Child Benefit

a bad case of neglect?

The Coalition Government's austerity policies have been especially bad for families who rely on Child Benefit: it is being cut and it is ceasing to be a universal benefit. By the time of the next election, families with two children will be more than £300 a year worse off because of this policy and those where a parent earns more than £50,000 will lose even more.

This briefing looks at the freeze in Child Benefit in 2011, 2012 and 2013 and the Chancellor's decision to limit uprating after that to 1 per cent a year, regardless of the inflation rate. It looks at the history of Child Benefit uprating and draws some lessons for the future.

What is Child Benefit?

Child Benefit is a payment for children, usually paid every four weeks. It is not means-tested: unlike some benefits, you do not have to show that your income is below a certain level to qualify. It is not "contributory" – you do not need a record of paying sufficient National Insurance Contributions to get it. It is normally paid to the person who is responsible for the child and it is paid until the child reaches 16 (20 if they are in full-time non-advanced education). It is administered by Her Majesty's Revenue and Customs (HMRC)002E

Child Benefit was introduced in 1977; it replaced Family Allowances, which had been paid as a cash benefit, mainly to mothers and child tax allowances, which had reduced tax bills, mainly for fathers.

People support Child Benefit for a number of reasons. It is an investment in the future of our society – including raising the future generations whose efforts will one day provide the pensions for today's workers. It recognises the value of children specifically – who are at risk of being overlooked because they do not have the vote and can rarely speak for themselves. Because it is not means-tested, CB values all children, regardless of their background.

Most importantly, Child Benefit is a contribution towards the cost of raising a child. It is far from being a full contribution: research in September 2012 by the Child Poverty Action Group[1] found that the average cost of a child for a couple was £89 a week for the first child and £81 for the second, *not* including childcare and housing costs. Child Benefit covered 20 per cent of the cost of a child for a couple and 18 per cent for a lone parent.

The fact that CB is paid to a child's main carer (usually the mother) is another important advantage. Eleanor Rathbone, the great campaigner for Family Allowances, called mothers "the Chancellor of the Exchequer of the family"[2] and research that is more recent has confirmed that this is still true: while most parents living on benefits try to protect their children from the effects of poverty, mothers are especially likely to put the family's needs first.[3]

Child Benefit may only be a contribution to the cost of a child, but it is a vitally important contribution and especially so for poorer families. Unlike some other sources of income (such as maintenance or earnings from insecure employment) it is reliable and regular. Unlike means-tested benefits, it does not go up or down as a mother's family status or other sources of income change, so it is a secure basis for *planned* spending on the children.

Because it is universal, Child Benefit does not create as many disincentives to work or saving as means-tested benefits. As a universal benefit, CB has extraordinarily high levels of take-up. The most recent figures for Child Benefit take-up are for 2009-10 when the take-up rates (as a proportion of caseload) for different benefits and tax credits was:[4]

- Working Tax Credit – 59 to 63 per cent;
- Means-tested Jobseeker's Allowance – 60 to 67 per cent;
- Pension Credit – 62 to 68 per cent;
- Council Tax Benefit 62 to 69 per cent;
- Child Tax Credit – 79 to 83 per cent;
- Housing Benefit – 78 to 84 per cent;
- Income Support and Employment and Support Allowance – 77 to 89 per cent;
- **Child Benefit – 95 to 97 per cent.**

Uprating Child Benefit

In the June 2010 Budget, the Chancellor announced benefits (other than pensions) would, in future, be uprated in line with the Consumer Prices Index, instead of the Retail Price Index. (In recent years, RPI inflation has tended to be around 0.7

percentage points higher than CPI inflation on average.)[5] Uprating takes place in April, based on the annual inflation figure for the previous September.

In addition, Child Benefit was to be frozen for three years from April 2011, staying at £20.30 per week for the eldest child and £13.40 per week for other children. The increases that should have taken place in April 2011 and April 2012 therefore did not take place; the next rise is due in April 2014.

In his 2012 Autumn Statement Mr Osborne announced that the government planned to uprate most working age benefits and tax credits, by 1 per cent for three years from April 2013, regardless of the prevailing rate of inflation. Child Benefit will be frozen in April 2013 and then rise by 1 per cent in 2014-15 and 2015-16.

In the table below, we show the effect of these policies.[6] The first row shows the effect of RPI uprating for a first child, the second for CPI uprating, the third for the government's policies; the next three rows repeat this for the additional child rate.

