

## Tax-Free Childcare Parent Survey

HM Revenue & Customs Research Report 486  
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# 1. Key Findings

- To support and inform the launch of Tax-Free Childcare (TFC), HM Revenue and Customs (HMRC) commissioned Kantar Public to conduct a quantitative study of the parents eligible for Tax-Free Childcare to understand:
  - The characteristics of the population;
  - Their childcare use and associated cost;
  - Likelihood of opening an account;
  - Digital capability and confidence to manage the account online; and
  - What support HMRC would be required to provide.
- Around three in five (57%) households in the TFC population<sup>1</sup> use regulated childcare so would potentially benefit from TFC.
- A quarter of the TFC population are aware of TFC (26%), although this is slightly higher (31%) among those who are likely to be better off under TFC. Parents expect to be informed of the scheme through the media aligned with campaign activity (66%), and childcare providers are also expected to play a role (8%).
- There are a few barriers to uptake. These mainly centre on current childcare preferences (i.e. that parents do not use registered childcare) rather than concerns about the TFC process. However, some parents have difficulty understanding whether they are eligible and likely to be better off under the scheme. Communication needs to reassure parents of the ease and simplicity of applying for, including checking eligibility, and using TFC, as concerns about its complexity were found to be a driver of (non-) uptake. Parents are also likely to need clarity around what types of 'childcare' qualify under TFC.
- Confidence in using TFC is high (93% said they would be very or fairly confident administering all aspects of their account). Most would try to work out difficulties on their own in the first instance and there is strong interest in using online help, in particular webchat. However, if the process proves to be more difficult than expected parents are likely to phone HMRC in large numbers (34% as the first port of call and a further 52% as a second resort, if they were still unable to resolve the problem).
- Confidence in using TFC was slightly lower among Assisted Digital<sup>2</sup> parents (79% said they would be very or fairly confident administering all aspects of their account), who might be most likely to need more support with applying for the account and making payments to childcare providers, at least initially. As initial support will be provided by helplines, messages will need to be tailored accordingly i.e. not just direct the parent to online support.

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<sup>1</sup> Tax-Free childcare (TFC) population is defined as those who are eligible to use the Tax-Free childcare scheme.

<sup>2</sup> In this study, 'digitally excluded' is defined as those who do not have access to the internet in or outside their home, or claimed never to use the internet. 'Assisted Digital' is defined as those who would not be able to transact with the Government online at all or would only be able to do so with help.

- The TFC population is highly digitally capable and only a small minority do not do typical TFC tasks frequently, such as making applications and payments online and using Government services. Access to the internet was almost universal across the Tax-Free Childcare population. The survey estimates that less than 1% of parents eligible for TFC are digitally excluded and 14% are Assisted Digital, mainly lacking confidence with providing detailed information. One in ten (10%) parents live in an Assisted Digital household, meaning both they and their partner require help.

## 2. Executive Summary

### 2.1 Introduction and background

The Government recognises that the cost of childcare is a significant factor in a parent's decision to work, return to work, or work more hours. While some childcare support is currently available it is not universal, so to enable more parents to work, the Government is introducing Tax-Free Childcare in early 2017. Under the new scheme parents will open an online account and deposit money they intend to use for registered childcare<sup>3</sup>. The account will be topped up by 20%, up to a total of £2,000 per child per year (or £4,000 for disabled children). The parent will pay their childcare provider directly from the account.

To support the launch of TFC, including informing requirements to help parents set up and administer an account, HMRC commissioned Kantar Public to conduct a quantitative study of parents eligible for Tax-Free Childcare to better understand their characteristics, current use of childcare and associated costs. Furthermore the study aimed to measure likely uptake of TFC, how parents would use and contribute to the account, and their capability and confidence to manage it online. In spring 2016 Kantar Public conducted a telephone survey of 766 eligible parents<sup>4</sup>.

### 2.2 Awareness, potential uptake and use

Around a quarter (26%) of the parents interviewed said they have heard about the Tax-Free Childcare scheme before. Parents were also asked where they would expect to hear about the scheme. Two thirds (66%) of parents expected to hear about TFC through media sources such as on TV or in newspapers, advertising or through the post (i.e a letter or leaflet). Fewer (19%) expected their childcare provider, employer or school to inform them.

Across the whole TFC population, seven in ten (70%) parents stated that, *if they were financially better off*, they would be likely to open a TFC account. Likelihood to take up the scheme was highest among:

- Parents with pre-school aged children<sup>5</sup> (82%), rising among parents with children aged 0 to 2 (86%);
- Parents who used registered or approved childcare (85%); and
- Parents who received childcare vouchers (84%).

Among those who said they were likely to take up the scheme, four in five (83%) said they would open their account within three months of launch, and two-thirds (65%) said they would make equal monthly contributions.

Tax-Free Childcare will provide financial benefit to parents who use registered childcare. Just over four in ten (42%) parents interviewed are financially unaffected from the scheme as they reported that they use informal childcare or do not use childcare at all. Actual willingness to open a TFC

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<sup>3</sup> Registered/approved childcare refers to the childcare providers which are registered with Ofsted such as nursery, childminder, playgroups etc.

<sup>4</sup> All differences between subgroups included in this report are statistically significant unless stated otherwise.

<sup>5</sup> 'Pre-school aged' in this report refers to children not old enough to attend school.

account (as opposed to reported likelihood measured in the survey) is likely to be driven by whether or not the household benefits financially. To help understand this, a simple segmentation was derived taking into account the stated circumstances of the household to help determine whether or not they would benefit financially from TFC. This segmentation was not aimed to provide an accurate estimation of the impact of the new policy, but to aid HMRC's understanding of the potential take-up (as well as to allow further data analysis)<sup>6</sup>.

Based on the household information collected, just under half (48%) of the TFC population were estimated to be better off under Tax-Free Childcare<sup>7</sup>, 42% were unaffected by Tax-Free Childcare, and 9% would be better off staying under their current childcare arrangement. The majority of those who were likely to be better off (84%) said they definitely would or would be fairly likely to open a Tax-Free Childcare account.

Reasons for not wanting to open an account centred on current childcare arrangements rather than specific concerns about the scheme. The most prominent reasons given by parents were not needing childcare (which was quoted by 36% of those not wanting to open a TFC account) and receiving help from family and therefore not paying for the childcare (stated by 25%). There was evidence to suggest some confusion around interpretation of what can be classified as 'childcare' and/or what type of childcare qualifies for TFC. Adding further information on eligibility criteria detailing the definition of qualified childcare for TFC may help to avoid confusion.

More than half of all parents (58%) had no immediate concerns about Tax-Free Childcare, with the largest concerns being around whether they were eligible (10%) and, to a lesser extent, the perceived complexity of applying for and managing the account (5%). More than nine in ten parents (93%) said they would be very or fairly confident about *all* aspects of the process of managing a TFC account (applying, setup, paying the childcare provider and reconfirming eligibility). However, confidence among the Assisted Digital population was lower, most notably in applying for the account (85%) and making payments to childcare providers (85%).

If a difficulty was encountered, more than half of all parents (56%) would try to work things out by themselves, including sourcing help from the internet, whereas a third (34%) would call HMRC in the first instance. Over half (52%) would call HMRC if they were still having problems (i.e. the second step taken to resolve the problem), of whom roughly four in ten (42%) would have tried to work things out first themselves. This was the most common pattern of stated behaviour – self-help followed by a call for help. Around one in five (19%) would not resort to calling HMRC as either their first or second response. A minority (5%) said they would call HMRC in their first and second instance if they have any difficulties.

Of the online assistance options<sup>8</sup> explored, webchat appears to be most popular, with 59% citing it as their preferred option. A further 20% would opt for co-browsing, and 17% for virtual assistant. A minority (4%) would choose not to use any online assistance.

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<sup>6</sup> Findings should be treated as indicative, given the relatively small sample size and reliance on recall of data on childcare use and costs and use of childcare vouchers. Comparison of data on childcare use with the Early Years Parents Survey indicates that parents underestimated use of after school clubs.

<sup>7</sup> Further detail of the calculation used to determine whether parents would be better off under Tax Free childcare can be found in Appendix C.

<sup>8</sup> Three different types of online assistance options were explored in the study. These were:

(1) Webchat: It is real time text communication where parents type their questions in a chat window and a HMRC adviser will answer them immediately.

(2) Virtual assistant – While parents are browsing the website, an automated pop up window appears and asks them if they need help. It is designed to automatically answer any questions typed without a HMRC adviser.

(3) Co browsing - A HMRC adviser talks to the parents on the phone and is able to see their screen online so they can advise them on how to resolve the problems they are having.

### 2.3 Characteristics of the Tax-Free Childcare Population

Internet access among the Tax-Free Childcare population is almost universal, with most having access both inside and outside of the home. The majority (more than 90%) of parents have done online tasks that are directly relevant to Tax-Free Childcare such as making online applications, checking their bank account, filling out an online form and using Government services.

The proportion of digitally excluded measured in the survey was less than 1%. Assisted Digital (AD) parents are defined as those who would need some help to deal with Government online. One in six parents (14%) were classified as AD. Generally, AD parents are able to provide basic information (87% of AD parents) and make a payment online (94% of AD parents) by themselves, but they would find providing complex information such as completing a tax return or making a benefit application more difficult (2% of AD parents said they can do by themselves). One in ten (10%) parents live in an Assisted Digital household<sup>9</sup>. Fewer than one in ten (8%) live in Assisted Digital households and are not able to get help from friends or family living outside of the home.

Most (85%) of the Tax-Free Childcare eligible population used at least one type of childcare. More than half of parents (57%) use registered or approved childcare and over two in five (46%) use informal childcare. The groups most likely to use registered childcare are:

- Parents with pre-school aged children (71%) compared with parents with school aged children (50%)
- Households with income greater than £50,000 per annum (65%) compared with households with income less than £50,000 per annum (44%)
- Households where both parents are in full time employment (63%) compared with households where either parent is self-employed (45%).

Just over half (53%) of registered childcare users said they spend up to £500 per month on childcare. Over one in five (21%) said they spend up to £1,000 and small minority (4%) spend up to £1,500 per month on registered or approved childcare.

Over a quarter (29%) of parents said they receive childcare vouchers. Only a small minority (3%) use other forms of employer supported childcare.

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<sup>9</sup> Assisted Digital Household is defined as the household where all members of the households are defined as Assisted Digital.



## 3. Introduction and background

### 3.1 Research context

The Government is committed to supporting parents' decision to work, return to work, or work more hours. It recognises that the cost of childcare is a significant factor in that decision. Around one in five households find it difficult to cover their childcare costs, which is higher still among those with pre-school aged children<sup>10</sup>. Currently, childcare is subsidised through the childcare element of tax credits, free childcare and early education and Employer–Supported Childcare (ESC), the most common of which are childcare vouchers. However, these financial incentives are not available to all and so the cost of childcare to parents varies. It is highest for dual earning middle income families<sup>11</sup>.

In early 2017 the Government will introduce Tax-Free Childcare to help working families pay for childcare. The scheme will effectively offer parents a 20% discount on their childcare costs, allowing them to save a maximum of £2,000 per child per year (£4,000 for disabled children). To qualify, both parents (or the lone parent) have to be in work, and each earn around £115 a week but not more than £100,000 per year. It is estimated that around 2 million households will be eligible to receive it. The scheme will be available to the self-employed and those working for employers that do not offer ESC. Parents who are receiving Tax Credits or Universal Credit will need to opt out from these schemes to be eligible for Tax-Free Childcare<sup>12</sup>.

Tax-Free Childcare will be delivered by HMRC as a digital service, in line with the Government's 'Digital by Default' strategy to encourage citizens to interact online where possible. However, in accordance with its 'Digital Inclusion' policy, HMRC will ensure assistance is provided for those without access to the internet.

### 3.2 Study objectives

To support the launch of TFC, HMRC commissioned Kantar Public to conduct a quantitative study of parents eligible for Tax-Free Childcare to understand:

- Their characteristics, current use of childcare and associated costs;
- Their likely take-up and usage patterns of TFC; and
- Their ability to manage the account online and thus the assistance that HMRC would be required to provide.

Furthermore the study explored which families were likely to benefit from the scheme, including those that would benefit if they switched from existing childcare support. To help HMRC prepare for the launch of the scheme the study assessed the likely pace of uptake, contributions patterns,

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<sup>10</sup> T Huskinson et al. *Childcare and early years survey of parents 2014 to 2015* (2016) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/516924/SFR09-2016\\_Childcare\\_and\\_Early\\_Years\\_Parents\\_Survey\\_2014-15\\_report.pdf.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/516924/SFR09-2016_Childcare_and_Early_Years_Parents_Survey_2014-15_report.pdf.pdf)

<sup>11</sup> V Alakeson and A Hurrell *Counting the Costs of Childcare* (2012) [http://www.resolutionfoundation.org/wp-content/uploads/2014/08/Counting\\_the\\_costs\\_of\\_childcare\\_2.pdf](http://www.resolutionfoundation.org/wp-content/uploads/2014/08/Counting_the_costs_of_childcare_2.pdf)

<sup>12</sup> Most parents currently receiving Tax Credits/Universal Credit are unlikely to be better off using TFC. Parents that opt to continue to receive Tax Credits/Universal Credit or childcare vouchers will not be eligible for TFC.

parental concerns and further information needs. The findings will inform contact models and support tools offered, including addressing the needs of the Digitally Excluded or Assisted Digital (at household level) to ensure equality of access and engagement.

### **3.3 Research design**

Kantar Public conducted a telephone survey among a representative sample of 766 eligible parents in the UK. The sample was compiled from two separate frames: list assisted landline random digital dialling (RDD), and non-list assisted mobile RDD.

Eligibility for TFC, and therefore for the survey, was established through a series of screening questions. The achieved sample excluded parents receiving Tax Credits or Universal Credit but included those in receipt of ESC.

Fieldwork took place between March and May 2016. Interviews were conducted with the parent in the household with primary or shared responsibility for making decisions about childcare. Survey data was weighted to ONS Family Resources Survey (FRS) data, to ensure it was representative of the TFC market by number of parents in the household, household income and work status.

Appendix A contains further detail on the research design.

