HM Treasury

HM Revenue & Customs

Tax-Free Childcare:

consultation on design and operation

August 2013

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Correction made to page 54, Box 6.C

Change:

"Household that is better off using Tax-Free Childcare:
Ms Stevens (a lone parent with one child aged four)"

To:

"Household that is better off using Tax-Free Childcare:
Ms Stevens (a lone parent with one child aged four and one child aged six)"

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Foreword

This Government will always support those who want to work. We have already taken radical action to support hard-working families – from the unprecedented increases in the personal allowance to the new employment allowance announced at Budget 2013. This consultation sets out plans to go even further. The truth is that too many people aren't able to fulfil their career ambitions, and are prevented from working, by the high cost of childcare. Even part-time nursery places can cost thousands of pounds per year. The previous Government simply did not deal with this problem. So this Government is taking action.

High quality childcare has been proven to improve children's life chances. That's why we have already prioritised investment in early education. We have significantly increased the entitlement to free early education to 15 hours for all three and four year olds, and we are extending the entitlement to 40 per cent of two year olds by 2014-15.

These are important steps – but we want to go further. So at Budget 2013 we announced the introduction of Tax-Free Childcare for working families. This major new scheme will support working families by giving support equivalent to basic rate tax relief on money spent on childcare. It will help parents who want to work.

We want to get Tax-Free Childcare right – and the best way to do this is by asking those who know about childcare to help us design it. This consultation document begins the conversation by setting out the basics of how the scheme will operate, and – most importantly – inviting comments. We welcome all responses, and will be particularly grateful when they come from those with detailed knowledge of childcare – such as families and their representatives, the childcare industry, the childcare voucher industry, employers, and any others who are able to contribute. All responses received will feed in to the final design of the scheme.

As well as introducing Tax-Free Childcare for working families, we are expanding support for those on low incomes. Parents in receipt of Working Tax Credit can already claim 70 per cent of their childcare costs. We announced at Budget 2013 that we are allocating a further £200 million per year to increase the childcare support available under Universal Credit. This is another substantial investment, which will provide 85 per cent of childcare costs for a lone parent, or both parents in a couple paying income tax. We are inviting comments on this proposal, too.

The Government is proud that – despite inheriting Britain's largest post-war budget deficit from the previous Government – it is possible to take these vital steps to keep costs down for working families. We look forward to working with interested parties over the comings months.

Sajid Javid MP

Economic Secretary to the Treasury

1 Introduction and summary

Chapter 1 explains the Government's plans to introduce Tax-Free Childcare for working families, and additional assistance for parents through Universal Credit. It sets out the actions the Government is already taking to improve the supply and affordability of childcare, and explains why further action is needed.

It also provides an indicative timetable for the introduction of Tax-Free Childcare, explains the purpose of this consultation, and sets out which other areas of the consultation different respondents are likely to find of most interest.

How the Government is changing childcare

1.1 The Government is committed to promoting aspiration, rewarding work, and supporting households' standard of living. It is determined to support those who are in work and those who want to work.

1.2 The high cost of childcare is one of the biggest financial challenges that parents face. It is often so high that it simply does not pay for parents to work. And so at the Mid-Term Review in January 2013, the Government announced its intention to support working families with their childcare costs.

1.3 At Budget 2013, the Government announced the introduction of Tax-Free Childcare for working families. The Government will provide 20 per cent of working families' childcare costs, subject to an annual limit of £1,200 contribution from the Government for each child. This is equivalent to basic rate tax relief of childcare costs up to £6,000 a year. The Government has set aside £750 million per year to support Tax-Free Childcare, and this expenditure has been reflected in the Government's decisions at the Spending Round 2013.

1.4 Under Tax-Free Childcare, parents will register with a voucher provider and open an online account. The Government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in, subject to the above limit.

1.5 Households in which all parents work but do not receive support through tax credits (or Universal Credit) will be eligible for Tax-Free Childcare, so long as neither parent is an additional rate taxpayer. Households that receive tax credits or Universal Credit will get support through those systems.

1.6 Tax-Free Childcare will be delivered by HM Revenue and Customs, and will ultimately be available to up to around 2.5 million working families in the UK – more than the current Employer-Supported Childcare system, which is only available to some employees. Employer-Supported Childcare will therefore be phased out, though existing members of Employer-Supported Childcare will be able to choose whether to remain on their current scheme or move to Tax-Free Childcare. The Government has committed to explore how employers can continue to play a role in supporting their employees with childcare costs under Tax-Free Childcare.

1.7 Tax-Free Childcare will be phased in from autumn 2015. From the first year of operation, all children up to age five – and disabled children under the age of 17 – will be eligible. The scheme will then build up over time to include children under 12.

1.8 Support for those on lower incomes is also currently available through the childcare element of Working Tax Credit, which provides 70 per cent of childcare costs for those families where both parents work 16 hours or more. Last year the Government announced that under Universal Credit, this support would be extended to those working fewer than 16 hours a week, so that families working any hours can claim support with their childcare costs.

1.9 At Budget 2013 the Government announced a further £200 million to be invested in childcare support through Universal Credit from 2016. This money will be used to increase the rate of the Universal Credit childcare element from 70 per cent to 85 per cent for households where all parents pay income tax. As set out at Budget 2013, it will be funded from within social security budgets at the time.

1.10 The additional support in Universal Credit will reduce the expense of childcare costs for low to middle income families, so that more people can work the hours they need to get out of poverty. More parents will find that they are better off when they work full-time, and more parents will have a clear financial incentive to progress when in work.

Action the Government is already taking on childcare

1.11 These announcements build on the action that the Government is already taking to improve the supply and affordability of childcare.

Actions to improve the supply of childcare

1.12 In July 2013, the Government published its plans for improving the supply of affordable childcare. For many parents, before and after school and holiday care is the most difficult and costly to find – *More affordable childcare* sets out the Government's plans to help working parents access the childcare they need when they need it, in particular by:

- helping schools to offer affordable after school and holiday care, either alone or working with private and voluntary providers;
- enabling nurseries to expand by reducing red tape and removing planning restrictions;
- ensuring that childminders and nurseries that are good or outstanding can automatically receive government funding for 2-, 3- and 4-year-olds; and
- supporting parents to access more informal care.

1.13 The Government is expanding the provision of childcare in England by making grants available to help people set up new childcare businesses. These start-up grants, totalling £2 million, will help launch up to 6,000 new childminders, nurseries, and after-school clubs.

Actions to improve the affordability of childcare

1.14 The Government has also taken steps to improve the affordability of childcare. Every three and four year old is entitled to 15 hours per week of funded early education – the Government increased this figure from 12.5 hours per week in 2010. The Government is extending free early education to the 20 per cent most disadvantaged two-year olds in September 2013, and to around 40 per cent in 2014-15.

The need for further action

1.15 The Government currently directly supports parents with childcare costs in three ways: funded early education, support through tax credits, and Employer-Supported Childcare

1.16 Employer-Supported Childcare currently provides valuable support for many working parents, and works well in many ways. However, it has a number of drawbacks. For instance, it is offered by relatively few employers, which means that over half of employees, as well as all self-employed people, are unable to access it. It is linked to the parent rather than to the child, so pays no regard to the number of children there are in each family. And those who earn the National Minimum Wage are often not able to access it.

1.17 Despite existing government support, childcare costs can still be prohibitively expensive for many, reaching thousands of pounds per year. This is a substantial amount for families across the income spectrum.[1]

1.18 Survey data suggests that more than half of mothers not in paid work would prefer to be in paid employment if they could arrange reliable, convenient, affordable, good quality childcare. [2] Similarly, nearly a quarter of employed mothers say they would increase their working hours if they could arrange such childcare. Just over a quarter of families find it difficult or very difficult to meet their childcare costs.[3]

1.19 The Government believes that the introduction of Tax-Free Childcare and the extension of support in Universal Credit will support those who want to work and those who need to work, and allow parents to pursue their work and career ambitions by ensuring that it always pays to work.

About this consultation

Objectives and timetable

Tax-Free Childcare

1.20 This consultation invites interested parties to comment on the detailed design and operation of Tax-Free Childcare. It sets out the eligibility criteria, the approach to managing voucher accounts for each child, the role of the market, and the key information and validation processes. It discusses the considerations that have to be made in designing different aspects of the scheme, and poses questions in those areas where stakeholders are likely to have knowledge or insight. The answers that the Government receives to these questions will feed into the final design of Tax-Free Childcare.

1.21 Tax-Free Childcare represents a positive evolution of the current system of Employer-Supported Childcare, building on what works. Nevertheless, there are some important changes, including changes that focus limited resources on those who need it most, alongside new systems to build and processes to implement. The relationships between parents, employers, childcare providers, voucher providers and the Government will need to change. Time is needed to get these changes right, and this is why the Government has announced an ambition to start the new scheme in autumn 2015. This will allow legislation to be brought forward and systems to be developed and tested by the Government and by voucher providers. An indicative timetable for the delivery of Tax-Free Childcare is set out in Table 1.A below.

[1] Survey data suggests that the average nursery cost for a child under 2 is £106.38 per week for a part-time place (25 hours). This is equal to around £5,500 per year. (Daycare Trust and the Family and Parenting Institute, *Childcare Costs Survey 2013*)

[2] Huskinson, T. et. al. (2013), 'Childcare and early years survey of parents 2011' DfE SFR08/2013

[3] Childcare and early years survey of parents, 2011

Table 1.A: Indicative timetable for the delivery of Tax-Free Childcare

Period	Milestone
August to October 2013	Consultation with family groups, childcare providers, voucher industry, employers and payroll industry, and other interested stakeholders
Autumn 2013	Consultation results published with detailed proposals of scheme operation
Autumn 2013 to winter 2014	Systems specifications work in cooperation with industry Draft legislative bill prepared and consulted upon
Spring to autumn 2014	Systems development (design and build) by the Government and voucher providers proceeds in parallel
Summer 2014 to spring 2015	Legislation passes through Parliament
Autumn 2014 to summer 2015	Systems development (testing and refining) by the Government and voucher providers proceeds in parallel
Autumn 2015	Scheme goes live

1.22 There is a significant amount to be done. The Government is committed to working in close partnership with all stakeholders throughout the process.

Childcare support through Universal Credit

1.23 As well as inviting comments on the design of Tax-Free Childcare, this consultation document invites comments on the Government's proposals for the operation of the additional childcare support within Universal Credit that was announced at Budget 2013.

Engaging with this consultation

1.24 Details of how to respond to this consultation are at Annex A.

1.25 All responses are welcome, and the Government is particularly interested in responses from parents and parents' representative bodies, childcare providers, current voucher providers, large and small employers and employer representative bodies, community and voluntary organisations, regulatory bodies, think tanks and other research institutions, and data agencies and organisations.

1.26 Alongside the publication of this document, HM Treasury and HM Revenue and Customs will arrange meetings and discussions with organisations that are known to have an interest in the changes being proposed. It will also be possible to engage with this consultation through a variety of other channels, including internet forums and social media. Information about how the Government has collected evidence will be published following the conclusion of the consultation.

1.27 The Government wants to make it as easy as possible for people to engage with the consultation. A summary of the proposed design of the new scheme with a short series of questions aimed specifically at parents can be found online, at: http://www.surveymonkey.com/s/tax-free-childcare-consultation. The Government will also be engaging with workers in the childcare industry through their representative bodies.

Structure of this consultation document

1.28 A brief summary of the issues covered by each chapter is provided below.

- Chapter 2 explores how Tax-Free Childcare voucher accounts might work, including how they are opened and closed, and how payments into and out of accounts could operate. It also explores whether employers or other third parties might want to play a role under Tax-Free Childcare.

- **Chapter 3** explains the key principles that the Government will apply in determining eligibility for Tax-Free Childcare.
- **Chapter 4** outlines the information flows that will be required to operate Tax-Free Childcare, how the scheme will be protected from fraud, error, and debt, what validation checks should best be applied at each stage, and considers which party should be responsible for any such checks.
- **Chapter 5** sets out the case for and objectives of the childcare voucher market, the size of the market and the types of firms that might want to enter it as a voucher provider. It discusses the options for market structure, and the regulation necessary to protect parents.
- **Chapter 6** sets out the Government's proposals for how additional childcare support within Universal Credit will operate, and how this support will interact with Tax-Free Childcare.

1.29 To help readers to navigate the consultation, Table 1.B sets out the areas that are likely to be most relevant to each stakeholder group. However, readers are encouraged to read the document in full where possible.

1.30 The document contains 38 questions. It is unlikely that all readers will wish to answer all of them, and respondents are therefore welcome to answer as many questions as they wish.

Table 1.B: Stakeholder groups' likely areas of interest

Stakeholder group	Likely areas of interest
Families and their representatives	The Government will work with families and their representatives to explore how Tax-Free Childcare and the additional support through Universal Credit can work best for eligible families. This group will be particularly interested in Chapter 2 on voucher accounts, Chapter 3 on eligibility for Tax-Free Childcare, and Chapter 6 on support through Universal Credit.
Childcare providers	The Government will work with nurseries, childminders and their representatives, nannies, and other childcare providers to explore what impact Tax-Free Childcare and the additional support through Universal Credit will have on the childcare sector and how the schemes can operate in a way that meets the needs of the industry. This group will be particularly interested in Chapter 2 on voucher accounts, Chapter 4 on information and validation, and Chapter 5 on the market for vouchers.
Voucher providers	The Government will work with the existing childcare voucher industry, and with those that might be interested in entering the market, to explore how Tax-Free Childcare will operate and what this means for the development of new systems, and how the market as a whole should function. This group will be particularly interested in Chapter 2 on voucher accounts, Chapter 4 on information and validation, and Chapter 5 on the market for vouchers.

Employers and the payroll industry	The Government will work with employers and the payroll industry to explore how the transition from Employer-Supported Childcare to Tax-Free Childcare can work best for employers, and how those employers that wish to can continue to be involved in helping their employees with childcare. This group will be particularly interested in Chapter 2 on voucher accounts, Chapter 3 on eligibility for Tax-Free Childcare, and Chapter 4 on information and validation.
Data agencies and organisations	The Government wants to understand whether data agencies, and other organisations, see opportunities where they could play a role in the running of Tax-Free Childcare. This group will be particularly interested in Chapter 4 on information and validation, and on Chapter 5 on the market for vouchers.

