

# Tax-Free Childcare:

Exploring design  
considerations for delivery  
of the new scheme

## Research Report 296

Findings from qualitative research

Prepared for HM Revenue & Customs by  
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# Contents

<b>Executive Summary .....</b>	<b>1</b>
<b>1. Introduction .....</b>	<b>5</b>
Research purposes and aims .....	6
Methodology .....	6
Participants .....	7
Data analysis .....	8
Interpretation of data .....	8
<b>2. Participants' current childcare arrangements .....</b>	<b>9</b>
<b>3. Initial reactions to the new scheme .....</b>	<b>11</b>
Introduction .....	11
Initial reactions .....	11
<b>4. Eligibility and entitlement .....</b>	<b>14</b>
Introduction .....	14
Eligibility definitions .....	15
A minimum level for qualifying 'employment' .....	15
Periods of entitlement .....	17
Reconfirming eligibility .....	18
<b>5. The online childcare account .....</b>	<b>19</b>
Introduction .....	19
Initial response to the concept of an online childcare account provider .....	19
Choosing a childcare account provider .....	20
Managing the online childcare account .....	21
<b>6. Support and information needs .....</b>	<b>24</b>
Introduction .....	24
Promoting the scheme to parents .....	24
Tax credits and Employer-Supported Childcare users .....	25
<b>7. Conclusions .....</b>	<b>27</b>
Attitudes to using Tax-Free Childcare .....	27
Understanding of the Tax-Free Childcare system .....	27
Perceptions around administrative burdens .....	27
Use of childcare account and Government top-ups .....	28

The role of childcare providers in promoting the scheme and supporting parents..... 28

**Appendix A: Sample ..... 29**

**Appendix B: Research materials.....** [www.hmrc.gov.uk/research/reports-291-300.htm](http://www.hmrc.gov.uk/research/reports-291-300.htm)<sup>1</sup>

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<sup>1</sup> See 'appendix to research report 296' at [www.hmrc.gov.uk/research/reports-291-300.htm](http://www.hmrc.gov.uk/research/reports-291-300.htm)

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# Glossary

<b>ESC</b>	Employer-Supported Childcare – an existing scheme whereby employees can receive discounted childcare, where it is offered by their employer
<b>HMRC</b>	HM Revenue and Customs
<b>Ofsted</b>	Office for Standards in Education, Children’s Services and Skills.
<b>PAYE</b>	Pay As You Earn – is the system that HMRC uses to collect Income Tax and National Insurance contributions from employees (including directors of limited companies).
<b>RTI</b>	Real Time Information – is a system requiring employers to submit PAYE information to HMRC every time they pay their employees instead of at the end of the year

# Executive Summary

## Background

The Government is introducing a new scheme, Tax-Free Childcare, in autumn 2015 to support families who are in work, and who want to work, with the costs of childcare. The new scheme will provide 20 per cent of working families' childcare costs up to £10,000 per year. This means support of up to £2,000 per year for each child.

To receive the support, parents will need to open an online account with the scheme's account provider, National Savings and Investments (NS&I). Parents will then receive a Government contribution towards their childcare costs of 20p for every 80p that families pay, up to £2,000 per child per year.

Tax-Free Childcare will be available to all households where both parents (or a lone parent) are in substantive work, are not additional rate taxpayers and are not in receipt of support through tax credits, Universal Credit or Employer-Supported Childcare (ESC).

Tax-Free Childcare will be phased in from autumn 2015. All eligible parents with children under 12 will be able to receive support through Tax-Free Childcare within the first year of the scheme's operation. Disabled children under the age of 17 will be eligible for Tax-Free Childcare from the scheme's introduction.

From autumn 2015, ESC (childcare vouchers and directly-contracted childcare) will be closed to new entrants. Current members of ESC may choose to remain in their current scheme or move to Tax-Free Childcare. Unlike ESC, Tax-Free Childcare will be available to self-employed parents and to parents whose employer does not offer ESC. Once fully rolled out, Tax-Free Childcare will be available to around 1.9 million working families.

The Government launched a ten-week public consultation in August 2013 to gather views on the design and operation of the new scheme. A piece of in-depth qualitative research was commissioned alongside this consultation to explore parents' and childcare providers' understanding and perceptions of the scheme.

The research was carried out by an independent agency, Opinion Leader, who conducted 15 focus groups and six in-depth interviews with parents and childcare providers across England and Scotland.

