impact on the public sector.

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

11. Regulating small business

The legislation does not apply to small business.

12. Monitoring & review

12.1 The rates and thresholds will be reviewed in accordance with Section 41 of the Tax Credit 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 general level of prices.

13. Contact

Trevor Sanders at HM. Revenue and Customs: Tel: 03000 586437 or email: trevor.sanders@hmrc.gsi.gov.uk can answer any queries regarding the instrument on behalf of the Treasury.

HM Treasury

Annual review of certain tax credits monetary amounts under Section 41 Tax Credits Act 2002

Report required under section 41 of the Tax Credits Act 2002. Presented to Parliament, pursuant to Section 41(5) 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 2012 to September 2013 has increased by 2.7 per cent. However, some monetary amounts have been increased by 1 per cent and others have been increased in relation to the general level of prices in the United Kingdom. The table attached shows:

(a) the current rate (2013-14 tax year) of each element/threshold;

(b) the rate of each element/threshold for the new tax year (2014-15), as announced in the Chancellor's autumn statement on 5 December 2012.

(c) the difference between the current rates and the proposed new rates announced in the Autumn Statement, 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)**		**2013-14 RATES (£)**	**2014-15 RATES ANNOUNCED AT Autumn Statement (£)**	**CHANGE (£)**	**RATE IF CHANGED IN LINE WITH PRICES (£)**
Basic Element	Schedule 2	1920	1940	+20	1975
Second Adult Element	Schedule 2	1970	1990	+20	2025
Lone Parent Element	Schedule 2	1970	1990	+20	2025
30 Hour Element	Schedule 2	790	800	+10	815
Disability Element	Schedule 2	2855	2935	+80	2935
Severe Disability Element	Schedule 2	1220	1255	+35	1255
50 + Element (16-29 hours)	Schedule 2	removed		-	-
50 + Element (30+hours)	Schedule 2	removed		-	-
Section 9 Tax Credits Act 2002 The Child Tax Credit Regulations 2002					
Family element	Reg 7(3)	545	545	0	560
Child element	Reg 7(4)(c)	2720	2750	+30	2795
Disabled child element	Reg 7(4)(a)	5735	5850	+115	5895
Severely disabled child element	Reg 7(4)(b)	6955	7105	+150	7150
Disabled young person	Reg 7(4)(d)	5735	5850	+115	5895
Severely disabled young person	Reg 7(4)(e)	6955	7105	+150	7150
qualifying young person	Reg 7(4)(f)	2720	2750	+30	2795
Section 7(1)(a) and 13 Tax Credits Act 2002 The Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002					
First income threshold	Reg 3(2) and 7(3)	6420	6420	0	6595
First Income threshold for those entitled to CTC only	Reg 3(3) and 8(3)	15910	16010	+100	16355
Second income threshold	Reg 8 (3)	withdrawn	withdrawn	-	-
Income rise disregard	Reg 5	5000	5000	-	5135