Tax trap 2 – High income child benefit tax charge

What is the maximum rate of income tax in the UK? – 45%? – wrong!

If you or your partner is in receipt of Child Benefit, and your 'adjusted net income' is within a certain band, you could be paying a much higher effective rate of tax on any income earned within that band..

If you are caught in this trap, and have 3 children for whom you are receiving Child Benefit, your effective rate of tax will be 65% on any income earned within the band

If you are caught in this trap, and have 12 children for whom you are receiving Child Benefit (unlikely I know), your effective rate of tax will be close to 100% on any income earned within the band! Yes, 100%.

The Child Benefit tax charge affects those taxpayers whose 'adjusted net income' is between £50,000 and £60,000. 'Adjusted net income' is defined as taxable income less certain reliefs such as pension contributions and gift-aided donations.

What can you do about it:

1. If your income fluctuates, try to even it out. Rather than have income of £60,000 in year 1 and £40,000 in year 2, it would be much more preferable to have income of £50,000 in both years.

2. Reduce your income. Is it worth working for, say, 35p in the pound? (The effective tax rate depends on the number of children)

3. Gift aid – Making payments to UK charities decreases your adjusted net income. Let's say that you have 3 children for whom you are receiving Child Benefit, and your adjusted net income is between £50,000 and £60,000. As stated above, your effective rate of tax will be 65%. For every £80 which you pay to charity, the charity will receive an extra £20 and you will receive a tax rebate of £45. Not bad.

I got so annoyed with the measure that I wrote to the Treasury. You can click to download my letter at the end of this article. Surprisingly it didn't do any good.

 Letter-to-Treasury-re-Child-Benefit-tax-chargeDownload

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