2 Tax-Free Childcare: voucher accounts

Working families will access Tax-Free Childcare through a voucher account. This chapter explores how these accounts might work, including how they are opened and closed, and how payments into and out of accounts will operate. It also explores whether employers or other third parties might want to play a role under Tax-Free Childcare.

2.1 Tax-Free Childcare will be delivered through voucher accounts. Parents will open an account with a voucher provider. Parents pay money into the account, with the Government paying a top-up to their contribution. Parents can then use this credit with a qualifying childcare provider[1] of their choice.

2.2 A similar approach already exists under the Employer-Supported Childcare scheme, which offers parents a tax exemption and National Insurance contributions disregard on childcare support offered by their employer. Employees establish salary sacrifice or 'salary plus' arrangements with their employer, and the employer works with the voucher provider to administer the scheme.

2.3 Where Employer-Supported Childcare is offered, employers play an important role, and the scheme generally works well. But its delivery model limits the benefits of Employer-Supported Childcare: relatively few employers offer it, and the self-employed – and those receiving the National Minimum Wage – generally cannot access it.

2.4 Box 2.A and Chart 2.A explain the current Employer-Supported Childcare scheme in more detail.

Box 2.A: Operation of Employer-Supported Childcare

There are three types of Employer-Supported Childcare: childcare vouchers, directly-contracted childcare and workplace nurseries.

There is a tax exemption and National Insurance Contributions (NICs) disregard for all forms of Employer-Supported Childcare. For childcare vouchers and directly-contracted childcare this is limited up to a maximum of £55 per week for basic rate taxpayers, £28 per week for higher rate taxpayers and £22 per week for additional rate taxpayers. This means that where an employer meets all the conditions for providing the benefit, the employee does not have to pay tax or NICs (including Class 1 NICs for childcare vouchers) on it, and the employer does not have to make secondary NICs contributions either. Employer-Supported Childcare is available for children up to the first week in September following their 15th birthday, or the first week in September following their 16th birthday if a child is disabled.

Childcare vouchers are the most popular form of childcare provided by Employer-Supported

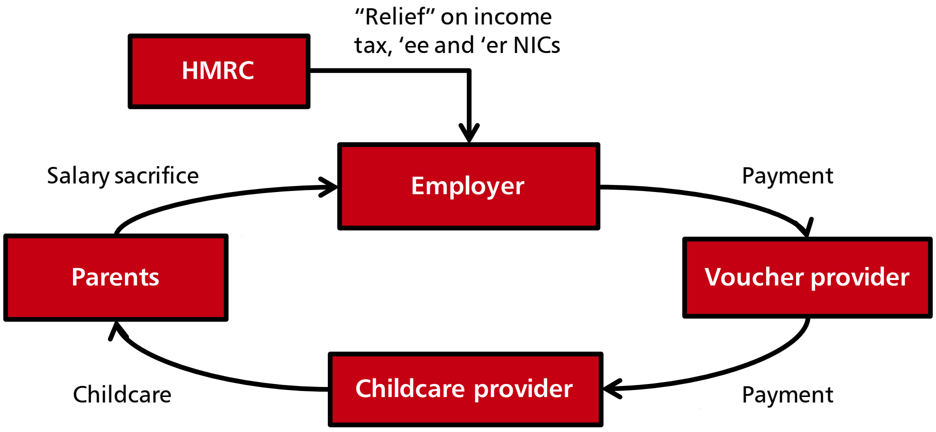
[1] Qualifying childcare is care that is formally registered or approved. This can include childcare provided by nurseries, playschemes, childminders, nannies and school-based care registered with Ofsted in England, or with equivalent authorities in Scotland, Wales and Northern Ireland.

Childcare schemes. These can be provided in addition to salary, but in most cases individuals agree to contribute to the cost through the use of salary sacrifice arrangements, which means that although they themselves pay for the childcare they do so in a tax efficient way.

Where provision of childcare vouchers and directly-contracted childcare does not exceed the limits set out in legislation, the employer does not have to report the level of the benefit to HMRC.

A basic rate taxpayer can receive childcare vouchers to the value of £2,915 a year. If they sacrifice this level of salary, there are tax and NICs savings of £933. In addition, an employer would save £402 in secondary NICs contributions. Since 2011 higher and additional rate taxpayers receive less support. Support for higher and additional rate taxpayers has been restricted to be broadly in line with that received by a basic rate taxpayer.

Chart 2.A: Diagram of the operation of Employer-Supported Childcare



2.5 Like Employer-Supported Childcare, Tax-Free Childcare will use voucher accounts to deliver support. Half a million families already manage their childcare costs through these accounts, which are easy to set up and use. Voucher accounts give parents control and flexibility. They help ensure that taxpayers' money is spent on its intended purpose. And they keep administration down for childcare providers, for parents and for employers. But unlike Employer-Supported Childcare, Tax-Free Childcare will be available to all working families, and will not depend on employers.

2.6 Box 2.B and Chart 2.B set out how voucher accounts will work under Tax-Free Childcare.

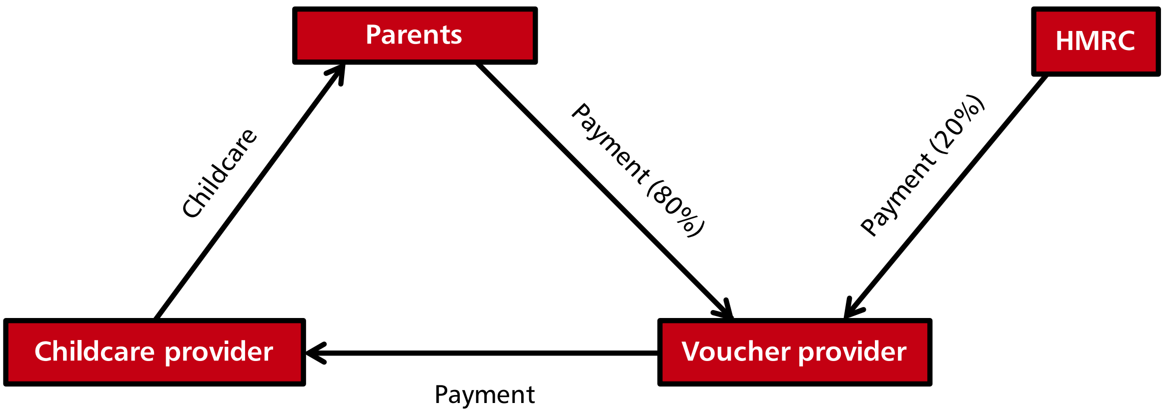
Box 2.B: Operation of Tax-Free Childcare

To receive Tax-Free Childcare, a working family will set up a voucher account with a voucher provider.

The family will pay money into their Tax-Free Childcare voucher account. The Government will top up the family's payment, at a rate of 20p for every 80p the family pays in. The amount the Government will contribute is subject to a limit of £1,200 per child, per year.

The voucher provider will then issue a voucher equal to the value of the family's and the Government's contributions. The family can use this voucher to pay a qualifying childcare provider for childcare.

Chart 2.B: Diagram of the operation of Tax-Free Childcare



2.7 The rest of this chapter sets out more detail on the role that each party will play, or might choose to play, in Tax-Free Childcare. It is looking for evidence and opinions on this approach with a view to achieving an overall system that:

- is flexible, simple and secure for parents;
- is timely and efficient for childcare providers;
- gives employers an opportunity to play a role in supporting their employees' childcare costs; and
- achieves an efficient and competitive market for vouchers.

2.8 Above all, voucher accounts must work for families. It should be easy for parents to buy and redeem childcare vouchers. Parents should be able to use vouchers at a provider of their choice at a time that meets their needs. And they should have confidence that their information and their money are secure.

2.9 As with Employer-Supported Childcare, parents will be able to use their vouchers to pay for any qualifying childcare. The vast majority of childcare providers are small organisations or self-employed, and they will want to be paid on time with any administration kept to a minimum so they can focus on providing high quality affordable childcare.

2.10 The Government recognises that many employers will wish to continue to offer support to their employees. While it is the Government's intention that all parents should be able to open and manage their Tax-Free Childcare account directly with a voucher provider, the 'Role for employers and third parties' section of this chapter considers how employers or other third parties may wish to assist parents in Tax-Free Childcare.

2.11 There is currently a market of voucher providers under Employer-Supported Childcare, with employers choosing a voucher provider and paying any administration fees. The Government intends to ensure that voucher accounts operate in a way that promotes an efficient market of voucher providers, and helps to keep costs down for voucher providers. Chapter 5 sets out how this market might work, including models where parents will have a choice of voucher providers. Chapter 4 sets out questions around flows of information between parties.

Opening voucher accounts

2.12 In order to access support from Tax-Free Childcare, working parents will open a voucher account. The Government wishes to encourage innovation so that parents have a variety of ways to open and manage their account, and a route that suits them. The Government anticipates that most or all voucher accounts will be available online, and would like to see voucher providers consider other routes to open accounts, such as through smartphone apps, over the phone, at their nursery, or on the high street. Parents may open accounts with different voucher providers for different children – though only one account per child will be permitted.

Paying into voucher accounts

2.13 The Government understands that the payment system is crucial to the success of this scheme. Cashflow is a concern for many childcare providers, which often are small businesses. Both parents and providers will want easy, fast and reliable payments. The Government is keen to learn from what works under Employer-Supported Childcare, while recognising that there are relevant differences under Tax-Free Childcare.

2.14 Employer-Supported Childcare works on a pay period basis – typically weekly or monthly. While payment mechanisms such as a monthly direct debit may be appropriate for many parents under Tax-Free Childcare, others may value alternative ways of paying. They may want to make a transfer less regularly from their online account, pay over the phone, or pay in person.

2.15 The payment system will need to be fast – in many cases handling payments at the end of the month when many parents are paid, and payments out at the beginning of the next month for childcare (though other parents may wish to use their voucher account to save up vouchers over months). The Government's intention is that the payment process will need to work in a similar way to Employer-Supported Childcare, and will also need to handle an additional step of receiving the top-up payment directly from the Government. This means that the payments will need to:

- focus support on parents while in employment or self-employment;
- be consistent with typical payment arrangements for parents, consistent with Universal Credit (which will operate on a monthly basis), and consistent with payment arrangements for many childcare providers;
- give parents the flexibility to pay in what they like when they like, in order to meet their childcare needs through a single account for each child; and
- help to limit the risk of a parent working for a very short time just in order to buy an annual 'lump sum' of £1,200 childcare support.

2.16 As set out in Chapter 1, the Government will limit support to £1,200 per child per year. There are various ways this limit could be applied in practice. For instance, it could be applied when vouchers are bought, or when vouchers are redeemed. It could be applied on a weekly, monthly, or yearly basis. And it could either be applied to payments by parents into voucher accounts, or to the 20 per cent the Government supports.

2.17 One option is to cap the Government top-up on a monthly basis: parents would be eligible for a top-up of a maximum of £100 per month per child. This would mean that the Government's top-up would apply to parental payments of up to £400 each month. Parents could pay more than £400 per child per month into their account, but anything above £400 would not receive a top-up. Applying a monthly cap such as this, rather than an annual cap, would make it more straightforward for families moving between Tax-Free Childcare and tax credits or Universal Credit, which often have monthly or four-weekly payment cycles. It may also help to focus the scheme on parents in meaningful employment by avoiding scenarios where a parent could pay in their entire annual entitlement (and receive their entire annual benefit) in one go.

Box 2.C: Example of the operation of a monthly cap

Mr and Mrs Patel fund part-time childcare for their only child Anjali. They pay £200 per month into their voucher account, and – under Tax-Free Childcare – the Government pays a £50 per month top-up into their account.

As a result of a new job with longer hours for Mrs Patel, they would like to buy more hours of childcare for Anjali costing a total of £600 per month. Under Tax-Free Childcare they would receive a top up (£100) on their contribution up to £400 per month (or a top up of £1,200 per year on a contribution of £4,800 per year) and would not receive a top up on the last £100 per month. So they pay £500 per month with the Government paying the maximum £100 per month.

Questions

1. What features will the payment system need to have to ensure that it meets the needs of parents and childcare providers?
2. What are the advantages and disadvantages of applying the £1,200 limit by means of a monthly cap as opposed to other options?

Transferring and closing accounts

2.18 Chapter 5 considers how the market for Tax-Free Childcare voucher accounts could operate. It includes options that would give parents a choice of voucher provider. If parents have a choice of voucher provider, it will be important to promote parental choice and flexibility whilst also keeping any administrative costs low.

2.19 Parents may wish to build up balances in their voucher accounts over time, for example to use over the summer holidays. In some cases, parents might have built up credit over time and then want to close their account – they may, for example, no longer need childcare. It is the Government's intention that if parents have saved up vouchers they no longer wish to redeem, they should be able get their contributions back, and the Government get its contributions back. If parents switch voucher provider, they should be able to carry any built up credit to the new voucher provider.

2.20 There are also various scenarios where parents may stop paying in – they might have become ineligible – but still wish to redeem their voucher. The scheme might allow parents to still spend built-up vouchers even when they have become ineligible, though it could treat some of these situations differently. Examples include when the child turns 12, or the parent leaves employment or takes a lower paid job and starts to claim tax credits or Universal Credit. In these scenarios it will be important to balance flexibility for parents when their situation changes with focussing the scheme on eligible working families.

Question

3 In what situations should parents be able to spend saved-up vouchers if they become ineligible?

2.21 There may be some situations where accounts are left open and in credit for long periods without use. It will be important that it is clear how such 'dormant' accounts are defined and treated, in order to manage the risk that parents' and Government's money is lying unintentionally unused. The Government is minded to set a voucher validity period to tackle this, though any validity period would need to be set in a way that does not restrict parents' flexibility.

Role for employers and third parties

2.22 Employer-Supported Childcare is currently offered by relatively few employers. A key objective of Tax-Free Childcare is to extend support to working families regardless of who their employer is. The Government wants to avoid imposing additional burdens on all employers, and wants to keep the delivery of Tax-Free Childcare as simple as possible. This is why employers will not be mandated to play a role in Tax-Free Childcare.

