



LOW INCOMES TAX REFORM GROUP

The Child Trust Fund

Some thoughts from the Low Incomes Tax Reform Group in response to the forthcoming evidence session with HM Treasury and HMRC

Background

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation which aims to give a voice to the unrepresented in the tax and tax credits system. We have been undertaking that role since 1998.

Eligibility to Child Trust Fund (CTF) payments

Initial and additional payments

Provided that claimants claim the benefits to which they are entitled when they first become due, their awareness of the Child Trust Fund rules is not that important at this early stage as HMRC should operate an automatic process

This is how HMRC express that process on their website:

*There is **no need for parents to claim** the Child Trust Fund (CTF) - Once a child benefit award has been made and eligibility for the CTF accepted, a voucher worth £250 for the initial Government payment will be sent to the child benefit claimant, who will usually be the parent. A person with parental responsibility for the child can then use the voucher to open a CTF account for that child.*

*An additional £250 **will be paid** into the CTF accounts of children in families eligible for full Child Tax Credit (CTC) with household income at or below the CTC income threshold (£15,575 for tax year 2008-09). (HMRC **website** with LITRG emphasis)*

*Children from lower income households (£14,155 or less in 2006-7) **will receive** an extra £250, paid directly into their account. (Factsheet in foreign languages on the **CTF website** www.childtrustfund.gov.uk)*

That however is the theory, the practice is somewhat different. A number of things may make it very important that the parent actually understands the basis upon which they are, or are not, receiving a CTF voucher or payment.

For example:

- The parent may be receiving the children's allowance in income support or income based jobseeker's allowance and a CTC claim would not apply (this is not mentioned at all on the HMRC website and sparsely anywhere else)
- The individual needs to claim Child Benefit (CB) to qualify for the initial payment of £250 and although this is generally straightforward, it is not so for everyone
- The individual may need to claim CTC in order to cement their claim to the additional payment (this is not clear as we indicate below)
- The timing of claims made may change the eligibility to the additional payment as it can move the basis year for income calculation (this is not mentioned anywhere)
- As the Treasury Committee are well aware there are a range of people who have been "frightened off" tax credits through either past personal experience or what they may have heard from friends or the press; it is not made clear to them that they can also lose the CTF additional payment.

Nowhere on the websites we studied do we get any obvious message of urgency being transmitted to claimants about making all claims to CTC within 3 months of the commencement of CB. Leave it longer and you may not qualify for the additional payment.

The only place where we have noted HMRC advice to claim CTC promptly (or at all) is in the eight page Information Pack which is sent out to prospective claimants, where in rather small print it says:

Is there more money for children in families on a low income?

Yes, children from households on a low income (£14,495 in 2007/08) will receive an extra payment of £250 directly into their account once a Child Tax Credit (CTC) award has been finalised. A CTC award must be in place for the time at which Child Benefit is awarded, to get the extra payment. As CTC claims can only be backdated 3 months make sure you don't leave it too late.

From our knowledge of dealing with low-income tax credits claimants we are very doubtful if these words will have been understood. Also, as we indicated above, the information pack does not cover the position of those on, for example, income support or income based jobseeker's allowance.

The way the tax credits system operates in practice sometimes means that individuals are taken out of the mainstream and dealt with by way of manual payments. They might be one of a class of persons where, for some technical reason, their award cannot be processed onto the system. We would wish the Committee to receive a reassurance that robust processes are in place to identify such people and make sure that the CTF are notified.

Further complication occurs due to the link between the CTF and tax credits. As the Treasury Committee will be aware, with rising incomes, tax credits are generally awarded based on previous year income. During the renewals process, HMRC ask claimants for their actual income for the year just ended (the current

year). A comparison is then done between current year income and previous year income to determine which income is used to finalise the award.

So, although HMRC may quote a threshold figure for the current fiscal year of £15,575, we have to bear in mind that claimants will just now be providing HMRC with income information for 2007/08, but expecting, at the same time, that their tax credits award will be finalised on the basis of their income for 2006/07 probably due to the £25,000 disregard.

How do the figures provided by tax year have relevance to the individual? What do they understand by it? Very little we suspect.

