



Jet2holidays

JUST £60 DEPO

INSPIRE ME

Conditions Apply

- People 'can easily disadvantage themselves' under child benefit system
- And the process 'appears illogical', say Government tax experts
- Parents can end up tens of thousands of pounds worse off in old age
- This is Money is battling on behalf of parents facing a poorer retirement
- This new and damning verdict - coming from an arm of the Treasury - throws major weight behind our campaign

By [TANYA JEFFERIES FOR THISISMONEY.CO.UK](#)

PUBLISHED: 13:59, 11 October 2019 | **UPDATED:** 15:33, 11 October 2019



Share



146

shares

38

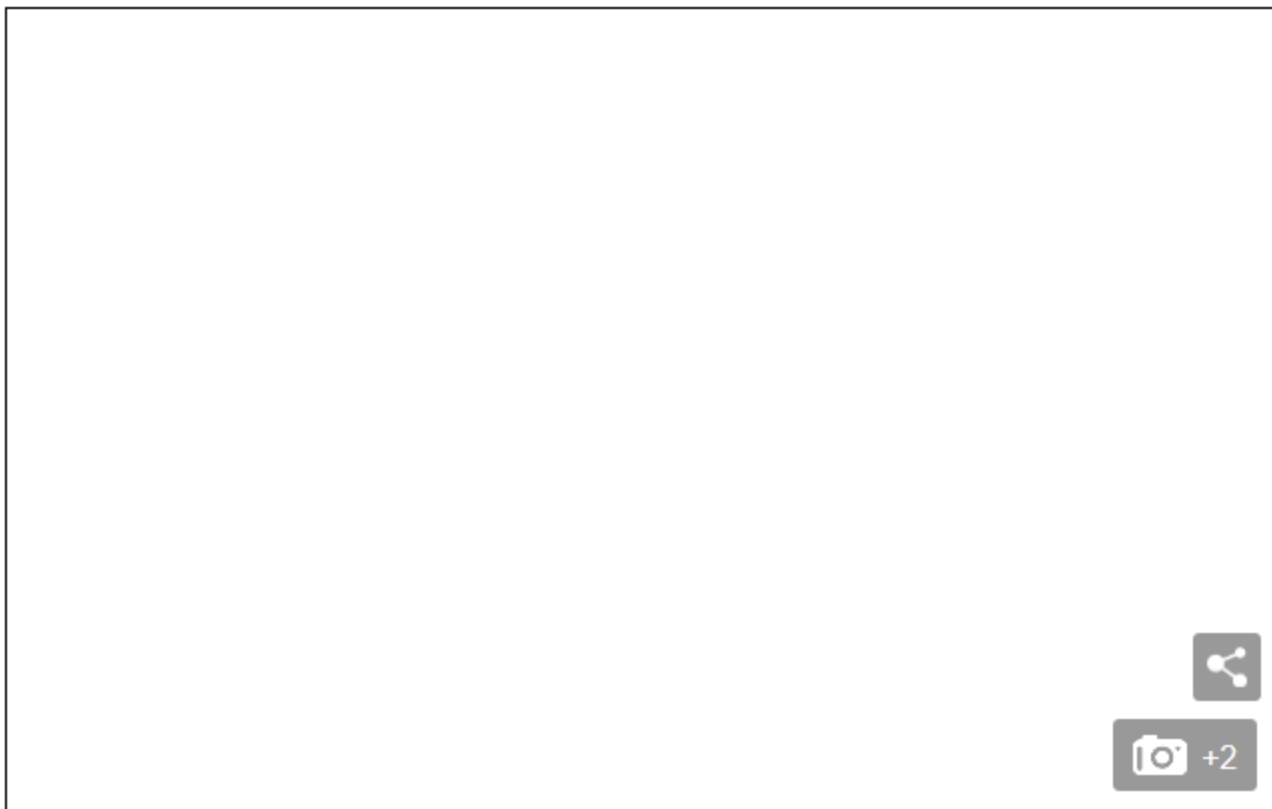
View comments

It is 'unreasonable' for parents to lose state pension over child benefit errors they can't later correct, according to the Government's own tax officials

can't later correct, according to the Government's own tax officials.

In a stinging report, the Office of Tax Simplification said people 'can easily disadvantage themselves' under a system that 'appears illogical', and tell the Government to find a way to restore credits to parents who have lost them.

The damning verdict - coming from an arm of the Treasury - throws major weight behind This is Money's campaign on behalf of parents facing a poorer retirement because of innocent child benefit blunders.