The aim of this research was to gain insight into people's circumstances and needs, to inform key design considerations around eligibility criteria and the operational delivery of the new scheme.

## Findings

### *Initial reactions*

The research explored participants' circumstances, including their current childcare arrangements. These were important in understanding participants' perceptions and their initial reactions to Tax-Free Childcare, and provided a wider overall context for the research.

There was a range of knowledge, awareness and previous use of formal childcare among participants in the study, providing a backdrop to their responses to the new Tax-Free Childcare scheme. The research showed that parents' personal and working circumstances varied widely and this was reflected in their preferences for informal or formal childcare. Parents' choices of formal or informal childcare were dependent on a range of factors, including cost of formal childcare, and flexibility of informal childcare. Where informal childcare was available, parents said they generally used that option.

Parents understood that the availability of suitable work, childcare and sufficient finance would all be needed in order to take up the offer.

Those that were currently eligible for Tax-Free Childcare, in terms of being in paid work and using formal childcare, welcomed the extra financial assistance offered by the new scheme. Some currently using informal childcare said they might use the new scheme to buy some hours of formal childcare to offer respite to family/friends currently providing informal childcare. Some parents questioned whether the Government contribution under Tax-Free Childcare on its own would be sufficient to facilitate change in working patterns.

Parents stressed the need for Tax-Free Childcare processes, such as registering and reconfirming eligibility, to be straightforward to administer.

Childcare providers typically said that they would accept Tax-Free Childcare payments, mainly as this would help their customers. Childcare providers thought that the scheme could lead to an increase in the overall demand for formal childcare.

### ***Eligibility and entitlement***

The research examined parents' personal and working circumstances in order to inform considerations around eligibility criteria and entitlement rules under the new scheme.

The Government wants Tax-Free Childcare to support working families. It is therefore important that parents are in substantive employment to qualify for Tax-Free Childcare. The research explored how measuring this could best work for parents. There were mixed views on whether minimum employment levels should be based on income, or hours worked. Those with more variable circumstances, such as the self-employed or seasonal workers, felt that the minimum employment level should be measured over a sufficiently long time period to allow for variation in earnings or hours worked. They also suggested a lower income threshold for parents who had recently started a business, as their income does not typically reflect hours worked.

Self-employed participants felt that registering for Self Assessment with HMRC was the best way of proving their working status in order to register for Tax-Free Childcare. Individuals who had recently started up new businesses said that they would be prepared to register earlier for Self Assessment than they may otherwise need to in order to use the Tax-Free Childcare scheme.

The Government wants to ensure that the new scheme reaches eligible parents, without introducing unnecessary burden or complexity for those parents. The research explored how to best manage changes in parents' eligibility and how long parents should remain entitled to receive the Government contribution, following a change that moves them out of eligibility.



Participants explained that some childcare providers require notice for changes in childcare arrangements; parents therefore expressed a need for some flexibility in using the account and receiving top-ups after becoming ineligible. Participants were generally positive about the concept of entitlement functioning on a quarterly basis. They welcomed the time they would have to respond to changes in their personal circumstances if they became ineligible early on in the quarter, for example, to find a new job. Parents expressed concerns about the possibility of becoming ineligible at the end of a quarter, as they would have less time to change their childcare arrangements, if necessary.

Participants typically accepted the idea of reconfirming every quarter that they were still eligible to receive Tax-Free Childcare, providing that there is a quick way of confirming this online and reminders are sent. Despite this there was some resistance to reconfirming by some groups of parents, particularly among the self-employed, due to the administration they perceived would be involved.

### ***Management of the online childcare account***

The research sought insight into parents' and childcare providers' preferences and needs around how the online childcare account and payments may operate. The research also explored parents' and childcare providers' views on how account services could be delivered by the private sector and the benefits of different market structures, as set out in the consultation document.

Participants currently using the ESC voucher scheme found it easy to understand how the proposed online account would work. Other participants struggled with the concept of a childcare account provider, and questioned the need for third party involvement. Participants expressed a preference for a market with a limited number of childcare account providers. For childcare providers this was due to the perceived amount of administration involved in registering and managing accounts; and for parents to be able to choose from a manageable selection.

Participant feedback reiterated the need to design a system that is easy to set up and manage. There was a perception among some ESC users, whose employers transfer funds directly from salaries into childcare accounts, that there could be increased administrative requirements placed on parents under Tax-Free Childcare. Childcare providers expressed concerns that the process by which they receive payments may not be as efficient as under ESC where employers manage payments.