### **3.4 Analysis and reporting**

Data was analysed using specialist computer software, including tests for “significant differences”, i.e. meaningful differences that were unlikely to have occurred by chance within the sample. Subgroup analysis was performed to explore any difference among groups within the sample, i.e. household composition and childcare use. The following points should be borne in mind when reading this report:

- Percentages for single-response questions do not always add up to exactly 100% due to the effect of rounding;
- Some questions reported are multiple-response. As participants can select more than one answer in this type of question, percentages may add up to more than 100%. When a multiple-response question is reported in a chart or a table, this is clearly noted in the footnotes.
- Unless otherwise stated, all differences reported are statistically significant to the 95% confidence level. This means that we can be 95% confident that the differences observed are genuine differences, and have not just occurred by chance;
- Zero per cent is indicated in tables using ‘-’ and figures above zero but below 0.5 per cent are indicated using ‘\*’; and
- Base sizes for each result reported are shown with the charts. A result with a base size of fewer than 50 should be interpreted with caution and the findings should be viewed as indicative only.

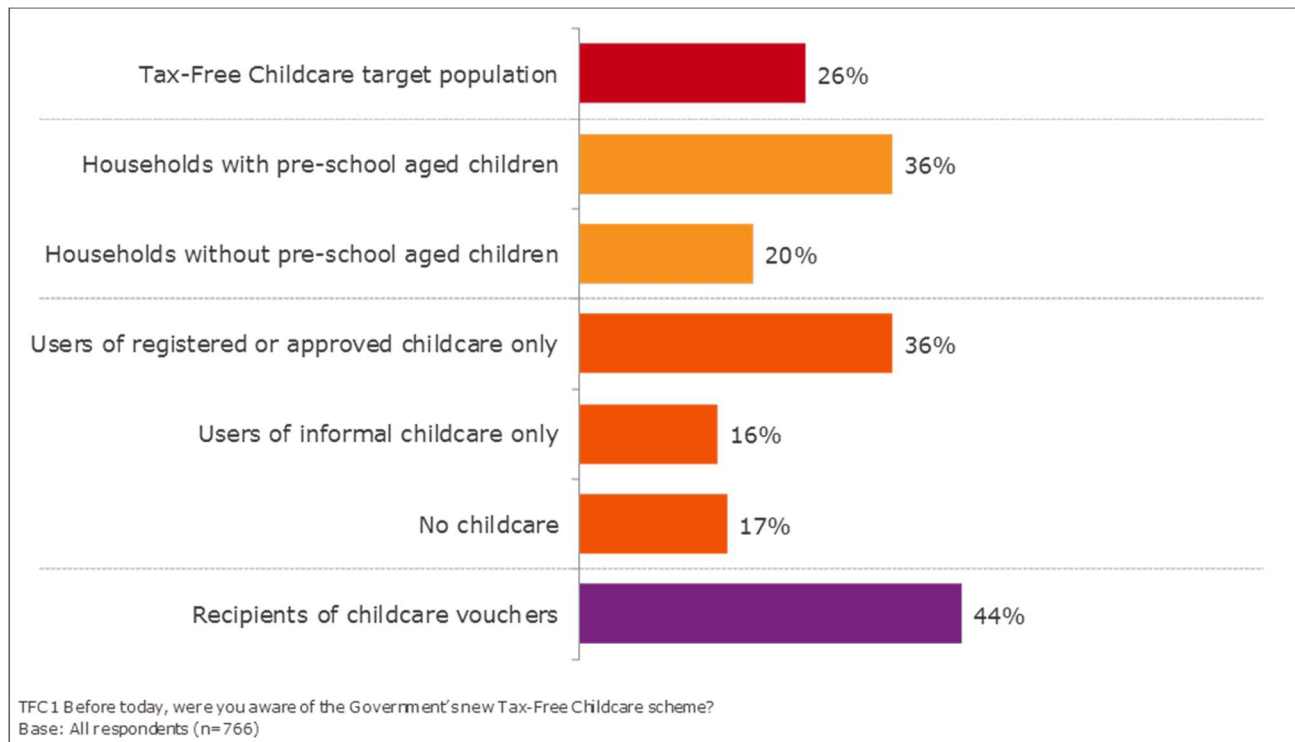
## 4. Awareness, potential uptake and use

### 4.1 Current awareness of Tax-Free Childcare

At the point of fieldwork between March and May 2016, approximately a quarter (26%) of the target population was aware of Tax-Free Childcare.<sup>13</sup>

Households with a pre-school aged child and users of registered and/or approved childcare were more likely to be aware of TFC (both 36%). Forty four per cent of parents who received childcare vouchers were aware of the scheme.

**Chart 4.1 Awareness of Tax-Free Childcare**



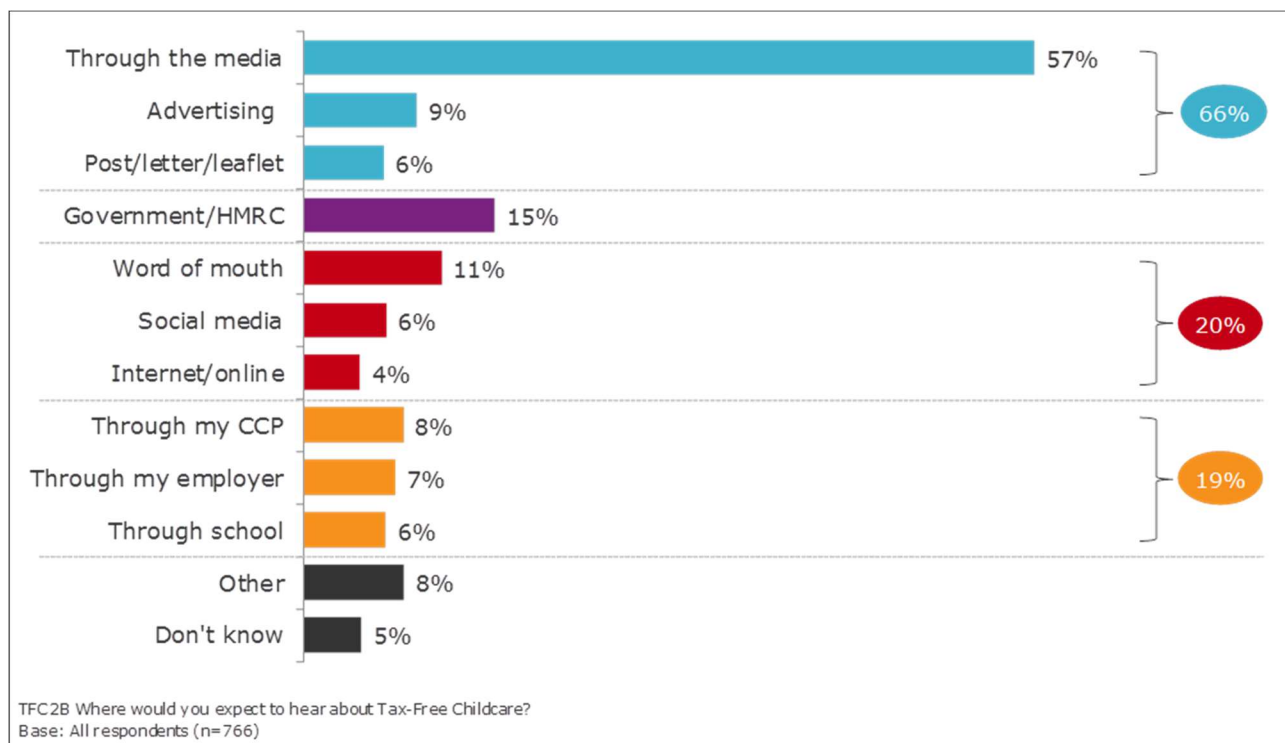
### 4.2 Expected sources of notification

Two thirds of parents (66%) said they expect to hear about Tax-Free Childcare through the media, advertising and/or through the post (i.e. letter or leaflet). One in six (15%) parents expected to hear about TFC via Government or HMRC webpages.

Almost one in five (19%) parents said they expected to hear about the scheme through either their childcare provider, employer or their child's school. Users of registered or approved childcare were more likely to anticipate hearing about TFC from these sources (22%). One in five (20%) expected to hear about the scheme through word of mouth, social media or the internet, as shown in Chart 4.2.

<sup>13</sup> All interviewed parents were given information about Tax Free Childcare prior to answering questions about the scheme. Information provided included details about the aim of the scheme, its potential benefits, eligibility criteria, how the scheme will work and what the support options will be available.

**Chart 4.2 Expected future sources of notification<sup>14</sup>**



### 4.3 Potential uptake of Tax-Free Childcare

#### 4.3.1 Likelihood of opening a Tax-Free Childcare account

Overall, parents were generally positive in reporting their inclination to open a Tax-Free Childcare account, *assuming they were better off*. Two in five (42%) said they definitely would open a TFC account, with a further 27% saying they were fairly likely to open one. Overall, 70% gave a positive answer.

Parents with pre-school aged children were more likely to give a positive answer, with 82% reporting they definitely would or would be fairly likely to open an account. This rose to 86% among parents with children aged 0 to 2, but was not significantly different (77%) among parents with a 3-4 year-old. Parents with children aged 5 to 11 were least likely to give a positive answer, but even still, a high proportion (63%) said they would definitely or were fairly likely to open a TFC account.<sup>15</sup>

Given that Tax-Free Childcare will only provide a benefit to parents using registered or approved childcare, potential uptake is higher among this group. Parents who used registered or approved childcare were more likely to give a positive answer (85% said they definitely would or were fairly likely to open a Tax-Free Childcare account) compared with parents who only used informal childcare or were not using any childcare (50% and 49% respectively). Similarly, the majority (84%) of parents who received childcare vouchers<sup>16</sup> were more likely to say they would definitely would or were fairly likely to open an account. Multivariate analysis confirmed that these were the key drivers of uptake, as were the presence of a disabled child in the house and no concern about the process being complex. Further detail on this analysis is in Appendix B.

<sup>14</sup> This chart is created from a multiple-response question. Respondents were able to select more than one answer.

<sup>15</sup> Categories of parents based on having a child of a certain age *can* include children of other ages. For example, parents with children aged 5 to 11 might also have children below the age of 5.

<sup>16</sup> Childcare vouchers are an employee benefit for all eligible working parents where parents sacrifice a certain amount from their salary to purchase childcare vouchers which can be used to pay for the childcare costs. The part of the gross salary sacrificed for childcare vouchers is tax-free and exempt from National Insurance contributions. Parents are entitled to different amount of childcare vouchers per month depending on the tax rate they are in..

Assisted Digital (AD) parents were no less likely to report willingness to apply despite the digital requirements of the scheme. Seventy per cent of AD parents said they would definitely or were fairly likely to take up the scheme.

More than half (54%) of parents who were likely to open an account would open it straightaway. Additionally, more than a quarter (29%) would to open their account within three months and the rest would wait at least six months. A similar pattern was evident across all key subgroups.

#### **4.3.2 Payment patterns**

Two-thirds of parents (65%) said they would pay the same amount every month to their TFC account, while 25% said they would pay into the account as and when needed. Those who would make equal monthly payments under TFC are more likely to be making regular payments for childcare already. Key differences in subgroups were:

- Parents with children aged 0 to 2 were more likely to say they would pay the same amount every month (78%).
- Parents who only used informal childcare were less likely to say they would pay the same amount every month (51%) and were more likely pay in as and when needed (38%).
- Parents in receipt of childcare vouchers were more likely to pay the same amount every month (79%) compared with those who were not in receipt (58%).

#### **4.4 Verification of uptake**

Actual willingness to open a TFC account (as opposed to reported likelihood measured in the survey) is likely to be driven by whether or not the household benefits financially. For most this will be an easy assessment: if the household does not incur childcare costs or only uses informal childcare there will be no benefit; conversely, if the household does have registered or approved childcare expenses and does not currently receive an Employer Supported Childcare<sup>17</sup> subsidy they will benefit from TFC. Parents that currently receive childcare vouchers have a decision to make, which is whether to continue to receive vouchers or whether to switch to TFC. For some, calculating which scheme is better for them financially is complicated, certainly too complicated to make during the survey.

To help understand this, a simple segmentation was derived taking into account the stated circumstances of the household to help determine whether or not they would benefit financially from TFC. This segmentation was not aimed to provide an accurate estimation of the impact of the new policy, but to aid HMRC's understanding of the potential take-up (as well as to allow further data analysis). Findings should be treated as indicative, given the relatively small sample size and reliance on recall of data on childcare use and costs and use of childcare vouchers. Comparison of data on childcare use with the Early Years Parents Survey indicates that parents underestimated use of after school clubs.

##### **4.4.1 Descriptions of segments**

Three segments were defined for the purpose of verifying likely uptake of Tax-Free Childcare. These segments are based on the likely benefit parents would receive from TFC:

- Parents who were unaffected by Tax-Free Childcare (i.e. do not use childcare or have informal arrangements only);

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<sup>17</sup> Employer supported childcare refers to the schemes provided by the employers to help their employees with their childcare costs. This could be childcare vouchers, workplace nursery or any other scheme provided by the employer.

- Parents who were financially better off continuing to receive childcare vouchers (as childcare vouchers covers all of their childcare costs or the savings they receive with childcare vouchers are higher than they would be with TFC); and
- Parents who were financially better off under Tax-Free Childcare (as they do not receive childcare vouchers or the savings they receive with childcare vouchers are not as high as they would be with TFC).

The definitions of these segments take into account parents' use of childcare, the type of childcare they use, whether they are in receipt of employer supported childcare, the type of employer supported childcare they receive, their childcare costs and the rate of tax they pay based on their income. The size of these segments and proportion of the TFC population likely to benefit from TFC is summarised in Table 4.1.

Further details of the approach used to determine whether households would benefit financially from the scheme are provided in Appendix C.

#### 4.4.2 Uptake of Tax-Free Childcare by segment

The three broad segments can be broken down into six more detailed categories.

