Tax pitfalls for new and working parents to avoid

It can be hard for new parents to keep track of the financial implications of having a baby. There are however, some issues it can really pay to remember.

Get the most out of your Child Tax Credits

New parents may be missing out on an average of £495 a year in tax credits because they are reporting their income incorrectly, HMRC has warned.

It is possible to claim Child Tax Credit if you are responsible for a child or children aged 16 or under (or under 20 and in eligible education or training) if you meet the criteria.

You do not actually need to be working to claim Child Tax Credit. If you receive statutory maternity, paternity, shared parental or adoption pay, you can deduct up to £100 a week when reporting earnings for tax credits. If your payment comes to less than £100 a week, you should deduct for the amount you have received.

It is too late to claim for the current year, but new claimants can visit www.GOV.uk to find out how to apply and how much you may be entitled to. It is also important to note that claiming Child Tax Credit will not affect your Child Benefit.

Always claim Child Benefit

Child Benefit is worth nearly £1,800 a year for a family with two children. Applying for Child Benefit also entitles you to national insurance credits - which provide state pension contributions for a stay-at-home parent until a child is 12 years old. This gives a potential 12 years towards the 35 years of national insurance contributions required to qualify for a full state pension.

Although Child Benefit is available to everyone, it is taxable for those who earn over £50,000 – either the parent receiving the Child Benefit or their partner. This is called the 'High Income Child Benefit Charge' (HICBC) and the extra tax payable will effectively cancel out some or all of the Child Benefit.

It is the responsibility of the person earning over £50,000 to pay the tax charge. If either parent (or partner) earn above this amount it is the person who earns the most who pays. That person is then responsible for the HICBC and must fill in a self-assessment tax return each tax year and pay what is owed.

If this clawback applies to you, you can opt out of receiving child benefit to avoid having to register for self-assessment and filling in a tax return. However, you should still register for child benefit even when the full amount is clawed back, otherwise you will lose some valuable benefits.

Tax can be a complicated subject to understand and there may be other tax implications to consider. If you want to ensure you are making the most of every opportunity we suggest that you speak to your accountant.

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