Childcare providers felt they would have more opportunity to guide parents' choice of childcare account providers under Tax-Free Childcare than under ESC where choice was more determined by parents' employers. They welcomed this perceived increase in control, and felt comfortable with recommending account providers to parents, on the basis that the provider was reputable.

Parents wanted flexibility in the management of the online childcare account. They preferred Government top-ups to correspond to the size and timing of payments they made into their accounts over the year to better manage variations in childcare costs. Parents also preferred there to be no limit on the amount they could pay into the account to avoid making multiple payments if their childcare costs exceeded the limit. This was echoed by childcare providers who also felt this could lighten their administrative burden in terms of managing multiple payments.

Participants wanted to be able to withdraw their proportion of the money in the childcare account if required. They also thought that they should be able to use any top-ups already received which

were unused if they became ineligible, and that there should not be an expiry date on the Government contribution.

### ***Support and information needs***

The research asked childcare providers about their role in supporting parents to use the scheme. Childcare providers perceived responsibility to lie with the Government to take a primary role in promoting the new scheme and assisting parents where needed. Some childcare providers said they would actively promote the scheme and play a support role, and wanted the Government to provide them with suitable materials. Others, however, did not feel this was their role as they would not benefit from the scheme or because getting involved with parents' personal finances might impact negatively on their relationship.

Parents using the ESC scheme or in receipt of tax credits were asked about the information they would need to make a decision about switching to Tax-Free Childcare. They typically called for online information and support tools to make informed better-off decisions. They emphasised the importance of a smooth transition to avoid missing contributions from one or other of the schemes.

# 1. Introduction

## Background

- 1.1 At Budget 2013, the Government outlined its plans to launch a new childcare scheme for working families in autumn 2015, to be delivered by HM Revenue and Customs (HMRC). A ten-week public consultation was launched in August 2013 to inform the design and operation of the Tax-Free Childcare scheme<sup>2</sup>. During the consultation period, additional steps were taken to ensure that the views of as many different stakeholders as possible were included. As part of this exercise, external research was commissioned to seek the views of parents and childcare providers.
- 1.2 The Tax-Free Childcare scheme will be open to households where both parents,<sup>3</sup> or a lone parent, are in substantive work, and no parent is an additional rate taxpayer or already in receipt of support through tax credits, Universal Credit or Employer-Supported Childcare (ESC).
- 1.3 Eligible families will receive a contribution of 20 per cent of childcare costs from the Government, subject to an annual limit of £2,000 contribution, per child. This is equivalent to basic tax rate relief on childcare costs up to £10,000 a year.
- 1.4 The Tax-Free Childcare scheme will be administered using an online childcare account, which can only be used to pay for qualifying childcare. Parents will open an online account with the scheme's account provider, NS&I. Parents will pay into the online account and then the Government will make '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 The combined money from the parents' contribution and the Government contribution can then be used to pay qualifying childcare providers such as nurseries, nannies, childminders and school-based care. Childcare providers must be registered with Ofsted or other equivalent regulatory bodies to qualify as part of this scheme.<sup>4</sup>
- 1.6 Tax-Free Childcare will be phased in from autumn 2015. All eligible parents with children under 12 will be able to receive support through Tax-Free Childcare within the first year of the scheme's operation. Disabled children under the age of 17 will be eligible for Tax-Free Childcare from the scheme's introduction. Once fully rolled out, Tax-Free Childcare is expected to be available to approximately 1.9 million working families.
- 1.7 The new Tax-Free Childcare scheme will be more widely available than other current schemes such as ESC, which is administered through employers. ESC is offered by

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<sup>2</sup> The Consultation Document can be viewed here: [www.gov.uk/government/consultations/tax-free-childcare](http://www.gov.uk/government/consultations/tax-free-childcare)

<sup>3</sup> For the purposes of Tax-Free Childcare, 'parent' refers to an individual who has responsibility for a child. This will ensure adoptive parents, extended family members and others who have taken on responsibility for raising a child, and who live with the child, can receive Tax-Free Childcare.

<sup>4</sup> Other forms of regulated care will also be classified as 'qualifying childcare', such as care that is formally registered and approved by other bodies such as agencies registered for providing care in the a child's home for domiciliary care workers, premises inspected by the Independent Schools Inspectorate or other inspectorates operating in the independent sector across the UK.

relatively few employers, which means that over half of employees, as well as all self-employed people, are unable to access it. Once Tax-Free Childcare is introduced, ESC childcare voucher schemes and directly contracted childcare will close to new entrants<sup>5</sup>. Existing users will be able to choose whether to remain on their current scheme or move to Tax-Free Childcare.

