MONEY WELL SPENT

Why we should recognise and reinvest in child benefit

October 2023

Amid constant changes to our social security system, child benefit remains largely unchanged since it was introduced in 1977.[1] It was intended to recognise and support parents with the cost of raising a child, regardless of their income and, in 2023/24, is worth £24 per week for the eldest child and £15.90 for each additional child.

The more recent introduction of universal credit (UC) has transformed the way much of the benefit system operates for families by merging six benefits (not including child benefit) into a single monthly payment. While the intention behind UC was to simplify the system and create a smoother transition into work, in practice, it has left us with an unpredictable and complex working-age benefit. Recipients can struggle to predict their monthly award leaving them in a state of financial uncertainty.

Lower-income families can struggle to navigate UC's complex system.[2] Families tell us how important predictability and security are, alongside having enough money to make ends meet. Families also want control over how best to progress into, or at, work and how to manage caring responsibilities. While UC demands that parents who don't earn a certain amount of money routinely visit the job centre, child benefit is unconditional and offers families a foundation of stability on which to build.

The virtues of child benefit lie in its simplicity, predictability and (near) universality[3]

As a benefit which pays a flat-rate amount for each child in a family, child benefit is one of the **simplest** benefits we have. Parents fill in an application form when a child is born, and they don't need to update this until the child reaches 16 and continues in education. Claiming child benefit also means children automatically receive a national

[1] The earliest version of a child benefit appeared in the 1940s as 'family allowances' paid for the second and subsequent children in a family. This was merged with child tax allowances to form a child benefit for every child in 1977.
[2] R Griffiths, M Wood, F Bennett and J Millar, *Couples Navigating Work, Care and Universal Credit*, IPR Report, University of Bath, 2022
[3] The higher income child benefit charge (HICBC), introduced in 2013, requires higher-rate taxpayers to pay back some or all of their child benefit award through the tax system.

insurance (NI) number at age 16 and parents get NI credits if they aren't working. With the simple application process and clear eligibility, uptake is very high at over 90 per cent.

Child benefit's universality, simplicity and predictability also means it can be the only income families can rely on if they fall on hard times. If a parent is sanctioned, or during the five-week wait for their first UC payment, child benefit can become a lifeline. This is also often the case when mothers flee domestic abuse, as child benefit is always paid to the primary carer. Even families who weren't already receiving child benefit can normally access it long before their UC payments start.

By being **universal**, child benefit is part of society's investment in the life chances of the next generation which benefits us all. For recipient families, it means they know exactly how much child benefit is coming into their account as their entitlement doesn't change with their earnings. This **predictability** helps parents move into and stay in employment. In this way, child benefit helps to reduce and prevent in-work poverty.

Its predictability is also crucial for families who receive help through UC, which can fluctuate from month to month. Knowing that a fixed amount of child benefit will be paid every four weeks helps families on a low income budget in the face of financial uncertainty.

These virtues have been undermined

In 2013 the high income child benefit charge (HICBC) was introduced **stopping child benefit from being an entirely universal benefit**. The HICBC requires families with children to start paying their child benefit back once someone in the family earns more than £50,000 a year.[4] This policy introduced needless complexity into a system – affected families can either fill in a self-assessment tax return to pay back their child benefit[5] or stop claiming it altogether (losing the automatic issue of an NI number for their child and any NI contributions that a non-working partner would otherwise be entitled to).

The HICBC has been widely criticised for the way it **unfairly treats single-earner families**. For example, a single parent earning £60,000 a year would be affected by the HBCIC when a couple who each earn £50,000 and have a combined income of £100,000 would be unaffected.

Introducing a means test also **weakens work incentives**, particularly for those within or close to the HICBC earnings range. The combined effect of the HICBC and the gradual withdrawal of UC with income means that 50,000 families now face effective tax rates of at least 80 per cent.[6] The number of affected families will grow if the government continues to freeze the income thresholds at which the HICBC takes effect. Considering this, the Resolution Foundation concludes that 'no rational policy maker would ever have drawn up the current system.'[7]

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[4] The HICBC affects any family where one person receives child benefit and at least one person has a gross income above £50,000 a year. Those with incomes above £60,000 have their child benefit completely offset by the HICBC, and those with incomes between £50,000 and £60,000 lose a proportion of their child benefit on a sliding scale.

[5] It was estimated when the charge was introduced that about 500,000 extra people would need to file a return due to the HICBC. See Office of Tax Simplification, *OTS Evaluation note: Update on OTS work on the High Income Child Benefit Charge and its wider implications*, 2022

[6] Families subject to the UC taper and HICBC simultaneously face effective tax rates of 80 per cent if they have one child, 83 per cent if they have two children and 87 per cent if they have three children. See M Brewer, K Handscomb and G Kelly, *Inconsistent Incentives: How the overlap between Universal Credit and the High Income Child Benefit Charge limits work incentives*, Resolution Foundation, 2022

[7] See note 6.

