

OTS Evaluation note:

Update on OTS work on the High
Income Child Benefit Charge and its
wider implications

March 2022

Contents

Executive summary	3
Chapter 1 HICBC and its wider implications	7

Executive summary

Introduction

The Office of Tax Simplification (OTS) is the independent adviser to government on simplifying the UK tax system. The work of the OTS is rooted in improving the experience of all who interact with tax. The OTS aims to improve the administrative process – which people encounter in practice – as well as simplifying the rules. These are often of equal importance to taxpayers and HMRC.

A regular part of the OTS's work is to take stock of how its recommendations have been received and responded to, by producing evaluation and update notes to inform stakeholders about progress made and to flag up specific recommendations for refreshed consideration, most recently in relation to the OTS's report on HMRC Guidance.¹ The OTS is grateful for discussions with a range of stakeholders including HMRC and HMT in carrying out this work.

The OTS has recently published an update note² on two of its previous reviews: Simplifying everyday tax for smaller businesses and the Life events review: simplifying tax for individuals. This note about the High Income Child Benefit Charge is one of four separate update notes dealing with specific areas: the others deal with the Single Customer Account, Agents and PAYE issues.

Summary

HMRC have made limited progress on the recommendations relating to the Child Benefit and High Income Child Benefit Charge (HICBC) that were made in the OTS Life Events review.

The HICBC raises over £1 billion³ each year but is a hard tax charge to administer. This is because it is hard for many of the families affected to know about the charge and complying with it may involve new tax compliance obligations.

Over the years, HMRC have sought to address this through a mixture of information and enforcement activity. They are currently enforcing the charge through data matching techniques, which is proving successful in collecting tax. HMRC are writing to some people to whom it is possible the charge could apply to draw their

1 <https://www.gov.uk/government/publications/ots-guidance-review-update-paper>

2 <https://www.gov.uk/government/publications/ots-everyday-tax-evaluation-paper>

3 Payment of the HICBC raised around £400m in 2019-20, in addition over 600,000 individuals in 2019-20 opted out of receiving child benefit payments worth around £1000 for the eldest child in a family and around £700 for subsequent children per year.

attention to it – about 94,000 in 2020-21.⁴ Writing in advance would be helpful but writing or enforcing the charge after the tax year does not deal with the lack of awareness and will leave those families with a significant and unexpected tax liability. It is striking that there were 125,594 compliance checks opened in the 2019-20 tax year, compared to about 373,000 people paying the charge.

The government's policy in relation to the HICBC has been not to increase the threshold at which it applies. This has had the effect that – according to the Institute for Fiscal Studies⁵ – it will by now be affecting more than one in five of the families eligible for the benefit.

HMRC no longer send an annual child benefit statement to recipients, so do not have that opportunity each year to remind people of the charge. Neither have HMRC fully used the available digital means available: in particular they do not mention the HICBC in the personal tax account, although there is a child benefit 'tile' which makes other points about the benefit.

HMRC require those liable to the HICBC to file a Self Assessment tax return, rather than offering a simplified reporting method to any of those affected by the charge. It is unclear why the more complicated Self Assessment route needs to be adopted in simple cases where individuals do not otherwise need to file a tax return. It was estimated when the charge was introduced that about 500,000 extra people would need to file a return due to the HICBC⁶. It would be helpful if HMRC were to consider a simpler method of obtaining this information in straightforward cases.

The claim process for child benefit involves two other registration elements. These are registering a child so a national insurance number is generated at age 16, and allowing the parent to receive national insurance credits where the parent is not working. Parents often receive a claim form with a pack of baby care products supplied by the pregnancy and parenting organisation, Bounty. The form is also available on the gov.uk website.

Given the success of the 'tell us once' service to report a death, it would be worth considering whether the Registrar of Births would be the best place to start the necessary registrations and inform parents of the ability to make a claim for child benefit. Over the years, HMRC have improved the language on the claim form but it remains complicated and still uses the language of a claim rather than registration and claim.