2.23 Currently, if employers choose to offer Employer-Supported Childcare, there are a range of requirements they have to fulfil and they have to cover any fees charged by the voucher provider. The Government disregards the employers' National Insurance Contributions (NICs) to help cover the costs of these fees and other costs of administration. As employers will not be mandated to play a role under Tax-Free Childcare, they will not be eligible for this NICs disregard.

2.24 However, the Government recognises that Employer-Supported Childcare is an important offer for many employers and is committed to giving employers the opportunity to play a role under Tax-Free Childcare if they want to. Table 2.A below sets out current and potential roles for employers.

Table 2.A: The role of employers in Employer-Supported Childcare and Tax-Free Childcare

Employer requirements under Employer-Supported Childcare	Potential employer role in Tax-Free Childcare
Advertise scheme and ensure it is open to all staff.	Could provide information to employees on how to access Tax-Free Childcare, particularly to new joiners or returners.
Establish salary sacrifice or salary plus arrangements.	Could offer to continue to buy vouchers for employees. Deductions from payslips would be after tax instead of salary sacrifice – and unlike Employer-Supported Childcare there would be no NICs relief for employers. Employers could also choose to contribute towards childcare costs, though this may be considered a benefit in kind.

Make bulk monthly payments to providers with information as to which parents payments relate to.	Employers might consider buying vouchers on behalf of parents in bulk if that puts them in a position to exploit economies of scale to benefit their employees.
Pay administration fee to voucher provider.	Chapter 5 outlines different approaches to fees. Under some options, employers may offer additional childcare support as part of their remuneration offer to employees, subject to the taxable benefit-in-kind position that might apply to these costs.
Administrative requirements for tax reporting, including conducting the Basic Earnings Assessment, [2] and keeping records sufficient to ensure that any payments made in excess of the allowed limits are reported to HMRC at the end of the tax year.	No Basic Earnings Assessment would be necessary.

2.25 As outlined in Chapter 3, all families already claiming Employer-Supported Childcare when Tax-Free Childcare is introduced will be able to continue to claim Employer-Supported Childcare, or they will be able to switch to Tax-Free Childcare if they wish. As a result there will be an interim period for employers already offering Employer-Supported Childcare with some parents, and some parents claiming Tax-Free Childcare (either those that choose to switch or new joiners or new parents). Some employers might choose to review their Employer-Supported Childcare scheme and potentially direct their employees to Tax-Free Childcare.

Question

4 The Government is committed to giving employers the opportunity to remain involved in the provision of support for childcare in any ways that are consistent with the principles and operation of Tax-Free Childcare. How can the Government best ensure this happens?

2.26 As well as employers, other organisations – including nursery groups, and voluntary and community sector organisations – may be well placed to play a role in the administration of Tax-Free Childcare. They might provide information or advice to parents, help them open or manage an account, or help in choosing childcare.

Question

5 What roles might other organisations play in helping parents access Tax-Free Childcare?

[2]Under Employer-Supported Childcare (ESC) the basic earnings assessment is used to identify the level of tax relief on ESC an individual employee is entitled to – it also indicates the value of childcare vouchers or directly contracted childcare that can be provided to that employee without becoming liable to pay secondary Class 1 or Class 1A National Insurance (NI) contributions. And for childcare vouchers, it sets the value of the NI disregard for the employee. It is calculated by adding together the employee's basic earnings and some other components, plus any taxable benefits that the employer provides.

3 Tax-Free Childcare: eligibility

This chapter explores which families will be eligible for support through Tax-Free Childcare. It explains the key principles that the Government will apply in determining eligibility, and sets out the rationale for the decisions the Government has made so far on how the new scheme will operate.

It also outlines the support that families who are currently claiming Employer-Supported Childcare could receive if they were to switch to Tax-Free Childcare after autumn 2015.

3.1 Tax-Free Childcare will support working families with their childcare costs. There are four key criteria that will determine whether a child is eligible for Tax-Free Childcare:

1. **Children must be under the age of 12.**

   Support will be focused on those children under 12, as childcare costs for this group are often the highest. In the first year of operation, all children up to age five will be eligible. Scheme eligibility will then increase by one year, each year until all children under 12 are eligible. Over this period, Employer-Supported Childcare will be phased out. Children with disabilities under the age of 17 will be eligible for Tax-Free Childcare, in line with existing rules under Employer-Supported Childcare.

2. **Both parents (or a lone parent) must be in paid work.**

   Where both parents wish to go out to work, the Government wants to make it easier for them to do so.

3. **Both parents (or a lone parent) must not be in receipt of any support through tax credits, Universal Credit, or Employer-Supported Childcare.**

   Under tax credits or Universal Credit, parents may already be receiving support with up to 70 per cent of their childcare costs through the Childcare Element. The Government is making available an additional £200 million of support for childcare through Universal Credit. Details of this are set out in Chapter 6. Further, all three- and four-year-olds remain eligible for 15 hours per week of funded early education.

4. **Parents (or a lone parent) must not be additional rate taxpayers.**

   The additional rate threshold is currently set at £150,000 per year.

3.2 The following sections set out how, for the purposes of Tax-Free Childcare, the Government plans to:

- define 'parents' and 'the household';
- define employment (including self-employment);
- operate the income cap; and

- apply the age limit for support, and how the Government will increase this over time.

3.3 In thinking about how Tax-Free Childcare should operate, the Government has considered how similar schemes, such as tax credits and Universal Credit operate. Where practical, it has drawn on an existing definition or approach. This will help to ensure that parents can move smoothly between these schemes if their circumstances change.

Defining parents and the household

3.4 The Government announced at Budget 2013 that Tax-Free Childcare will only be accessible to families where all parents are in paid employment, whether a two-parent or lone-parent household. Defining the terms 'parent' and 'the household' is an important first step from which other definitions follow.

3.5 The Government wishes to ensure that those who have responsibility for a child, regardless of their biological relationship, can benefit from Tax-Free Childcare. For the purposes of Tax-Free Childcare, the Government therefore proposes to define a 'parent' as an individual who has responsibility for a child, and that the child's primary residence must also be with the 'parent'. This will ensure that adoptive parents, extended family members (such as grandparents, aunts and uncles), and others who have taken on primary responsibility for raising a child, and who reside with the child, can also receive Tax-Free Childcare. Lone parents will be eligible for the new scheme, providing they meet the above criteria, mirroring the current rules in tax credits and Universal Credit on this matter.

3.6 To ensure that support is targeted at those who need it most, the Government needs to consider the employment status of each member of a couple who live together as a household, including where one member of the couple does not have responsibility for the child. For the purposes of this consultation, 'the household' refers to two individuals aged 16 and over who are living together as a couple with a child for which one or both individuals has responsibility. This will ensure the Government takes a consistent approach in determining who receives Tax-Free Childcare. Adult children living in the house will not form part of 'the household' for scheme eligibility purposes, mirroring current tax credits and Universal Credit rules on this matter. Lone parents will be eligible for the new scheme, providing they meet the employment criteria.

3.7 In cases of shared parental responsibility where the child has two residences, only one parent will be able to open a Tax-Free Childcare account for that child. Typically this will be the parent with whom the child has its primary residence. In cases where a child lives with each parent for half of the time, it will be for parents to decide who will claim as only one will be able to do so. This will ensure that all eligible children receive the same level of support.

3.8 The Government already provides targeted support to foster carers, in the form of a foster carers allowance delivered by local authorities. This allowance should include support for all the costs of looking after children who are in foster care, including – where appropriate – childcare. For this reason, foster carers will not be eligible to claim Tax-Free Childcare for any foster children in their care. Foster carers will, however, be able to claim Tax-Free Childcare for other (non-fostered) children who they have responsibility for, mirroring current tax credits and Universal Credit rules on this matter.

Questions

6 Does the proposed definition of 'parents' ensure that all individuals who have responsibility for a child can benefit from Tax-Free Childcare?

7 Is the proposed definition of 'the household' fair and workable?

Defining employment

3.9 Parents who are either employees receiving a salary, or are self-employed (or a combination of the two) will be defined as 'in employment'. For Tax-Free Childcare to be most effective, the Government's limited resources must be focused on supporting parents who want to go out to work, or work more hours, but who find the lack of affordable childcare is impeding them.

The requirement for all parents to be in work

3.10 The most important requirement for receiving support is that all parents (as defined above) are in employment (as also defined above). Those families where only one parent in a couple is in employment, or where a lone parent is not in employment, will not be eligible for support. Should the parent who is not in employment take up employment, they will then become eligible to set up a Tax-Free Childcare account for their child or children. While families where all parents are not in paid work will not be eligible for Tax-Free Childcare, all three- and four-year-olds remain eligible for 15 hours per week of funded early education.

3.11 In line with the above principle, where a lone parent who is in employment and claiming Tax-Free Childcare moves in with a new partner who is not in employment then they will no longer be able to claim Tax-Free Childcare. Should the new partner take up employment, then the parent will be able to claim Tax-Free Childcare again for the child or children.

3.12 In cases where the second parent is in custody, the other parent will be treated as a lone parent for the duration of the prison sentence, and they will be eligible for Tax-Free Childcare providing they meet the eligibility rules set out above. This mirrors the tax credits and Universal Credit rules on this issue.

What constitutes employment?

3.13 To focus on those who wish to go to work, the Government needs to decide what constitutes 'employment'. This includes how it will treat parents who are:

- in employment, but who are away temporarily;
- not in employment due to a health condition or disability;
- doing voluntary and other forms of unpaid work, and
- in education.

3.14 In considering how to treat the above groups for the purposes of Tax-Free Childcare, the Government intends to ensure that the limited resources available are focused on those who require formal childcare while they are at work.

3.15 There will be times when parents who are otherwise eligible are not in employment for short periods. For example, this may occur when they are sick, or periods when one (or both) parents are in hospital. Such parents may still need to use childcare if they are too unwell to look after their children. A second example is where they are on other forms of 'parental' leave such as maternity, paternity and adoption leave. In these instances they may still need childcare cover for existing children to enable them to cope with a new birth.

3.16 In these cases parents may continue to claim Tax-Free Childcare while one or both parents is on a period of paid 'parental' or sick leave, as long as they remain in employment and continue to receive income. Unpaid 'parental' and sick leave will not qualify.

3.17 Parents on paid 'parental' leave will only be able to claim Tax-Free Childcare for those children who were eligible for Tax-Free Childcare before they began their period of leave. For example, a couple with two children under five and a new-born who are on paid parental leave would be able to claim Tax-Free Childcare for both children under five if they wished, but not the new baby, until they returned to work. This approach will ensure that parents can continue to receive support with their childcare costs for their older children while they take time away from the workplace to adjust to the new birth.

3.18 Where one member of a couple is in work, and the other is either a full time carer in receipt of Carer's Allowance, or in receipt of contributory Employment and Support Allowance, the couple will be eligible for Tax-Free Childcare. This will be limited to recipients of contributory Employment and Support Allowance, as those in an equivalent position in Universal Credit will be eligible for the Universal Credit childcare element. This approach will ensure that couples in which one parent has limited capability for work due to a health condition or disability, and couples in which one parent is a full time carer, receive support so that the parent who is in employment is not impeded from working if they wish to, because of high childcare costs.

3.19 The Government recognises the importance of volunteering, and the important role that volunteers play in improving their local communities. However, voluntary work, and other types of unpaid work, will not be considered as being in employment for Tax-Free Childcare eligibility purposes. This is because the purpose of Tax-Free Childcare is to enable parents to take up more paid employment where they are prevented from doing so by the costs of childcare.

3.20 There are some circumstances where parents are not working because they are in education. The Government already provides support to parents in recognised full-time education courses through the childcare grant, which offers parents support with up to 85 per cent of their childcare costs depending on household income. For this reason, only those who are in employment will be eligible to receive support through Tax-Free Childcare.

Setting a minimum level for qualifying employment

3.21 The Government wants Tax-Free Childcare to support working families who find the high cost of formal childcare prohibits them from returning to work, or working more hours. It is therefore important that those parents who claim Tax-Free Childcare are in meaningful employment to qualify for this assistance. The Government therefore intends to design a test to define meaningful employment, to ensure support is targeted at working families.

3.22 HMRC gathers a range of information to understand an individual's employment history, and this can be used to assess, through a risk-based approach, whether a claim for Tax–Free Childcare is genuine. However, the Government recognises that using a range of metrics may make some claimants feel insecure about their claims. The Government is therefore considering whether a single measurement would be a fairer approach in defining qualifying employment.

3.23 One option to do this could be by implementing a minimum income rule in the new scheme. Aligning the minimum income rule with, for example, typical earnings of an individual who works part time (16 hours a week) on minimum wage (£80 per week or £350 per month) could ensure that only parents who are in regular employment can benefit from Tax-Free Childcare. Parents who are eligible for Tax-Free Childcare would continue to be eligible as long as they remain in employment, and their income met the minimum income rule. As income is reportable for tax purposes, HMRC would be able to use its existing information streams to make this assessment.

3.24 An alternative could be to require a minimum number of hours, as is the case in claims for Working Tax Credit. This would be less sensitive than a minimum income rule to an individual's hourly rate of pay, for example, where higher paying jobs would require parents to work fewer hours per week to be eligible. This would require additional information to be gathered by HMRC, which would come at a cost for all parties.

3.25 These options could provide a clearer measurement for an individual to know whether they are eligible to claim Tax-Free Childcare. However, they also come with their own difficulties and burdens. Measurements would also need to be applied to self-employed individuals, and where new information is needed this must be gathered and verified – in this case on a large scale. The Government is therefore seeking views as to whether policing of qualifying employment should take into account a range of measurements, or whether there should be a single rule, to ensure that it is simple for parents to understand whether or not they are eligible for Tax-Free Childcare.

3.26 The Government wants to ensure that Tax-Free Childcare works well, is valued by parents, and is not complex to administer. To ensure that support is targeted at those who need it most the Government needs to ensure that only those in meaningful employment are eligible, and two options to do so are outlined above. The Government is seeking views on whether there are better approaches to limiting support to those who are in meaningful employment. For both of the options set out above, the Government wishes to understand what implications parents may face, especially in relation to the timing of submitting information.

Questions

8 What are the potential benefits and risks of a minimum income rule or hours rule in defining qualifying employment?

9 What alternative ways are there to define qualifying employment, and what are the potential risks and benefits of these approaches?