**Table 4.1 Distribution of segments<sup>18</sup>**

Segment	Categories	% of category in Tax-Free Childcare population (Confidence Interval range)	% of segment in Tax-Free Childcare population
Unaffected by Tax-Free Childcare	Not using childcare	15% (12%-17%)	42% (38%-46%)
	Using informal childcare only	28% (24%-31%)	
Better off staying under current childcare arrangement	In receipt of childcare vouchers and can cover all childcare costs with vouchers	8% (5%-10%)	9% (7%-12%)
	Childcare vouchers partially covers childcare costs but financially better off under current scheme	2% (1%-3%)	
Better off under Tax-Free Childcare	Receive no childcare vouchers for childcare costs	29% (26%-33%)	48% (44%-52%)
	In receipt of childcare vouchers and can partially cover childcare costs but financially better off under Tax-Free Childcare	19% (16%-22%)	

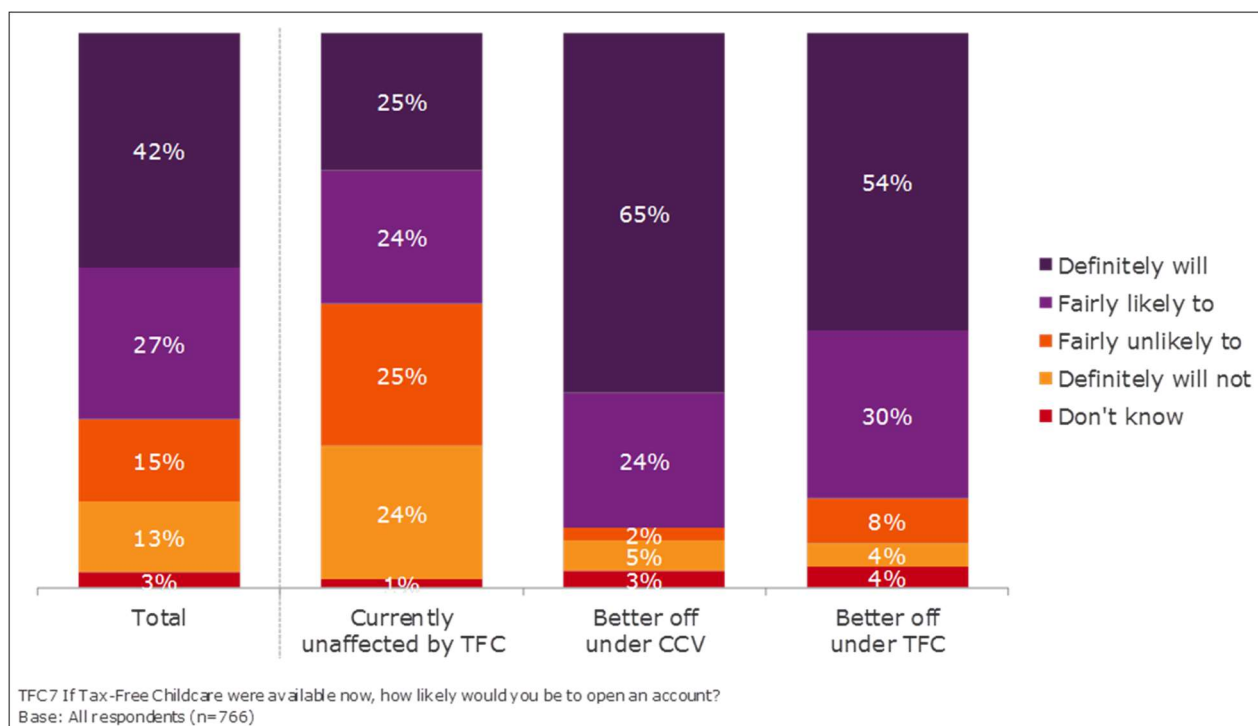
Slightly fewer than half (48%) of the Tax-Free Childcare target population were likely to be better off under Tax-Free Childcare. More than half (54%) of these parents said they definitely would open a Tax-Free Childcare account. Three in ten (30%) in this segment said they were fairly likely to open an account.

Just over two in five (42%) were unaffected by TFC due to not using childcare or using informal childcare only. Even still, nearly half of those (49%) said they were either fairly likely to open (24%)

<sup>18</sup> Excludes <1% of parents who could not be classified.

a Tax-Free Childcare account or would definitely (25%) open one. This suggests that there is a potential interest in the scheme should those parents' circumstances or childcare requirements change (for example if they wish to work more hours).

**Chart 4.3 Stated likelihood of uptake among overall TFC population and among TFC population segments**



Likely uptake was not universal among those who were thought to be better off under Tax-Free Childcare. This indicates the need to provide more clarity around eligibility as well as the financial incentives provided by the Tax-Free Childcare scheme.

The number of parents in this group was small (n=45) so results should be treated as indicative, but the findings indicate the primary barrier is that they did not think they were eligible as they were not using or did not need a childcare scheme having previously mentioned that they were using registered childcare. Some of these were parents of school age children using breakfast clubs, after school clubs and/or holiday schemes and did not recognise these forms of childcare cost qualified for the scheme. Others felt the scheme was too complex or did not recognise they would be better off under TFC or that the financial benefits would be too marginal to warrant applying; some of these were also using childcare vouchers. The quotes below illustrate the range of responses:

*“Don’t think I will be entitled to receive it.” (Better off under TFC)*

*“Unnecessary unless it counts towards after-school things... It would have to cover more than just a childminder.” (Currently unaffected)*

*“Getting £2 for every £8 so hassle for such a small amount. Don’t know what qualifies for registered childcare i.e. other activities such as swimming, clubs, scouts.” (Currently unaffected)*

*“It is complicated process. I wouldn’t feel confident in using it. I would be concerned about making mistakes and do not know about the risk of making mistakes. It is a bit unclear.” (Better off under TFC)*

*“Would not be better off and it’s a hassle.” (Better off under TFC)*

*“No benefit. It will be a load of data gathering. The use would be minimal.”* (Better off under TFC)

*“The childcare vouchers are more beneficial.”* (Better off under TFC)

This suggests it is essential for parents to understand whether they are eligible for Tax-Free Childcare and be able to calculate whether it would be more financially beneficial to them compared with other childcare support options available. This requires strong signposting to the eligibility guidance and childcare cost calculator to understand whether parents are better off with the Tax-Free Childcare scheme. The guidance also needs to be clear on what constitutes regulated childcare, as well as general eligibility rules.

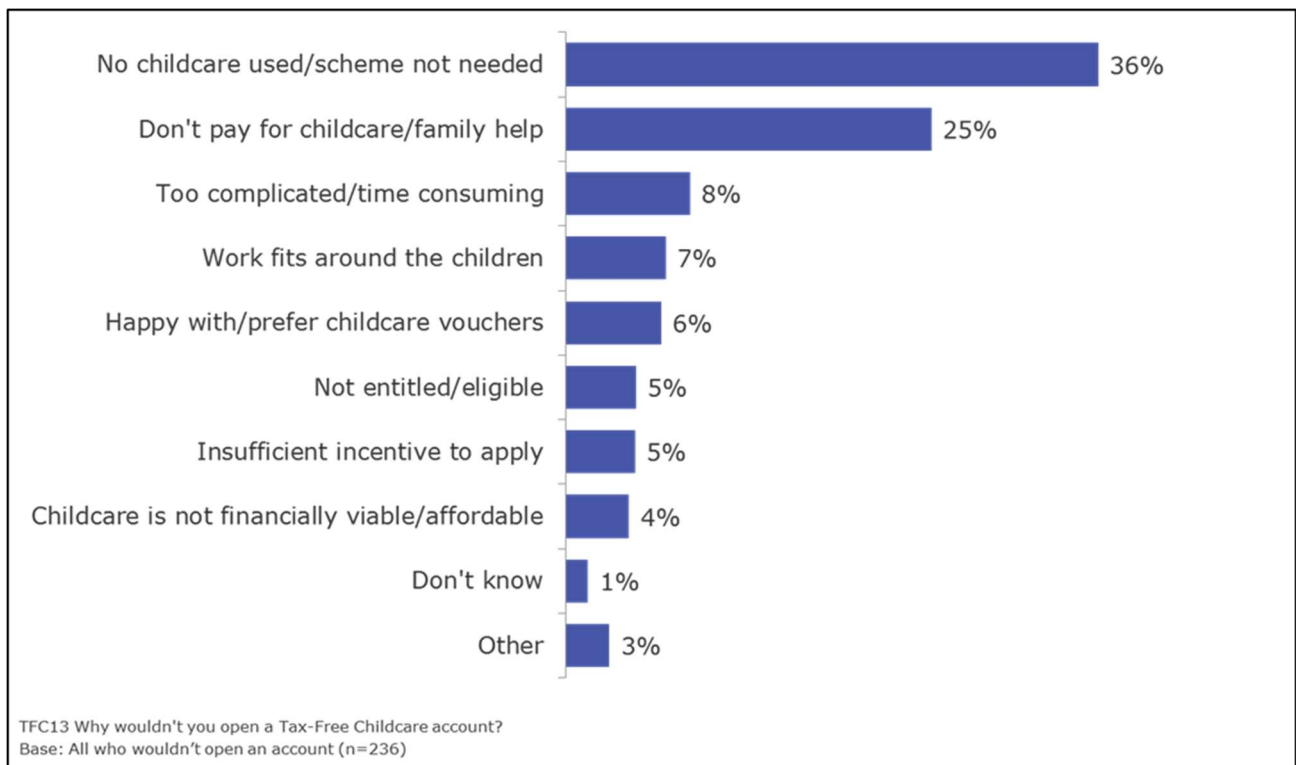
#### 4.5 Reasons for not taking up Tax-Free Childcare

All parents who stated they were unlikely to open a Tax-Free Childcare account were asked their reasons for not wanting to and the results are summarised in Chart 4.4.

The majority of the reasons stated by parents were related to their current childcare arrangements, and their childcare needs rather than concerns about the scheme. There were other reasons mentioned by a smaller number of families as shown in Chart 4.4.

A small proportion of parents had concerns specifically regarding the scheme; 8% stated that scheme was too complicated and time consuming and 5% that the incentive provided by the scheme was insufficient to warrant applying.

**Chart 4.4 Reasons for not wanting to open a TFC account<sup>19</sup>**



A small number of parents (23 parents, 3%) said they did not know whether they would open a Tax-Free Childcare account. When these undecided parents were asked if they needed any extra information, most answers referred to the need for signposting between the eligibility and childcare cost calculator to enable parents to understand whether they are better off.

<sup>19</sup> This question was asked as an open-ended question. At the data analysis stage, verbatim answers were coded into a code frame.



Actual reasons given by parents were:

*“...cost benefit calculator to show if better or worse off”* (Better off under TFC)

*“...that if you feel eligible you would open an account”* (Unclassified)

*“Until you know you are better off”* (Better off under TFC)

*“...I would need to know details of how it would make things better financially”* (Better off under TFC)

*“Depends on how beneficial compared to other options”* (Better off under TFC)

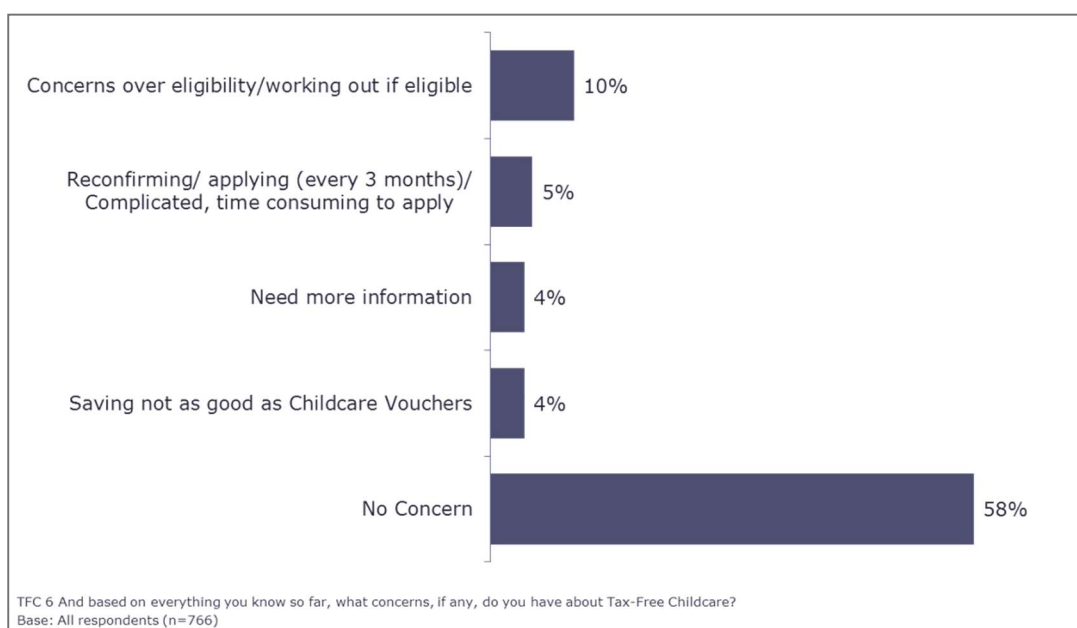
## 5. Confidence managing account and support needed

### 5.1 Concerns about Tax-Free Childcare

#### 5.1.1 Primary concerns

The majority of parents did not have any concerns about Tax-Free Childcare. However, some had concerns around eligibility and the application process as shown in Chart 5.1. None of the other responses cited by respondents had a percentage value greater than 4%.

**Chart 5.1 Concerns about Tax-Free Childcare<sup>20</sup>**



The largest concern was around being eligible and working out eligibility, which was cited by 10%. A small proportion (5%) were concerned about the complexity of applying and the need to reconfirm their eligibility every three months. There were no other specific concerns cited by at least 4%.

However, some concerns were more prominent among certain groups:

- Of parents with childcare vouchers, 11% were concerned that the savings from TFC would not be as good as their current arrangement (compared to just 4% of all parents).
- Data protection concerns were less likely among those who were already aware of the scheme (1%) compared with all parents (3%) which may suggest that knowing it was a Government scheme provides reassurance about data security.

<sup>20</sup> This question was asked as multiple response question. The codes included in the chart are all codes with a percentage value greater than 4%.

- Mention of TFC not being beneficial was lowest among parents with children aged 3 to 4, and those using registered childcare (both <1%). The latter reflects the nature of the scheme, which applies only to registered childcare.

