



# Budget 2012

## Chancellor watered down child benefit plans to end the payment for higher earners

The Institute for Fiscal Studies reckons that the move will affect one in six parents – or a total of 1.2m families – and save the government £1bn a year.

A parent claiming child benefit for two children who earns £42,500 per annum will, under current proposals, lose their child benefit, giving an effective tax rate of 7,052% on the top £25 of income.

### Tapered reductions

Mr Osborne received fierce criticism when he first announced the original plan, in 2010. In a compromise, this “cliff edge” has now been replaced with tapered reductions in child benefit, for those earning between £50,000 and £60,000. Anyone in a household with one earner on more than £60,000 will receive no benefit.

Under changes announced by the Chancellor George Osborne in his Budget speech, households with one person earning more than £50,000 a year will lose some of their child benefit.

Mr Osborne said it was important that “all sections of society must make a contribution to dealing with the deficit” and cautioned that the welfare budget needed to be cut back because social security would consume one-third of public spending if left unchecked.

### Contribute more

Until now, child benefit has been universally paid to families of all backgrounds. But the government says people on “higher

incomes” should “contribute more” in order to reduce the deficit.

### Higher rate band

Instead of removing the benefit as soon as one parent fell into the higher rate band, Mr Osborne said the reduction would be tapered out once one parent earned £50,000 at a rate of 1% for every £100 earned over that threshold. Once one parent earned £60,000, a family would lose the benefit entirely.

Child benefit is currently paid to all households with children at a rate of £20.30 a week, or £1,055.60 a year for the oldest child, and £13.40 a week, or £696.80 a year, for each younger sibling. The benefit usually ends when a child reaches the age of 16.

### Tax system

Those losing some or all of their benefits will have to pay back the amount through the tax system. The Chancellor said 90% of those families affected, or about 750,000 households, would continue to receive child benefit.

The change, which will be implemented from 7 January 2013, will see the benefit taken back as an income tax charge on the higher earner. HMRC will be contacting taxpayers affected by the changes in the autumn.

### GET IN TOUCH

To review the key issues that should be on your agenda following Budget 2012, please email or telephone us – and we'll get in touch.