Setting an income cap

3.27 At Budget 2013 the Government announced that households where one or both parents is an additional rate taxpayer will not be eligible for Tax-Free Childcare. An individual's income is a measurement currently collected by HMRC as it necessarily affects the rate of tax that they pay. The Government has decided to align the upper threshold with an existing boundary in the tax system for simplicity. Keeping administrative systems for the new scheme simple will ensure that the maximum available funds go directly to eligible parents, and will make it easy for parents to understand whether or not they are eligible.

3.28 The Government believes that the additional rate of tax is the most appropriate threshold with which to align the upper threshold. As with all thresholds, the Government will keep the upper limit under review and continue to try to balance fairness with administrative simplicity.

Applying the age limit

3.29 At Budget 2013 the Government announced that Tax-Free Childcare would be phased in over time as the existing Employer-Supported Childcare scheme is phased out. In the first year, children up to age five – i.e. up to and including the school year in which they have their fifth birthday – will be eligible. This will then build up over time to include children under 12. This will be possible because savings will be realised from the closure of the Employer-Supported Childcare scheme as parents either move to Tax-Free Childcare, or as their children reach age 16.

3.30 How the age cut-off rules operate in practice will be an important factor for parents who wish to understand when their child will benefit from Tax-Free Childcare.

3.31 Aligning the eligibility of children in Tax-Free Childcare with the school year will ensure that parents of eligible children can receive support with their childcare costs for the whole of that school year, and that children in the same school year are treated consistently. In the UK, the school year broadly begins around September. Children born in or after September 2010 will therefore be eligible. Aligning eligibility with the school year reflects the approach taken in tax credits and Universal Credit. Once the scheme has been fully phased in, eligibility will end in the September following the child's 11th birthday.

3.32 It is important that parents have certainty on exactly how this transition will work so that they understand when their children might become eligible for Tax-Free Childcare. Therefore, following the first year – where children up to age five will be eligible for Tax-Free Childcare – scheme eligibility will increase by one year, each year until all children under 12 can benefit from the new scheme. In practice this will mean that in the second year, children will be eligible up to age six, and in the third year that children will be eligible up to age seven, until all children under 12 are eligible. Increasing the age limit in this way will ensure that no child who is eligible for Tax-Free Childcare in year one, will lose eligibility before the end of the school year in which they turn 11.

3.33 The Government has confirmed that disabled children (whose parents meet the eligibility criteria) will continue to be able to claim Tax-Free Childcare until the September following their 16th birthday, in line with the current rules for Employer-Supported Childcare and in recognition of the fact that childcare costs for this group can remain high throughout their teenage years.

Question

10 Will the proposed operation of the age cut-off rule (set out above) ensure that all children who are eligible for Tax-Free Childcare in year one remain eligible until the end of the school year in which they turn 11?

Employer-Supported Childcare

3.34 As set out in Chapter 2, Tax-Free Childcare is an evolution of Employer-Supported Childcare. Tax-Free Childcare expands support, focuses it on those who need it most and keeps what works well, such as the use of personal accounts. Half a million families already manage their childcare costs through these accounts, which are easy to set-up and use, with the vast majority of accounts online. The further detail set out in this chapter on how eligibility for Tax-Free Childcare will operate in practice aims to ensure that Tax-Free Childcare provides support to those who need it most and to allow parents who wish to work to do so.

3.35 At Budget 2013 the Government announced that Employer-Supported Childcare vouchers and directly-contracted childcare will be closed to new entrants once Tax-Free Childcare is introduced. Current members of Employer-Supported Childcare schemes may choose to remain in their current Employer-Supported Childcare scheme or to switch to Tax-Free Childcare if they wish. Employer-Supported Childcare schemes will remain open to new joiners until Tax-Free Childcare is introduced in autumn 2015.

3.36 The provision of workplace nurseries by employers will not be affected by the introduction of the new tax-free childcare scheme. Employees will be able to continue to join workplace nursery schemes offered by their employers, which will continue to benefit from an unlimited tax exemption and NICs disregard.

3.37 Tax-Free Childcare will be calculated in a different way from Employer-Supported Childcare. To help describe how the new offer can benefit parents in comparison to Employer-Supported Childcare, Table 3.A sets out more detail, and Box 3.A sets out individual case studies. The gains and losses shown in the case studies demonstrate a straight comparison between Employer-Supported Childcare and Tax-Free Childcare. Individuals will be able to remain members of their current Employer-Supported Childcare schemes, as long as their employer continues to offer it. As such, there will be no cash losers through this reform.

Table 3.A: Comparison of Employer-Supported Childcare with Tax-Free Childcare

	Number of children under 12	Maximum support through Employer-Supported Childcare	Difference under new system[1]
Single parent or working couple with one basic rate Employer-Supported Childcare claimant	1	£933[2]	£267
	2	£933	£1,467
	3	£933	£2,667
Working couple, both basic rate Employer-Supported Childcare claimants	1	£1,866	-£666
	2	£1,866	£534
	3	£1,866	£1,734
Single parent or working couple with one higher rate Employer-Supported Childcare claimant[3]	1	£623[4]	£577
	2	£623	£1,777
	3	£623	£2,977
Working couple, both higher rate Employer-Supported Childcare claimants[3]	1	£1,247	-£47
	2	£1,247	£1,153
	3	£1,247	£2,353
Working couple, one basic, one higher rate Employer-Supported Childcare claimant[3]	1	£1,556	-£356
	2	£1,556	£844
	3	£1,556	£2,044

[1] Based on claiming the maximum available support under Tax-Free Childcare, equal to £1,200 per child each year.

[2] Calculated by multiplying the maximum amount a basic rate taxpayer can salary sacrifice each year (£2,916) by their marginal rate of tax (20 per cent) plus National Insurance contributions (12 per cent): £2,916 x 32% = £933

[3] Where the higher rate earner joined Employer-Supported Childcare after 5 April 2011.

[4] Calculated by multiplying the maximum amount a higher rate taxpayer can salary sacrifice each year (£1,488) by their marginal rate of tax (42 per cent) plus their marginal NICs (2 per cent): £1,488 X 42% = £623

Box 3.A: Tax-Free Childcare: case studies

Mr and Mrs Smith (basic rate taxpayers with two children)

- Mr and Mrs Smith both work for an employer offering Employer-Supported Childcare via a salary sacrifice arrangement. They are both basic rate tax payers and have two children under five (and are not eligible for any other childcare support). Under these circumstances, the maximum they can salary sacrifice each year is £5,830 (without going above the exemption limit[1]), of which £1,866 is in the form of Government support as a result of tax and NICs exemptions.

- However, from autumn 2015, Mr and Mrs Smith will be able to claim Tax-Free Childcare instead of Employer-Supported Childcare. This means they will be able to claim up to £2,400 between them each year – an extra £534 when compared to Employer-Supported Childcare.

Mr and Mrs Jones (higher rate taxpayer and basic rate taxpayer, with one child)

- Mr Jones works for an employer offering Employer-Supported Childcare via a salary sacrifice arrangement. He is a higher rate tax payer and has a child under five (and is not eligible for any other childcare support). His partner also works, but her employer does not offer Employer-Supported Childcare so she is not eligible for any support. Under these circumstances, the maximum they can salary sacrifice each year is £1,484 (without going above the exemption limit), of which £623 is in the form of government support as a result of tax and NICs exemptions.
- However, from autumn 2015 Mr and Mrs Jones will be able to claim Tax-Free Childcare instead of Employer-Supported Childcare. This means they will be able to claim up to £1,200 per year – an extra £577 when compared to Employer-Supported Childcare.

Mr and Mrs Adams (higher rate taxpayer and basic rate taxpayer, with two children under five), who joined Employer-Supported Childcare schemes before 5 April 2011. (For people who joined the scheme on or after this date, the amount that higher rate taxpayers could get free of tax and NICs was reduced from £55 to £28 each week.)

- Mr and Mrs Adams both work for an employer offering Employer-Supported Childcare via a salary sacrifice arrangement. She is a higher rate taxpayer who joined the scheme before 5 April 2011 (and is not eligible for any other childcare support) and Mr Adams is a basic rate taxpayer. Under these circumstances, the maximum they can salary sacrifice each year is £5,830 (without going above the exemption limit), of which £2,157 is in the form of Government support as a result of tax and NICs exemptions.
- However, from autumn 2015, Mr and Mrs Adams will be able to claim Tax-Free Childcare instead of Employer-Supported Childcare. This means they will be able to claim up to £2,400 between them each year – an extra £143 when compared to Employer-Supported Childcare.

The following two case studies set out the difference in claims between Employer-Supported Childcare and Tax-Free Childcare, when families do not claim the maximum amount of Tax-Free Childcare:

Mr and Mrs Khan (basic rate taxpayers with two children under two, with childcare costs totalling £10,640 – equal to the national average for two children under two)

- Mr and Mrs Khan both work for an employer offering Employer-Supported Childcare via a salary sacrifice arrangement. They are both basic rate tax payers and have two children under two (and are not eligible for any other childcare support). Under these circumstances, the maximum they can salary sacrifice each year is £5,830 (without going above the exemption limit), of

- which £1,866 is in the form of government support through tax and NICs exemptions.
- However, from autumn 2015, Mr and Mrs Khan will be able to claim Tax-Free Childcare instead of Employer-Supported Childcare. This means they will be able to claim 20 per cent (£2,128) of their childcare costs between them each year – an extra £262 when compared to Employer-Supported Childcare.

Mr and Mrs Lewis (basic rate taxpayers with childcare costs equal to the average yearly nursery payment for UK families (£5,564), regardless of the number of children)

- Mr and Mrs Lewis both work for an employer offering Employer-Supported Childcare via a salary sacrifice arrangement. They are both basic rate tax payers with childcare costs equal to the average yearly nursery payment for UK families, regardless of the number of children (and are not eligible for any other childcare support).Under these circumstances, they can salary sacrifice £5,564 each year to obtain enough vouchers to pay for their childcare costs (without going above the exemption limit), of which £1,780 is in the form of Government support through tax and NICs exemptions.
- From autumn 2015, Mr and Mrs Lewis would be eligible to claim Tax-Free Childcare instead of Employer-Supported Childcare. This means that they will be eligible to claim 20 per cent (£1,113) of their childcare costs between them each year – £667 less when compared to Employer-Supported Childcare. Therefore, under these circumstances, Mr and Mrs Lewis would be better off under Employer-Supported Childcare, and could choose to remain on the Employer-Supported Childcare scheme.

[1] For tax purposes one is entitled to receive up to the relevant exempt amount – in this case £5,832. If an employer provides the employee with childcare vouchers above these amounts, the employee has to pay tax and NICs on the additional amount.

3.38 As the circumstances of parents in existing Employer-Supported Childcare schemes change, they may find that they might be better off switching to Tax-Free Childcare. Box 3.B below provides examples of a range of likely situations.

Box 3.B: Employer-Supported Childcare: change in circumstances examples

All individuals in the examples below are basic rate tax-payers.
All changes of circumstance are assumed to take place after autumn 2015.

Mr and Mrs Smith – change in job

- Mr and Mrs Smith are both members of their current employers' Employer-Supported Childcare schemes, and have two children. Mrs Smith then moves jobs, and is therefore no longer eligible for Employer-Supported Childcare. In Employer-Supported Childcare the family will now only be able to claim support via Mr Smith's employer up to a maximum of £933 per year.
- Mr and Mrs Smith would have to choose whether to continue to receive support through Mr Smith's employer's Employer-Supported Childcare Scheme, or to switch to Tax-Free Childcare.
- If Mr and Mrs Smith switched to Tax-Free Childcare they would be able to claim up to £2,400 between them each year.

Mr and Mrs Philips – birth of a new baby (basic rate tax-payers with three children)

- Mr and Mrs Philips are both members of their employers' Employer-Supported Childcare schemes. The couple have a new baby, making three children in total. In Employer-Supported Childcare the maximum they can claim for their childcare is £1,866 per year between them.
- However, if Mr and Mrs Philips switched to Tax-Free Childcare they would be able to claim up to £3,600 between them each year.

Ms Davies gets married

- Ms Davies works for a large employer and is a member of their Employer-Supported Childcare scheme, and has one child. Ms Davies then gets married and her new husband is a member of his employer's Employer-Supported Childcare scheme. In Employer-Supported Childcare the maximum the family can claim for their childcare is £1,866 per year between them.
- If the family switched to Tax-Free Childcare the maximum they could claim would be £1,200 between them each year - £666 less when compared to Employer-Supported Childcare. Therefore under these circumstances the family would be better off under Employer-Supported Childcare.

Ms Lloyd – birth of a new baby

- Ms Lloyd works for a small employer who offers an Employer-Supported Childcare scheme, of which she is a member. Ms Lloyd then has a new baby, making two children in total. In Employer-Supported Childcare the maximum that Ms Lloyd could claim for her childcare is £933 per year.
- However if Ms Lloyd switched to Tax-Free Childcare she would be able to claim up to £2,400 each year.

Handling changes in eligibility

3.39 People's circumstances can change, and this may mean that some people will fall in and out of eligibility for Tax-Free Childcare. Parents may face:

- periods of temporary unemployment;
- fluctuations in income; and
- changes in household composition – for example, a new household being formed between a parent claiming Tax-Free Childcare and a parent claiming tax credits or Universal Credit.

3.40 The Government cannot simply relax the eligibility criteria in these circumstances, as this would be unaffordable and unfair to other parents in Tax-Free Childcare. The Government needs to ensure that it is not paying for the same childcare twice under two different schemes, and wishes to avoid situations where parents have to apply and re-apply regularly for different schemes. It also wishes to avoid circumstances where parents are either regularly required to repay overpayments back to the Government, or are subjected to intrusive compliance checks.

Question

11 How often do stakeholders expect issues around changes to eligibility to arise, and do stakeholders hold information that could help inform the Government's thinking on the scale of this issue?

12 What are the best ways of ensuring that all parents have the information they need to judge whether they will be eligible for Tax-Free Childcare, and to make the best choice for themselves?

4 Tax-Free Childcare: information and validation

Tax-Free Childcare needs to be simple, secure and responsive for all parties. To do this successfully, it will require effective flows of information – between parents, childcare providers, voucher providers, potentially other third parties, and the Government.