## **Research purposes and aims**

- 1.8 This research explored the design and operational considerations of the new Tax-Free Childcare scheme from the parents' and childcare providers' perspective.
- 1.9 This research took place in September 2013, alongside the consultation<sup>6</sup>. Interviews with participants were therefore based on the content outlined in that consultation document. Some elements of the Tax-Free Childcare policy have changed since. The Government response to that consultation was published in March 2014<sup>7</sup>.
- 1.10 In particular, the research aimed to offer insight into:
- Current childcare arrangements and parents' decision-making around childcare;
  - Initial views and feedback on the Tax-Free Childcare scheme;
  - Considerations around eligibility criteria and its application;
  - The management of the online childcare account; and
  - Communication needs as the scheme is rolled-out.
- 1.11 The research draws on the views of parents and childcare providers, particularly exploring the views of groups such as self-employed parents, those claiming tax credits and childcare providers who may not have participated in the consultation.

## **Methodology**

- 1.12 Opinion Leader was commissioned to conduct this research on behalf of HMRC
- 1.13 The research took place in September and October 2013 and consisted of focus groups and depth interviews with parents and childcare providers in London, Newcastle, Coventry and Glasgow. Due to the complex and explorative nature of the research a qualitative methodology was adopted.
- 1.14 Eleven focus groups were used to explore the new policy with parents and four focus groups were conducted with childcare providers including nannies and childminders. Each of the focus groups included eight participants. All groups lasted 1.5 hours.
- 1.15 Six depth interviews were conducted with individuals from childcare agencies responsible for placing nannies and childminders. Mindful of commercial sensitivities, it was most appropriate to conduct the research with these participants in a more personal setting that

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<sup>5</sup> Employers can continue to offer workplace nurseries.

<sup>6</sup> The Consultation Document can be viewed here: [www.gov.uk/government/consultations/tax-free-childcare](http://www.gov.uk/government/consultations/tax-free-childcare)

<sup>7</sup> The Government's consultation response document outlines how the Tax-Free Childcare policy has evolved through the consultation. The Consultation Response Document can be viewed here: [www.gov.uk/government/consultations/tax-free-childcare](http://www.gov.uk/government/consultations/tax-free-childcare)

allowed for detailed discussion of the agencies' circumstances, at a time and location that was convenient for them. These depth interviews lasted 45 minutes.

- 1.16 A full copy of the discussion guides used for the focus groups and depth interviews can be found in appendix B of this report.
- 1.17 Participants were recruited on a free-find basis, using a network of on-street recruiters in a variety of locations to recruit participants directly, as well as drawing on internal databases to recruit over the phone. All participants chose to take part in the research and were given a monetary incentive ranging from £50-60 from Opinion Leader to thank them for their time.

## **Participants**

- 1.18 This research required insight from a mix of those who would currently be eligible to use Tax-Free Childcare, and those not currently eligible. The latter included, for example, parents not in paid work, not using formal childcare, or using a different scheme such as ESC or tax credits.
- 1.19 A number of factors were identified as potentially having an impact on parents' attitudes towards the Tax-Free Childcare scheme. The researchers recruited a mix of participants based on the following key criteria:
- Household composition – one- or two-parent families and age of children;
  - Childcare arrangements – a mix of formal or informal childcare users;
  - Working patterns – employed, self-employed or not currently employed but aspiring to work; working part-time or full-time; working regular hours or with less regular hours/working pattern, including seasonal work;
  - Income
  - Whether in receipt of financial assistance with childcare costs through tax credits or ESC; and
  - Geographical location.

For the self employed, a range of professions were recruited; and a mix of those who did and did not use an agent to help with their tax affairs.

- 1.20 Where differences in opinions between groups emerged, these factors are referred to in the report.
- 1.21 The following childcare provider groups were recruited in order to ensure a range of perspectives were covered:
- Non-agency nannies and childminders
  - Independent nurseries and school-based (school-based play schemes & school-based care)
  - Agencies that nannies/childminders operate through.

1.22 Each of these groups of childcare providers will be referred to in the body of this report where there were different opinions on the Tax-Free Childcare scheme.