Child benefit: Confusion over claims stems from a controversial overhaul six years ago

Parents - mostly mums - **can end up tens of thousands of pounds worse off** in retirement by failing to claim child benefit because they aren't entitled to receive the payments.

When they belatedly realise this will hit their state pension and sign up, they are allowed to backdate credits for three months but lose their right to the rest for good.

'This is inherently confusing - and people can still lose out,' says Bill Dodwell, tax director of the Office of Tax Simplification, an offshoot of the Treasury that provides independent expertise on tax issues.

'The OTS recommends that the Government reviews the administrative

arrangements involved to improve the situation – and also looks at the position of those who have lost out since 2013.'

SHARE THIS ARTICLE



146 shares

RELATED ARTICLES



The parents facing a smaller state pension over failure to...



Damning research by the taxman reveals how parents are...



'It's too hard to verify child benefit claims older than...



Couple denied refund of child benefit fine by HMRC:...

HOW THIS IS MONEY CAN HELP

[Are you saving enough for retirement? Check with our pension calculator](#)

Former Pensions Minister and This is Money columnist Steve Webb, who **launched a petition calling on the Government to backdate credits fully** for parents affected, welcomed the OTS report, saying: 'It is great news that the government's own expert tax advisers are pointing out the flaws in the system of National Insurance credits.

'It is particularly important that they are calling for redress for people who may have missed out on years of credits.

'What matters now is that HMRC treat this report with respect and come up with solutions, rather than deciding that they are perfectly happy with things as they are.'

Another former Pensions Minister, Ros Altmann, **who also supports the backdating of credits**, says: 'I'm delighted to see the OTS calling for these injustices in our tax system to be remedied.

'Denying state pensions to mothers who are ineligible for child benefit is clearly wrong.'

'It is great to see the OTS backing up the This is Money's campaign to right these wrongs.'

Why we are campaigning for parents hit by child benefit rules

The Government is unfairly condemning many mums and dads to a poorer retirement.

An innocent paperwork lapse just after having a child shouldn't bring a penalty of losing tens of thousands of pounds in old age.

The Government has claimed **it's too hard to verify evidence for child benefit claims older than three months**, as entitlement relies on being responsible for a child each week, and so credits are never backdated further than that.

This stance is dubbed 'ludicrous' and 'a nonsense' by critics, who believe in the majority of cases it will be obvious parents were in charge of their children at the times in question.

A Government spokesperson said in response to the OTS report: 'We want to get tax right for everyone so we make our guidance as clear and transparent as possible while providing a wide range of information through channels such as web chats and twitter.

'Our written guidance to all new mums urges families to claim child benefit, even when eligible for the High Income Child Benefit Charge, so that no one misses out on important National Insurance contributions.' A previous and fuller explanation of its position is [here](#).

Why you must apply for child benefit you're not entitled to to get state pension credits

The confusion over child benefit claims stems from a controversial overhaul six years ago.

This reduced the entitlement for those earning £50,000-plus a year, or wiped it out entirely for those earning £60,000-plus - something officially known as the High Income Child Benefit Charge.

But parents who earn too much to qualify for child benefit still have to apply for it, and tick a box to say they don't want the payments, so that they receive state pension credits but avoid having to fill in a tax return.

Each annual credit is worth 1/35 of the value of the state pension – around £251 per year or £5,020 over the course of a typical 20 year retirement.

We called for the following at the launch of the campaign:

- Full backdating of state pension credits for those who claim child benefit late;
- A review of how credits are awarded, including the feasibility of signing up when registering a birth not via child benefit;
- An overhaul of credit swaps between couples following mistakes on child benefit forms - HMRC has since **changed the system for parents trying correct these errors.**



year of £5,020 over the course of a typical 20-year retirement.

Research among parents carried out by HMRC found **parents are baffled - and gutted** - to discover child benefit errors can damage their state pension, and don't comprehend any obvious link between the two systems.

HMRC only interviewed mums for the study, explaining: 'Only expectant mothers (not fathers) were included because we found they were more engaged with the child benefit claim process.'

This is despite many fathers filling in the forms, often to take the pressure off partners after children are born.

That can lead to a separate problem - which affects less well off families who qualify for child benefit as well - where the 'wrong' partner signs up for child benefit, because they are working so the credits are worthless to them.

The OTS also flagged up this issue in its report, and suggested a revamp of the child benefit form, although it was overhauled last May in an effort to make it clearer.

'All this can easily be confusing for parents, and there have been numerous complaints about the process, and comments in the national media,' it says.