Chapter 4 outlines the information flows that will be required to operate Tax-Free Childcare, how the scheme will be protected from fraud, error, and debt, what validation checks should best be applied at each stage, and considers which party should be responsible for any such checks.

4.1 Information requirements under Tax-Free Childcare will be different to those under Employer-Supported Childcare. This is because under Employer-Supported Childcare, employers fulfil the key role in acting as the link between voucher providers and parents: they register employees onto the scheme, validate their details, make appropriate salary deductions, and provide voucher providers with the necessary information to enable them to administer accounts for parents and their childcare providers.

4.2 Tax-Free Childcare will be available to groups currently unable to benefit from Employer-Supported Childcare, such as the self-employed, and employees whose employers do not provide Employer-Supported Childcare. New information flows, processes and relationships will therefore need to be established to ensure Tax-Free Childcare operates effectively.

4.3 In designing these new information flows, the Government needs:

- to ensure that Tax-Free Childcare is simple and flexible for parents to use;
- to balance the need to minimise the risk of fraud, error and debt while ensuring Tax-Free Childcare operates efficiently;
- to balance checks across the system to prevent support being paid to parents who are ineligible for support; and
- to consider the various roles for the Government, voucher providers, parents and third parties in ensuring a simple, secure and responsive system.

4.4 Accuracy of the system is important: the Government recognises that most parents want to get their tax and benefits right, and place great importance on being certain they have received the correct amount of money. They do not wish to have to face the risk that payments might be corrected at a later stage.

4.5 The Government believes the overall risk of fraud and error under the new scheme is likely to be lower than for systems with cash payments. This is because support will be in the form of a voucher that can only be used for childcare, and will only be made to top-up payments parents have already made. Providing government support through voucher accounts rather than direct cash payments ensures that support is always used to pay for childcare, reducing costly fraud and error in the system.

4.6 The Government therefore wants to understand whether the proposed design for Tax-Free Childcare provides an effective and efficient new scheme for parents to receive childcare support. Comments are invited from:

- existing voucher providers – who already have detailed knowledge and experience of the technical challenges, and solutions, in administering effective voucher schemes; consumer protection safeguards; how best to mitigate against error, fraud and debt; the necessary payment flows; what they expect from Government; and what would best frame the business relationship they will need to establish direct with parents under the new scheme;
- childcare providers – who may wish to comment on their relationship with voucher providers; payment flows; and regulatory issues (such as the role of Ofsted and its counterparts in the Devolved Administrations);
- parents and parents' groups – who will want to comment on what administrative burdens could get in the way of the smooth running of the new scheme; and what safeguards are in place to protect their information and monies;
- regulatory bodies – who may wish to comment on consumer protection issues; and
- other organisations – who may identify roles or opportunities for themselves in the running of the new scheme.

4.7 Chapter 3 sets out the main eligibility requirements for Tax-Free Childcare. To ensure only eligible parents receive top-up support, information needs to be collected, shared and verified between parents, childcare providers, voucher providers, (possibly) third parties, and the Government. This information includes:

- the name, age and address of the child;
- parental and household requirements;
- the in-employment requirements;
- whether parents are already receiving Employer-Supported Childcare, tax credits or Universal Credit;
- whether anyone in the family is an additional rate taxpayer;
- the amount of Government support provided within the annual £1,200 cap (or £100 monthly cap); and
- the qualification requirements for childcare (e.g. Ofsted or equivalent registration).

Collection of registration information

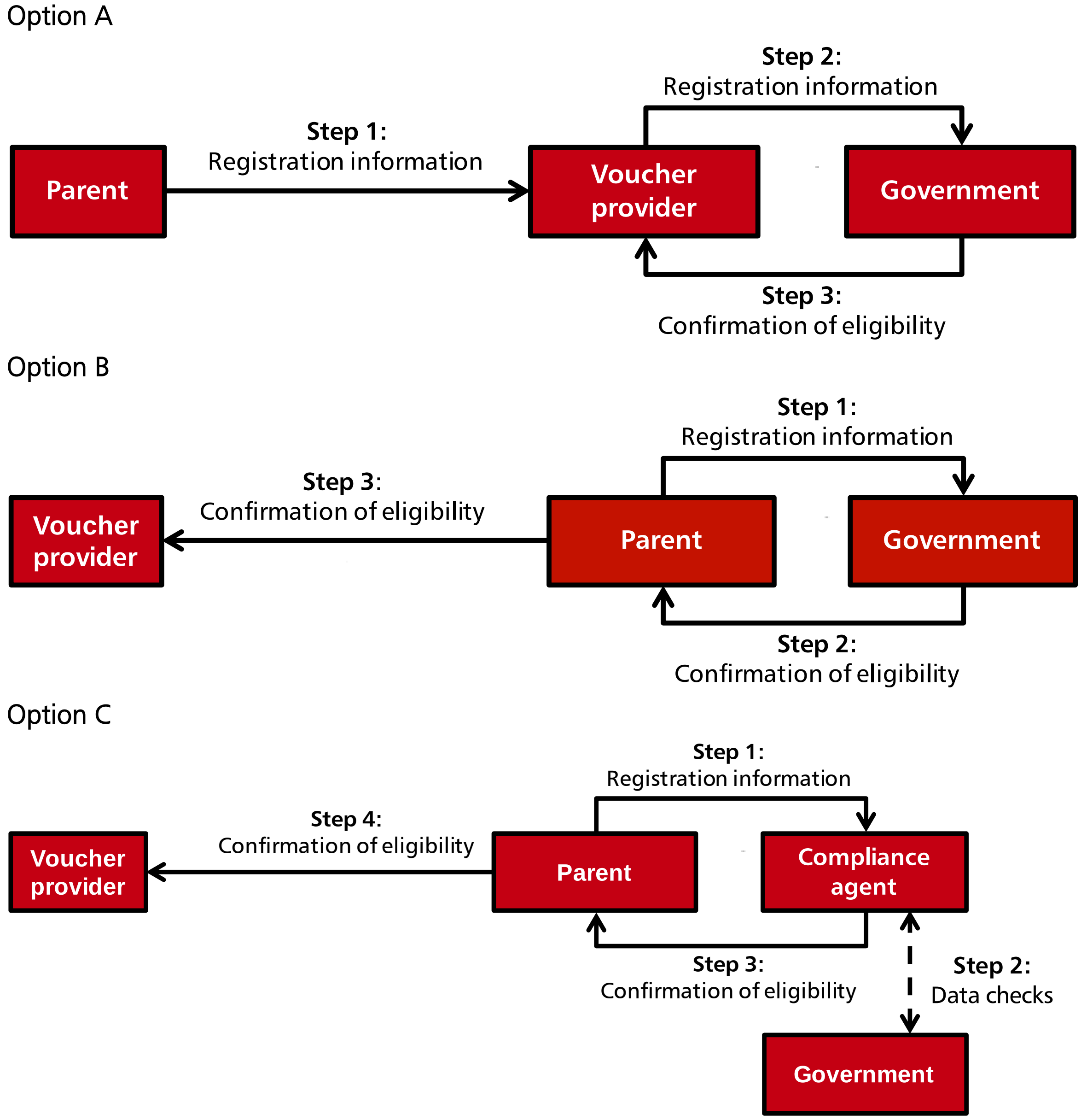
4.8 As set out in Chapter 1, Tax-Free Childcare will need parents to register to open an online voucher account for their child. There are various ways this process could operate, set out in Chart 4.A, below. In summary:

- under Option A, parents would contact and register with a voucher provider of their choice who would collect parents' details, confirm what eligibility details they can, and then liaise with the Government to confirm parents' overall eligibility to use the scheme;

- under **Option B**, rather than contacting a voucher provider in the first instance, parents would contact a Government portal to register for the scheme. Once cleared, they would then engage a voucher provider; and
- under **Option C** there could be a role for some other (specialist) third-party to work with the Government and voucher providers to confirm parents meet all eligibility requirements.
- other alternatives would be possible. Childcare providers, employers or third parties could decide they are in a position to set themselves up as a channel to register parents for the new scheme.

4.9 In moving to a market where voucher providers will be reaching out to parents to enrol them into Tax-Free Childcare, Option A may appear to be the most logical registration proposal. However, there are reasons other approaches could be considered. For instance, parents may prefer to register for Tax-Free Childcare with the Government itself. Or voucher providers might see limits to the extent to which they can validate parents' registration details, and this may suggest a role could be undertaken by additional third-parties.

Chart 4.A: Possible Tax-Free Childcare registration processes



4.10 How parents register for Tax-Free Childcare will depend on how best their eligibility to use the scheme can be confirmed. Parents will need to provide relevant personal details to demonstrate that they qualify for Tax-Free Childcare. The Government wants to understand whether parents' registration details could most effectively be confirmed by provision of actual documentation (which provides greater evidence, but comes with associated costs and delays), or by parents' declarations (which provide less evidence, but have lower costs).

4.11 The registration details that will be required have yet to be determined, but could include:

- child details (birth certificate, Child Benefit number, etc);
- proof of person, address, etc (National Insurance number, passport, utility bills, etc);
- proof of employment (Pay As You Earn (PAYE) reference number, self-employment Unique Taxpayer Reference (UTR), etc);
- proof of recent income (P60, self-assessment return, employers' note, basic earnings assessment, etc);

- parental declaration of domestic arrangements (one or two parents, etc);
- parental declaration that they are not claiming Employer-Supported Childcare;
- parental declaration that they are not claiming tax credits nor Universal Credit;
- parental declaration regarding any disability benefits:
- proof of qualifying childcare (childcare provider details); and perhaps
- proof of bank details (bank statements).

4.12 The Government does not currently hold full details of parents who are receiving Employer-Supported Childcare. It therefore wants to understand from existing voucher providers how this information can best be shared to ensure the new scheme can identify, and block, cases where parents who are looking to join Tax-Free Childcare are already receiving support through Employer-Supported Childcare.

Confirmation of registration details by the Government

4.13 Whichever body acts as first point of contact for Tax-Free Childcare, it is clear that the Government will need to be involved in further checks to confirm parents' eligibility for the new scheme. This is because some key information (such as individuals' tax records, which will be needed to guarantee the accuracy of a parent's employment status or income details) will not be held by any third parties.

4.14 The Government would expect parents to provide a true declaration when registering to confirm their employment details. However, it still expects to:

- check parents' National Insurance numbers / Self-Assessment Unique Tax References;
- check against PAYE and Self-Assessment systems to verify 'live' employment status, and levels of income;
- check against the tax credit system to ensure parents are not already claiming support; and
- check with the Department for Work and Pensions to ensure parents are not already claiming Universal Credit support or Personal Independence Payments (PIPs).

4.15 The Government aims to ensure this data exchange is straightforward, and to minimise voucher providers' and other third parties' costs. Voucher providers' and parents' views are welcomed on:

- how registration information should be passed to the Government; and
- how quickly the Government should verify parents' tax (employment and income) details, and whether parents are receiving other dis-qualifying benefits, to confirm parents' eligibility for Tax-Free Childcare.

4.16 All parental information held in Tax-Free Childcare systems will need to be protected from access or onward dissemination without prior authority. Voucher providers and any other third parties would therefore be expected to comply with consumer and information protection rules. Chapter 5 considers regulatory conditions in more detail.

Questions

Considering the objectives set out in paragraph 4.3,

13 what information should parents provide when registering for Tax-Free Childcare? Would parents be content to pass personal information to a voucher provider, the Government, or other third-parties on registering for the scheme?

14 what are the strengths and weaknesses for each of the alternative ways in which the initial registration, and validation, of parents' registration information could be undertaken? What opportunities might third parties bring to assist the Government in validating registration information?

15 how quickly should the Government confirm eligibility based on the registration details provided to it? What should happen in cases where a parent is deemed to be ineligible for Tax-Free Childcare? How should the parent be informed?

Validating parents' income

4.17 As households with an additional rate taxpayer will be ineligible for Tax-Free Childcare (and as the Government is also considering the introduction of a minimum income threshold – see Chapter 3) – Tax-Free Childcare will need to be able to assess parents' incomes to ensure their eligibility.

4.18 With the introduction of Real-Time Information, HMRC can check whether 'live' Pay As You Earn (PAYE) records exist for the majority of employees who have joined Tax-Free Childcare. However, parents registered as self-employed under Self Assessment do not submit any in-year income details. Instead, they declare income via their annual (Self Assessment) return, which can be submitted months after the end of the tax year.

4.19 The Government is not currently proposing to introduce any additional in-year reporting requirement for the self employed. Instead, it is exploring whether appropriate retrospective checks could be made on their Self Assessment returns to confirm parents continue to meet the income eligibility thresholds of Tax-Free Childcare. The Government would like to receive views from parents and voucher providers as to how best to ensure parents' – and particularly self-employed parents' – income meets the eligibility criteria.

Question

16 Would annual checks be sufficient to confirm that self-employed parents continue to meet the (income) eligibility criteria for Tax-Free Childcare?

Changes of circumstances affecting eligibility

4.20 Eligibility for Tax-Free Childcare depends on parents meeting a range of criteria, including those related to employment, income, and household arrangements. These are discussed in Chapter 3. Examples of how families would experience changes that affect their eligibility for Tax-Free Childcare include:

- changes in employment status (for instance, if they stop being an employee or in self-employment);
- if any parent becomes an additional rate taxpayer, or if their income falls below any minimum threshold if it is decided to implement one;

- changes of domestic arrangements (if another partner, who is not in employment, moves into the household);
- if they also start claiming tax credits, Universal Credit or dis-qualifying disability benefits, or potentially Employer-Supported Childcare for the same child, or their other children; and
- if the child stops residing in the same address as the parent running the account (either temporarily or permanently).

4.21 When these types of circumstances change, parents will be expected to notify their voucher provider. The voucher provider would then be expected to reflect these changes in the parents' account, changing payment arrangements to indicate where and when parents had become ineligible to receive Tax-Free Childcare.

4.22 Chapter 3 discussed how a monthly payments cap could be introduced for Tax-Free Childcare. This would provide parents with regular interactions with the new scheme, which could determine how regularly parents would be expected to update and confirm their eligibility details. A monthly approach would also mirror current tax credits' rules for how quickly parents should inform HMRC of their circumstances changing.