The majority of people potentially liable to the HICBC opt out of receiving child benefit payments, which means that the tax charge does not apply, and they have no filing obligations. In 2019-20 over 600,000 people out of the 1.1 million affected opted out.

The OTS suggest that HMRC and the government should consider reviewing:

⁴ <https://www.gov.uk/government/publications/high-income-child-benefit-charge-data/high-income-child-benefit-charge>

⁵ <https://ifs.org.uk/publications/13791>

⁶

<https://webarchive.nationalarchives.gov.uk/ukgwa/20140206181121/http://www.hmrc.gov.uk/budget2012/tiin-0620.htm>

- the language used on the form and guidance, which is confusing, as one is required to make a 'claim' to child benefit even when opting out of receiving the payments
- the need to claim child benefit (even if one opts out of receiving it) in order that the child can automatically receive their National Insurance number at 16
- allowing those who didn't claim child benefit to receive national insurance credits to which they would have been eligible if they had claimed
- how HMRC can improve awareness of the charge; this should include considering adding HICBC adverts to the personal tax account
- improving the guidance available to help people understand their responsibilities in relation to reporting and paying the HICBC

For the future, it would be helpful if child benefit and the HICBC could be included in the Single Customer Account.

What are child benefit and the high income child benefit charge (HICBC)?

- Those who have children under the age of 16 (or 20 if they are in education or training) can claim child benefit.
- The most recent statistics show that on 31 August 2020 there were 7.21 million families in receipt of child benefit, and 12.52 million children within these families for which child benefit is received.
- To claim, a child benefit form must be completed. This form is available from a variety of other sources, including in a 'birth pack' of vouchers, baby care samples and health advice provided to new parents by pregnancy and parenting organisation Bounty. It is also available on GOV.UK.
- Claiming the benefit in this way also enables the claimant to receive national insurance credits towards their state pension entitlement if they are not employed, and for the child to receive their national insurance number automatically as they turn 16.
- Since 2013, the high income child benefit charge (HICBC) has applied where an individual or their partner receives child benefit, and either of them has an adjusted net income⁷ of more than £50,000. In the 2019-20 tax year 373,000 people had a liability to pay the charge.
- The HICBC is equivalent to the amount of child benefit received for those with an income over £60,000, and a tapered proportion of it for those with an income between £50,000 and £60,000.

⁷ See paragraph 1.49 onwards for details of 'adjusted net income'

- Those who may be liable to the HICBC can opt out of receiving child benefit payments so that no HICBC is payable. At August 2020, 624,000 people had opted out of receiving the payment.
- For those with income over £60,000 opting out of receiving payments is the simplest as the charge is equal to the child benefit received. Those with income between £50,000 and £60,000 may choose to continue to receive the child benefit payments, and pay the HICBC, as this is only a tapered proportion of the benefit.
- To pay the HICBC, a person must register for and submit a self assessment income tax return for each year they are liable.

Statistics from: <https://www.gov.uk/government/statistics/child-benefit-statistics-annual-release-august-2020/child-benefit-statistics-annual-release-august-2020-main-commentary>

or <https://www.gov.uk/government/publications/high-income-child-benefit-charge-data/high-income-child-benefit-charge>

Chapter 1

HICBC and its wider implications

The Life Events Review

- 1.1 The OTS's Taxation and Life Events: simplifying tax for individuals' review was published in December 2019. The report focussed on a range of complexities that affect people's experience of the tax system at key points in their lives.
- 1.2 In particular the review looked at experiences relating to claiming Child Benefit and paying the High Income Child Benefit Charge. The related recommendations were:
 - *Recommendation 1* The government should review the administrative arrangements linked to the operation of Child Benefit, making clear the consequences of not claiming the benefit, with a view to ensuring that people cannot lose out on national insurance entitlements.
 - *Recommendation 2* The government should consider the potential for enabling national insurance credits to be restored to those people who have lost out through not claiming Child Benefit.
 - *Recommendation 3* The government should consider how to ease the process of enabling children of those who have not claimed Child Benefit to receive their National Insurance number.