The CTF website (www.childtrustfund.gov.uk) fails to explain the concept that tax credits can be finalised using previous year income. The website states in numerous places that '*The Government will also pay an extra **£250 directly into the accounts** of children who live in families receiving Child Tax Credit (CTC), where household income is not greater than the CTC threshold (£15,575 for 2008/09) when Child Benefit was first paid.*'

The CTF helpline advised us that this meant the actual income for the year in which Child Benefit was first paid, however this answer fails to appreciate that this will not necessarily be the figure that is used to finalise the CTC award for that year.

Nowhere is any of this explained; so how can a parent check that HMRC are operating correctly?

Migrants

We are also concerned that particularly vulnerable groups, for example, migrants might initially be deterred from claiming through misunderstanding of the rules. Information for them is virtually non-existent and some of it is plainly misleading.

There seems a reluctance to explain the entitlements of migrants, for example, a new proposed HMRC leaflet for people coming to work in the UK (on which we have just been consulted) makes no mention at all of the CTF (or of child tax credits).

The **Directgov website** states that the immigration status of the child is a determining factor in receiving CTF but does not elaborate. It also indicates that an asylum seeker is not eligible.

The **HMRC website** is silent on the eligibility of migrants to the UK for the CTF.

The foreign language Factsheets on the CTF on www.childtrustfund.gov.uk say:

Every child born on or after 1st September 2002 is eligible for a CTF account if they live in the UK, Child Benefit is being received for them and they are not subject to immigration restrictions.

Rather worryingly, the same website states that '*EU citizens living in the UK are entitled to claim Child Benefit*'. The reality is that the majority of migrants to the UK will be eligible, however those who do not have a right to reside will not. Again, this is inaccurate advice. The experience of the voluntary sector has shown

that HMRC Helplines struggle when dealing with matters of immigration status, so clear and accurate website (and leaflet) guidance is essential.

In the light of the paucity of good, reliable, information we advocate that HMRC should make additional payments to anyone who would have been eligible had they known what to do and when to do it. There should not be a limit to backdating until such time as HMRC has got its advisory act together.

Those with disabilities

LITRG is also concerned that those with disabilities may lose out, as meeting special needs adds to the time needed to finalise a claim. Therefore assistance for those with disabilities should be speedy and clear.

On the CTF website at www.childtrustfund.gov.uk there is no obvious help for those who need publications or guidance in large print or other formats, although we found one reference in the glossary and on one booklet. More importantly, the short factsheets contain neither a textphone number, nor any help to get them in Braille, large print or audio.

Promotion and information

Websites

The fact that 3 out of every 10 CTF funds are opened by HMRC and not by the parents is a cause for concern and demonstrates that the CTF is little understood. We are particularly concerned that the poorest families with the right to an additional payment do not appreciate what is being provided for them.

There is minimal information on the CTF in the new Tax Credits website on the HMRC website. There is a link via Child Benefit but there is no recognition there that the level of income for CTC is the determinant of an additional payment of £250. So often there is no independent check by a parent, as they do not appreciate that linkage.

HMRC pass the visitor to their website quite quickly across to the main government website at www.childtrustfund.gov.uk where it is very easy to get lost.

If you come into the home page and then move to the "About the Child Trust Fund" section you can be misled, or at least confused, depending upon where you come to rest:

- http://www.childtrustfund.gov.uk/templates/Page_1148.aspx will give you the 2008/09 levels of CTC of £15,575.
- http://www.childtrustfund.gov.uk/Documents/Leaflets/elephant_May06.pdf will tell you that the level is currently £14,155
- http://www.childtrustfund.gov.uk/Documents/information_pack/070308%20-%20CTF6%20March%2007%20low%20res%20web%20version.pdf will tell you that the level for 2007/08 is £14,495
- All the migrant language publications refer to £14,155.

Or if you rely upon HMRC's generally very helpful leaflet WTC6 (tax credits), published in May 2008 for distribution in 2008/09 you will find that the level quoted is £14,495.

This combination of errors and out-of-date material soon makes one lose confidence.

It does seem to us that Directgov should be the home for this type of information.

And finally

We have seen many statistics about how many people are eligible for the initial and additional payments, but we have not been able to see how many people in practice **actually receive** the money into the CTF accounts.

We would also want to receive assurances that when major changes to finalisations take place (as recently happened for some 250,000 tax credit claimants) that appropriate adjustments to CTF awards are similarly made.

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May 2008