4.23 While ensuring Tax-Free Childcare remains responsive to changes of circumstances that affect parents' eligibility, the Government wants to avoid the scheme becoming mired in constantly updating parents' details, and the complexity this could bring. However, some parents could experience changes that affect their eligibility on a frequent basis, perhaps several times in a year. This would require them to update their voucher provider; the voucher provider to notify Government that parents are no longer eligible to receive top-up support; and the Government to validate and respond. The Government wants parents to retain a degree of certainty over whether they can continue to use Tax-Free Childcare to claim valuable support.

4.24 However often parents' details will be updated, it is also important that Tax-Free Childcare is not paid out to ineligible parents. If it is, overpayments will need to be recovered by the Government. It is important for both parents and the Government that overpayments are minimised, because:

- experience from tax credits has shown that parents find realising they are in debt can be distressing;
- debts are often difficult to recover; and
- if overpayments are not recovered, support intended for eligible parents is lost.

4.25 The Government needs to balance the need for confidence that Tax-Free Childcare is paid only to those eligible, with minimising costs. The Government therefore wishes to explore how often parents should be expected to update their eligibility details – whether this should be as and when they occur, within a month (which mirrors current requirements in tax credits), or at some other frequency.

Questions

The Government needs to balance ease of use for parents with ensuring that payments are not made to those who are ineligible.

17 How quickly should parents be required to inform changes of circumstances that affect their eligibility, and how can they be reminded to do this? What does this mean for voucher providers' systems?

18 What processes should be used to recover payments made to ineligible parents?

Information to operate voucher accounts

4.26 Chapter 2 sets out the basics for how voucher accounts would operate, and how parental contributions would then be topped up by the Government. Any payment system will need to be supported by regular information flows that alert the Government payment system to make the relevant top-up payment. Based on their experience of current childcare voucher arrangements, the Government would like to understand voucher providers' and parents' expectations of how this payment notification process should work. In particular, it wishes to understand how, when, and in what detail or volumes voucher providers should pass on this information, and how quickly the Government would need to respond to its receipt.

4.27 While many parents are likely to pay the same amount into their online account each month, other parents may pay in monies on a more irregular basis, or to save towards payment of childcare that falls at specific points in the year – for example, over the summer holidays. Given the different ways parents will use their accounts, voucher providers will be expected to keep track of how online accounts held with them are being used in order to, among other things:

- ensure parents are not defaulting on the payments they are expected to be making;
- spot when payments into the online account do not clear;
- monitor when funds are paid into an account beyond the point when the annual £1,200 top-up cap per child would apply (or if a monthly cap applies, and parents pay in more than £400 per month); and
- monitor, and potentially handle, when unspent balances are held in accounts at the end of the year.

4.28 Clearly, these roles are for voucher providers to fulfil acting as commercial entities. However, the Government has an interest in these matters as they may affect its contributions.

Questions

19 How do voucher providers suggest their systems alert the Government payment system to make a top-up payment? How responsive does the Government system need to be?

20 How would voucher providers deal with orphaned (e.g. payments that 'bounce' or do not clear) and ineligible payments? How – and how quickly – would the Government's 20 per cent top-up be retrieved if already paid to the voucher provider?

21 How can voucher providers' systems ensure voucher accounts provide the flexibility parents need when paying in, while protecting themselves from defaults and the Government from making excess top-ups?

Resolving queries and problems

4.29 The Government will ensure Tax-Free Childcare is simple to understand and operate, avoiding unnecessary burdens on all parties involved in the new scheme wherever possible. However, there may be instances when things might go wrong, or where parents or other parties require guidance. In such cases, parents, voucher providers and childcare providers would need channels by which to resolve problems.

Question

22 What channels need to be established to enable parents, voucher providers, and childcare providers to communicate with each other and the Government, to resolve queries and problems?

The response to fraud, error and debt

4.30 The potential for fraud, error and debt in Tax-Free Childcare must be minimised. The Government, voucher providers and any other third-parties will protect the scheme through a range of measures, including:

- undertaking full checks at registration to confirm eligibility;
- checking against other systems and agencies to ensure parents are not already making additional claims for childcare support;
- monitoring account details; and
- checking with childcare providers to ensure that childcare claims are correct.

4.31 The design for Tax-Free Childcare will also seek to ensure that changes of circumstances are managed effectively. However, no matter how well designed the new scheme, it is likely that there will be instances where it is discovered that ineligible parents have received support. The Government needs to consider appropriate responses in instances where error or fraud has led to incorrect payment.

4.32 If more serious errors or fraud occur, the Government will need to consider further sanctions as appropriate to that level of abuse.

Balance of responsibilities for information and validation

4.33 This chapter has explored what information flows and validation checks will be required for Tax-Free Childcare to operate successfully. There are a variety of options for how responsibilities for information and validation might fall. Table 4.A sets out an option that is broadly indicative of this.

4.34 During the consultation, the Government is particularly interested to learn of any opportunities to bring cost-effective solutions to minimising the risks of fraud, error and debt in Tax-Free Childcare, for example through additional data matching and risking capabilities. The Government would like to understand whether any elements of validation could be undertaken or supported by third parties who might be well positioned to provide extra capabilities and capacities beyond those the Government could provide. For example, some private sector data agencies might have legitimate access to extra information beyond that collected and held by Government – for example, information on the make-up of households – such as confirming the number or names of adults living at an address. Bringing this information into play would enable the Government to improve its ability to spot and stop claims from ineligible parents, and to prevent debts accruing to them.

4.35 The Government is also interested in whether the private sector could provide other capabilities, including the potential for transacting with parents and voucher providers at various stages in the process. For example, this may include registration validation, identifying and resolving undeclared changes of parental circumstances, and resolving problems and complaints from parents.

Table 4.A: Proposed responsibilities for managing voucher accounts

Parents	Voucher providers[1]	Government	Others
• Choose voucher provider (perhaps with support of their employer, childcare provider or other third party) • Provide accurate registration information • Inform voucher provider when personal circumstances change, including those that affect eligibility • Make payments (80 per cent) to voucher provider • Use voucher account to manage payments to childcare provider	• Collect (and potentially verify) basic elements of parents' registration details • May be a childcare provider themselves • Maintain online voucher account • Inform the Government of parents' 80 per cent contributions • Receive and accurately manage 20 per cent Government top-up payments • Earmark and retrieve Government funds from accounts being closed with remaining funds • Check the childcare is qualifying	• Verify additional elements of parents' registration details • Confirm parents' eligibility to voucher provider • Pay 20 per cent top-up payments in accurate and timely fashion • Systematic recovery of any overpaid top-up payments • Penalty sanctions • Deal with queries and complaints	Employers • No mandated role for employers, though they may seek a role that continues their help to employees Childcare providers • May help parents with registration • May be a voucher provider themselves • Invoice parents or voucher providers for childcare provided Third parties • Verify additional elements of parents' registration details • Further validation roles

Questions

23 Are there any information flows or validation checks that are required but not mentioned in this chapter, and who would be best placed to undertake them?

24 What changes in capabilities and capacities does Tax-Free Childcare entail, especially for voucher providers?

25 How might third parties with additional capabilities improve the operation of Tax-Free Childcare?

[1] See Chapter 2 for more information about the role of voucher providers

5 Tax-Free Childcare: the market for vouchers

Tax-Free Childcare will be delivered through vouchers provided by the private sector. Chapter 5 sets out the case for and objectives of the childcare voucher market, the size of the market and the types of firms that might want to enter it as a voucher provider. It discusses the options for market structure, regulation necessary to protect parents, and fee setting.

5.1 The Government intends to deliver Tax-Free Childcare through voucher accounts administered by private sector voucher providers. The voucher providers will act as an intermediary between parents, childcare providers, and government. Eligible parents should be able to open a voucher account with their chosen provider, pay into that account and have the payments topped up by government at a rate of 20 per cent up to £1,200 per year for each child, and use the accounts to pay for childcare at an approved provider.

5.2 The market for childcare vouchers should support the overall objective of making childcare more affordable for working families. To do this, the Government wants a voucher market to develop that is:

- simple – easy for parents to understand and join so that it is widely taken up;
- efficient – low costs to voucher providers, government, parents, and childcare providers of establishing, maintaining and participating in the scheme;
- competitive – competition in the market for voucher provision (or competition for the market) that ensures parents benefit as much as possible from government support;
- secure – parents are protected if voucher providers fail or make errors, government is protected from fraud, and personal information is handled securely; and
- responsive – minimising the time between parents paying into their account, the government top up being received, and payments made to childcare providers, and ensuring changes of circumstances are quickly and effectively accounted for.

Advantages to the voucher provider market approach

5.3 Childcare voucher accounts will give control to parents and the flexibility to use Tax-Free Childcare with any qualifying childcare provider, rather than being tied to a specific childcare provider. By acting as an intermediary between parents, qualifying childcare providers, and government, the voucher provider market can help lower administrative costs and exploit economies of scale that allow the scheme to operate more efficiently. Providing government support through voucher accounts rather than direct cash payments ensures that support is always used to pay for childcare, reducing costly fraud and error in the system. This approach will also provide continuity for childcare providers and parents already using the Employer Supported Childcare voucher scheme, and provide an opportunity for existing voucher companies to enter the market for Tax-Free Childcare vouchers.

Size of the market and potential market participants

5.4 Once the scheme is fully introduced and support available for children aged under-12, the Government expects up to around 2.5 million families will be eligible for the scheme, with annual voucher turnover of around £7.5 billion per year. This is a sizeable market which the Government hopes will attract a number of potential providers to help drive up quality and lower costs. Voucher account providers could cover operating costs and make a return on investment through charging fees or exploiting wider commercial opportunities. In addition to those companies that currently administer childcare vouchers under Employer-Supported Childcare, the Government expects a number of new entrants to the market. This could include firms that already have a direct relationship with families with children who can offer voucher accounts through those existing channels; firms with existing products that are similar to voucher accounts that could expand into this market; and start-ups bringing new thinking and approaches to the market.

5.5 The Government believes that competition in the market (or for the market) should deliver the best outcomes for parents and childcare providers at the lowest cost, and would like to hear from any firms who might be interested in becoming a childcare voucher provider. This could include, but is not limited to:

- companies that currently offer vouchers under Employer-Supported Childcare;
- childcare providers who might want also to offer Tax-Free Childcare vouchers;
- gift card and certificate providers, the prepaid products sector; and e-money providers;
- the financial services sector, such as retail banks, building societies, mutuals, credit unions, Child Trust Fund and Junior ISA providers;
- the retail sector, for example supermarkets with financial services arms, or retailers of products for families with children;
- the community and voluntary sector, including non-profit organisations aimed at supporting families with cost of living or improving outcomes for children;
- the public sector, including NHS Trusts running Health Start voucher schemes, local authorities, and the Post Office; and
- any other firms who might want to enter the market, for example those with experience in the UK or other countries of administering similar schemes, and start-ups with no prior experience who can bring new ideas and approaches.

In the rest of this chapter, references to 'voucher providers' refers to any potential provider of voucher accounts under Tax-Free Childcare.

Approach to developing the market for voucher providers

5.6 Under Employer-Supported Childcare entry and exit from the market is open, with minimal government intervention. The Government believes this open market approach has worked successfully for Employer-Supported Childcare and is minded to adopt a similar approach for Tax-Free Childcare provided it is likely to meet the objectives stated above. An alternative approach would be for the Government to contract direct with providers following an open competitive tender to create a market of licensed providers. This approach would also enable the Government to tender for a single provider which could exploit economies of scale to deliver vouchers more efficiently. These approaches are summarised below:

- Under the open market approach, an unlimited number of firms could enter the market as voucher providers. Government could set entry requirements or accredit entrants. Fees would likely be set by the market, with competition in the market driving up quality of voucher provision and lowering fees. Parents could choose any provider within the market but would need reliable, accessible and transparent information to make an informed choice.
- Under the direct contract approach, Government would tender a fixed number (from one upwards) of time-limited licences to be a childcare voucher provider. Competition for the market would drive up quality and lower fees. Parents could choose from a limited number of providers (or a single provider), which could make this a simple choice. Government would re-tender at the end of each licence period.

Consumer protection

5.7 Childcare voucher providers will collect and hold parents' personal information and money belonging to parents. The Government wants to ensure that personal data and money are held securely and that parents do not lose out if things go wrong (such as a voucher provider becoming insolvent).

5.8 There are no specific rules governing the childcare voucher market under Employer-Supported Childcare. Some providers have joined an industry group – the Childcare Voucher Provider Association (CVPA) – and agreed to a code of practice[1] that self-regulates behaviour; other firms have chosen not to join this group and sign up to the code of practice. The key principles of the CVPA code of practice are: separation of voucher funds from working capital; managing data in accordance with the Data Protection Act 1998; paying carers within one working day of receiving a valid voucher or employee instruction; transparent service standards; and a right of complaint to the association.

5.9 Under the scheme design options set out in Chapter 4, voucher providers would be required to process personal data of their customers. They would be subject to the Data Protection Act 1998 and required to register with the Information Commissioner's Office and adhere to the terms of the act. Further information security standards may be appropriate if the benefits outweigh the costs, such as the International Organisation for Standardisation and International Electrotechnical Commission ISO/IEC 27000 family of standards.

5.10 At any given time voucher providers are likely to hold large balances of unredeemed vouchers. Some parents might choose to save regularly into voucher accounts to fund holiday care.