### **5.1.2 Assistance entering Child Benefit number**

Registration for the scheme will require applicants to provide their Child Benefit number and HMRC are concerned that this might lead to a significant increase in calls to the helpline to request the number. The survey indicates that most applicants who receive Child Benefit believe they would be able to provide the number without assistance. Two-thirds (66%) of parents said that it was very or fairly likely they would be able to enter their Child Benefit number *without* assistance from HMRC when registering for TFC. One in ten (10%) indicated they may need some assistance, and 20% said they did not receive Child Benefit.

## **5.2 Opening a TFC account**

### **5.2.1 Confidence about steps**

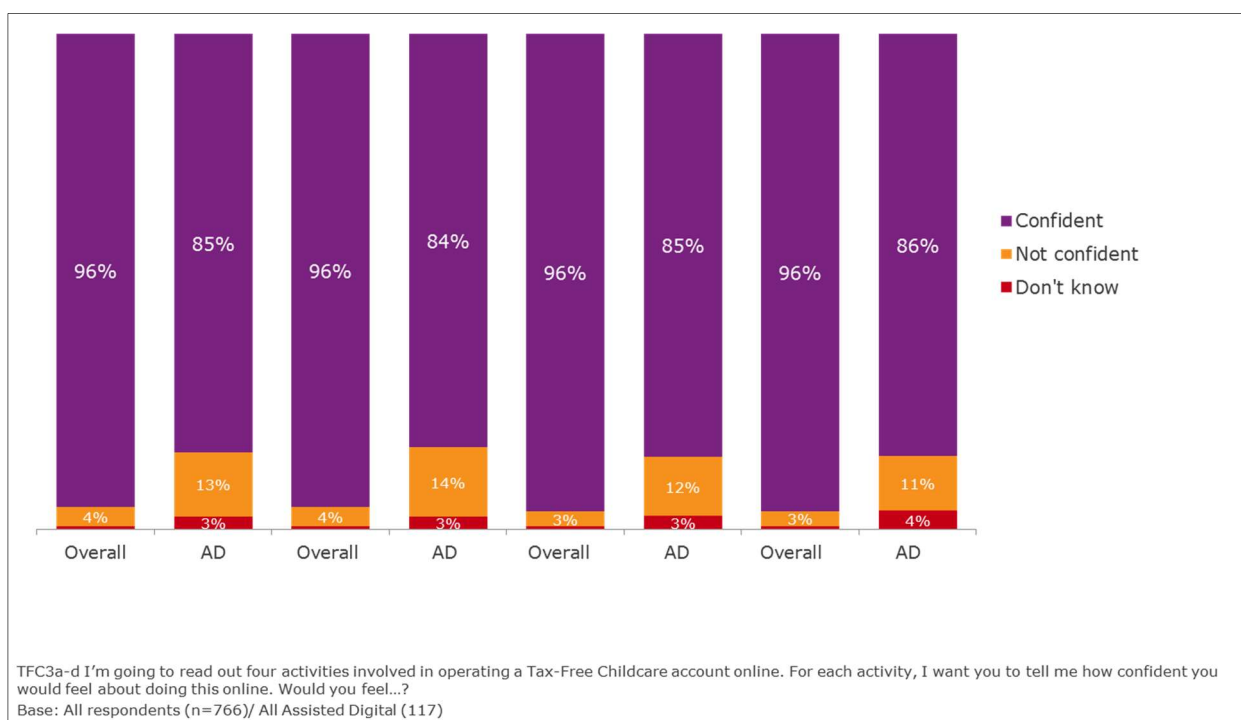
Parents were asked how confident they would feel about each of the four aspects of the process of managing a TFC account:

1. Applying for the account
2. Setting up the account for each child
3. Paying the childcare provider
4. Reconfirming eligibility

Parents generally reported very high level of confidence as shown in Chart 5.2 for each of the aspects individually. More than nine in ten (93%) of parents were confident or fairly confident with all four aspects of the process of managing a TFC account.

Confidence with all aspects of the process of managing a TFC account among Assisted Digital (AD) parents was lower at 79%, as it was among households with income of less than £40,000 per annum, which is correlated with AD incidence. Overall only 6% would not be confident about any steps, but amongst AD parents, this proportion was 18%. They were notably less confident about applying for the account and making payments to childcare providers, which suggests they will require more support from HMRC for these elements. Each element is discussed separately in the following sections and Chart 5.2 shows the comparison between confidence among AD and overall.

**Chart 5.2 Comparison of confidence levels between overall TFC population and assisted digital TFC population**



### 5.2.2 Applying for an account

Parents were asked how confident they would be applying for an account online. They were told that applying for an account online would involve providing information about their income, how many children they have and whether they received any benefits. Almost all (96%) parents were very or fairly confident about this step of the process (75% of whom were very confident).

Among AD individuals, the proportion falls but 85% were still very or fairly confident. However, this was the stage of the process they were least confident about; only 50% were very confident. Income was a significant factor in whether parents were very confident. Only 57% of parents in a household earning less than £40,000 per annum were very confident. By comparison, 87% of parents in a household earning more than £100,000 reported feeling very confident about this step. Parents who were already aware of TFC were more likely to be very confident (83%), as were parents who received childcare vouchers (85%).

### 5.2.3 Getting the account set up for each child

Parents were asked how confident they would be setting up an account. They were told that setting up an account would involve arranging for money to go into the account, whether by bank transfer or standing order. Again, 96% were very or fairly confident about this step (with 76% very confident).

Among AD individuals, a smaller proportion (84%) were very or fairly confident (of which 59% were very confident). Again, income was a significant factor. Of parents in households earning less than £40,000 per annum, 61% were very confident, compared to 88% of parents in a household earning more than £100,000. Parents who were already aware of TFC were again more likely to be very confident (85%), as were parents using childcare vouchers (85%).

#### **5.2.4 Paying the childcare provider**

Parents were asked how confident they would be arranging payment from the TFC account to the childcare provider. As with the first two steps, 96% were very or fairly confident (of which 74% were very confident).

Among AD individuals, the proportion drops to 85% (with 55% very confident). The proportion that was very confident drops to 62% among parents in households earning below £40,000 per annum. Among parents in the £100,000 or higher bracket, it rises to 87%. As with previous steps, those with childcare vouchers were more likely to be very confident (86%), but for this step awareness of TFC did not make a significant difference.

#### **5.2.5 Reconfirming eligibility**

Parents were asked how confident they would be reconfirming their eligibility for the scheme every 3 months. They were told they would receive a reminder. Again, 96% were very or fairly confident about this step (with 76% saying they would be very confident).

A smaller proportion of AD individuals (86%) were very or fairly confident, of which 58% were very confident. There were similar trends to previous steps in relation to income. Three in five (60%) of those in households earning less than £40,000 said they would be very confident. In contrast to previous steps, the proportion reporting to be very confident was not significantly higher among those with childcare vouchers, or among those who were already aware of TFC. However, it was significantly lower (64%) among those with no childcare.

### **5.3 Support needs**

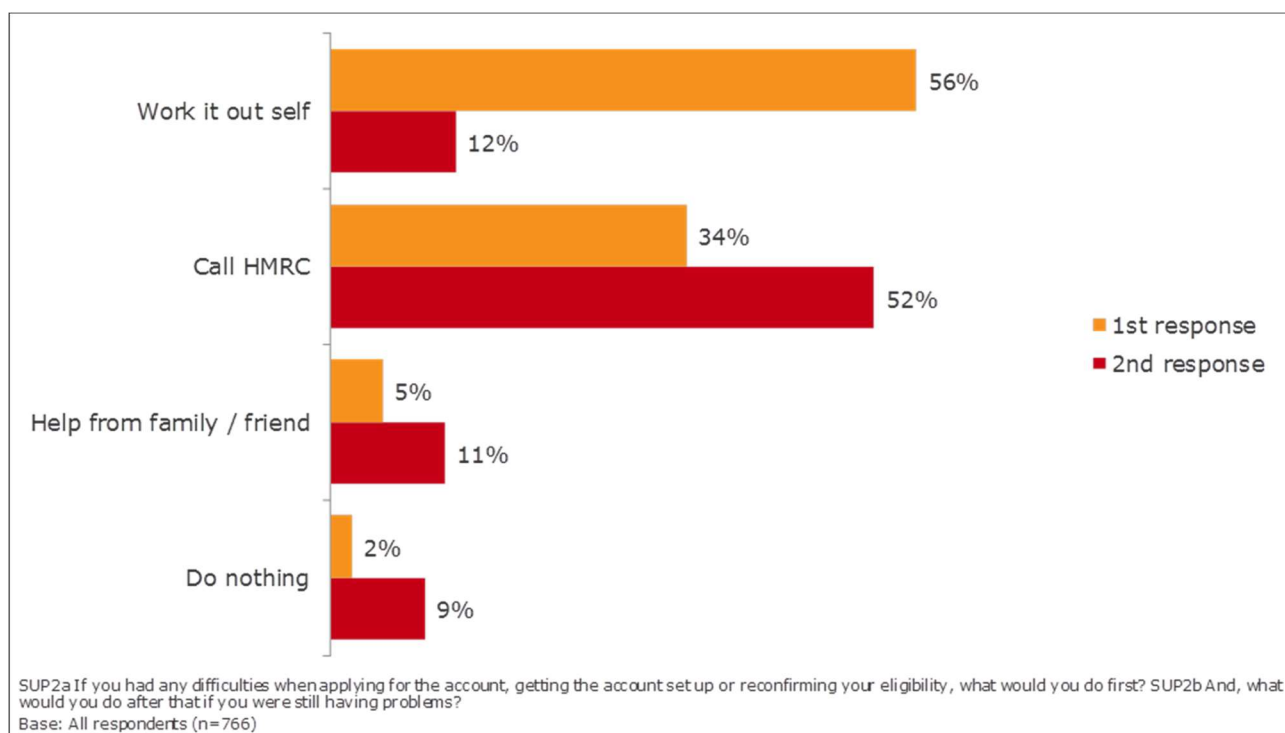
#### **5.3.1 First response to a problem**

The vast majority indicated that they would be confident about managing a TFC account, but parents were asked what their response would be if they encountered a problem at any of the four steps. In the first instance, over half (56%) would try to work things out for themselves, including sourcing help from the internet. A third (34%) would call HMRC.

Among AD parents, a smaller proportion would try to work things out in the first instance (43%), although the proportion who would call instead was not significantly higher. Among parents in households earning less than £40,000 per annum, a smaller proportion would try to work things out themselves (39%), and a significantly higher proportion would call HMRC (50%). Previous findings indicated that parents in lower income households were less likely to be very confident about managing the TFC account online, and this seems to translate into being more likely to seek help over the phone. Parents who were aware of TFC already would be more likely to try to work things out (65%). As awareness correlates highly with household income, this is to be expected.

A small proportion (5%) of parents would seek help from family and friends within the household. No other course of action was cited by 5% or more.

**Chart 5.3 First and second responses to problem with online account**



### 5.3.2 Second response to a problem

Far fewer parents would try to work things out themselves (12%) if they were *still* having a problem with any of the four steps (this includes 2% who said this would be their first response as well).

Over half (52%) would call HMRC if they were still having problems, including 42% who would have tried to work things out first themselves. This was certainly the most common pattern of stated behaviour – self-help followed by a call for help.

Around one in five (19%) would not resort to calling HMRC as either their first or second response. A minority (5%) would call both times. Again, income appears to be a factor – the proportion of parents in households earning less than £40,000 pa who would *not* call HMRC as a first or second response was significantly lower (13%) than the average. Tendency to explore other avenues before calling HMRC rises roughly in line with income (31% in households earning more than £100,000 per annum).

There were also increases for other courses of action in the second instance. Parents would be more likely to do nothing further (9%, up from 2%), seek help from family and friends (11%, up from 5%) or ask their childcare provider (4%, up from 0%).

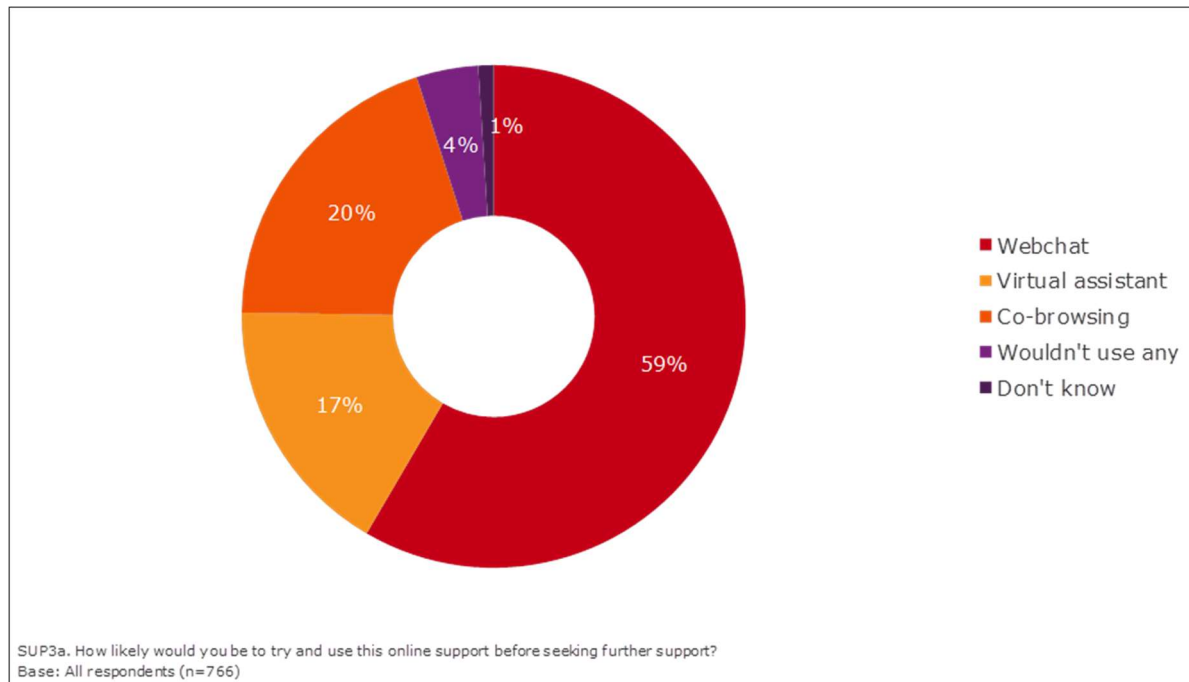
Further statistical analysis confirmed that those most likely to call HMRC for assistance were those on lower incomes, and that being on lower income rather than being AD is a stronger predictor of likelihood to call. Other predictors included lone parents, those who are currently unaware of TFC and whether the household have pre-school aged children. Further detail on this multivariate analysis is in Appendix B.