HMRC progress and recent developments

- 1.3 There have been some changes to the child benefit and HICBC processes since the OTS report, but progress has been limited.
- 1.4 One change has been to improve the child benefit form, the latest version of which was released in April 2021.¹ A version that can be completed on the computer is also now available, however this still needs to be printed and posted to HMRC.
- 1.5 HMRC have been keen to ensure it is clear that the form should be completed, even where the parents may wish to opt out of actually receiving child benefit payments.
- 1.6 A number of changes have been made to the form to help achieve this. The most recent version now has a banner at the top of the form that states 'Fill

¹ <https://www.gov.uk/government/publications/child-benefit-claim-form-ch2>

in this form if you or your partner are responsible for a child, even if you decide not to get child benefit payments’.

- 1.7 The front page of the form also explains the HICBC and the benefits of submitting the form for those who decide to opt out of receiving the benefit. This helpful change was made in response to research done to establish how the form could improve understanding. The 2019 research report² explored customers’ views of the redesigned first page of the child benefit form, aimed at better communicating information on the HICBC and the non-monetary benefits of making a claim.
- 1.8 In 2019 HMRC also published a research report³ exploring child benefit claimants’ understanding of the HICBC, benefits of claiming and reasons why some people don’t make a claim.
- 1.9 The OTS understands that HMRC are currently in the process of conducting further research to better understand peoples’ attitudes to the HICBC and to help HMRC understand how they can better support customers to understand and meet their liabilities. This will be published in due course.
- 1.10 There has been a recent tribunal case⁴ that focuses on HMRCs compliance powers relating to the HICBC. No self-assessment return had been submitted and so HMRC had attempted to collect the HICBC charge due by issuing discovery assessments under s29(1)(a) TMA 1970 which allows assessments to be issued within specific time limits where any income which ought to have been assessed to income tax has not been assessed. The Tribunal held that although the HICBC was due in this case, the HICBC was not income for the purposes of this legislation and so the charge could not be collected using discovery assessments. HMRC is appealing this decision.
- 1.11 It was announced at the Budget in October 2021 that the government will legislate to put beyond doubt that HMRC may use discovery assessments (including retrospectively) to recover tax charges including the HICBC.⁵

Key Issues

- 1.12 There are a number of key issues that the OTS has identified as adding to the complexity around Child Benefit and the HICBC. These are outlined in this section.

2 <https://www.gov.uk/government/publications/customer-research-into-the-child-benefit-claim-form>

3 <https://www.gov.uk/government/publications/high-income-child-benefit-charge-awareness-understanding-and-decision-making-processes>

4 HMRC v J Wilkes [2021] UKUT 150 (TCC)

https://assets.publishing.service.gov.uk/media/60dc5a51e90e07717b84dc52/Jason_Wilkes_decision.pdf

5 <https://www.gov.uk/government/publications/discovery-assessments/discovery-assessments#detailed-proposal>

Language of making a 'claim'

- 1.13 The guidance on completing the child benefit form and the benefits this will bring refers to making a 'claim' for child benefit.⁶ This is the case even where the person completing the claim form then opts out of receiving payments.
- 1.14 The OTS recognises that legally it is necessary for a claim to be made to be entitled to receive child benefit payments and NI credits, however it considers that the use of this term is confusing, as the natural and intuitive way to understand it is that a person completing the form is making a claim in order to receive child benefit payments.
- 1.15 The OTS appreciates that the majority of those completing the form do so in order to receive child benefit payments. However, those who would then be subject to the HICBC may not wish to receive child benefit payments and then have to submit a self-assessment return to pay the HICBC charge. The current process allows for this by requiring the person to make the claim, and then check a box on the form to opt out of receiving the payments.
- 1.16 As previously highlighted, at August 2020 there were 7.21 million families in receipt of child benefit, and 624,000 that had opted out. Completing and submitting the form paves the way for their child to automatically receive their National Insurance Number at the age of 16 and enables a non-working parent to receive National Insurance credits, and so is clearly beneficial. However, the OTS suggests that the current language may be confusing for people and put them off completing the form where they do not wish to receive the payments.
- 1.17 The OTS considers that it would be clearer and more intuitive if the language used on the form and guidance for this process was different, without any changes to the underlying legal need to 'make a claim'. The language could instead, for example, refer to 'registering' the child with HMRC or simply 'completing or filling in the form', with the form enabling them to claim to receive child benefit payments if desired. The form already uses the language of 'filling in the form' throughout the first page, which is helpful, however the related guidance still only refers to 'claim for child benefit'.⁷