5.11 Under existing insolvency laws parents with voucher accounts would be unsecured creditors, low down the order of priority after the costs of the insolvency practitioner and other creditors. Options to protect consumers further include requiring voucher providers to separate and ring-fence parents' funds from working capital; an insurance-type arrangement where a separate third party guarantees to pay out in the event of insolvency or other losses of the voucher provider; or requiring voucher providers to be authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and Financial Conduct Authority

[1] See www.cvpa.org.uk

Questions

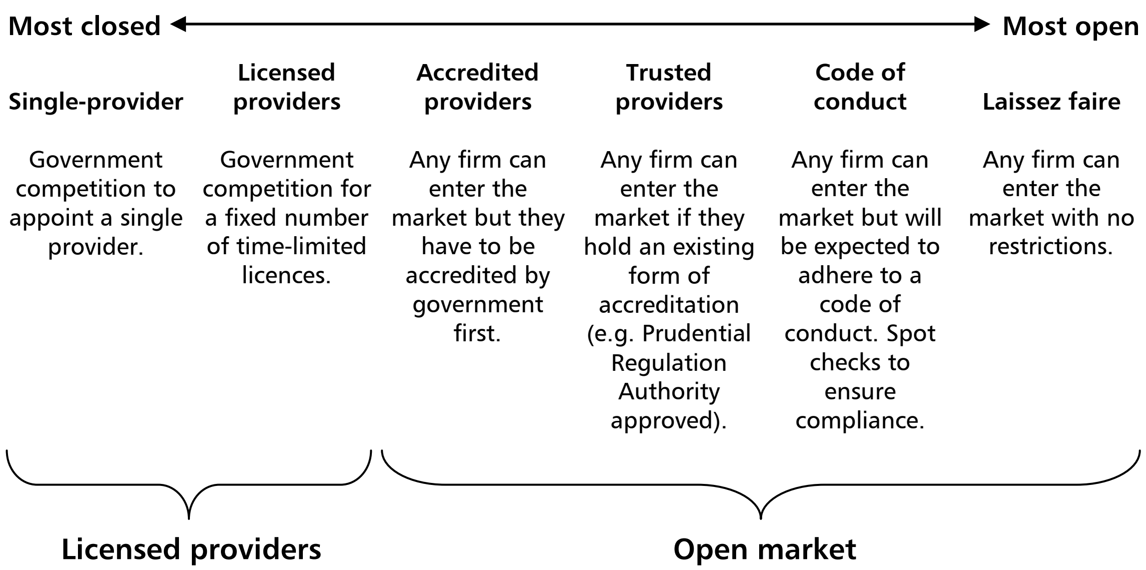
26 Is the Data Protection Act 1998 sufficient to protect personal data? What are the costs and benefits of mandating further standards, such as ISO/IEC 27000?

27 What are the costs and benefits of further safeguards to protect parents' funds, such as ring-fencing funds from working capital, an insurance-type arrangement, or authorisation by the Prudential Regulation Authority? What other options might be proportionate?

Market structure

5.12 Combining the different market approaches with options to protect consumers and govern market entry gives several market structures. The most open market structure would allow any firm to enter as a voucher provider with no restrictions beyond the broader regulatory framework, and is likely to result in the largest number of firms in the market. At the other end of the scale, the Government could tender for a single provider. The range of options is set out in Chart 5.A below.

Chart 5.A: Potential market structures



5.13 In determining the best structure of the market, the Government will consider a number of factors, including:

- whether competition in the market or for the market is likely to result in higher service standards at lower costs;
- the balance between regulation to protect parents and compliance checks to protect taxpayer money (as set out in Chapter 4) and the costs these might place onto providers;
- the impact of different market structures and regulatory regimes on parents' willingness to take-up the scheme, taking account of the complexity of choices and information required, and confidence that their information and money are safe;

- whether economies of scale mean that a single provider would be most efficient for parents and childcare providers, or whether competition between a number of firms might result in product and service innovation that would enhance support; and
- firms' willingness to become (or bid to become) a voucher provider under different market structures, compliance and regulatory regimes, and the degree to which a competitive field is likely to emerge.

Question

28 Which market structure is most likely to deliver the Government's objectives?

Paying for childcare voucher accounts

5.14 Childcare voucher providers will need to make revenue to cover ongoing costs and a return on investment.

5.15 In determining how childcare voucher providers are able to make revenue, the Government will need to consider:

- how the market structures set out earlier in the chapter impact on costs;
- how to lower ongoing costs through the operational design options set out in Chapter 4 and the role of voucher providers in compliance; and
- how to lower investment costs through the operational design options set out in Chapter 4, how to provide certainty to providers to reduce risk, and whether any investment could be borne by government (for example by building a 'white label' system that could be leased to voucher providers, reducing their investment costs and exploiting economies of scale); and the scope for voucher companies to cover costs through other means and the implications for parents.

5.16 The Government is naturally attracted to a model that drives down costs as far as possible, and will discuss with stakeholders the best ways to achieve this ambition, including the potential role for a cap.

5.17 Whatever market option is chosen, it will need to genuinely deliver Tax-Free Childcare and a net 20 per cent support for parent's childcare costs. The Government wants to deliver Tax-Free Childcare without parents paying fees that erode the value of the Government's support.

Questions

29 How should administration costs be kept low?

30 What should the balance be between protecting parents' money and allowing providers to generate revenues from the funds that they hold?

6 Childcare support through Universal Credit

At Budget 2013 the Government announced a further £200 million to be invested in childcare support through Universal Credit from 2016.

This chapter sets out the Government's proposals for how additional childcare support within Universal Credit will operate, and how this support will interact with Tax-Free Childcare.

Universal Credit: an improved childcare offer

6.1 As set out in Chapter 1, Tax-Free Childcare will not be open to those already receiving support through tax credits or, in time, Universal Credit. The Government is instead providing an additional £200 million of support for childcare costs for Universal Credit recipients from April 2016.

6.2 Universal Credit is a new system of means-tested support for working-age people who are in or out of work. Support for housing costs, children and childcare costs are integrated in the new benefit. It also provides additions for disabled people and carers. It was introduced on 29 April 2013 in selected areas of Greater Manchester and Cheshire and will be gradually rolled out to the rest of the UK from October 2013. It will be completely in place by 2017.

6.3 The objective of Universal Credit is to reduce the number of workless households by reducing the financial and administrative barriers to work that exist in the current system of benefits and tax credits. Universal Credit payment will reduce gradually as people earn more, so individuals will not lose all their benefits at once. Universal Credit will be paid on a monthly basis, and how much people receive will depend on their personal circumstances.

6.4 At Budget 2013 the Government announced a further £200 million to be invested in childcare support through Universal Credit from 2016. This money will be used to increase the rate of the Universal Credit childcare element from 70 per cent to 85 per cent for households where all parents pay income tax.

6.5 This chapter sets out more detail around how the Government's proposals for additional childcare support within Universal Credit will operate, and how this support will interact with Tax-Free Childcare. It does not cover every circumstance for the group potentially affected by this provision. Instead, it should be seen as the starting point for the conversation about how the extra support will be provided in practice.

Existing childcare support through tax credits and Universal Credit

6.6 Low income households can currently receive support for childcare costs through the childcare element of Working Tax Credits. Parents can receive up to 70 per cent of their childcare costs. In order to claim a couple must both work 16 hours a week (or a lone parent must work 16 hours a week) and can receive support up to a maximum of £175 per week for one child or £300 per week for two or more children. Eligibility is determined weekly and payments can be made weekly or monthly.

6.7 Universal Credit introduces some changes from the childcare support offered through tax credits. In Universal Credit, support is paid as a monthly amount, of which support for childcare forms one element. Currently, Universal Credit claimants who are in work can receive 70 per cent of their actual paid childcare costs, with a monthly limit of £532.29 for one child, or £912.50 for two or more children.

6.8 A further change is that working families will receive support for their childcare costs regardless of the number of hours they work. Whilst the Working Tax Credit currently requires parents to work 16 hours before they can receive childcare support, Universal Credit will remove this restriction, helping around 100,000 new families. Box 6.A below sets out how eligibility for the childcare element of Universal Credit is determined.

Box 6.A: The childcare element of Universal Credit

The childcare element of Universal Credit is intended to help parents access the labour market.

- Working parents on Universal Credit can receive the childcare element for any number of hours worked; there is no minimum number of working hours required.
- The childcare element is paid to people who are newly unemployed, or due to start work soon.
- The childcare element is paid based on the actual childcare costs people report during their monthly assessment period. This includes deposits, up-front fees and other routine costs.

The childcare element is paid to a single person who:

- is in paid work, working any number of hours; or
- is getting Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP), Ordinary Statutory Paternity Pay (OSPP), Additional Statutory Paternity Pay (ASPP), Statutory Adoption Pay (SAP) or Maternity Allowance (MA).

The childcare element is paid to couples who are both in paid work, working any number of hours; and couples where one is in paid work, and the other:

- has been assessed as having a disability or condition that affects their ability to work (Limited Capability for Work – LCW); or
- is caring for a severely disabled person; or
- is temporarily absent (e.g. in custody/hospital); or
- is receiving SSP, SMP, OSPP, ASPP, SAP, or MA.

6.9 The support for 70 per cent of childcare costs through Universal Credit provides around £2 billion a year to help people meet the costs of formal childcare. The new mechanism for support has a number of advantages over the current tax credit system:

- it is more accurate and flexible, because each payment is based on the actual amount people spend on childcare each month; and
- it offers help with the upfront costs of childcare in the month before work begins and continuing this support the first month after someone becomes unemployed, to help people prepare for a new job or adjust to a period of unemployment.

Increasing support to 85 per cent for taxpayers

6.10 It is essential that parents on low incomes are able to work, as this is the key route out of poverty. The child of a lone parent who works part-time is half as likely to be living in poverty as the child of a lone parent who is not working. The child of a lone parent who works full-time is less than a quarter as likely to be in poverty as the child of a lone parent who is not working and a child living in a household with two parents working is a fifth as likely to be in poverty as a child living in a household with two parents, but where only one parent works.

6.11 However, as set out in Chapter 1, some parents face hard choices about how to balance work and childcare. As parents work more, their childcare costs can also increase to cover the extra hours that they work, creating a financial barrier to work. For some parents childcare costs to work an extra hour can be greater than the extra they would earn after tax, National Insurance Contributions and any benefits, such as tax credits, are withdrawn.

6.12 In order to help people overcome this, and to provide a clearer incentive to progress up to full-time hours of work, the Government is proposing an increase in childcare support for households on Universal Credit where both earners pay income tax. This should be particularly beneficial for lone parents who may not find it worthwhile to progress beyond part-time hours, and second earners, where the main earner is already in work and at a level of earnings close to, or above, the family's work allowance.[1]

6.13 The new offer will mean that from April 2016, if both parents in a couple, or a lone parent, earn an amount equivalent to the monthly Income Tax Personal Allowance, they could claim 85 per cent of childcare costs (instead of 70 per cent) up to the current limits. This is expected to provide additional support to 200,000 families when fully implemented. The extra 15 per cent of support has been set at the level that can be met from the £200 million additional funding announced at Budget 2013. Universal Credit claimants who are not earning above this monthly threshold will still receive the 70 per cent level of support, up to the monthly limits.

How the additional support will operate

6.14 The Government has two objectives in designing the operation of the 85 per cent support. First, that it should be easy for potential claimants to understand. Secondly, that it should be easy to administer, working within the overall operation of Universal Credit, which is a monthly award based on actual earnings net of income tax and National Insurance Contributions (NICs).

6.15 Bearing these objectives in mind, the Government intends that:

- the definitions of childcare support, income and earnings, the reporting and payment mechanisms and the taper would be the same for the 85 per cent support as the current 70 per cent Universal Credit support;
- the eligibility would be based on dividing the Income Tax Personal Allowance by twelve to produce a monthly income threshold, above which the higher award would be triggered. For example, if the Income Tax Personal Allowance was £10,000, then the threshold would be set at least £833.33;

[1] Households in Universal Credit will be able to earn a specific amount each week before their Universal Credit is affected. This amount is called a 'work allowance' (formerly their earnings disregard). The level may be higher if they have children or if they are disabled. If earnings are higher than the 'work allowance' amount then the household's Universal Credit award will start to be gradually taken away at a rate equal to the Universal Credit taper.

- this monthly income threshold would be based on gross taxable earnings, before the effects of certain deductions, allowances and restrictions in tax codes are taken into account;
- a lone parent would need to be earning above this threshold for the household to qualify for 85 per cent support;
- for a couple, both partners would need to be earning above this threshold in each month for the household to qualify for 85 per cent support;
- the existing exemptions to the requirement for both partners in a couple to be working would apply in the same way: households with disability or caring responsibilities would need only one parent earning enough to pay tax in order to receive 85 per cent support;
- if the Income Tax Personal Allowance changes, then the monthly income threshold in Universal Credit would change at the same time, i.e. from 6th April, to maintain alignment; and that
- self-employed people will be able to benefit from the 85 per cent support in the same way: a person who is self-employed and reports earnings over the monthly income threshold will be able to access the 85 per cent support.

6.16 Box 6.B sets out some examples of how this will work in practice.

Box 6.B: Case studies of those receiving support from Universal Credit for childcare costs

Mr and Mrs Taylor (couple with two children, aged one and three)

- Mr Taylor works full-time (35 hours a week) earning around £16,500 a year. Mrs Taylor currently works part-time (16 hours a week) earning around £6,200 a year. Their weekly household net income (including childcare support through Universal Credit at 70 per cent of costs) is £452 after paying for childcare.
- Mrs Taylor's earnings would exceed the personal allowance once working 25 hours, at which point the household would be eligible for 85 per cent support towards their childcare costs through Universal Credit.
- If Mrs Taylor increased her hours worked to 35 hours a week (full time), then after paying for childcare the household would be £26 per week better off than when she worked part-time. With 70 per cent of childcare costs covered she could have been £17 per week worse off working full-time if she had to pay for childcare for both children.

Ms Thomas (lone parent with two children, aged three and four)

- Ms Thomas works part-time (16 hours a week), earning around £7,500 a year. Her weekly household income is £357 (including childcare support through Universal Credit at 70 per cent of costs).
- Ms Thomas moves into full-time employment (35 hours a week), and her net income increases to £395 a week, a gain of £38 per week.
- She starts paying income tax once working 21 hours, and so receives the higher level of childcare support at 85 per cent of weekly costs. The household would be £33 per week better off at these working hours due to the additional support towards childcare costs through Universal Credit. With

only 70 per cent of childcare costs covered she would have been only £5 a week better off at full-time hours.

Key assumptions:
All estimates of net income are in 2014-15 price terms, the hourly cost of childcare assumed is £4.50.
All family examples have no help with their housing costs.
The lone parent or second earner is assumed to require an hour of extra childcare for each child for each additional hour worked. Additional hours of childcare for travel time are accounted for.
Children aged three and four receive 15 hours of free childcare a week.

Questions

31 How will the proposed change to Universal Credit affect people who have earnings that change from month to month?

32 The proposal is to use gross taxable earnings as a proxy for people whose earnings are above the tax threshold. What other proxies could the Government use?

