

**EXPLANATORY MEMORANDUM TO**  
**THE TAX CREDITS UP-RATING, ETC. REGULATIONS 2013**

**2013 No. [XXXX]**

1. This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs on behalf of Her Majesty's Treasury and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. **Purpose of the instrument**

- 2.1 These regulations set, from 6<sup>th</sup> April 2013, various monetary elements and thresholds of the Child Tax Credit (CTC) and the Working Tax Credit (WTC), as announced in the Emergency Budget of 22<sup>nd</sup> June 2010, the Spending Review 2010 and the Autumn Statement 2012.

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

- 3.1 None.

4. **Legislative Context**

- 4.1 These regulations are made by the Treasury in exercise of the powers conferred upon them by sections 7(1), 7(3), 9, 11, 13, 65 and 67 of the Tax Credits Act 2002 (the Act).

- 4.2 Section 41 of the Act requires the Treasury, in each tax year, to review certain elements of the tax credits in order to determine whether the elements have retained their value in relation to the general level of prices as estimated by the Treasury in such manner as it considers appropriate. A copy of that review is attached as an annex to this memorandum.

- 4.3 Section 7 of the Act allows regulations to be made for the imposition of an income test on claimants for both tax credits. The powers conferred in section 7(3)(a) and (b) have been used in this instrument to reduce the income increase disregard from £10,000 to £5,000. Powers in section 7(1) have been used to increase the Child Tax Credit (CTC) only threshold from £15,860 to £15,910.

- 4.4 Section 9 of the Act provides for regulations to prescribe the maximum rate at which a person or persons may be entitled to various "elements". This power has been used in this instrument to set certain elements of the Child Tax Credit found in regulation 7(4) of the Child Tax Credit Regulations 2002.

- 4.5 Section 11 of the Act provides for regulations to prescribe the maximum rate at which a person or persons may be entitled to WTC by reference to various "elements". This power has been used in this instrument to set certain elements of WTC found in Schedule 2 of the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002.

4.6 Section 66 of the Act provides that an instrument containing regulations, *inter alia*, prescribing certain monetary amounts reviewed under section 41 (whether or not together with other provisions) must be subject to the draft affirmative procedure. This instrument, in addition to increasing certain monetary amounts reviewed under section 41, also contains provisions amending other elements of the tax credits calculation and is therefore subject to the draft affirmative procedure.

## **5. Territorial Extent and Application**

5.1 This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

The Economic Secretary to the Treasury, Sajid Javid MP has made the following statement regarding Human Rights:

In my view the provisions of the Tax Credits Up-rating, etc. Regulations 2013 are compatible with the European Convention on Human Rights.

## **7. Policy background**

- *What is being done and why*

7.1 Reducing the budget deficit continues to be the Government's most urgent task. Changes announced in the Emergency Budget of 22<sup>nd</sup> June 2010, the Spending Review 2010 and the Autumn Statement of 5<sup>th</sup> December 2012 made further reforms to the tax credits system to continue to tackle the deficit in a fair way to ensure that tax credits are targeted at those who need them most.

7.2 To pursue those objectives the regulations change certain rates and thresholds, to:

- Increase certain elements of the Working Tax Credit and the Child Tax Credit in line with inflation by 2.2 per cent;
- Increase certain elements of Working Tax Credit and Child Tax Credit by 1 percent; and
- Freeze certain elements Working Tax Credit and Child Tax Credit.

## **8. Consultation outcome**

8.1 None.

## **9. Guidance**

9.1 Following the Chancellor of the Exchequer's announcement in the Autumn Statement 2012, HM Treasury have published the following, which sets out the revised rates for 2013/14.

<http://cdn.hm->

[treasury.gov.uk/as2012\\_tax\\_and\\_tax\\_credit\\_rates\\_and\\_thresholds\\_051212.pdf](http://cdn.hm-treasury.gov.uk/as2012_tax_and_tax_credit_rates_and_thresholds_051212.pdf) Leaflets will be up-dated to reflect the new rates in due course.

