EXPLANATORY MEMORANDUM TO

THE TAX CREDITS UP-RATING REGULATIONS 2015

2015 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 this instrument

These regulations set, from 6 April 2015, various monetary elements and thresholds of the Child Tax Credit (CTC) and the Working Tax Credit (WTC), as announced in the Autumn Statement 2012.

This Explanatory Memorandum replaces the Explanatory Memorandum laid with the draft Tax Credits Up-rating Regulations 2015 on 15 January 2015. There was a typographical error at paragraph 7 which stated CPI as 1.3% when it should have read as 1.2%.

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

None.

4. Legislative content

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

4.2. Section 41 of 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 provides for 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 CTC only threshold from £16,010 to £16,105.

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" of tax credits. This power has been used in this instrument to prescribe certain elements of Child Tax Credit as set out 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 remaining elements, namely child and qualifying young person of CTC are to be increased by 1 per cent by means of a separate "non-procedure" instrument pursuant to section 2 of, and paragraph 2(b) of Schedule 1 to, the Welfare Benefits Up-rating Act 2013 ("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 set out in Schedule 2 of the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002, namely the disability and severe disability elements only. The remaining elements, namely the basic element, the 30 hour element, the second adult and the lone parent element are all to be increased by 1 per cent by means of a separate "no procedure" instrument pursuant to section 2 of, and paragraph 2(a) of Schedule 1 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 Financial Secretary to the Treasury, David Gauke, has made the following statement regarding Human Rights:

> In my view the provisions of the Tax Credits Up-rating Regulations 2015 are compatible with the Convention Rights.

7. Policy background

- **What is being done and why**

These regulations change certain rates and thresholds, to increase certain elements of the Working Tax Credit and the Child Tax Credit in line with CPI of 1.2 per cent whilst a separate (no-procedure) instrument will increase certain elements of Working Tax Credit and Child Tax Credit by 1 per cent.

8. Consultation outcome

None.

9. Guidance

Following the Chancellor of the Exchequer's announcement in the Autumn Statement 2012 and the Autumn Statement 2014, HM Treasury have published the following, which sets out the revised rates for 2015/16. http://cdn.hm-treasury.gov.uk/as2012_tax_and_tax_credit_rates_and_thresholds_051212.pdf. 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 and business

The legislation does not apply to small business.

12. Monitoring and review

The rates and thresholds 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

Jacqueline Latter at HM Revenue and Customs: Tel 03000 586748 or email: jacqueline.latter@hmrc.gsi.gov.uk can answer any queries regarding the instrument on behalf of the Treasury.

6/2/15