33 The Government wishes to ensure help is targeted at those who need it most within the fiscal constraints it faces. Should people who are getting Statutory Sick Pay, Statutory Maternity Pay, Ordinary Statutory Paternity Pay, Additional Statutory Paternity Pay, Statutory Adoption Pay and Maternity Allowance be entitled to the 85 per cent support or not?

34 What information will people need to understand the impact of the measure on their own circumstances?

Interactions between Tax-Free Childcare and Universal Credit

6.17 As set out in Chapter 1, Tax-Free Childcare will only be available to people who are not receiving tax credits or Universal Credit. Most people in receipt of these benefits will already be receiving a higher level of support – 70 per cent of their childcare costs, up to a limit – and will be better off receiving the childcare element of either Working Tax Credit or Universal Credit.

6.18 As household income increases, Universal Credit will be tapered away gradually at a rate of 65 per cent of net income. There will therefore be a small number of parents who are eligible for Universal Credit but who might be better off claiming Tax-Free Childcare instead. During the transition from tax credits to Universal Credit there will also be some families claiming tax credits who would be better off on Tax-Free Childcare.

The group eligible for both systems

6.19 The Government estimates that a small group of Universal Credit claimants – around 50,000 (once Tax-Free Childcare and Universal Credit have both been fully implemented) could be better off in cash terms on Tax-Free Childcare, as their household income has increased and their overall Universal Credit award has been tapered away. These are typically (but not exclusively) couple families with average or slightly higher earnings, with one or two children. The Government estimates that the group in receipt of tax credits during the transition to Universal Credit will be of a roughly similar size. Further detail on particular cases is set out in Boxes 6.C and 6.D below.

Box 6.C: Case studies of those who are receiving tax credits who could be eligible for Tax-Free Childcare

Household that is better off claiming tax credits

Mr and Mrs Clarke (a couple with one child aged two)

- Mr Clarke works 30 hours per week earning just over £25,000, and Mrs Clarke works 16 hours per week earning £10,000. The couple's combined household income is £35,038 and they have childcare costs of £85.50 per week. After their income is taken into account, the couple receive £41.47 per week in tax credit support.
- As their child is under five and the couple both work, Mr and Mrs Clarke will also be eligible for the new Tax-Free childcare. However, based on childcare costs of £85.50 per week, the Clarkes would receive £892 per year in Tax-Free Childcare support, which is equivalent to £17.10 per week. They are therefore receiving £24.37 per week more in tax credits than they would receive under Tax-Free Childcare.

Household that is better off using Tax-Free Childcare:

Ms Stevens (a lone parent with one child aged four)

- Ms Stevens earns £41,608 per year working full time, with childcare costs of £126 per week. After her income is taken into account, Ms Stevens receives a weekly tax credit award of £18.16.
- Ms Stevens is eligible for Tax-Free childcare. Based on £126 per week childcare costs, she could claim the maximum amount of £1,200, which amounts to £23.01 per week. Ms Stevens is therefore better off by £4.86 per week if she switches from tax credits to Tax-Free Childcare.

Key assumptions:
All estimates are in 2014-15 price terms.
The hourly cost of childcare assumed is £4.50.

Box 6.D: Case studies of those receiving Universal Credit who could be eligible for Tax-Free Childcare

Household that is better off claiming Universal Credit

Mr and Mrs Jenkins (a couple with two children: Amy, aged 2 and Jon, age 4. Both Mr and Mrs Jenkins pay Income Tax.)

- Mr Jenkins works 35 hours a week and earns £13.50 an hour, an above-average wage. His wife, Mrs Jenkins currently works three days a week part-time (20 hours) and earns the average wage (£11.75 an hour).
- They require 24 hours of childcare for each child (20 hours plus travel time) and their weekly childcare costs are £148.50 in total:

  Childcare costs for child aged 2: 24 hours x £4.50 = £108 per week

  Childcare costs for child aged 4: (24 hours – 15 hours free entitlement) x £4.50 = £40.50 per week.

- Both partners are basic rate taxpayers and so are eligible for 85 per cent of their weekly childcare costs through Universal Credit. This is added to their maximum Universal Credit award before the taper is applied. After the taper is applied, they would receive £51.50 per week through Universal Credit (including support towards their childcare costs).

- Under Tax-Free Childcare, the family would be entitled to £29.70 in childcare support (the support claimed is below the weekly limits of £23 per child under 12):

  Tax-Free Childcare support for child aged 2: 20% x £108 = £21.60

  Tax-Free Childcare support for child aged 4: 20% x £40.50 = £8.10

- This means that Mr and Mrs Jenkins are £21.80 better off per week under Universal Credit.

Household that is better off claiming Tax-Free Childcare
Mr and Mrs Davey (a couple with two children: Tim, aged 2, and Helen, aged 4. Both Mr and Mrs Davey pay Income Tax.)

- Mrs Davey works full-time time (35 hours a week) and earns £15 an hour, an above-average wage. Mr Davey works 20 hours a week and also earns above the average wage (£13 an hour).
- Their weekly childcare costs are £148.50 in total and the family also uses the full 15 hours free early years' childcare entitlement for the child aged four.
- They are eligible for 85 per cent of their weekly childcare costs through Universal Credit. This is added to their maximum Universal Credit award before the taper is applied. After the taper is applied, they would receive £17.25 per week through Universal Credit (including support towards their childcare costs).
- Under Tax Free Childcare, the family would be entitled to £29.70 in childcare support (20 per cent of £139.50).
- This means that Mr and Mrs Davey are £12.45 better off per week under Tax Free Childcare.

Key assumptions:
All benefit rates are in 2014 prices.
Hourly cost of childcare is £4.50.
Both families have no housing costs under Universal Credit.
The lone parent or second earner is assumed to require an hour of extra childcare for each child for each additional hour worked.
All hourly wages are gross. The Universal Credit award is based upon household net income.

6.20 As families move into work and increase their income, they may switch from Universal Credit to Tax-Free Childcare. Some who increase their childcare costs as they work more may become better off in Universal Credit than Tax-Free Childcare. The Government wants to ensure that people can switch between Universal Credit and Tax-Free Childcare with minimal complexity and experience a smooth increase to the financial reward they see from working. The Government welcomes views on the best ways to deliver this.

Ensuring the two systems interact effectively

Providing families with a choice

6.21 Through Tax-Free Childcare parents will receive a top-up from the Government up to a monthly cap, whilst Universal Credit is also paid on a monthly basis. This means that households will not be eligible to receive both schemes at the same time and their eligibility may change from one month to the next.

6.22 The Government envisages giving people in this situation a choice about whether to claim Universal Credit or Tax-free Childcare. Households will be able to 'opt-out' of Universal Credit if they want to access Tax-Free Childcare instead.

Facilitating this choice

6.23 It is important that families who could be eligible for either scheme have the information that they need in order to make an informed and supported choice and to ensure a smooth transition off Universal Credit. Whether or not a family is better off will depend on a series of factors, including the age and number of children, household earnings and childcare costs. Furthermore, the decision as to which scheme is preferred for a family is unlikely to be purely financial and the Government is aware that other key factors could include:

- anticipated variation in earnings or income over the year;
- preference for cash support or support in the form of a voucher;
- historical entitlements or attitudes towards different systems;
- perceived or actual burden of the claims process;
- future expectations of childcare use over the year; or
- eligibility for passported benefits.

Minimising the burden of switching

6.24 To help ensure that individuals are not constantly having to make the choice between the two schemes, the Government proposes that claimants choosing to 'opt-out' of Universal Credit in favour of Tax-free Childcare should continue to be able to participate in the Universal Credit rapid re-claim[2] process, for 6 months after their claim ceases.

6.25 Families having to change between the systems could cause confusion and increase transaction costs. The Government would welcome views on whether there should be a limit on the number of times a claimant is able to switch between schemes in a certain time period.

6.26 The Government will expect families to verify that they are not claiming Universal Credit to receive Tax-Free Childcare and vice versa for Universal Credit claimants not to be in receipt of Tax-Free Childcare.

[2] The rapid re-claim process will mean that an individual who chooses to stop claiming Universal Credit will be able to pick up their claim more efficiently if they need to come back on to Universal Credit within 6 months.

Questions

35 Is offering a choice between Universal Credit and Tax-Free Childcare the best approach without driving up costs to the Government or increasing complexity for claimants? Should there be a limit on the number of times that a parent can switch?

36 How can the Government best design the process to ensure that the journey off Universal Credit is as smooth as possible?

37 What information and tools do families in this position need to inform their decision, and how can this be best provided?

38 A person who moves from one scheme to another will have practical concerns, for example how the balance on their childcare voucher account might affect their Universal Credit award. What factors are parents likely to take into account when deciding which scheme works best for them, and under what circumstances?

A How to respond and list of questions

How to respond to this consultation

A.1 This consultation will be open for ten weeks. The closing date for responses is 14 October 2013.

A.2 Responses should be accompanied by a completed cover sheet, which is available at this address: https://www.gov.uk/government/consultations/tax-free-childcare

A.3 Email responses should be sent to: tax-free.childcare@hmrc.gsi.gov.uk

A.4 While emailed responses are preferable, written responses may also be submitted. They should be sent to:

Tax-Free Childcare Team,
HMRC,
Room 1C/07,
100 Parliament Street,
London
SW1A 2BQ

A.5 The above addresses may also be used for general enquiries about this consultation.

A.6 A list of all questions posed in this consultation is provided below.

List of consultation questions

Chapter 2 – Tax-Free Childcare: voucher accounts

1 What features will the payment system need to have to ensure that it meets the needs of parents and childcare providers?

2 What are the advantages and disadvantages of applying the £1,200 limit by means of a monthly cap as opposed to other options?

3 In what situations should parents be able to spend saved-up vouchers if they become ineligible?

4 The Government is committed to giving employers the opportunity to remain involved in the provision of support for childcare in any ways that are consistent with the principles and operation of Tax-Free Childcare. How can the Government best ensure this happens?

5 What roles might other organisations play in helping parents access Tax-Free Childcare?

Chapter 3 – Tax-Free Childcare: eligibility

6 Does the proposed definition of 'parents' ensure that all individuals who have responsibility for a child can benefit from Tax-Free Childcare?

7 Is the proposed definition of 'the household' fair and workable?

8 What are the potential benefits and risks of a minimum income rule or hours rule in defining qualifying employment?

9 What alternative ways are there to define qualifying employment, and what are the potential risks and benefits of these approaches?

10 Will the proposed operation of the age cut-off rule (set out above) ensure that all children who are eligible for Tax-Free Childcare in year one remain eligible until the end of the school year in which they turn 11?

11 How often do stakeholders expect issues around changes to eligibility to arise, and do stakeholders hold information that could help inform the Government's thinking on the scale of this issue?

12 What are the best ways of ensuring that all parents have the information they need to judge whether they will be eligible for Tax-Free Childcare, and to make the best choice for themselves?

Chapter 4 – Tax-Free Childcare: information and validation

13 Considering the objectives set out in paragraph 4.3, what information should parents provide when registering for Tax-Free Childcare? Would parents be content to pass personal information to a voucher provider, the Government, or other third-parties on registering for the scheme?

14 Considering the objectives set out in paragraph 4.3, what are the strengths and weaknesses for each of the alternative ways in which the initial registration, and validation, of parents' registration information could be undertaken? What opportunities might third parties bring to assist the Government in validating registration information?

15 Considering the objectives set out in paragraph 4.3, how quickly should the Government confirm eligibility based on the registration details provided to it? What should happen in cases where a parent is deemed to be ineligible for Tax-Free Childcare? How should the parent be informed?

16 Would annual checks be sufficient to confirm that self-employed parents continue to meet the (income) eligibility criteria for Tax-Free Childcare?

17 How quickly should parents be required to inform changes of circumstances that affect their eligibility, and how can they be reminded to do this? What does this mean for voucher providers' systems?

18 What processes should be used to recover payments made to ineligible parents?

19 How do voucher providers suggest their systems alert the Government payment system to make a top-up payment? How responsive does the Government system need to be?

20 How would voucher providers deal with orphaned (e.g. payments that 'bounce' or do not clear) and ineligible payments? How – and how quickly – would the Government's 20 per cent top-up be retrieved if already paid to the voucher provider?

21 How can voucher providers' systems ensure voucher accounts provide the flexibility parents need when paying in, while protecting themselves from defaults and the Government from making excess top-ups?

22 What channels need to be established to enable parents, voucher providers, and childcare providers to communicate with each other and the Government, to resolve queries and problems?

23 Are there any information flows or validation checks that are required but not mentioned in this chapter, and who would be best placed to undertake them?

24 What changes in capabilities and capacities does this mean, especially for voucher providers?

25 How might third parties with additional capabilities improve the operation of Tax-Free Childcare?

Chapter 5 – Tax-Free Childcare: the market for vouchers

26 Is the Data Protection Act 1998 sufficient to protect personal data? What are the costs and benefits of mandating further standards, such as ISO/IEC 27000?

27 What are the costs and benefits of further safeguards to protect parents' funds, such as ring-fencing funds from working capital, an insurance-type arrangement, or authorisation by the Prudential Regulation Authority? What other options might be proportionate?

28 Which market structure is most likely to deliver the Government's objectives?

29 How should administration costs be kept low?

30 What should the balance be between protecting parents' money and allowing providers to generate revenues from the funds that they hold?

Chapter 6 – Childcare support through Universal Credit

31 How will the proposed change to Universal Credit affect people who have earnings that change from month to month?

32 The proposal is to use gross taxable earnings as a proxy for people whose earnings are above the tax threshold. What other proxies could the Government use?

33 The Government wishes to ensure help is targeted at those who need it most within the fiscal constraints it faces. Should people who are getting Statutory Sick Pay, Statutory Maternity Pay, Ordinary Statutory Paternity Pay, Additional Statutory Paternity Pay, Statutory Adoption Pay and Maternity Allowance be entitled to the 85 per cent support or not?

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37 What information and tools do families in this position need to inform their decision, and how can this be best provided?

38 A person who moves from one scheme to another will have practical concerns, for example how the balance on their childcare voucher account might affect their Universal Credit award. What factors are parents likely to take into account when deciding which scheme works best for them, and under what circumstances?

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This document can be downloaded from
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