1.23 A more detailed list of the group profiles can be found in appendix A.

## **Data analysis**

1.24 Following the fieldwork, analysis was conducted in three stages.

- Content analysis – All focus groups and interviews were recorded. The research team listened back to and transcribed the recordings individually. They then sorted the data by theme, paying attention to the recurrence of particular views and the strength with which they were articulated, in order to attain a sense of their importance.
- Thematic development – The research team examined thematic output against the research objectives. Following this, they developed an analysis matrix, based on the project objectives and encompassing the range of views expressed and themes that arose. The researchers placed the raw output from each interview and focus group into a matrix, against each key objective or theme. The analysis matrix enabled the researchers to draw out the key themes and any differences across the different parent and childcare provider groups.
- Collective review – The research team then had an extended meeting during which they assessed findings emerging from the interviews and their relevance in relation to the project objectives. During the course of the brainstorming, the findings and key recommendations began to emerge. These were then tested against the thematic analysis for robustness.

## **Interpretation of data**

1.25 This research is qualitative in nature, so findings in this report do not represent the views of all parents and childcare providers. Qualitative research is designed to be exploratory - it provides insight into the perceptions and feelings of those involved in the research and helps explain the reasoning behind participants' opinions and behaviours. This methodology is therefore particularly suited to understanding complex issues such as the design considerations around the Tax-Free Childcare scheme in more depth.

1.26 The opinions and strength of feelings attributed to a group of research participants represent the parents and childcare providers involved in the research, and although such perceptions may not always be factually accurate, they represent the truth to those who relate them.

1.27 The research explores people's views of a scheme that is not yet in existence and they have therefore not experienced. Their views are initial reactions based on a limited amount of information, and do not necessarily translate into actual behaviour.

## 2. Participants' current childcare arrangements

### Summary

The research explored drivers behind parents' decisions around childcare arrangements. A mix of formal and/or informal childcare users were sampled. Parents generally said they only used formal childcare when informal childcare was unavailable.

Decisions about childcare arrangements centred around the wellbeing of the child(ren); therefore childcare patterns varied according to personal views and circumstances. Factors which affected the type of childcare used by parents included: cost of formal childcare; availability of informal childcare; age of child(ren); working patterns; and the familiarity of the child with the carer.

Parents perceived advantages and disadvantages for both informal and formal childcare – advantages included the personal nature and flexibility of informal childcare; and the social and activity-based structure of formal childcare.

Childcare use fluctuated throughout the year, especially with parents of school-age children, with childcare need increasing during school holidays. Childcare providers did not see use of their services vary substantially from week to week.

- 2.1 Tax-Free Childcare will be available exclusively to pay for childcare providers registered with Ofsted or equivalent regulatory bodies. The research asked parents about their current childcare arrangements and factors affecting their choices of formal (paid childcare, e.g. nursery or childminder) or informal childcare (e.g. through friends or family) to build an understanding of potential service users and the way they might interact with the new Tax-Free Childcare scheme.
- 2.2 Participants' use of childcare varied, depending on their personal circumstances such as working hours, closeness to relatives or age and number of children. Common to all parents was the desire to make sure that the wellbeing of their children was at the centre of their childcare arrangement decisions.
- 2.3 The type of childcare as well as the amount of childcare needed varied among parents. Some parents used a mix of formal and informal childcare, while others relied exclusively on one or the other. Some participants had accessed formal care through the Government's provision of an early education placement for three- and four-year-olds. Parents with younger children reported having a consistent requirement for childcare while those with school-aged children said their demand fluctuated more, increasing considerably during school holidays.
- 2.4 There was a range of experiences of formal childcare among participants in the study. Availability of formal childcare varied depending on where parents lived, and their requirements (full time, part time etc). The cost of formal childcare was often felt to be expensive and was one of the main drivers for using informal childcare where it was available.

*“You can use, like, parents and grandparents as much as possible and it will just save a lot of money really”*

- 2.5 Formal childcare tended to be used by participants when informal childcare was unavailable or limited. Parents saw some advantages to formal childcare, including that it involved structured activities and socialising with other children. These were perceived as beneficial for the child(ren)'s development.

*“[Formal childcare would be good so] the children can mix in with other kids and do more activities. My mum cannot just say oh we’ll go to Adventure Land or we’ll go down to the beach or anything, she’s kind of like confined to the house”*

- 2.6 Those using formal childcare tended to use different types of childcare depending on the age of the child. Childminders were used for all age groups, whereas nurseries were typically used in the early years, and school-based schemes for older children.
- 2.7 Some parents preferred informal childcare because of the emotional bond between their child(ren) and family/friends. They trusted family and friends to have their child(ren)'s best interests at heart and therefore felt they could offer better care than a professional provider. They also welcomed the flexibility offered by informal arrangements.

