

Treasury Select Committee – Actions

The Scope of the Child Benefit research

The aim of this research was to explore two key aspects arising from the introduction of the HICBC in 2013:

- For those customers who claim Child Benefit and may be liable for the HICBC, this research tested their understanding of the tax charge and their obligation to notify HM Revenue and Customs (HMRC).
- For those who choose not to claim Child Benefit, it tested their reasons for not claiming and their understanding of the wider implications of making this decision.

We expect to publish this research in due course. We have been considering the findings and intend to make changes to our guidance, forms and communications as part of a programme of work planned for 2019.

On a separate matter, in Sir Jonathan Thompson's letter to you of 29 August 2018, he undertook to look in more detail at the risk for households where one parent does not work, due to childcare commitments, while the other parent works and is the Child Benefit claimant. The consequence is that the parent who does not claim Child Benefit may not automatically receive National Insurance (NI) credits for State Pension purposes. While this may not ultimately affect their State Pension entitlement, we recognise the importance of ensuring that people receive the NI credits to which they are entitled, providing protection from potential future changes to their circumstances.

HMRC's administrative data on Child Benefit does not contain information on the identity of both parents, only the Child Benefit claimant. This means it is not possible for us to produce a robust estimate of this population from our data sources. However, to assist the Committee, I asked my analysts to undertake further investigation of additional data sources.

Using the Department for Work and Pensions Family Resources Survey (a detailed annual survey of over 19,000 UK households) analysts have produced an estimate of the number of households in the position described above. The Committee should note that as this estimate is sample-based, it is subject to a high degree of uncertainty. Published National Statistics relating to August 2017 show that the number of UK Child Benefit claimants, including those who have opted out of receiving payments, was around 7.9 million. Our work suggests there may be around 3% of households claiming Child Benefit and not benefitting from NI credits because the Child Benefit is claimed by the higher earner in the household. This only arises where there is a child under 12 and the actual claimant's partner is earning below the lower earnings limit and is not receiving NI credits from another source.

It does not mean that these individuals will miss out on State Pension entitlements. This is because the analysis is a snapshot in time and they may build up sufficient qualifying years over their working life (most individuals under the age of 50 will get a full state pension with 35 qualifying years). It is also possible that some of these individuals will be receiving NI credits if they have been transferred from their partner.

Sir Jonathan Thompson has previously corresponded on the ability to transfer credits. A parent who wants to transfer their NI credits to the other parent can contact HMRC to do this. This is set out in online guidance www.gov.uk/national-insurance-credits/eligibility and we continue to work with the Department for Work and Pensions to raise awareness of these important facilities and to improve the process for claimants.

The guidance on [GOV.UK](https://www.gov.uk) also provides information about how parents can change the person claiming Child Benefit in order to receive the associated National Insurance credits without having to request transfers of NI credits on a regular basis. The Child Benefit guidance notes also emphasise that where in a couple a person is not working and paying National Insurance contributions, they can protect their State Pension by claiming Child Benefit and we are continuously considering ways in which we can strengthen this message and our communications can be improved further.

Clarification of Interest Questions asked by the TSC

Consultation during 2008 and 2009 on the introduction of a new interest rate setting mechanism concluded there should be an interest differential between the two rates applied. This was considered fair and reasonable, and an appropriate reflection of how interest operates in the commercial world, being easily understood by customers and comparable to most tax authorities.

The difference between the two rates has been developed following this consultation and relies on rates at the lower end of the spectrum of commercial rates. The rates used compare favourably with commercial practice over the past 10 years.

A decision was taken not to have a single rate for interest charged and paid as it would make it difficult to set an effective rate. For example:

- Aligning at a low rate would make it less effective in encouraging payment on time and be less fair to those who pay on time. This is particularly the case if the HMRC rate is significantly lower than commercial rates, and may incentivise non-payment as a form of low rate credit.
- Aligning at a high rate would over-compensate those who overpay.
- Setting a rate at some mid-point would be a compromise unlikely to deliver fairness or recompense.

The repayment floor of 0.5% ensures HMRC will pay interest on all repayments where entitled, irrespective of how low the Bank of England rate is set. Setting a repayment rate higher than the Bank of England rate could lead to taxpayers deliberately overpaying their tax to achieve a higher interest rate than is available commercially. The repayment interest rate formula delivers fairness when the bank rate is low, without influencing behaviour in the undesirable way that a higher repayment rate would.