Automatic receipt of NI numbers

- 1.18 As previously outlined, one of the benefits of parents submitting a child benefit claim form is that this paves the way for the child to automatically receive a National Insurance number at around 16 years old.
- 1.19 One of the recommendations made in the Life Events report was 'The government should consider how to ease the process of enabling children of those who have not claimed Child Benefit to receive their National Insurance number'.
- 1.20 The current process for those children who do not automatically receive their National Insurance number is that they must apply for one. The first cohort

⁶ <https://www.gov.uk/child-benefit>

⁷ <https://www.gov.uk/government/publications/child-benefit-claim-form-ch2>

of young people where parents may not have claimed Child Benefit after the HICBC was introduced will reach the age of 16 in 2029.

- 1.21 While HMRC notifies individuals of their National Insurance number, DWP are responsible for establishing the identity of an individual when they apply for one. DWP have recently introduced a new digital service for applying for a National Insurance number,⁸ which will remove the need for a face to face appointment to prove their identity in circumstance where the individual has certain identity documents (such as a passport).
- 1.22 This is an improvement to the system, however it would clearly be beneficial if all young people were to receive their National Insurance number automatically, and did not have to go through the process of applying, and in the future it would be helpful if NINO allocation was linked with and fully utilised the Single Customer Account.
- 1.23 One way to improve this area would be by making it clearer to parents that this would be a consequence of not completing the Child Benefit form, this may be by changing the language or through better awareness (both areas are discussed in more detail elsewhere in this note).

An alternative way to 'register' your child?

- 1.24 Alternatively, the government could consider separating the process of claiming child benefit from the automatic issuing of national insurance numbers for young people. One way of doing this could be to consider using the birth register for UK births, or allowing the registrar to pass on details to HMRC when a birth is registered. This could be comparable to the current 'tell us once'⁹ service that allows a person to report a death to most government departments at once. This is either done with the help of the registrar when registering a death, or the registrar will provide a unique reference so that you can complete the service yourself after registering.
- 1.25 HMRC already require that a child has been registered (if they were born in the UK) and ask for the unique code on their birth certificate. The OTS understands that HMRC are already able to validate claims against the birth register. So it could be beneficial to allow a child to be 'registered' with HMRC when the birth is registered, or for the registrar to be able to provide the parents with details of how to do so. HMRC could then contact the parents, for example by sending them a child benefit form to allow them to make a claim to receive it. A 'tell us once' type service would seem a sensible future step in this respect, with the benefit of reducing administration for both the young person and for DWP.

Loss of national insurance credits

- 1.26 Another benefit of claiming child benefit is that it enables the claimant to receive national insurance credits towards their state pension entitlement if they are not already receiving them. At present if an individual earns less than £120 per week (£6,240 per year) they do not receive any credit towards their State Pension. If child benefit is claimed, even if the claimant opts out

⁸ <https://www.gov.uk/apply-national-insurance-number>

⁹ <https://www.gov.uk/after-a-death/organisations-you-need-to-contact-and-tell-us-once>

of receiving the payment, then the claimant will receive pension entitlement for years where they earn less than the national insurance threshold, up to when the child is 12.

