

**EXPLANATORY MEMORANDUM TO
THE TAX CREDITS (INCOME THRESHOLDS AND DETERMINATION OF
RATES) (AMENDMENT) REGULATIONS 2015**

2015 No. []

- 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 both Houses of Parliament by Command of Her Majesty.
- 2. Purpose of this Instrument**
 - 2.1.** The purpose of this instrument is to set, from 6 April 2016, the income thresholds of Working Tax Credit ("WTC") and Child Tax Credit ("CTC"), the amount of income that is disregarded where income for the current year exceeds the income from the previous year ("income rise disregard") and the taper rate at which tax credits are withdrawn where an individual's income exceeds the income threshold, as announced in the Summer Budget 2015.
- 3. Matters of special interest to the Joint Committee on Statutory Instruments**
 - 3.1.** The change to the taper rate (effected by regulation 4(b) and 5(b)) is subject to annulment in pursuance of a resolution of either House of Parliament by virtue of section 66(3) of the Tax Credits Act 2002. However, because the taper rate is so closely related to the income thresholds and income rise disregard, the taper rate has been included in the draft affirmative procedure. This has been done in previous statutory instruments such as S.I. 2011/1035.
- 4. Legislative content**
 - 4.1.** These regulations are made by the Treasury in exercise of the powers conferred upon them by sections 7(1) and (3), 13(2), 65(1) and 67 of the Tax Credits Act 2002 ("the Act").
 - 4.2.** Section 7(1) of the Act provides that entitlement to tax credits is dependent on the individual's income not exceeding a set amount ("the income threshold") which is to be prescribed by regulations, or that the income only exceeds that income threshold as prescribed by regulations. Section 7(3) of the Act provides for an amount of increase in income that is disregarded when calculating an individual's income for the purposes of entitlement (the income rise disregard) and the amount of income to be disregarded is to be prescribed by regulations.

- 4.3.** Section 13(1) of the Act provides that individuals whose income does not exceed the income threshold are entitled to the maximum rate of tax credits for which they are eligible according to their circumstances. Section 13(2) of the Act provides that where an individual's income does exceed the income threshold, regulations shall determine the manner in which the rate (if any) at which that person is entitled to tax credits is calculated.
- 4.4.** The Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002 (S.I. 2002/2008) ("the ITDR Regulations") amongst other things, prescribes the manner in which amounts are to be determined for the purposes of section 7 and 13 of the Act. Regulation 3(2) provides for the income threshold for the purposes of determining entitlement to WTC and regulation 3(3) provides for the income threshold for the purposes of determining entitlement to CTC.
- 4.5.** Regulation 5 of the ITDR Regulations provides the amounts prescribed for the purposes of the income rise disregard.
- 4.6.** Regulation 7 of the ITDR Regulations provides the manner of determining the rate of WTC. Regulation 7(3) sets out the calculation used to calculate the rate of entitlement to WTC. Step 4 of regulation 7(3) sets out the calculation for the income threshold for the relevant period, and step 5 sets out the calculation of the reduction in cases where income, for the relevant period, exceeds the threshold (i.e. the taper rate).
- 4.7.** Regulation 8 provides the manner of determining the rate of CTC. Regulation 8(3) sets out the calculation used to calculate the rate of entitlement to CTC. Step 4 of regulation 8 sets out the calculation for the income threshold for the relevant period, and step 5 sets out the calculation of the reduction in cases where income, for the relevant period, exceeds the threshold (i.e. the taper rate).

5. Territorial Extent and Application

- 5.1.** This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

- 6.1.** The Financial Secretary to the Treasury, David Gauke, has made the following statement regarding Human Rights:

In my view the provisions of the Tax Credits (Income Thresholds and Determination of Rates) (Amendment) Regulations 2015 are compatible with the Convention Rights.

7. Policy background

- 7.1.** These changes to tax credits were set out in the Summer Budget as part of a wider package of reform designed to move from a high tax, low wage, high welfare society to a lower tax, higher wage and lower welfare society. As part of this the government announced that it will increase the income tax personal allowance from £10,600 in 2015-16 to £11,000 in 2016-17; to £11,200 in 2017-18; and has committed to increasing it to £12,500 by the end of this Parliament. Additionally, for workers aged 25 and over, a new National Living Wage will be set at £7.20 per hour from April 2016. The Government's ambition is for the National Living Wage to reach over £9 by 2020.
- 7.2.** These regulations change certain income thresholds, the income rise disregard and taper rate of tax credits that the Chancellor of the Exchequer announced in the Summer Budget on 8 July 2015 and are part of the package of welfare reforms that were part of the Government's election manifesto.
- 7.3.** The income threshold for WTC has been reduced to £3,850 and the income threshold for CTC has been reduced to £12,125. The level at which the CTC income threshold is set moves in line with other elements of the tax credit system.
- 7.4.** The income rise disregard has been reduced to £2,500 taking it back to the level it was set at in 2003. Additionally, the taper rate has been increased to 48%. This means that once a household's earnings reach the new income threshold of £3,850 their tax credit award will be gradually removed at a slightly faster rate than before, 48p for each pound of income above the threshold.
- 7.5.** The Government has sent an Impact Assessment of this amendment, including some distributional analysis, to the Secondary Legislation Scrutiny Committee who have published this on their website.

8. Consultation outcome

- 8.1.** None.

9. Guidance

- 9.1.** The provisions of these amending Regulations will be reflected in the Tax Credits Technical Manual and related guidance and leaflets for HMRC staff and tax credit claimants.

10. Impact

- 10.1.** The impact on business, charities or voluntary bodies is nil.
- 10.2.** There is no impact on the public sector.

10.3. An impact assessment has been prepared for this instrument, and has been published by the Secondary Legislation Scrutiny Committee on their website. <http://www.parliament.uk/documents/lords-committees/Secondary-Legislation-Scrutiny-Committee/DraftTaxCreditsRegs2015-ImpactAssessment.pdf>

11. Regulating small business

11.1. The legislation does not apply to small business.

12. Monitoring and review

12.1. The rates and thresholds take effect from 6 April 2016, they will be reviewed in accordance with Section 41 of the Tax Credits Act 2002.

13. Contact

Jacqueline Latter at HM Revenue and Customs: Tel 03000 586748 or email: jacqueline.latter@hmrc.gsi.gov.uk can answer any queries regarding the instrument on behalf of the Treasury.