### 5.3.3 Preferred support options

Parents were asked how likely they would be to use various online support options, which could reduce the demand for telephone support. Parents were largely positive about using all three options in principle before seeking other help options.

Webchat, which was described as ‘real time text communication where you type your questions in a chat window and a HMRC adviser will answer them immediately’, had 84% saying they would definitely or be fairly likely to use it. Virtual assistant, described as ‘an automated pop up window (that) will appear and will ask you if you need help. It will try to automatically answer any questions you type in’, was slightly less popular (78% definitely or fairly likely to use it). Co-browsing, where ‘A HMRC adviser will talk to you on the phone and will be able to see your screen online so they can advise you on how to resolve the problem’, scored similarly (79%) to virtual assistant.

**Chart 5.4 Preferred mode of online support<sup>21</sup>**



Encouragingly, AD parents were not significantly less positive about the three support options, although it was more common for them to say they would be fairly likely to use them, rather than definitely. A higher proportion of AD parents would not use any form of online support (11%) but for those who would webchat was also the preferred option (46%). However, there was no real difference by income.

Under the scheme, parents can nominate someone else to operate the account if they prefer. Just over a quarter (28%) would be willing to nominate someone else to administer their account, a proportion which rises to 36% among AD parents and to 38% among parents with household incomes below £40,000 per annum.

<sup>21</sup> Where respondents were positive (definitely would use, fairly likely to use) about only one support option, this was assigned as their preference. Where respondents were positive about more than one, they were asked to explicitly state which option they preferred.

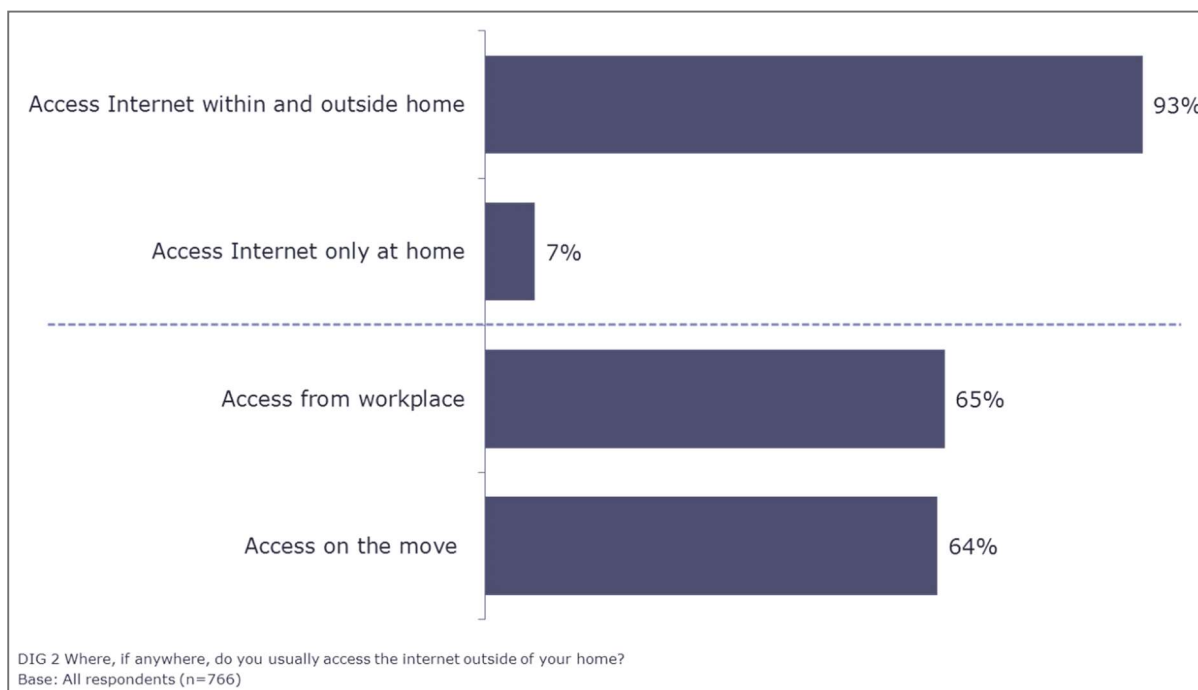
## 6. Characteristics of the Tax-Free Childcare population

### 6.1 Digital capability

Internet access among Tax-Free Childcare population is almost universal. Only one parent out of 766 said they did not have access to internet at or outside their home.

The majority (93%) of Tax-Free Childcare eligible parents access the internet both within and outside of their home. The most common place to access internet outside home is the workplace and on the move using a laptop, smartphone or a tablet as shown in Chart 6.1. Access to Internet on the move was significantly higher (75%) among parents where either parent was self-employed.

**Chart 6.1 Access to Internet within and outside home<sup>22</sup>**



Frequency of accessing the internet is also high, with 98% reporting accessing it every day. Nine in ten (90%) parents said they access the internet from their home or outside their home more than once a day. Fewer than one in ten (8%) access the internet only once a day.

Almost all parents have done basic internet tasks such as sending an email (99% said they have sent) or using a search engine before (99% said they used a search engine before). Additionally, the majority of parents have done online tasks which are relevant to Tax-Free Childcare such as

<sup>22</sup> This question was asked as a multiple response question except the answer code "do not access internet outside home" which was exclusive.



making online applications, checking their bank account, filling out an online form and using Government services:

- 97% of parents completed an online applications/forms which include personal details;
- 94% used online Government services before;
- 93% looked for information about Government services online;
- 93% set up standing orders and/or direct debits to pay bills or making one off payments to other people; and
- 91% checked their bank balance online.

Most parents (52%) do not have a set pattern as to when they perform online tasks. Over a third (38%) said they usually perform online tasks on weekday evenings while lower proportion said they perform on Saturday (14%) and Sunday (13%) Only a small minority (1%) said they perform online tasks only on Saturday. None of the participants said they perform online tasks on Sunday only. One in ten (10%) said they would not perform online tasks on weekday evenings. These findings indicate that HMRC would need to ensure helpline support for the service was available in the evenings and at weekends.

### **6.1.1 Assisted Digital and Digitally Excluded parents**

In this study, we defined digitally excluded parents as those who do not have access to the internet in or outside their home, or claimed never to use the internet. As mentioned before, only one participant did not have access to the internet. Another participant claimed never to use the internet. These were the only two classified as digitally excluded. This compares favourably with the overall UK population. Previous research<sup>23</sup> indicates that 15% of the UK population is digitally excluded, falling to 5% among parents with children aged 0 to 15 (Chart 6.2).

We defined “Assisted Digital” as those who would not be able to transact with the Government online at all or would only be able to do so with help.

We assessed digital capability by giving all respondents three scenarios about interacting with Government online asking their ability to deal with them. The scenarios were:

- Providing basic information such as updating address or notifying a change of circumstances.
- Making a payment or purchase; such as paying for TV licence or paying for vehicle tax.
- Providing more detailed information such as completing a tax return or making a benefit application.

We classified participants as “Assisted Digital” if they said for any of the scenarios that they would not be able to transact without help<sup>24</sup>. They did not have to say they would need support with all three scenarios. As long as a participant stated that they would need help at one or more of the three scenarios, we classified them as Assisted Digital.

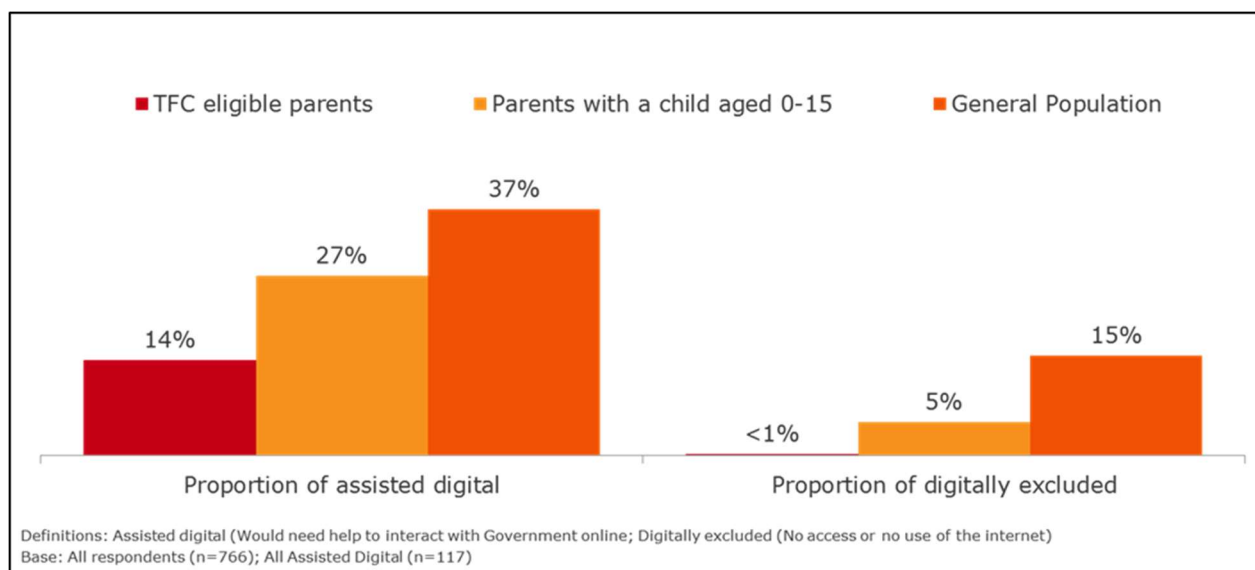
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<sup>23</sup> L. Altmann *Digital Exclusion & Assisted Digital Research* (2015)

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<sup>24</sup> In the questionnaire we created three categories of help: from friends or family, from the organisation/department providing the service, from an independent expert or professional. Help from friends and family were also grouped as help from a person living in the same household or outside the household.

**Chart 6.2 The proportion of assisted digital and digitally excluded populations among TFC Eligible parents, parents with a child aged 0-15 and UK general population**



The proportion of assisted digital parents within Tax-Free Childcare population compares favourably with UK general population figures found in previous research<sup>25</sup> as shown in chart 6.2.

Generally, Assisted Digital parents are able to provide basic information and make a payment online by themselves. Respectively, 87% and 94% of Assisted Digital parents said they would be able to do these tasks without any help. However, the situation is different regarding providing complex information such as such as completing a tax return or making a benefit application which are similar to applying for a Tax-Free Childcare account. Only 2% of parents said they would be able to do these kinds of tasks online while 91% said they would be able to do them if they receive some help from somebody. Given parents eligible for TFC were such a digitally capable group, this is likely to reflect lack of confidence in dealing with tax related issues than use of online services per se.

In terms of sources of help, over two in five (42%) Assisted Digital parents said they would seek help from a friend or a family member. The majority (68%) of times this would be someone from the same household. Over a quarter (29%) of the Assisted Digital participants would seek help from an independent expert (such as Citizen’s Advice) and 29% would seek help from the organisation providing the service.

The sources of help available to Assisted Digital parents define whether Assisted Digital status applies to the individual or to the household. One in ten (10%) of the Tax-Free Childcare population lives in an Assisted Digital household where the applicant or applicant’s partner are not able to do the online tasks without help. Fewer than one in ten (8%) live in Assisted Digital households and were not able to get help from their friends or family.

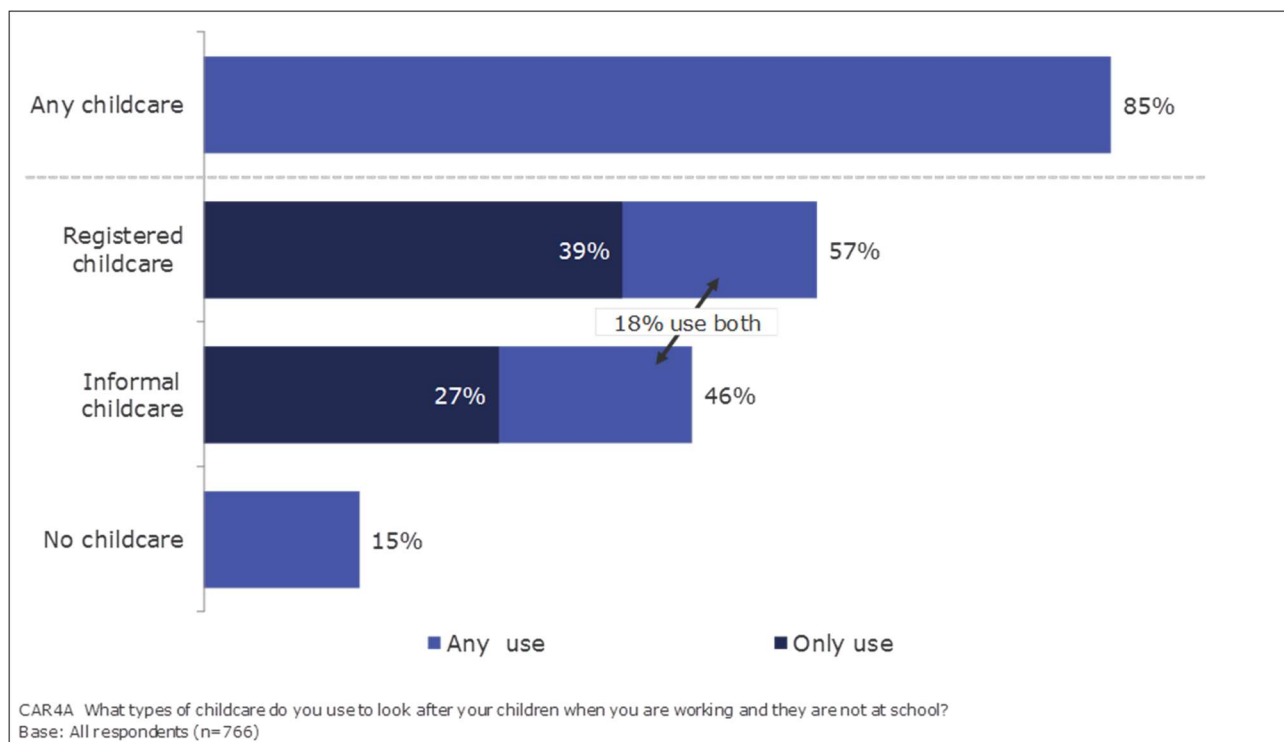
<sup>25</sup> L. Altmann *Digital Exclusion & Assisted Digital Research* (2015)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/457800/Digital\\_Exclusion\\_and\\_Assisted\\_Digital\\_research\\_publication\\_report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/457800/Digital_Exclusion_and_Assisted_Digital_research_publication_report.pdf)

## 6.2 Childcare use, providers and costs

Childcare use of the TFC Population is detailed in Chart 6.3.