## **10. Impact**

10.1 This instrument has no impact on business, charities or voluntary bodies.

10.2 There is no impact on the public sector.

10.3 An Impact Assessment has not been prepared for this instrument.

## **11. Regulating small business**

11.1 The legislation does not apply to small business.

## **12. Monitoring & review**

12.1 The rates and thresholds will be reviewed in accordance with Section 41 of the Tax Credit Act 2002 which requires the Treasury, in each tax year, to review certain elements of tax credits in order to determine whether the elements have retained their value in relation to general level of prices.

## **13. Contact**

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**Report required under section 41 of the Tax Credits Act 2002. Laid before Parliament by the Treasury, pursuant to Section 41(5) of the Tax Credits Act 2002**

Section 41 of the Tax Credits Act 2002, requires a review, each tax year, of certain monetary amounts that are prescribed in regulations, to see whether they have retained their value in relation to prices. A report of that review must be laid before each House of Parliament, stating what each amount would have been, if it had retained its value against prices.

The requirement applies to any monetary amount prescribed under the following provisions:

- The income thresholds at which each tax credit will start to be withdrawn: these are prescribed under section 7(1)(a) of the Act.
- The income threshold at which the family element of the child tax credit will start to be withdrawn: this is prescribed under section 13(2) of the Act.
- Any thresholds relating to changes in income between the current tax year and the previous tax year as prescribed under section 7(3).
- The amounts for the various elements of child tax credit as prescribed under section 9 and for those of working tax credit under section 11 of the Act.

The overall level of prices as measured by the change in the Consumer Price Index from September 2011 to September 2012 has increased by 2.2 per cent. However, some monetary amounts have been frozen, some have been increased by 1 per cent and others have been increased in relation to the general level of prices in the United Kingdom. The table attached shows:

- (a) the current rate (2012-13 tax year) of each element/threshold;
- (b) the rate of each element/threshold for the new tax year (2013-14), as announced in the Chancellor's autumn statement on 5 December 2012.
- (c) the difference between the current rates and the proposed new rates announced in the Autumn Statement, and
- (d) the amount of each element/threshold if the rate had been changed in line with the change in the general level of prices.

**Report required under Section 41 of the Tax Credits Act 2002**

<b>Section 11 Tax Credits Act 2002 The Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002)</b>		<b>2012-13 RATES (£)</b>	<b>2013-14 RATES ANNOUNCE D AT Autumn Statement (£)</b>	<b>CHANGE (£)</b>	<b>RATE IF CHANGED IN LINE WITH PRICES (£)</b>
Basic Element	Schedule 2	1920	1920	0	1965
Second Adult Element	Schedule 2	1950	1970	+20	1995
Lone Parent Element	Schedule 2	1950	1970	+20	1995
30 Hour Element	Schedule 2	790	790	0	810
Disability Element	Schedule 2	2790	2855	+65	2855
Severe Disability Element	Schedule 2	1190	1220	+30	1220
50 + Element (16-29 hours)	Schedule 2	removed		-	-
50 + Element (30+hours)	Schedule 2	removed		-	-
<b>Section 9 Tax Credits Act 2002 The Child Tax Credit Regulations 2002</b>					
Family element	Reg 7(3)	545	545	0	560
Child element	Reg 7(4)(c)	2690	2720	+30	2750
Disabled child element	Reg 7(4)(a)	5640	5735	+95	5765
Severely disabled child element	Reg 7(4)(b)	6830	6955	+125	6985
Disabled young person	Reg 7(4)(d)	5640	5735	+95	5765
Severely disabled young person	Reg 7(4)(e)	6830	6955	+125	6985
qualifying young person	Reg 7(4)(f)	2690	2720	+30	2750
<b>Section 7(1)(a) and 13 Tax Credits Act 2002 The Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002</b>					
First income threshold	Reg 3(2) and 7(3)	6420	6420	0	6565
First Income threshold for those entitled to CTC only	Reg 3(3) and 8(3)	15860	15910	+50	16225
Second income threshold	Reg 8 (3)	withdrawn	withdrawn	-	-
Income rise disregard	Reg 5	10000	5000	-5000	10220