EXPLANATORY MEMORANDUM TO

THE TAX CREDITS UP-RATING REGULATIONS 2010

2010 No. 981

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 2010, various monetary elements and thresholds within the Child and Working Tax Credits, as set out in the Pre-Budget Report on 9 December 2009.

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 and published, the Chancellor in his 2009 Pre Budget Report announced tax credits rates and thresholds for 2010-11. 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 2010.

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 2010 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 500,000 children lifted out of relative poverty and absolute poverty halved. Measures announced since Budget 2007 will lift around a further 550,000 children out of relative poverty.

7.2 The Government has made a commitment that the child element of the child tax credit will increase by at least average earnings in this Parliament. In previous years many of the other rates and thresholds have increased by prices but for the first time in half a century, the Retail Price Index (RPI) decreased which means that all the rates have increased in real terms. To provide additional support to households during the early stages of economic recovery, and having regard to the national economic situation and other relevant matters the Chancellor announced in his Pre-Budget Report that the Government will bring forward a proportion of the increases expected in April 2011 a year earlier, thereby providing a 1.5 per cent increase from April 2010 for those benefits and tax credits normally uprated by RPI. In April 2011, rates will be increased by the remaining amount necessary to make up the difference with the RPI for September 2010, locking in the real increase that arises from the fact that prices fell.

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

For the Child Tax Credit

- The Child Tax Credit child element increases by £20 above earnings indexation from £2235 to £2300.
- The disabled child element and severely disabled elements rise by 1.5 per cent. Note, the figures in these regulations include the child element which rises with average earnings.
- The income threshold for CTC only rises to £16,190 per year.

For the Working Tax Credit

- The Working Tax Credit elements in the schedule have increased by 1.5 per cent or have remained the same.

- ***Consolidation***

7.4 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 2010-11.

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 £ 750 million in 2010-11. This is included in the updated public finance projections given in the Pre Budget Report of 2009.

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 overall level of prices as measured by the change in the Retail Price Index from September 2008 to September 2009 has fallen by 1.4 per cent. All the monetary amounts therefore have retained and increased their value in relation to the general level of prices in the United Kingdom. The table attached shows:

(a) the current rate (2009-10 tax year) of each element/threshold;

(b) the proposed rate of each element/threshold for the new tax year (2010-11), as announced in the Pre Budget Report (PBR) on 9 December 2009.

(c) the difference between the current rates and the proposed new rates announced in PBR; 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)**		**2009-10 RATES (£)**	**2010-11 RATES ANNOUNCED AT PBR (£)**	**CHANGE (£)**	**RATE IF CHANGED IN LINE WITH PRICES (£)**
Basic Element	Schedule 2	1890	1920	+30	1865
Second Adult Element	Schedule 2	1860	1890	+30	1835
Lone Parent Element	Schedule 2	1860	1890	+30	1835
30 Hour Element	Schedule 2	775	790	+15	765
Disability Element	Schedule 2	2530	2570	+40	2495
Severe Disability Element	Schedule 2	1075	1095	+20	1060
50 + Element (16-29 hours)	Schedule 2	1300	1320	+20	1285
50 + Element (30+hours)	Schedule 2	1935	1965	+30	1910
Section 9 Tax Credits Act 2002 **(The Child Tax Credit Regulations 2002)**					
Family Element (Normal)	Reg 7(3)(b)	545	545	+0	540
Family Element (Baby Addition)	Reg 7(3)(a)	1090	1090	+0	1080
Child element	Reg 7(4)(c)	2235	2300	+65	2205
Disabled Child element	Reg 7(4)(a)	4905	5015	+110	4840
Severely Disabled Child Element	Reg 7(4)(b)	5980	6110	+130	5900
Disabled young person	Reg7(4)(d)	4905	5015	+110	4840
Severely disabled young person	Reg7(4)(e)	5980	6110	+130	5900
Any other qualifying young person	Reg7(4)(f)	2235	2300	+65	2205
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	6335
CTC (First Income Threshold)	Reg 3(3)	16040	16190	+150	15825
Second Income Threshold	Reg 7 (3)	50000	50000	+0	49300
Income Rise Disregard	Reg (5)	25000	25000	+0	24650