**Chart 6.3 Childcare use and mix of types**



The likelihood of using registered childcare showed some difference among some key groups which is summarised below:

- 71% of parents with a pre-school aged child said they use registered childcare compared to 50% of parents with a school aged child.
- 59% of digitally capable parents use registered childcare compared to 47% of Assisted Digital parents.
- Households with more than a £50,000 income were more likely to use registered childcare compared with households with less than £50,000 income (65% and 44% respectively).
- When either parent is self-employed, they were less likely to use registered childcare compared to parents when both parents were in full time employment (45% and 63% respectively).

Overall, just over a quarter (28%) of parents who use registered childcare use more than one provider. The number of providers of registered or approved childcare used varies depending on the type of childcare used. Almost all of the parents who use nursery use only one nursery childcare provider (99%). Again, the majority of those who use a childminder said they use one provider (96%). More parents use more than one provider for after school clubs with 16% saying they have more than one provider of this type of childcare.

Just over half (48%) of registered and approved childcare users said they spend up to £500 per month on childcare. Over one in five (22%) said they spend between £500 and £1,000, and a small minority (4%) between £1,000 and £1,500, per month on registered or approved childcare. Those with children under school age mainly use nurseries and childminders and have the highest childcare costs (typically up to £500 per month). Those with school age children are more likely to

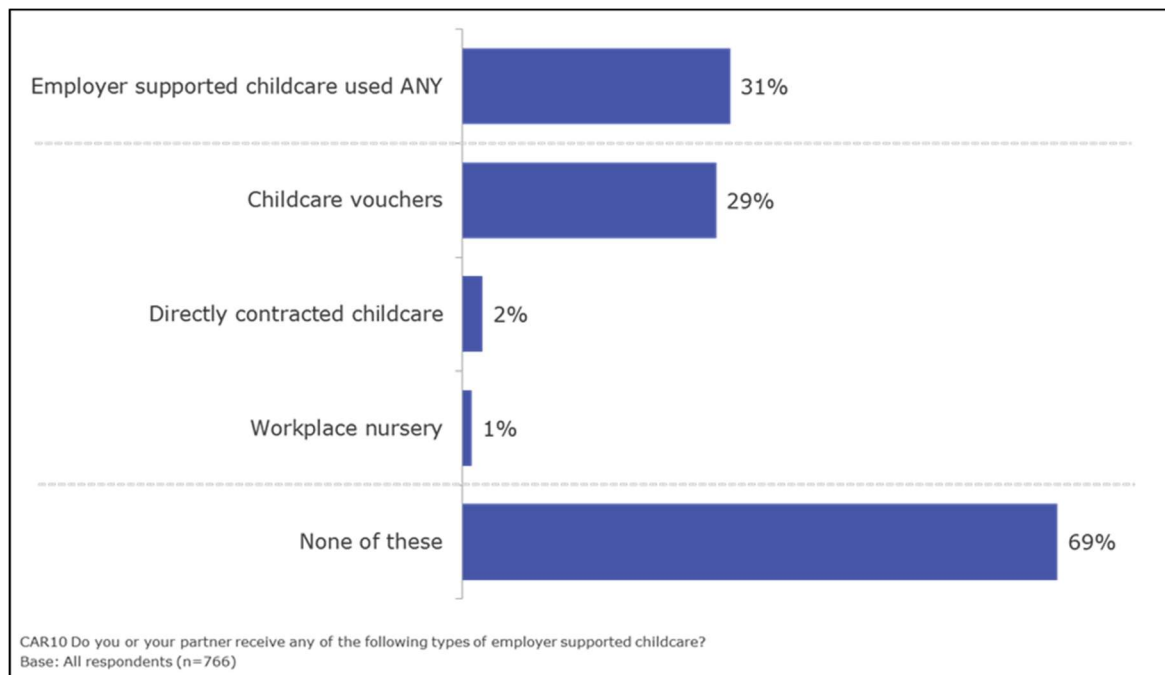
be using breakfast and after school clubs and holiday schemes and typically be spending £100-£200 per month.

### 6.3 Childcare support

The Government is currently paying for up to 15 hours of nursery education per week for children aged 2, 3 or 4 years old. When the fieldwork was conducted between March and May 2016, more than half (54%) of the parents were receiving Government's free nursery education with the majority (72%) using 15 hours they are entitled to.

Childcare Vouchers were the most common form of employer supported childcare with only a small minority using other forms of employer supported childcare as shown in Chart 6.4.

**Chart 6.4 Employer supported childcare<sup>26</sup>**



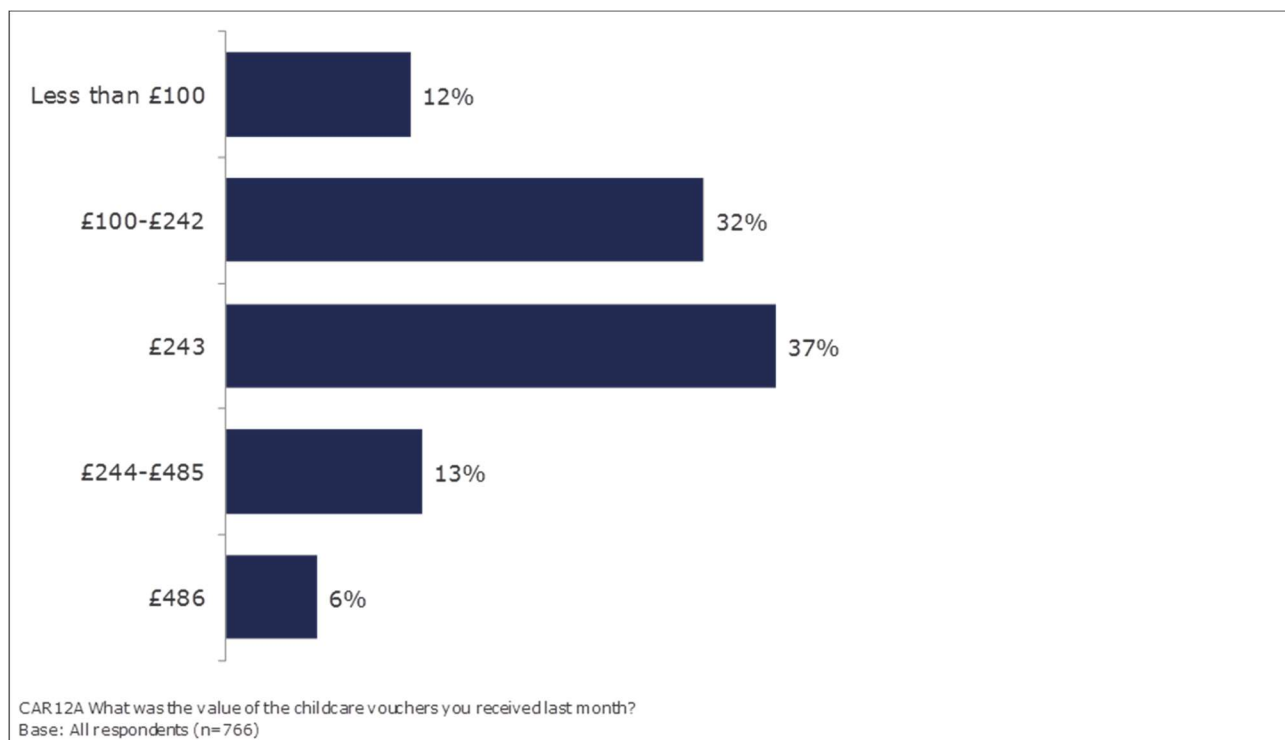
Parents who use registered childcare are more likely to receive childcare vouchers. More than half (47%) of parents who use registered childcare said they receive childcare vouchers. Those who were aware of Tax-Free Childcare were more likely to be in receipt of childcare vouchers with more than half saying they receive them (51%). Among those who are unaware, 22% said they received childcare vouchers.

Over a third (37%) of parents said they receive £243 per month worth of childcare vouchers. Just under a third (32%) said they receive between £100 and £242 per month. As shown in Chart 6.4, the majority receive childcare vouchers with a value of £243 or less.<sup>27</sup>

<sup>26</sup> This question was asked as a multiple response question, except for the answer 'None of these' which was exclusive.

<sup>27</sup> Monthly value of childcare vouchers has been edited in 28 cases. Edits were conducted based on the likely tax rate and the maximum amount of childcare vouchers they were likely to receive.

**Chart 6.5 Value of childcare vouchers received per month<sup>28</sup>**



The majority (63%) of the parents did not have any unused childcare vouchers. For those parents with unused vouchers, 42% had vouchers less than £250; 15% had between £250 and £499; 6% had between £500 and £750 and 19% had more than £750. Just under one in five (18%) did not know the value of unspent vouchers they had. Parents typically had £600 worth of unused childcare vouchers (i.e. one to two months' worth of vouchers<sup>29</sup>).

#### **6.4 Household characteristics**

The majority (95%) of the parents had a spouse or partner who normally lived with them at the same address.

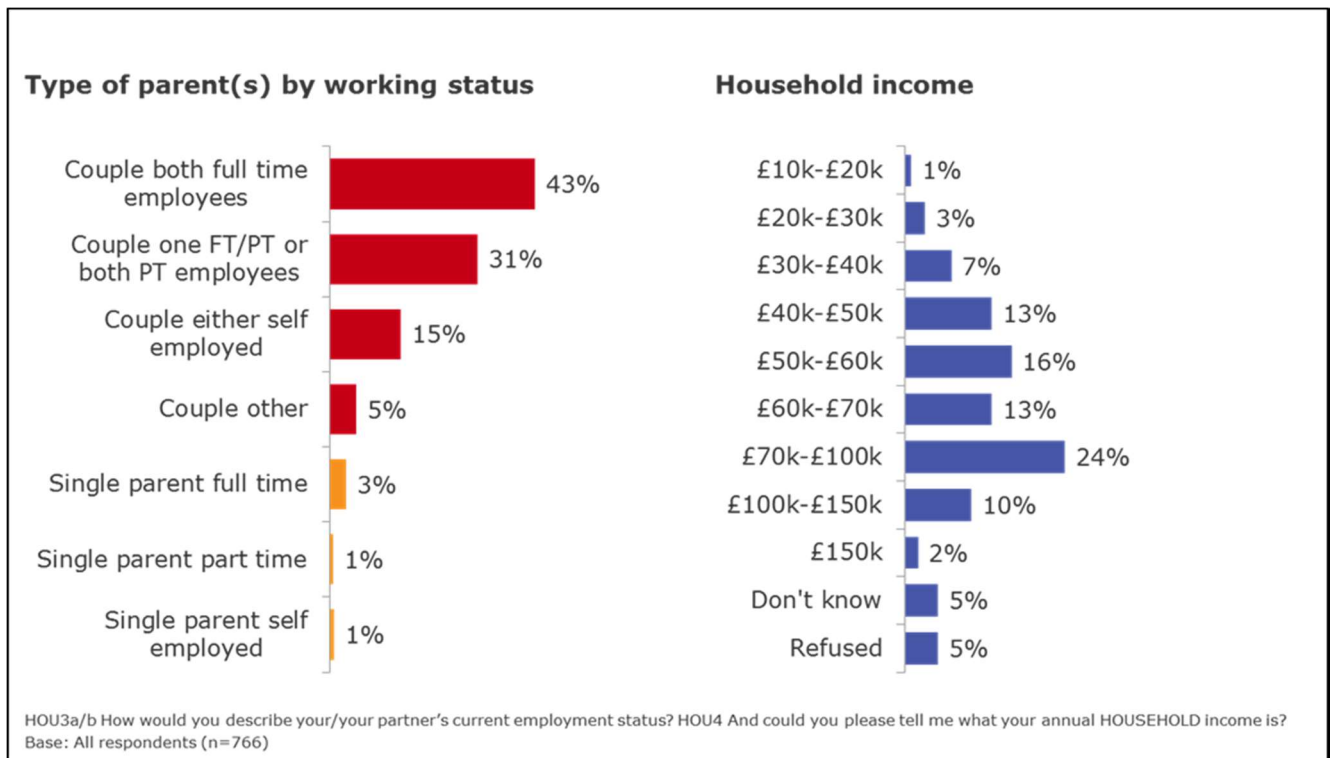
In just over four in ten (43%) households, both parents were in full time employment. In 15% of households, there was at least one parent (in a couple) who was self-employed. In around a third (31%), there was one partner in full time employment while the other was in part time employment.

As both parents were working and households who received tax credits or Universal Credit were excluded from the research, household income amongst TFC parents was above average. Just over one in ten (11%) parents had a household income of under £40,000 per annum. Just under a quarter (24%) of the parents had a household income between £70,000 and £100,000 while one in ten (10%) had a household income of between £100,000 and £150,000. Overall, 77% of the households had an income of £100,000 or less. Details are shown in Chart 6.6.

<sup>28</sup> When parents accept Childcare Vouchers to be paid as a portion of their salary they do not have to pay National Insurance Contributions (NIC) or Tax on that amount. Basic tax rate payers can receive up to £243 per month per parent.

