## Annual review of certain tax credits monetary amounts under Section 41 of the Tax Credits Act 2002 for the tax year 2021-22

## Report required under section 41 of the Tax Credits Act 2002. Laid before Parliament pursuant to Section 41(5) of the Tax Credits Act 2002

Section 41(1) of the Tax Credits Act 2002 (the Act)<sup>1</sup>, requires a review, each tax year, of certain monetary amounts set out in section 41(2), to determine whether they have retained their value in relation to prices in the United Kingdom in such manner as the Treasury consider appropriate. A report of that review must be laid before each House of Parliament, stating what each amount would have been, if it had 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- The income thresholds at which each tax credit will start to be withdrawn: these are prescribed under section 7(1)(a) of the Act.
- Any thresholds relating to changes in income between the current tax year and the previous tax year as prescribed under section 7(3)(a)-(d).
- The maximum rates 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 overall level of prices as measured by the change in the Consumer Price Index (CPI) from September 2019 to September 2020 was 0.5 per cent.

In response to the Coronavirus pandemic the Coronavirus Act temporarily increased the basic element of Working Tax Credit by an additional £1,045 per year (up to £20 per week, depending on a claimant's individual circumstances) above what had previously been enacted in paragraph 1 of Schedule 2 to the Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002 (S.I. 2002/2005).

The Coronavirus Act provided that this increase in the basic element, from  $\pounds$ 1,995 to  $\pounds$ 3,040, would last from 6 April 2020 to 5 April 2021 and that Treasury Ministers would use the previously enacted rate of  $\pounds$ 1,995 when they conducted their annual review.

The increase to the Working Tax Credit basic element was a temporary measure in response to the public health emergency. The Government will continue to assess how best to support low-income working households in light of the evolving economic and health situation.

<sup>&</sup>lt;sup>1</sup> Part 1 of the Tax Credits Act 2002 has been repealed by Welfare Reform Act 2012 with effect from 1 February 2019. Part 1 includes section 41. However, by The Welfare Reform Act 2012 (Commencement No 32 and Savings and Transitional Provisions) Order 2019, section 3(1), Part 1 of the TCA 2002 shall be treated as though it is still in force in relation to certain categories of cases. Those categories are set out in full in section 3(2)-(5) and (9) of the 2019 order.

The table attached shows:

- a) The current rate (2020-21 tax year) of each element/threshold reviewed;
- b) The rate of each element/threshold for the new tax year (2021-22), in line with proposals set out by the Chief Secretary to the Treasury in the Written Ministerial Statement (WMS) published on 25 (Commons) and 26 November 2020 (Lords);
- c) The difference between the current rates and the proposed new rates; and
- d) The amount of each element/threshold if the rate had been changed in line with the change in the general level of prices.

Section 11 Tax Credits Act 2002 -The Working Tax Credit (Entitlement and Maximum Rate) Regulations 2002	2020-21 Annual rates (£)	2021-22 Annual rates (£)	Change (£)	Rate if changed in line with prices (£)
Basic Element	1,995	2,005	10	2,005
Couple and Lone Parent Element	2,045	2,060	15	2,060
30 hour Element	825	830	5	830
Disability Element Schedule 2	3,220	3,240	20	3,240
Severe Disability Element Schedule 2	1,390	1,400	10	1,400
Section 9 Tax Credits Act 2002 -The Child Tax Credit Regulations 2002				
Family Element Reg 7(3)	545	545	0	550
Child Element	2,830	2,845	15	2,845
Child or qualifying young person is disabled Reg 7(5)(a)	3,415	3,435	20	3,435
Child or qualifying young person severely disabled Reg 7(5)(b)	4,800	4,825	25	4,825
Sections 7(1) & (3) and 13 Tax Credits Act 2002 – The Tax Credits (Income Thresholds and Determination Rates) Regulations 2002				
Income Disregard Reg 5	2,500	2500	0	2,515
First Income Threshold Working Tax Credit Reg 3(2) and (7)(3)	6,530	6,565	35	6,565
First Income Threshold Child Tax Credit Reg 3(3) and 8(3)	16,385	16,480	95	16,480

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