- 1.27 It is important that if one of a couple is working that it is the non-working partner who makes the claim for child benefit so that he or she can qualify for national insurance credits. The latest version of the claim form covers this point (which is unrelated to the HICBC).
- 1.28 There is already an option to transfer credits between spouses or civil partners when the working spouse has claimed child benefit and has therefore received the national insurance credits.¹⁰ However, awareness of this is not high and the OTS recommends that it should be better signposted in guidance.
- 1.29 However, if child benefit is not claimed at all, the entitlement for national insurance credits is lost. In the Life Events report, the OTS recommended that the government should consider the potential for enabling national insurance credits to be restored to those people who have lost out through not claiming Child Benefit.
- 1.30 There appears to have been no progress on this. While better awareness may mean that fewer people will be affected by this in the future it is noted that the overall take up of child benefit has decreased from 96% in tax year 2014-15, after the HICBC was introduced, to 92% in tax year 2018-19.¹¹ The take up rate includes those who have claimed child benefit but opted out of receiving payments.
- 1.31 The take up rate in tax year 2018-19 of 92% implies that there were over a million children in families eligible for child benefit but not claiming it.¹²
- 1.32 While it is not known how many of those not claiming were not paying national insurance contributions and are therefore not receiving credits they are entitled to, the 2019 ONS survey: Families and the Labour Market¹³ indicates that in 26.8% of couples with dependent children only one couple is employed, and for lone parent families 30% are not employed. There could therefore be a significant number of families where national insurance credits are due but are not being given. Some of these families may receive

10 <https://www.gov.uk/government/publications/national-insurance-credits-for-parents-and-carers-cf411a>

11 <https://www.gov.uk/government/statistics/child-benefit-statistics-annual-release-august-2020/child-benefit-statistics-annual-release-august-2020-main-commentary#families-that-have-opted-out-of-receiving-child-benefit-payment>

12 <https://www.gov.uk/government/statistics/child-benefit-statistics-annual-release-august-2020/child-benefit-statistics-annual-release-august-2020-main-commentary#families-that-have-opted-out-of-receiving-child-benefit-payment> The latest take-up rate published relates to 2018/19. These statistics show that at August 2018 there were 12.75m children for whom child benefit was being claimed and a further 545,000 families who had opted out. Applying an average rate of 1.74 children per family gives 13.7m children within the take up rate of 92%, so 1.19m for whom child benefit was not being claimed; around 680,000 families.

13 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/familiesandthelabourmarketengland/2019>

national insurance credits by claiming other benefits, and others may not be entitled to credits as the children are over 12.

- 1.33 It nevertheless remains important that there should be a mechanism to give the relevant credits where these are due.

Taxpayer awareness

- 1.34 As mentioned earlier 373,000 people had a liability to pay the HICBC for the 2019-20 tax year and a further 624,000 families had opted out in August 2020.¹⁴ A Written Parliamentary answer in October 2018¹⁵ stated that around 1.1 million families were in scope of the HICBC charge of whom over 500,000 had opted out of receiving child benefit payments.
- 1.35 The threshold of £50,000 for the HICBC is not related to the threshold at which taxpayers are liable to higher rate tax at 40%¹⁶, and has not increased since its introduction in January 2013. So more and more families are being affected by the HICBC each year. The Institute for Fiscal Studies has estimated that the proportion of families affected has increased over the period from one in eight to one in five.¹⁷
- 1.36 When the HICBC was introduced the higher rate tax threshold was £42,475.¹⁸ From 6 April 2021 the threshold has risen to £50,270,¹⁹ exceeding the HICBC threshold of £50,000, so that many more people, including some basic rate taxpayers, are now liable to the charge.
- 1.37 It is therefore important that this wider pool of potential claimants are aware they may be liable for the HICBC and that HMRC collect the relevant tax due.
- 1.38 HMRC have confirmed that they work with various partners within the parenting sector to raise awareness of the non-monetary reasons for claiming child benefit. It seems though that this communication is primarily when a new child is born. There is less ongoing communication over successive years to remind parents in receipt of benefit that if their circumstances have changed, for example if one partner's income has increased to over £50,000, that they can now be liable for the HICBC, and what action they should take as a result. HMRC have confirmed that they do not issue annual letters confirming the amount of the benefit for the forthcoming year.
- 1.39 The OTS understands that HMRC do conduct some communications activities through the parenting sector and social media aimed at those who could be liable to the HICBC. Information could be included on annual

