

**EXPLANATORY MEMORANDUM TO
THE TAX CREDITS UP-RATING REGULATIONS 2008**

2008 No.

- 1.** This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before Parliament by Command of Her Majesty.

2. Description

These Regulations increase, from 6th April 2008, various monetary elements and thresholds within the Child and Working Tax Credits, as set out in the Pre-Budget Report on 9th October 2007.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None.

4. Legislative Background

4.1 These Regulations are the annual uprating of various monetary elements and thresholds within the Child and Working Tax Credit as announced by the Chancellor in the 2007 Pre-Budget Report.

4.2 A draft of these Regulations is laid before Parliament in accordance with the provisions of Section 66(1) and (2) of the Tax Credits Act 2002 for approval by resolution of each House of Parliament. These Regulations are made by the Treasury in exercise of the powers conferred upon them by sections 7, 9, 11, 13 and 65(1) of that Act.

4.3 Section 7(1) of the Tax Credits Act 2002 allows for regulations to be made for the imposition of an income test on claimants for both tax credits. Section 13 of the Act allows for regulations setting out the income thresholds and supplements the powers conferred in section 7 of the Act. These powers have been used to increase the first threshold for Working Tax Credit and the first threshold for Child Tax Credit, found in Regulation 3 Tax Credit (Income Thresholds and Determination of Rates) Regulations 2002. Section 9 of the Act allows for regulations to be made setting out the elements making up the Child Tax Credit. This power has been used to increase elements of the Child Tax Credit found in Regulations 7(3) and (4) Child Tax Credit Regulations 2002. Section 11 of the Act allows for regulations setting out the elements for the Working Tax Credit. This power has been used to increase elements of the Working Tax Credit, found in Schedule 2 Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002.

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, Jane Kennedy, has made the following statement regarding Human Rights:

In my view the provisions of the Tax Credits Up-rating Regulations 2008 are compatible with the Convention rights.

7. Policy background

Section 41 of the Tax Credits Act 2002 (attached to this Memorandum) requires the Treasury, in each tax year, in consequence of that review, which was laid before each House of Parliament on 6th February 2008 and published, the Chancellor in his 2007 Pre Budget Report announced tax credits rates and thresholds for 2008-09. The Treasury have made these Regulations, which amend the rates of certain elements and thresholds within tax credits from 6 April 2008 as follows:

For the Child Tax Credit

- The Child Tax Credit child element increases by £175 above earnings indexation from £1845 to £2085.
- The disabled child element and severely disabled elements have increased in line with the general level of prices. Note, the figures in these regulations include the child element which increases £175 above average earnings (above). For example, the disabled child element in Regulation 7(4)(a) of the Child Tax Credit Regulations 2002 of £4625 is the total of the £2085 (child element) and the £2540 (disabled element).
- The income threshold for CTC only rises by £1080 from £14,495 to £15,575 per year. It is set to ensure that someone not in work gets the same amount of CTC as someone who is in work with entitlement to WTC in the most basic case.
- The first withdrawal rate (per cent) increases from 37% to 39%.

For the Working Tax Credit

- The first income threshold rises by £1200 from £5220 to £6420 per year.
- The first withdrawal rate (per cent) increases from 37% to 39%.
- The Working Tax Credit elements in Schedule 2 Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002 have increased in line with the general level of prices or have remained the same.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

8.2 The estimated cost of the increases to rates and thresholds, which was included in the PBR 2007 forecast, is £2.64bn.

9. Contact

Shell Makwana at HM Revenue and Customs (Tel: 020 7147 3608 or e-mail: shell.makwana@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.