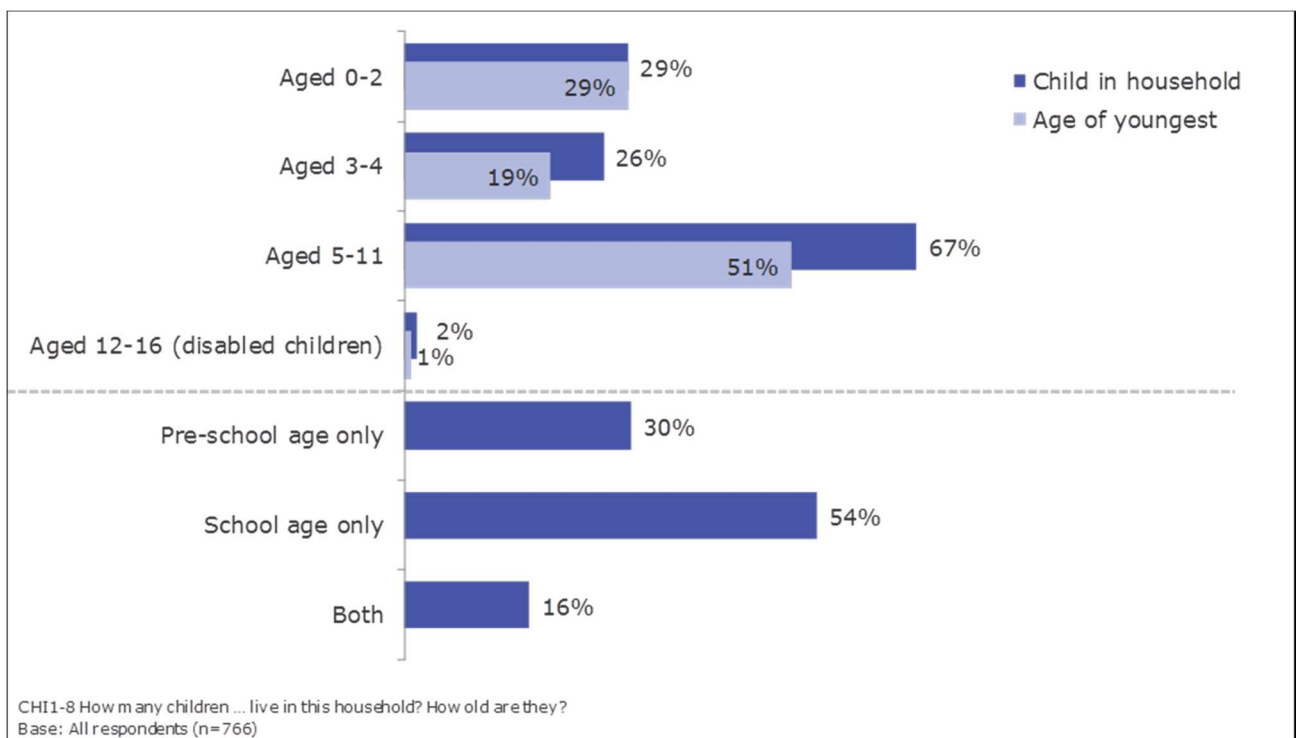
<sup>29</sup> Average amount of unused childcare vouchers is based on 56 cases.

**Chart 6.6 Working status and household income**



Just over half (51%) of the parents had one child and a substantial proportion of parents (43%) had two children. Looking into the age of the children; under a third of the parents (30%) had pre-school aged children and 54% had school aged children. Sixteen percent had both. Age of the children in the household and the age of the youngest child are shown in the Chart 6.7.

**Chart 6.7 Ages of children in household**



## 7. Conclusions

Parents in the TFC population for Tax-Free Childcare are very digitally capable and only a minority have not done tasks directly relevant to Tax-Free Childcare, such as making applications and payments online and using Government services. Access to the internet was almost universal across the Tax-Free Childcare population. Fourteen per cent of the Tax-Free Childcare population were classified as “Assisted Digital” and might need support in one or more aspects of the scheme. Fewer (10%) could not get assistance from someone in their household, while eight per cent were not able to get assistance from their wider friends and family and would be dependent on assistance from HMRC or other external agencies.

Interest in the new scheme is high and, assuming they would be financially better off, most parents would seek to take up the scheme quickly after it was launched. Reasons for not taking up Tax-Free Childcare are mainly because they do not use registered childcare rather than concerns about the scheme.

Based on their current circumstances, nearly half (48%) of the Tax-Free Childcare population would be financially better off under the Tax-Free Childcare scheme<sup>30</sup>. However, potential take-up is not universal among this group. Difficulty with understanding whether they are eligible and likely to be better off under the scheme are key barriers to take-up, as is the perceived complexity of managing the account; some felt it would not be worthwhile given the potentially small financial benefit, particularly parents with older, school aged children. Greater clarity around what types of childcare qualify under TFC, notably that it includes part-time/ad-hoc provision such as breakfast and after-school clubs and holiday schemes, and strong signposting to the online calculator is necessary to help parents to assess their current childcare arrangements against the financial benefits provided by the Tax-Free Childcare.

Reflecting their high levels of digital capability, parents’ confidence in terms of managing all aspects of Tax-Free Childcare scheme was high. It was slightly lower among Assisted Digital parents, who might be most likely to need more support with applying for the account and making payments to childcare providers, at least initially.

If they encountered difficulties, most parents would try to work out the issues they have themselves first and call HMRC only if they still could not resolve the issue. However, a significant proportion of customers (around a third) would call HMRC as soon as they encountered any difficulty. Online support could play a key role in reducing the number of calls to the helpline with most customers willing to use online tools, most notably webchat which provides adviser intermediated support. Calls to the helpline are likely to be highest as the new service is rolled out, but providing strong support initially, particularly for those having difficulties with more regular tasks such as making payments to providers and reconfirming eligibility, will help minimise ongoing demand for the helpline.

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<sup>30</sup> See p10 for discussion on the limitations of this analysis.

## 8. Appendix A – Research Design

### 8.1 Sampling

The sample was compiled from two separate frames: list assisted landline random digital dialling (RDD)<sup>31</sup>, and non-list assisted mobile RDD.

The use of two sample frames was required due to the fact that 15% of households do not have a landline<sup>32</sup>; and not including mobile households would produce a bias against younger households, ethnic minority households and renting households. Furthermore, even though 85% of households have a landline, a lot of people do not answer their phone and landline response is now strongly skewed towards older people.

The primary sample frame was list assisted landline RDD. Telephone numbers were randomly generated from among those landline nine digit roots (e.g. 020 7656 57xx) that contain at least one listed residential number. The sample is provided by UK Changes who own the 'list': a version of the telephone directory augmented by other commercial databases. UK Changes draw an equal probability sample of roots and then randomly generate the last two digits to create a telephone number for each sampled root. The only numbers that cannot be generated are those with roots that contain no listed numbers. The development report for the 2011-2015 HMRC Customer Survey<sup>33</sup> showed that this approach omits only 1% of residential working numbers while reducing the total issued sample size to less than a tenth of that required by the 'no exclusions' approach.

The mobile RDD was obtained from Survey Sampling International. The numbers are randomly generated within blocks of mobile phone numbers assigned for residential use (7 digit roots – e.g. 079 999 9xxxx).

The blend in terms of respondents screened for eligibility was 84% landline and 16% mobile.

Using two sample frames meant that it was possible for some individuals to be selected to participate in the study more than once (if they had both a landline and a mobile phone). Questions were included in the survey to gauge overlap and to allow for corrections to be made at the weighting stage to compensate for variations in overall sampling probability.

### 8.2 Fieldwork

Interviews were carried out with the aid of Computer Assisted Telephone Interviewing (CATI), meaning the questionnaire was displayed and responses captured on-screen. Interviewing was carried out in the controlled environment of the research agency's dedicated telephone interviewing centres. Rigorous interview quality control procedures prescribed in ISO 20252 were followed, including a supervisor listening into interviews remotely on a systematic basis.

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<sup>31</sup> The survey uses a form of list-assisted RDD for the landline sample in which 100-number blocks (e.g. 020746215xx) are eligible to be sampled so long as there is at least one number from the block listed in a master directory held by the sample supplier. No equivalent list-assistance is possible with the mobile sample. Instead the sample supplier uses the Ofcom list of 10,000-number blocks (e.g. 079564xxxx) assigned for mobile phones. Consequently, there are more unassigned numbers in the mobile sample than in the landline sample.

<sup>32</sup> Ofcom Communications Market Review, <http://www.ofcom.org.uk/static/cmr-10/UKCM-5.63.html>

<sup>33</sup> HMRC Customer Survey 2011-15 Development Report, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/344887/report153.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/344887/report153.pdf)



Interviews were conducted between 14 March and 23 May 2016 and took on average up to 20 minutes. The final achieved sample comprised 766 parents. Overall the estimated response rate (completed interviews) was 9%. Table 8.1 summarises the fieldwork outcomes.

**Table 8.1 Fieldwork outcomes**

Outcome	Landline sample	Mobile sample	Total
Sample issued (S)	444,992	215,374	660,366
Complete interviews (I)	646	120	766
Known to be eligible but refused interview (E)	76	12	88
Unknown respondent eligibility (UO)	139,702	69,831	209,533
Resolved sample	27,120	5,929	33,049
Unresolved sample	112,582	63,902	176,484
Not eligible - removed from eligible base (NE)	19,389	2,778	22,167
Non-working numbers - removed from eligible base (DW)	285,179	142,633	427,812
Estimated eligibility - EI	4%	5%	4%
Estimated response rate - RR (completed interviews)	11%	4%	9%
Estimated response rate - RR (screened)	13%	4%	10%

- Estimated eligibility - EI = number eligible divided by number for whom eligibility is known, among working numbers =  $(I + E) / (I + E + NE)$
- Estimated response rate (completed interviews) - RR = interviews divided by estimated number of eligible records =  $I / (I + EI*UO + E)$
- Estimated response rate (screened) - RR = all screened divided by number of valid records =  $(I + E + NE) / (S - DW)$

### 8.3 Representativeness of the sample

Based on data from the ONS Family Resources Survey (FRS) it was estimated that 7-8% of households would qualify for the study. However, the screening process yielded an eligibility rate of 4%. This lower-than-expected eligibility rate means there is a risk that the survey sample is not representative of the entire population. To test this, the sample profile was compared to profiles derived from the Family Resources Survey and the UK Household Longitudinal Study. The profile of the survey sample was found to be consistent with these other sources so we consider the risk that the sample is unrepresentative in other respects to be low.

### 8.4 Weighting

The weighting approach comprised two steps. The first step was the calculation of a design weight based on the estimated sampling probability. The design weight was then applied to the dataset, and in the second step the weighted data was calibrated so that it matched marginal population totals derived from the FRS.

The frames from which the samples were drawn are shown in table 8.2.

**Table 8.2 Sample frames**

Sample group	Size of universe (N telephone numbers that could be generated)
Landline RDD, list-assisted	53,586,800
Mobile RDD	447,500,000

**8.4.1 Calculation of the design weight**

All cases had a sampling probability for the each database:

- $p(\text{RDD landline})$  = probability of being sampled in the landline RDD sample
- $p(\text{RDD mobile})$  = probability of being sampled in the mobile RDD sample

The probability  $p(\text{RDD landline})$  was determined by:

- Dividing the number of landline numbers issued into field by the total number of landline numbers that could have been generated by the list-assisted RDD process.
- Multiplying this by 1 if the respondent was contacted by landline or reported one in the household, or 0 otherwise.

The probability  $p(\text{RDD mobile})$  was determined by:

- Dividing the number of mobile numbers issued into field by the total number of mobile numbers that could have been generated by the RDD process.
- Multiplying this by the number of mobiles the respondent could have been reached on (zero if sampled by landline and reporting no personal mobile numbers)

Cases which were identified in the survey as also being on the other database were assigned a sampling probability for each database. An estimated sampling probability was computed for each case:

$$p(\text{RDD landline}) + p(\text{RDD mobile})$$

The design weight was calculated by inverting the sampling probability. This weight was then examined and it was decided to cap it at 5x the median design weight in order to reduce net error; the introduction of this cap reduced variance while not introducing bias.

**8.4.2 Calculation of the final weight**

The design weight was used as the input weight in a calibration matrix designed to force the respondent profile to match the population profile. Calibration is an iterative process, ending with a respondent profile that matches the population profile on several dimensions simultaneously. The population data was drawn from the Family Resources Survey.

Three dimensions were used in the weighting, and the targets were as follows:

**Table 8.3 Household income**

Up to £40,000	14%
Over £40,000 but not more than £50,000	15%
Over £50,000 but not more than £70,000	33%
Over £70,000 but not more than £100,000	27%
Over £100,000	12%

Those with a missing value for Household Income (answers of “Don’t know” or “Refused”) were probabilistically assigned to a category using a model which used household type and employment status as predictors.

**Table 8.4 Parental status crossed by working hours**

Lone parent	5%
Couple both working $\geq$ 30 hours per week	56%
Other couples	39%

**Table 8.5 Parental status crossed by employment status**

Lone parent	5%
Couple, both fully employed	79%
Couple, at least one parent with some income from self-employment	16%

The final weights were trimmed so that there were no weights greater than 5x the median weight; this affected seven cases and did not introduce much bias as the sample profile remained within half a percentage point of each of the weighting targets.

### **8.5 Design effect**

The design effect (taking into account the weighting and the pre-stratification) was calculated for six key questions; the mean value across these variables was 1.31.

## 9. Appendix B – Multivariate analysis

### 9.1 Specification

Multivariate analysis was conducted in order to explore who would be likely to:

- **Model 1** - Definitely open a TFC account
- **Model 2** - Call HMRC as a first point of support

The approach used for both of these models was the same with seventeen questions from the survey considered as potential predictors. These included a range of demographic variables as well as more attitudinal variables related to TFC. Where categories had insufficient observations to be included in the multivariate analysis they were grouped with other similar response categories.

The modelling took into account the complex design of the study (the weighting and pre-stratification of the sample). Backward stepwise analysis was conducted excluding non-significant predictors until final models (comprising solely of significant predictors) were established.

The following table summarises the variables tested as potential predictors in each of the two models.