14 <https://www.gov.uk/government/publications/high-income-child-benefit-charge-data/high-income-child-benefit-charge>

15 <https://researchbriefings.files.parliament.uk/documents/CBP-8631/CBP-8631.pdf>

16 In Scotland the higher rate is 41% on non-savings and non-dividend income. Savings and dividend income is taxed at the same rates as for the rest of the UK.

17 <https://ifs.org.uk/publications/13791>.

18 In the 2012-13 tax year the personal allowance was £8,105 and basic rate band was £34,370

19 In Scotland the higher rate threshold for the 2021-22 tax year is £43,662 for non-savings and non-dividend income. In Wales the higher rate threshold is the same as for the rest of the UK.

coding notices which are issued to some employees, and so could be a cost-effective way of providing the necessary guidance to some taxpayers.

- 1.40 Equally there is nothing to remind those who have not claimed child benefit at all, or who have claimed but opted out of receiving the benefit that should their circumstances have changed it may now appropriate to make a claim or opt back into the receipt of benefit. Again, this information could be included on coding notices.
- 1.41 Information to this effect could be included as adverts within the taxpayers' Personal Tax Accounts.
- 1.42 Those who already complete a self-assessment return are prompted to include the HICBC if it is due, as there are specific boxes for this on the form, and the details are covered in the explanatory notes to the form.
- 1.43 If the HICBC is payable then this must be paid through the self-assessment system. Although it is possible for the HICBC to be 'coded out' (an adjustment being made in the PAYE tax coding so that the charge is collected through PAYE tax deductions), HMRC still require a tax return to be filed.²⁰ Those affected who are not already in self-assessment should notify HMRC by 5 October after the end of the relevant tax year that they need to declare their Child Benefit payments so that a return can be issued and filed by the 31 January deadline.
- 1.44 HMRC contact people who they think may need to pay the HICBC. Between November 2013 and June 2015, they sent 223,500 letters to taxpayers where records suggested they may have had such a liability telling them what they needed to do if they needed to pay the HICBC. During tax year 2020-21 they wrote to 93,927 individuals to remind them what they needed to do to pay the HICBC, and to a further 73,668 taxpayers in the 2019-20 tax year.²¹
- 1.45 The OTS understands that HMRC uses its data to match Child benefit records to those parents or partners with an income of over £50,000 to identify those who may need to pay the charge, and will contact those individuals directly. However, this relies on up-to-date data and so HMRC are not able to identify all those who may be liable. Furthermore, the exercise cannot be carried out until all the data is available after the end of the tax year. In some cases the relevant income may not be known in time for a letter to be sent before the self-assessment deadline. Writing in advance would be helpful but writing or enforcing the charge after the tax year does not deal with the lack of awareness and will leave those families with a significant and unexpected tax liability.
- 1.46 Given this difficulty and the ever-increasing number of people likely to be affected, it is important the HMRC give further thought to how the filing requirement can be made clearer, or whether there is another approach.

²⁰ <https://www.gov.uk/child-benefit-tax-charge/pay-the-charge>

²¹ High Income Child Benefit Charge - GOV.UK (www.gov.uk)