		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
First child	RPI	20.3	21.23	22.42	23.01	23.61	24.34
	CPI	20.3	20.93	22.02	22.5	23.06	23.57
	Freeze + 1%	20.3	20.3	20.3	20.3	20.5	20.71
Additional children	RPI	13.4	14.02	14.8	15.19	15.58	16.06
	CPI	13.4	13.82	14.59	14.97	15.34	15.82
	Freeze + 1%	13.4	13.4	13.4	13.4	13.53	13.67
	RPI (%)		4.6	5.6	2.6	2.6	3.1
	CPI (%)		3.1	5.2	2.2	2.5	2.2
Family with 2 children (comparison with RPI)	Weekly loss		1.55	3.53	4.5	5.16	6.02
	Annual loss		80.6	183.56	234	268.32	313.04
Cumulative loss							1,079.52

Compared with the policies they inherited, the government's uprating policy will cost a family with two children more than £300 a year by 2015-16. A family with two children from April 2011 to April 2016 will be have lost more than £1,000 as a result.

Removal of Child Benefit from higher earners

In addition, from 2013-14 there will be a new income tax charge for taxpayers whose income exceeds £50,000 in a tax year and who get (or whose partner gets) Child Benefit. The charge will be equivalent to 1 per cent of Child Benefit for each £100 over £50,000, which means that it will reach 100 per cent at £60,000, at which point it will be capped.[7] The charge will be collected through PAYE and self-assessment; HMRC estimate that there will be "up to 0.5 million" extra people will have to enter self-assessment as a result.

HMRC estimate that the change will hit 1.2 million families, 70 per cent of whom will lose all their CB. The average loss for affected families will be £1,300 a year. This is, of course, in addition to the losses shown in the table above.

A couple with 2 children has a CB entitlement of £1,752.40 a year. For each £100 increase in income, they will lose £17.52 in CB, raising their marginal income tax rate over the range £50 – 60,000 from 40 per cent to 57.52 per cent in most cases. Some two-earner couples will find that their marginal income tax rate rises from 20 per cent to 37.52 per cent – lower in absolute terms, but proportionately a bigger jump.

Some families may be able to avoid this – those which have the option of contributing more to their pensions and thus reducing their income to below the threshold. A survey by the Prudential in August 2012 found that one family in four affected by the new policy may do this.[8]

The additional child rate

Child Benefit was paid at the same rate for all children for the first ten years of its existence. Then, in 1987, Mrs Thatcher (who was widely thought to believe that Child Benefit should be abolished) froze CB, which remained at the same level for four years. This became politically controversial and in April and October of 1991, the government increased CB by 27.6 per cent[9] - but only for the first child. The new "additional child" rate was introduced and only raised by 3.4 per cent.

The additional child rate remained at 81 per cent of the first child rate until 1999, when the government increased Child Benefit by 25.8 per cent – well in excess of inflation, but again, only for the first child. The additional child rate was only increased by RPI and has remained at two thirds of the first child rate ever since.

References

1 *The Cost of a Child in the 21st Century*, Donald Hirsch, Liz Sutton and Jacqueline Beckhelling, CPAG, 2012, http://www.cpag.org.uk/sites/default/files/CPAG%20Cost%20of%20a%20Child%202012.pdf

2 *The Case for Family Allowances*, Eleanor Rathbone, Penguin, 1940.

3 "How Low-Income Families Use their Money", Fran Bennett, in *Why Money Matters,* Ruth Lister and Jason Strelitz (ed.s), Save the Children, 2008, 114, http://www.savethechildren.org.uk/sites/default/files/docs/Why%20Money%20Matters.pdf

4 *Income Related Benefits: Estimates of Take-up in 2009-10,* DWP, Feb 2012, http://statistics.dwp.gov.uk/asd/income_analysis/feb2012/tkup_full_report_0910.pdf and *Child Benefit, Child Tax Credit and Working Tax Credit Take-up Rates 2009-10,* HMRC, 2011, http://www.hmrc.gov.uk/statistics/fin-takeup-stats/cwtc-take-up.pdf

5 *The long-run difference between RPI and CPI inflation,* Ruth Miller, Office for Budget Responsibility, 2011, passim, http://cdn.budgetresponsibility.independent.gov.uk/Working-paper-No2-The-long-run-difference-between-RPI-and-CPI-inflation.pdf

6 Data is September RPI and CPI from the Office for National Statistics to 2013, annual forecasts from the Office for Budget Responsibility for 2014-5 and 2015-6. In practice, the actual figures would be slightly different because it is normal practice to round increases to 5p, but there is no consistent practice to follow in this exercise.

7 *Child Benefit: Income Tax Charge for Those on Higher Incomes,* HMRC note, http://www.hmrc.gov.uk/budget2012/tiin-0620.pdf

8 See http://www.ftadviser.com/2012/08/24/ifa-industry/tax-planning/avoid-child-benefit-cuts-by-boosting-pension-contributions-WScZUa8pvDiWRgztdgeepK/article.html

9 *The Annual Abstract of Statistics for Benefits, National Insurance Contributions, and Indices of Prices and Earnings, 2011 edition*, DWP, 2012, http://research.dwp.gov.uk/asd/asd1/abstract/abstract2011.pdf