*“It was easier to get my mum or my dad to have my little girl, because it would fit in more with my work schedule, rather than set times with the nursery”*

- 2.8 However some parents worried that they were placing an excessive burden on friends and family.
- 2.9 Childcare providers had regular arrangements, typically looking after similar numbers of children for similar hours per week. However, many providers still adapted to parents' varied demand, particularly nurseries and school-based schemes, by having children on days that varied. Childminders tended to work for a number of families, whereas nannies worked for one family, and generally had more stable childcare situations with little variation.



### 3. Initial reactions to the new scheme

#### Summary

The new Tax-Free Childcare scheme was outlined to participants and their initial impressions were discussed.

Participants welcomed the idea of a government contribution to assist with childcare costs and that this scheme would be accessible to more parents than the current Employer-Supported Childcare scheme. Childcare providers thought that it could make formal childcare more affordable for parents.

Parents' reactions to the new scheme differed according to their personal circumstances. Those who were currently eligible, in terms of being in work and using formal childcare, typically said they would be interested in using it. Those using informal childcare differed in their reactions, with some saying the financial assistance may allow them to change their working patterns and childcare arrangements, and others feeling that the level of financial support was not sufficient to do so.

Childcare providers typically said that they would use the Tax-Free Childcare scheme since they felt it would benefit parents and, in some cases, increase demand for their services.

Throughout the focus groups, parents were taken through various design and delivery options for the new scheme. A key thread throughout was a strong preference for processes involved to be administratively light and straightforward.

#### Introduction

3.1 The research explored participants' initial reactions to the outline of Tax-Free Childcare to gain insight into factors and concerns that may affect their decisions to join or use the scheme. The interviewer described how the Tax-Free Childcare scheme may work, including giving an overview of eligibility criteria, a potential customer journey, and other practical design options.<sup>8</sup>

#### Initial reactions

3.2 Participants were generally positive about the Government providing support for working parents with their childcare costs in this way, with childcare providers feeling that it would make good quality childcare more affordable for parents. Participants also welcomed the fact that the scheme broadened the type and proportion of working parents who were eligible for Government support beyond those currently able to access Employer-Supported Childcare (ESC).

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<sup>8</sup> To aid understanding, participants looked at showcards 1, 2 and 3 (see appendix B).

## **Parents**

- 3.3 Parents' views on their potential use of the Tax-Free Childcare scheme differed depending on their current circumstances. Parents who were in paid work and already using formal childcare typically said they would use the scheme.
- 3.4 Parents not currently using formal childcare had more mixed views. Some felt that the support offered via Tax-Free Childcare would encourage them to change their childcare arrangements or their working patterns while others questioned whether the Government top-up would be sufficient to change their current arrangements.

*"Yeah, definitely [use it], it'd give my mum a break, especially in the holidays, definitely, definitely interested in that"*

*"I'd still rely on friends and family, it's the cheapest way"*

- 3.5 Throughout the focus groups, various options around the practical delivery of Tax-Free Childcare were put to participants. On discussing these options, parents emphasised the importance of ensuring that the scheme did not entail unnecessary administrative burdens. Those parents who had concerns generally had pre-existing negative attitudes towards dealing with HMRC through Self Assessment or tax credits. Some of these participants said that if the scheme involved a considerable time-investment from them, then this could put them off claiming.

*"I'm trying to work out in my brain why this is just so complex for 20% because it just seems like, it sounds like if there's that much paperwork just for that much credit"*

- 3.6 The initial reactions of participants who were using ESC and those claiming tax credits was that they would be worse off under the Tax-Free Childcare scheme; however, they said they would switch to this scheme if they thought it could be financially beneficial.
- 3.7 ESC users expressed concerns about redundancy, since only one parent needs to be in work to receive ESC vouchers whereas both parents need to be employed to be eligible for Tax-Free Childcare.