Definition of income

- 1.47 A further complication for taxpayers is around the awareness and understanding of the definition of income for the purposes of the HICBC. The HICBC has always used the definition of 'adjusted net income' to determine liability to the charge, however the guidance is not always clear that this is the case.
- 1.48 While the child benefit claim form refers to the HICBC it states that this will apply if the higher earner in a couple has an income of over £50,000. Claimants need to read the accompanying notes²² for a brief (and incomplete) explanation of how income is defined for these purposes, and then refer to another link²³ for a fuller explanation of this relevant defined term 'adjusted net income'.
- 1.49 'Adjusted net income' as explained at that point broadly means all taxable income, less trading losses, less the gross equivalent of both gift aid payments and pension contributions (excluding pension payments paid through payroll where full relief is given under net pay arrangements).
- 1.50 Some clear examples are given, which is helpful, but the guidance does not explicitly make the point that savings income and dividend income received which are less than the personal savings allowance or the dividend allowance are still treated as taxable income for these purposes even though no tax is charged on them. The Child Benefit guidance²⁴ does however helpfully link to a calculator to determine the amount of child benefit they may receive as well as the HICBC they may need to pay including calculating their adjusted net income.

Self-assessment and single customer account

- 1.51 As mentioned above, if the HICBC is payable a self-assessment return must be filed, which is in itself a source of complexity. The OTS understands that this is how HMRC ensures they can take all income sources into account, some of which aren't reported through PAYE, when calculating adjusted net income (see paragraph 1.49) and to confirm the amount of child benefit received. In many cases it may be that the HICBC could be paid through changes to PAYE codes, as is the case for unearned income sources, so that a return would not be needed and this should be considered further where appropriate. Accordingly, consideration should be given to whether there may be an easier way than a full self-assessment return to gather the relevant information in simpler cases.
- 1.52 The Single Customer Account is a key part of HMRC's future vision of the tax administration system, it is a long-term vision that will require significant funding over time. It is important that HMRC consider the HICBC in the design of the new Single Customer Account, and ensure that it provides the means to report and pay it without the need to file a self-assessment return, as well as to provide helpful reminders. In tax year 2019-20 373,000 people

22 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970844/CH2_Notes_English.pdf

23 <https://www.gov.uk/guidance/adjusted-net-income>

24 <https://www.gov.uk/child-benefit/what-youll-get>

paid the HICBC, and would have submitted a return to do so. It is not known how many of these submitted a return for this sole purpose, however removing the need to do so is likely to remove a large number of people from the self-assessment system.

- 1.53 The inclusion of the HICBC in the Single Customer Account, along with the wider ability to claim child benefit, and opt in and out of receiving the payments, would help with some of the issues around taxpayer awareness and understanding of their obligations. The Single Customer Account could helpfully provide nudges to those whose income may increase above the HICBC threshold, or whose income drops below the threshold to allow them to consider and enable them to easily opt out or in to receive child benefit payments and pay the charge if necessary.

Compliance checks and penalties

- 1.54 As mentioned above, those liable to the HICBC need to notify HMRC of their liability to it. If HMRC are not notified, or the HICBC is not included on a self-assessment return then penalties can be charged unless there is a reasonable excuse for the omission.
- 1.55 The OTS noted in the Life Events report that HMRC were tempering their approach to penalties, following their review and repayment in 2019 of some penalties which had been charged.
- 1.56 The latest figures available in connection with those paying the HICBC and the collection of it show that the HICBC was paid by 386,000 people for tax year 2018-19 and 373,000 for tax year 2019-20.²⁵ There were 125,594 compliance checks opened in 2019-20 of which 63,713 related to errors in returns filed and 61,881 to failing to notify HMRC that a return was needed, and in 96% of cases where compliance checks were opened, the taxpayer agreed that additional tax was due.
- 1.57 The high figures demonstrate the lack of understanding of this issue among taxpayers. The improvement in the guidance in the claim form noted above may assist in reducing this problem, but it is clear that wider and more detailed guidance is needed.
- 1.58 20,281 taxpayers were charged penalties for tax year 2017-18, giving an overall amount of some £3.6m.
- 1.59 In view of the complexity of the charge and the difficulties in communication particularly to existing parents, the OTS considers that HMRC should give further attention to improving the guidance available to help people understand their responsibilities with respect to reporting and paying the HICBC.

²⁵ <https://www.gov.uk/government/publications/high-income-child-benefit-charge-data/high-income-child-benefit-charge>