



# How to Protect Your Child Benefit

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## Introduction

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Child benefit is an extremely valuable tax-free gift from the Government to parents. The payments continue for up to 20 years which means you could receive around £21,000 tax free for your first child and around £14,000 tax free for each additional child.

Unfortunately, since 2013 the Government has been taking child benefit away from “high income” earners. It does this by levying a tax called the High Income Child Benefit Charge.

Your family’s child benefit payments will be clawed back if either you or your spouse/partner have income over £50,000. If your income exceeds £60,000 all of your child benefit will be taken away.

The child benefit charge delivers a painful financial blow to many families. For example, if you are a higher-rate taxpayer with two children, you will have to earn over £3,000 before tax to make up for the loss of your child benefit. If you have three children you will have to earn almost £4,300.

This guide explains how the new child benefit charge works and how you can reduce it or avoid it altogether by:

- Shifting income into another tax year
- Shifting tax deductible expenses into another tax year
- Transferring income to your spouse or partner
- Claiming more tax reliefs
- Reshaping income so that it does not fall into the net

Apart from general tax planning ideas that apply to everyone, there are chapters with specific tax planning information for:

- Salary earners
- Landlords and property investors
- Company owners
- Sole traders and partnerships

# **Part 1**

## **The Child Benefit Charge: Everything You Need to Know**

## Chapter 1

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# Child Benefit Basics

Those who qualify for child benefit in 2014/15 receive the following annual payments:

- £1,066 for the first child
- £704.60 for each subsequent child

Depending on the number of children, a family can expect to receive the following total child benefit payment:

<b>Children</b>	<b>Total Child Benefit</b>
1	£1,066
2	£1,771
3	£2,475
4	£3,180

plus £704.60 for each additional child

There is no statutory requirement to increase child benefit each year and indeed it was frozen in the previous three tax years and increased by just 1% in April 2014 and will increase by just 1% in 2015/16.

What makes child benefit so valuable is that it is *tax free*! A higher-rate taxpayer – paying 42% income tax and national insurance – would have to earn the following income to replace the family's child benefit payments:

<b>Children</b>	<b>Equivalent Salary</b>
1	£1,838
2	£3,053
3	£4,267
4	£5,483

In other words, if you are a higher-rate taxpayer with two children and lose your child benefit, you will have to earn an extra £3,053 to make up the shortfall.

## **How Long Do Child Benefit Payments Last?**

Child benefit generally continues to be paid until your children are 16 years old.

The payments will continue until age 20 if the child is enrolled in full-time “non-advanced” education, including:

- GCSEs
- A levels
- Scottish Highers
- NVQ/SVQ level 1, 2 or 3
- BTEC National Diploma, National Certificate and 1st Diploma

So if your child is 16, 17, 18 or 19 and enrolled in one of the above courses, child benefit will continue to be paid.

Once the child is 20 years old all child benefit payments will cease.

The following courses do NOT qualify:

- Degrees
- Diploma of Higher Education
- NVQ level 4 or above
- HNCs or HNDs
- Teacher training

In other words, if your children are 16, 17, 18 or 19 and enrolled in any these courses, you will not receive any child benefit.

## **So How Valuable is Child Benefit?**

Child benefit payments continue for between 16 and 20 years. Based on current year child benefit rates, the total amount you can expect to receive over the total period your child qualifies is:

- £17,056 to £21,320 tax free for the first child
- £11,274 to £14,092 tax free for each additional child

These are very much 'back of the envelope' figures because they ignore the potential danger that child benefit may not be increased in line with inflation in the years ahead.

However, they clearly illustrate how valuable child benefit is over many years and why it is worth protecting where possible.

## **State Pension Entitlement**

The amount of state pension you receive is based on the number of 'qualifying years' you build up while you are working. So if you're not working, or not earning enough, your pension could suffer.

However, if you are entitled to receive child benefit, you could qualify for national insurance credits that will protect your state pension entitlement.

You qualify to receive the credits as long as you have children under 12.

Entitlement to child benefit also protects your entitlement to other benefits, such as Guardian's Allowance, and ensures your child automatically receives a national insurance number before their 16<sup>th</sup> birthday.

## **Who Receives Child Benefit?**

Child benefit is generally paid to parents and normally to the mother of the children.

If you foster a child you may qualify for child benefit if your local authority isn't paying anything towards the child's accommodation or maintenance.

You can keep receiving child benefit even if your child lives with someone else, for example a friend or relative, provided:

- You pay towards the child's upkeep,
- The amount you pay is at least the same as the amount of child benefit you receive, and
- The person bringing up your child is not receiving child benefit in respect of the same child.

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