## **Childcare providers**

- 3.8 Some childcare providers, particularly nursery and school-based schemes, thought that the scheme would result in an increase in demand for professional childcare services. However some of the nannies and childminders said that they had no spare capacity so any increased demand amongst parents would not affect them.
- 3.9 It was also felt by some participants that the scheme would result in the childcare industry being seen as more professional as childcare providers must be registered with Ofsted, or equivalent regulatory body, to take part in the scheme. Some of the nannies and childminders who were not currently registered with Ofsted said that they would register to be able to accept payment via the scheme. Some who worked in childcare agencies said that

they would be prepared to support the nannies/childminders to register with Ofsted despite the costs and additional administrative and time commitments involved.

## 4. Eligibility and entitlement

### Summary

Parents understood and were in agreement with the definitions of 'parent', 'the household' and 'employment', as set out in the Tax-Free Childcare consultation document and discussed in the focus groups.

Parents expressed mixed views on whether minimum employment levels should be based on income or hours worked. Preferences tended to vary depending on personal circumstances, with self-employed participants having the strongest views due to the higher variability of their work situations.

The self-employed said that estimates of their income or hours in the next month could be highly inaccurate. They therefore felt that a minimum level should be measured over a long enough period to allow their income or hours to even out. In the same vein, they suggested a lower minimum income for start-ups as their income often does not reflect number of hours worked.

Self-employed parents felt that the best way of proving they are in work in order to register with Tax-Free Childcare would be to register with HM Revenue and Customs for Self Assessment. New businesses expressed that they would be prepared to do this earlier than required, despite the administration involved.

Following a change in circumstances leading to ineligibility, parents preferred some flexibility to continue using their childcare account and receiving top-ups to allow time to change their childcare arrangements. Participants generally responded positively to the idea of entitlement functioning on a quarterly basis, providing that a minimum grace period was included to avoid an immediate loss of this financial assistance if they became ineligible near the end of a quarter.

Participants typically accepted the idea of reconfirming their entitlement to Tax-Free Childcare on a quarterly basis provided that the system for reconfirming eligibility was administratively-light and easy to use.

### Introduction

4.1 This chapter looks at who the Government proposes will be eligible for Tax-Free childcare. This includes how certain concepts are officially defined under Tax-Free Childcare, such as 'parent' and 'employment'. The chapter also explores how to ensure that the eligibility rules and operational requirements around employment and self-employment take into account the variety of working circumstances that exist amongst parents. The final section focuses on participants' responses to the handling of changes in eligibility and the frequency with which participants' eligibility will need to be reconfirmed under the new scheme.

## **Eligibility definitions**

- 4.2 It was important to explore how eligibility definitions could best be formulated to ensure that the Tax-Free Childcare scheme can be used by those it intends to reach. Parent participants were shown potential definitions for 'parents', 'household' and 'employment' which could be used to determine eligibility for the scheme.<sup>9</sup>
- 4.3 Parents generally felt the definitions were fair and included the types of people and circumstances that they understood should be eligible to receive Tax-Free Childcare. They underlined that parents where a child has two residences would need clarification about how a Tax-Free Childcare claim would operate in their case.

## **A minimum level for qualifying 'employment'**

- 4.4 All parents must be in paid work to receive Tax-Free Childcare. Researchers explained to participants that the Government may therefore set minimum levels of employment for parents to be eligible for the Tax-Free Childcare scheme. This could be based on, for example, working a minimum number of hours or earning a minimum income over a given period. Participants were asked for their views on these proposed minimum levels. Researchers discussed the administrative aspects of this eligibility criterion in greater detail with the self-employed due to the greater variation within their working situations; their responses are reported in sections 4.12-4.17.
- 4.5 Responses to the idea of a minimum employment level differed by group. Parents currently in work generally accepted the need to have a rule for qualifying 'employment', in line with other schemes such as tax credits.
- 4.6 Some parents who were aspiring to get into work or increase their hours questioned the need to have a minimum level of employment rule at all as they felt that all parents should be able to benefit from the scheme. They also felt that parents who were out of work would not give false information about their working situation in order to claim Tax-Free Childcare as they would be required to pay for 80 per cent of their childcare costs.
- 4.7 The self-employed said they already spend considerable time dealing with administration, for example around Self Assessment, and were concerned that a minimum employment rule could lead to additional paperwork for them.
- 4.8 Parents had mixed views about the use of income or working hours as a basis for a minimum employment level. In general, employed parents with regular working hours and income did not have a strong opinion about using either measure.
- 4.9 Some self-employed participants who expressed a preference for minimum income levels did so because they thought it would be easier to calculate, since they kept a record of income and not hours worked.

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<sup>9</sup> These definitions can be seen in Showcard 5 (see appendix B).