**Table 9.1 Potential predictors included in the multivariate analysis**

Variable	Categories
Household composition	Single parent Couple both full time employees Couple where one in full time and other in part time employment or both parents are PT employees Other couples
Presence of disabled children in household	No Yes
Presence of pre-school aged children in household	No Yes
Total number of children in household	1 2 3 or more
Annual household income	Up to £30,000 Over £30,000 up to £40,000 Over £40,000 up to £50,000 Over £50,000 up to £60,000

Variable	Categories
	Over £60,000 up to £70,000 Over £70,000 up to £100,000 Over £100,000 Don't know/Refused
Any literacy or numeracy difficulties	No Yes
Frequency using the internet	Never or Less than once a day Once a day More than once a day
Assisted digital individual	No Yes
Type of childcare used	Any registered and/or approved Informal childcare only No childcare
If any employer supported childcare is used	No Yes
Awareness of TFC prior to taking part in survey	No or Don't know Yes
Rating of confidence in Applying for the account, Getting the account set up for each child, Paying the child care provider and Reconfirming your eligibility	"Not very" or "Not at all confident" in at least one of the four components Other answers
Willingness to nominate someone else to administer their TFC account	No Yes
Likelihood of needing HMRC assistance for entering child benefit number	Very/fairly likely Very/fairly unlikely Neither likely nor unlikely, don't know or not applicable
Likelihood of opening a TFC account if it was available today <sup>34</sup>	Definitely will Fairly likely to Fairly unlikely to Definitely will not
Concerns about TFC – as question is multicode, one variable was included for each group of categories	Concerns about technology - Data protection/security concerns / System going down/technology not working / Other concerns

<sup>34</sup> This was only included as a predictor in model 2, as for model 1 this was the dependent variable.

Variable	Categories
	about technology Concerns about eligibility - Concerns over eligibility/working out if eligible / Other concerns about eligibility Concerns about money/finance - Late or non-payment to childcare provider / Savings not as good as childcare vouchers / Getting left over money back if not spent / Other concerns about money/finance Concerns about complicated process - Complicated for providers / other concerns about the process being complicated
Where expect to hear about Tax-Free Childcare – as question is multi-code, one variable was included for each group of categories	Government/ HMRC Through the media / Advertising Social media Through my childcare provider / childcare voucher provider Institutions - Through my employer / Through school / Doctor's surgery Elsewhere - Word of mouth / other answers

## 9.2 Model 1 - Likelihood to open a TFC account

A binary logistic regression model was used to explore which types of parent would definitely open a TFC account if it was available now. A key advantage of using this multivariate approach is that it allows the examination of the impact of a single factor on the likelihood of opening a TFC account while controlling for all other factors included in the model. This approach allows us to identify the factors which correlate significantly with willingness to open a TFC account and to also identify the relative importance of each of these.

Seventeen questions from the survey were considered as potential predictors; the final model consists of the six variables which were found to significantly predict 'definite' willingness to open a TFC account. These variables (ordered by the strength of their relationship) are:

1. The type of childcare they use
2. Whether they have any disabled children
3. Whether they have concerns about the process being complicated for providers or complicated due to having to reconfirm/reapply every three months
4. Whether they have employer supported childcare
5. Whether they have any children that are too young for school
6. Whether they are willing to let others administer their account

The final model had a Nagelkerke  $R^2$  of 0.237 and a summary of the model with the significant predictors is shown in table 9.2.

**Table 9.2 Significant predictors (model 1)**

Variable & category		B	Std. Error	95% CI		Sig.	Odds Ratio	95% CI	
				Lower	Upper			Lower	Upper
Intercept		-1.197	0.232	-1.652	-0.743	0.000			
Children that are not yet of school age in the household	Yes vs. No	0.741	0.196	0.356	1.127	0.000	2.099	1.427	3.087
Disabled children in the household	Yes vs. No	1.146	0.488	0.188	2.104	0.019	3.146	1.206	8.203
Type of childcare used	Registered or approved vs. Informal childcare only	1.186	0.265	0.665	1.707	0.000	3.276	1.945	5.517
	No childcare vs. Informal childcare only	0.503	0.289	-0.064	1.071	0.082	1.655	0.938	2.921
Whether they have employer supported childcare	Yes vs. No	0.726	0.234	0.266	1.186	0.002	2.067	1.305	3.275
Willingness to let others administer their account	Yes vs. No	0.471	0.205	0.068	0.873	0.022	1.601	1.07	2.395
Concerns about the TFC process being complicated	Yes vs. No	-1.048	0.353	-1.742	-0.354	0.003	0.351	0.175	0.702
Other concerns about TFC	Yes vs. No	-0.924	0.294	-1.501	-0.347	0.002	0.397	0.223	0.707

The principal output from a logistic regression is the odds<sup>35</sup> ratio. In calculating odds ratios, a reference category is selected for each variable as the category against which the odds for all other categories of that variable are compared to. The odds ratio indicates the size of the effect, that is, by how much a variable increases or decreases the likelihood of an individual reporting that they would be ‘definitely’ willing to open a TFC account. Where the odds ratio is less than 1, it means that the odds of opening a TFC account are lower for this category than they are for the

<sup>35</sup> Odds for each category are calculated in the following manner:  $odds = probability/(1-probability)$

reference category. Where the odds ratio is greater than 1, then the odds of opening a TFC account are higher for this category than for the reference category.

A summary of the key findings from the model were as follows:

- **Families who use any type of registered or approved childcare** have 3.3 times the odds of being definitely willing to open an account than those that use informal childcare.
- **Those with disabled children** have three times the odds of reporting that they would be definitely willing to open a TFC account than families with no disabled children.
- **Those who do not have concerns about the process being complicated** have almost three times the odds of definitely opening an account than those that have concerns about the complexity of the task.
- **Those in receipt of employer supported childcare** have twice the odds of opening an account than those that do not receive this.
- **Families with children too young for school** have twice the odds of being definitely likely to open a TFC account than those with no children of pre-school age.
- **Those that are willing for others to administer their account** have 1.6 times the odds of being definitely willing to open an account than those that are not willing for others to administer their account.

### 9.3 Model 2 - Calling HMRC as a first point of support in case of difficulties with TFC

A binary logistic regression model was used to analyse the significance and contribution of a number of factors to the likelihood of calling HMRC as the first point of support rather than searching for a solution elsewhere (e.g. online). A key advantage of using this multivariate approach is that it allows the examination of the impact of a single factor on the likelihood of opening a TFC account while controlling for all other factors included in the model. This approach allows us to identify the factors which correlate significantly with willingness to open a TFC account and to also identify the relative importance of each of these.

Seventeen questions from the survey were considered as potential predictors; the final model consists of the four variables which were found to significantly predict the intention to call HMRC as a first point of support. These variables (ordered by the strength of their relationship) are:

1. Annual household income
2. Household composition (single parent or a couple)
3. Awareness of TFC prior to taking part in the survey
4. Whether they have children that are not of school age

The final model had a Nagelkerke  $R^2$  of 0.083 and a summary of the model with the significant predictors is shown in table 9.3.



**Table 9.3 Significant predictors (model 2)**

Variable & category		B	Std. Error	95% CI		Sig.	Odds Ratio	95% CI	
				Lower	Upper			Lower	Upper
Intercept		1.812	0.501	0.83	2.795	0.000			
Children that are not yet of school age in the household	No vs. Yes	-0.390	0.184	-0.750	-0.029	0.034	0.677	0.472	0.971
Prior awareness of TFC	Yes vs. No	-0.474	0.229	-0.923	-0.025	0.039	0.623	0.397	0.976
Annual household income	DK/Refused vs. Up to £30k	-0.751	0.389	-1.514	0.012	0.054	0.472	0.22	1.012
	Over £100k vs. Up to £30k	-1.291	0.431	-2.138	-0.445	0.003	0.275	0.118	0.641
	Over £70k up to £100k vs. Up to £30k	-1.240	0.365	-1.956	-0.524	0.001	0.289	0.141	0.592
	Over £60k up to £70k vs. Up to £30k	-1.364	0.393	-2.135	-0.593	0.001	0.256	0.118	0.553
	Over £50k up to £60k vs. Up to £30k	-1.034	0.384	-1.787	-0.281	0.007	0.356	0.167	0.755
	over £40k up to £50k vs. Up to £30k	-0.878	0.395	-1.655	-0.102	0.027	0.415	0.191	0.903
	Over £30k up to £40k vs. Up to £30k	-0.681	0.383	-1.433	0.071	0.076	0.506	0.239	1.073
Household type	Couple vs. Single <sup>36</sup>	-1.213	0.41	-2.017	-0.409	0.003	0.297	0.133	0.664

The principal output from a logistic regression is the **odds ratio**. In calculating odds ratios, a **reference category** is selected for each variable as the category against which the odds for all

<sup>36</sup> Initially the full four band version of the household type variable was included in the model (Single parent, Couple both full time employees, Couple one FT/PT or both PT employees, Other couples). However, as the results only differed between single parents and couples this was re-coded for the final version of the model.

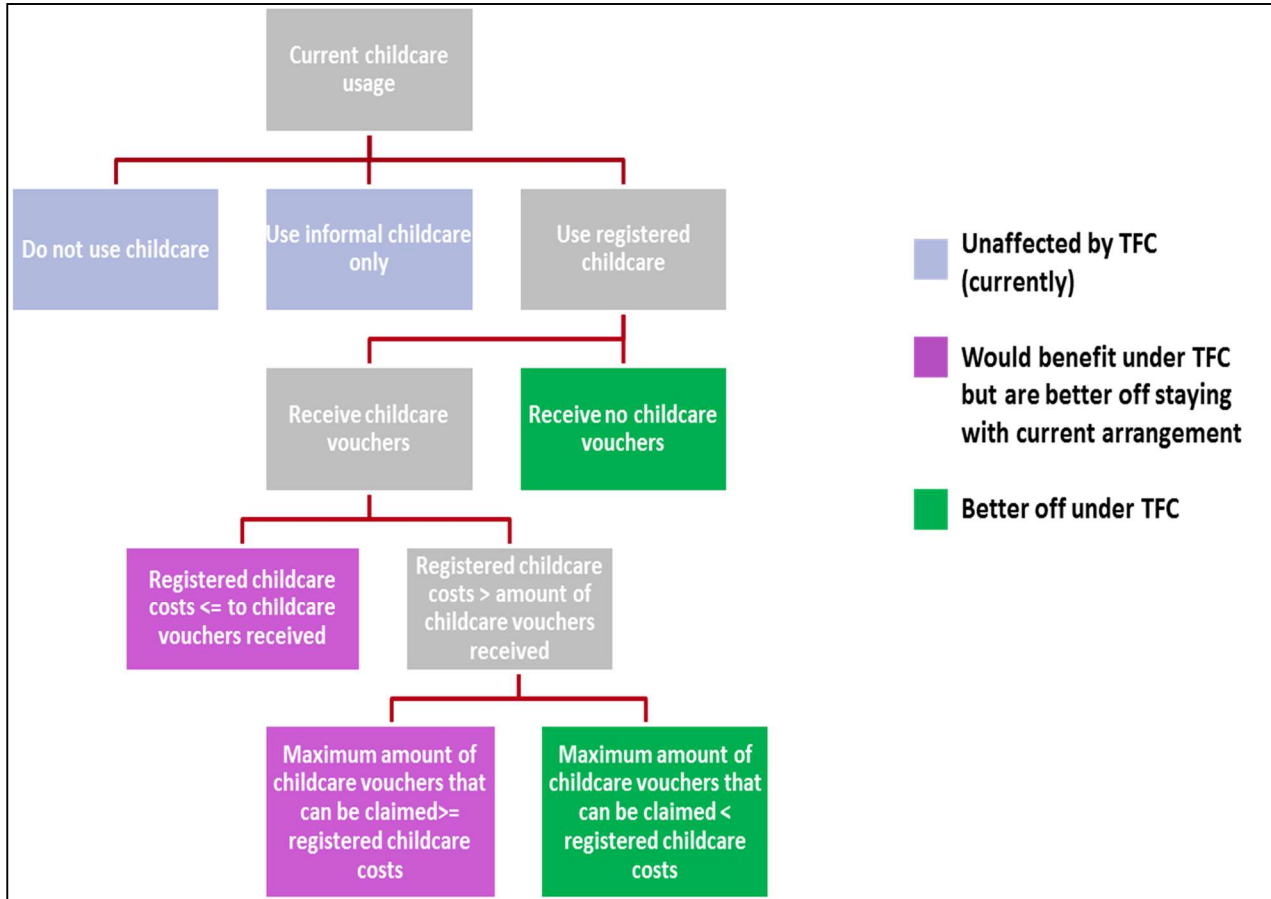
other categories of that variable are compared to. The odds ratio indicates the size of the effect, that is, by how much a variable increases or decreases the likelihood of an individual reporting that they would call HMRC as a first point of support. Where the odds ratio is **less than 1**, it means that the odds of calling HMRC are lower for this category than they are for the reference category. Where the odds ratio is **greater than 1**, then the odds of calling HMRC are higher for this category than for the reference category.

A summary of the key findings from the model were as follows:

- **Income** has the largest impact; those with the lowest income are most likely to call HMRC as a first point of support. Specifically, when it comes to calling HMRC as a first point of support:
  - Those with a household income of over £60,000 had just over a quarter of the odds of those with a household income of under £30,000
  - Those with a household income of £50,000 - £60,000 had 36% of the odds of those with a household income of under £30,000
  - Those with a household income of £40,000 - £50,000 had half the odds of those with a household income of under £30,000
- **Couples** were found to have 30% the odds of single parents.
- **Those who were aware of TFC prior to participating in the survey** had 62% of the odds of those who had no prior awareness of the scheme.
- **Families with children of school age** had 68% of the odds of families that only have children that are too young for school.

# 10. Appendix C – Segment definitions

Chart 10.1 Tax-Free Childcare Segment Definitions



A series of rules were applied:

- Those who did not use childcare or who only used informal childcare only were automatically assigned to the segment 'Unaffected by Tax-Free Childcare'.
- Among parents who used registered childcare, those who did not receive childcare vouchers were assumed to 'Better off under Tax-Free Childcare'.
- Taking into account the savings on tax and National Insurance, parents who were able to cover all their childcare costs with childcare vouchers were assumed to be 'Better off under their current arrangement'.
- Parents with childcare costs higher than the value of the childcare vouchers they received may be better off in either scheme depending on their tax rate and their total childcare costs. Generally, the higher a parent pays for childcare, the more likely it is they will be better off with the Tax-Free Childcare scheme compared with childcare vouchers.