'One reason for this is that the process appears illogical. It could be more helpful (both in the claim form and the guidance on GOV.UK) to explain the benefits of making a claim before going on to cover the option not to receive payments, if the claimant wishes to ensure there will not be a HICBC.'

The OTS says the wider significance of making a child benefit claim may not be immediately obvious, given that 'benefits and tax are unlikely to be the first thing on new parents' minds'.

And it adds: 'It is unreasonable that the way the linkages in the system work mean people can easily disadvantage themselves, especially if they cannot correct this later.'

The OTS also points out that some parents have been unwittingly caught out by tax

Have you lost state pension by not signing up for child benefits or filling form in wrong?

If this has happened to you, contact tanya.jefferies@thisismoney.co.uk and tell us your story.



penalties, because they failed to realise they shouldn't receive child benefit. This is Money recently covered the case of a family who **faced a shock demand to stump up nearly £10,000 within a month.**



Child benefit claims falling: Number of parents signing up has dropped since the Government announced its overhaul of the system (Source: Office of Tax Simplification)

What do pension experts say?

'The OTS has highlighted the shortcomings of the system, which it rightly calls "confusing", "unreasonable" and "illogical",' says Catherine McKinnell MP, interim chair of the Treasury Committee.

'It's good to see that the OTS agrees with the committee's long-standing recommendation that the Government must do more to make sure that people are aware of the issue and know how to put it right.'

She went on: 'The Treasury Committee has long warned that the introduction of the High Income Child Benefit Charge could have stark implications.

'Many people may have been affected by this, and in different ways. For example, at the committee's bidding, HMRC revealed that 200,000 people may be missing National Insurance credits due to the fact that the higher earner is claiming the credits. Others may have simply dropped out of the system.'

Jon Greer, head of retirement policy at Quilter, says: 'The counter-intuitive nature of claiming child benefit has been highlighted numerous times and now the Government's independent evaluator is joining the fight .

'The OTS's report highlights the child benefit system means people can "easily disadvantage themselves" and is "illogical".

'A sleep deprived overwhelmed new parent is presented with reams of new responsibility and information. A child benefit claim form of seven pages with 78 questions is overwhelming, particularly when it's less than clear if you need to fill it in and how you are supposed to do it.'

Tom Selby, senior analyst at AJ Bell, says parents on a higher earnings threshold often think they don't need to bother claiming child benefit, but then miss out on crucial National Insurance contributions.

'As it's often the mother who is off work with the child, it means they miss out on entitlement to the state pension, further exacerbating the gender pension gap.

'It's good the OTS have identified that it's "unreasonable" the system works in this way and that individuals can unfairly miss out on vital state pension in later life because they haven't claimed the benefit.

'The suggestion people should be able to claim back NI credits if they've missed out is common sense and the Government should reform the system to ensure that people understand the implications of not claiming child benefit.'

Sean McCann, chartered financial planner at NFU Mutual, points out that a parent can face a hidden tax bill if they find a new partner.

Anyone with an income of more than £50,000 who moves in with someone who has children and is claiming child benefit may trigger an unexpected tax bill even though

"A sleep deprived new parent is presented with reams of new responsibility and information. A child benefit claim form of seven pages with 78 questions is overwhelming"

Jon Greer, Quilter

How much do you need to save for retirement?



Calculate >

they are not their children, he explains.

'This little-known quirk is probably the last thing on anyone's mind when they move in with a new partner.

'If you have a higher income than your partner and it exceeds £50,000 the onus is on you to tell HMRC and pay the tax bill. For some this runs into thousands of pounds.'

HMRC defines 'partner' as someone you're married to, in a civil partnership with, or living with as if you were, says McCann.

Call for low pay pension help

The OTS has also called on the Government to fix a tax anomaly that **deprives low earners of pension tax relief** automatically paid to the better off.

Many on a low pay-rung miss out Government tax relief, because their employers - often unwittingly - sign up to one of the many pension schemes that don't pay it into their pots.

The OTS says the Government should consider the potential for reducing or removing the differences in outcomes between schemes 'without making it more complicated for those affected'.

Baroness Altmann, who has spearheaded a campaign to get the Government to address this, also welcomed the OTS's stance on this issue.

'Forcing more than a million of the lowest earners (mostly women) to pay 25 per cent extra for their pensions is a huge social injustice,' she says. 'I urge the Government to act quickly.'

A Government spokesperson says: 'We recognise the different impacts of the two systems of providing tax relief on pension contributions for workers earning below the personal allowance.

'There is no straightforward or proportionate means of aligning the effects of the net pay and relief at source mechanisms more closely for these customers.'