While still high compared to other benefits, the **uptake of child benefit has dropped** significantly since the HICBC was introduced. Fewer people are claiming it faced with the prospect of having to repay it through their taxes. Before the policy was introduced, 96 per cent of eligible children were in families claiming child benefit. This has dropped to 91 per cent. By 2021, 651,000 families had simply opted out of receiving child benefit.[8]

Child benefit has also **fallen in value** due to successive years of below-inflation uprating and outright freezes. Since 2010, the value of child benefit has fallen by 20 per cent in real terms. To a family with one child, child benefit is worth £300 less in 2023/24 than it was in 2010/11. To a family with two children it is worth £500 less. By allowing the value of child benefit to fall again and again, the government has weakened its ability to prevent poverty. This is particularly the case for larger families, who lose out more from below inflation uprating while also being hit by the two-child limit that applies to UC. It's no wonder that the majority of children in families with three or more children, where the poverty rate is already at 42 per cent, will be living in poverty by 2027/28 (55 per cent).[9]

Taken together, these changes mean that fewer families are eligible for child benefit and, among those who are, what they get is less effective at preventing poverty and stabilising incomes. As child benefit's value and reach has gradually eroded, there's an urgent need to repair the damage and reinvest in child benefit.

Charting a path forward

Governments make choices about where to direct resources. Successive governments have ignored child benefit and focused solely on means-tested benefits – to target specific groups and incentivise certain behaviours (like having fewer children[10] and returning to work when children are younger).[11] By doing this they have lost many of the important principles of a properly functioning social security system, such as security and predictability, which child benefit helps to provide.

Child benefit carries little to no stigma just like the state pension (which, unlike child benefit, remains universal,[12] and has risen in value through the triple-lock). In 2020, as part of our Secure Futures project, we conducted a series of citizens juries across the UK to gauge how people felt about the social security system and what they wanted to see changed. They concluded that, while there is value in targeted benefit payments, our system is too means-tested. They wanted to see greater investment in universal children's benefits.

Removing the HICBC means-test would strengthen work incentives and fairness in our social security system. It would also restore the universality of child benefit, making it much easier to administer and improving uptake. The HICBC generates just £1 billion a year in revenue for the government but is time consuming to administer for both families affected and the government.[13]

While investment in means-tested benefits is sorely needed, the government should also increase child benefit, which provides a foundation of stability for all families in the face of a volatile means-tested benefit system and precarious labour market. The monetary value of child benefit needs to be restored and then increased. Families

[8] HMRC, *Child Benefit Statistics: annual release, data as at August 2021*, 2022
[9] M Brewer, E Fry and L Try, *The Living Standards Outlook 2023*, Resolution Foundation, 2023
[10] By introducing the two-child limit.
[11] By changing UC's administrative earnings threshold.
[12] As long as sufficient NI contributions have been made.
[13] According to the Office of Tax Simplification, 'it is hard for many of the families affected [by the HICBC] to know about the charge and complying with it may involve new tax compliance obligations'. See note 5.

with children in particular have lost out from freezes and cuts to social security in the last decade, leading to rising levels of child poverty.

Increasing social security for families with children has been found to improve childhood health, education and developmental outcomes, as well as creating greater future employment prospects, better later-life health outcomes and even longer life expectancy.[14] Investing in a universal child benefit will support all families with the cost of raising a child, which is estimated to be over £150,000,[15] and will reach families who are struggling to make ends meet but do not qualify for UC.

A government survey found that nine in 10 families who receive child benefit rely on the payments. This number was even higher for those with a health condition, with children under five, and those with three or more children.[16] Families spend child benefit on day-to-day costs, school trips or extracurricular activities, presents or days out. Or they are saving it for their kids' education. This is vital support for families. Investing in a universal child benefit is undoubtedly money well spent.[17]

Recommendations:

- Strengthen work incentives, cut red tape and restore fairness in our social security system by **removing the HICBC, making child benefit universal** again.
- Help families across the UK with the everyday costs of raising a child by immediately **restoring the value of child benefit** that has been lost in the past decade, and set out a **plan to increase it by £20 a week** in the medium term.

About CPAG

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and end poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need.

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[14] A Aizer and others, The long-run impact of cash transfers to poor families, *American Economic Review*, 106.4, 2016, pp935-971
[15] D Hirsch and J Stone, *The Cost of a Child in 2022*, CPAG, 2022
[16] HMRC, *Digital Child Benefit Customer Survey*, 2023
[17] HMRC, *Child Benefit customer survey*, 2019