EXPLANATORY MEMORANDUM TO

THE TAX CREDITS (INCOME THRESHOLDS AND DETERMINATION OF RATES) (AMENDMENT) REGULATIONS 2016

2016 No.

1. Introduction

1.1 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.

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

2. Purpose of the instrument

2.1 The purpose of this instrument is to set, from 6 April 2016, the amount of income that is disregarded for the purposes of determining tax credits entitlement for the current year where the income for that year exceeds the income from the previous year ("income rise disregard"), as announced in the Summer Budget 2015.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 This change was previously included in the wider package of reforms set out in the Draft Tax Credits (Income Thresholds and Determination of Rates) (Amendment) Regulations 2015, laid before Parliament on 7 September 2015 and which was approved by the House of Commons on 15 September but not approved by the House of Lords on 26 October 2015.

Other matters of interest to the House of Commons

3.2 Disregarding minor or consequential changes, the territorial application of this instrument includes Scotland and Northern Ireland.

4. Legislative Context

4.1 These regulations are made by the Treasury in exercise of the powers conferred upon them by sections 7(3), 65(1) 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(3)(a) and (b) of the Act provides for the power to provide for an amount of increase in income that is disregarded when calculating an individual's income for the purposes of entitlement to tax credits (the income rise disregard) and that the amount of income to be disregarded is to be prescribed by regulations.

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 amounts to be determined for the purposes of section 7(3) of the Act.

4.5 Regulation 5(a) of the ITDR Regulations provides the amount prescribed for the purposes of the income rise disregard.

5. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

6.1 The Exchequer Secretary to the Treasury, Damian Hinds, 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 2016 are compatible with the Convention rights.

7. Policy background

What is being done and why

7.1 The change to the income rise disregard is proceeding as announced in the Summer Budget. The income rise disregard is being reduced to £2,500 taking it back to the level it was set at in 2003.

7.2 Reducing the income rise disregard, returning it to the level at which it was originally set in 2003, will ensure that the system better reflects claimants' recent incomes. Improvements to the administration of tax credits since its inception, such as increased used of Pay As You Earn Real Time Information (RTI) mean that the system is now able to be more responsive to such changes in circumstances, bringing forward one of the key benefits of Universal Credit.

7.3 This change will also align with the existing income fall disregard and make the tax credits system fairer – currently two families with precisely the same income and circumstances can receive significantly different awards. Only tax credit claimants whose incomes increase in-year by more than £2,500 will see an adjustment of their award.

Consolidation

7.4 No consolidation is required.

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 There is 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 activities that are undertaken by small businesses.

12. Monitoring & review

12.1 The level of the income rise disregard will be reviewed in accordance with section 41 of the Act.

13. Contact

13.1 Jacqueline Latter at Her Majesty's Revenue and Customs, Telephone: 03000 586748 or email: jacqueline.latter@hmrc.gsi.gov.uk can answer any queries regarding the instrument.