

**EXPLANATORY MEMORANDUM TO THE
TAX CREDITS UP-RATING REGULATIONS 2005**

2005 No.

1. This explanatory memorandum has been prepared by the Inland Revenue and is laid before Parliament by Command of Her Majesty.

2. Description

These regulations increase, from 6 April 2005, various monetary elements and thresholds within the Child and Working Tax Credits, as set out in the Pre-Budget Report on 2 December 2004.

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

None

4. Legislative Background

4.1 A draft of these Regulations is laid before Parliament in accordance with the provisions of Section 66(1) and(2) of the Tax Credits Act 2002 for approval by resolution of each House of Parliament. These Regulations are made by the Treasury, in exercise of the powers conferred upon them by sections 7, 9, 11,13 and 65(1) of that Act.

4.2 Section 7 of the Tax Credits Act 2002, allows for regulations to be made for the imposition of an income test on claimants for both tax credits. Section 13 of the Act allows for regulations setting out the income thresholds and supplements the powers conferred in section 7 of the Act. These powers have been used to increase the first threshold for Working Tax Credit and the first threshold for Child Tax Credit, found in the Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002. Section 9 of the Act allows for regulations to be made setting out the elements making up the Child Tax Credit. This power has been used to increase elements of the Child Tax Credit found in the Child Tax Credit Regulations 2002. Section 11 of the Act allows for regulations setting out the elements for the Working Tax Credit. This power has been used to increase elements of the Working Tax Credit, found in the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Paymaster General, Dawn Primarolo has made the following statement under section 19(1)(a) of the Human Rights Act 1998:

In my view the provisions of the Tax Credits Up-rating Regulations 2005 are compatible with Convention rights.

7. Policy background

Section 41 of the Tax Credits Act 2002 requires the Treasury, in each tax year, to review certain elements of tax credits. In consequence of that review the Treasury have made these Regulations, which amend the rates of certain elements and thresholds within tax credits.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

8.2 The cost of the provisions in these Regulations is estimated to be £700m.

9. Contact

Anne Berriman at the Inland Revenue [tel: 020 7147 2493 or e-mail: Anne.Berriman@ir.gsi.gov.uk] can answer any queries regarding the instrument.

Report required under section 41 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 had it 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 table attached shows

- (a) the current rate (2004/05 tax year) of each element of the tax credits;
- (b) the proposed rate of each element of the tax credits for the new tax year (2005/06), as announced in the Pre Budget Report (PBR) on 2 December 2004;
- (c) the difference between the current rates and the proposed new rates announced in PBR; and
- (d) the amount of each element had it been up-rated in line with the rise in the general level of prices.

ANNEX A

Report required under Section 41 of the Tax Credits Act 2002

Section 11 Tax Credits Act 2002 (The Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002)		2004/5 RATES (£)	2005/6 RATES ANNOUNCED AT PBR (£)	CHANGE (£)	RATE IF INCREASED WITH PRICES (£)
Basic Element	Schedule 2	1570	1620	+50	1620
Second Adult Element	Schedule 2	1545	1595	+50	1595
Lone Parent Element	Schedule 2	1545	1595	+50	1595
30 Hour Element	Schedule 2	640	660	+20	660
Disability Element	Schedule 2	2100	2165	+65	2165
Severe Disability Element	Schedule 2	890	920	+30	920
50 + Element (16-29 hours)	Schedule 2	1075	1110	+35	1110
50 + Element (30+hours)	Schedule 2	1610	1660	+50	1660
Section 9 Tax Credits Act 2002 (The Child Tax Credit Regulations 2002)					
Family Element (Normal)	Reg 7(3)(b)	545	545	0	565
Family Element Baby Addition	Reg 7(3)(a)	1090	1090	0	1130
Child element	Reg 7(4)(c)	1625	1690	+65	1675
Disabled Child element	Reg 7(4)(a)	3840	3975	+135	3960
Severely Disabled Child Element	Reg 7(4)(b)	4730	4895	+165	4880
Disabled young person	Reg7(4)(d)	3840	3975	+135	3960
Severely disabled young person	Reg7(4)(e)	4730	4895	+165	4880
Any other qualifying young person	Reg7(4)(f)	1625	1690	+65	1675
Section 7(1)(a) and 13 Tax Credits Act 2002 (The Tax Credits (Income Thresholds and Determination of Rates) Regulations 2002)					
WTC (First Income Threshold)	Reg3(2)	5060	5220	+160	5220
CTC (First Income Threshold)	Reg3(3)	13480	13910	+430	13895
Second Income Threshold	Reg7(3)	50000	50000	0	51535
Income Rise Disregard	Reg 5	2500	2500	0	2580