*“It’s just easier because after you hit a certain income level then you are entitled to benefit. It’s just very simple and it doesn’t matter what your hourly rate is or whatever. It’s just once you’ve hit that and then it incentivises people to work harder to get that level to get the benefit”*

4.10 Where discussed, self-employed parents expressed mixed views on whether a minimum income level should be based on turnover or profit. They saw profit to be more closely related to income than turnover.

4.11 Parents who preferred the scheme to be based on a minimum number of hours believed that this was fairer to people who were on commission-only contracts, or low incomes. Some self-employed participants emphasised that at times they put in long hours which were not reflected in their income received at that moment. This was especially true for start-up businesses. These participants also thought that the number of hours was a fairer way of discerning eligibility because it related to the number of hours that childcare would be required.

*“...Because if you are earning £6 per hour or if you’re earning £7.50 an hour and you are working 16 hours a week, the reality is there’s no difference anyway. You’re still poorly paid. But I think on the hours because that’s what you need the care for, someone to look after your child for those hours, not because I’m paid £6 an hour and you’re paid £8.20.”*

### **Self-employed parents**

4.12 While HM Revenue and Customs (HMRC) receives income information about employees on a regular basis via Real Time Information<sup>10</sup>, this is not the case with the self-employed. It was therefore important to seek insight into how different measurements of employment would apply to the self-employed population in the design of Tax-Free Childcare. In the focus groups, researchers asked for self-employed parents’ views on reasonable minimum working requirements for eligibility, how well they could estimate and provide evidence of these, and how best to prove their self-employed status at registration.

4.13 Self-employed parents explained that predictions of their income or working hours over a monthly period could turn out to be highly inaccurate when compared with their actual income or working hours. This was because their income and working hours could vary significantly from one month to another.

4.14 Where discussed, self-employed participants felt that a potential minimum level of £200 income per month or around 8 hours per week over a monthly period were achievable minimum thresholds. It was suggested that businesses in their first year of trading should have a lower income threshold since the cost of establishing the business would impact on their income for that year. With potential variation in income and working hours, there was a preference for the minimum employment levels to be measured over a long enough period to

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<sup>10</sup> ‘Real time information’ (RTI) requires employers to submit PAYE information to HMRC every time they pay their employees instead of at the end of the year.

allow their income/number of hours to average out, such as over a quarter rather than a week.

- 4.15 Self-employed participants said that they typically kept their financial records up-to-date. They felt confident about providing accurate information and would not need an accountant to help them do so. The number of hours was not typically recorded and they would find it difficult to calculate and report this to HMRC.
- 4.16 Participants said they would expect HMRC to check their tax return against their predicted income for their Tax-Free Childcare claim. However, they were resistant to the idea that top-ups that had been paid and used, could be clawed back in cases where parents had made their estimate in good faith.
- 4.17 In order to register for Tax-Free Childcare, parents will need to prove that they are in work. Participants in two self-employed focus groups were therefore asked about how they could prove their status at registration. These participants said that registering with HMRC for Self Assessment was the best way of proving that people are genuinely self-employed. Currently the self-employed are required to register for Self Assessment with HMRC by October of the tax year after they start their business. This means that start-ups could potentially be operating for a maximum of 18 months before they are known to HMRC. Those who had set up a business in the past year said that they would be prepared to register as self-employed with HMRC earlier than they would otherwise have done in order to be eligible for the Tax-Free Childcare scheme. They had some concerns about the administration involved; however this would not prevent them from using the scheme.

### **Periods of entitlement**

- 4.18 Households may face changes to their circumstances that would affect their entitlement for the new childcare scheme. Changes of circumstances may include: periods of unemployment for one or both parents; a change in household composition; or a change in working hours or income meaning that one parent no longer meets the minimum requirements or exceeds the upper limit.
- 4.19 A key challenge for the Tax-Free Childcare scheme is to remain responsive to changes of circumstances affecting parents' eligibility, but without introducing unnecessary complexity for parents and those administering the scheme.
- 4.20 The research explored approaches to managing changes in entitlement. Researchers explained to participants that entitlement may function on a quarterly basis, with the start of the quarter based on when the parent's Tax-Free Childcare claim begins. The parent would then continue to receive support from the Government for a full quarter. The parent would need to confirm near the end of each quarter whether or not they are still eligible. If a parent

becomes ineligible through a change of circumstances during a quarter, they would remain entitled to receive Government support for the remainder of that quarter.<sup>11</sup>

4.21 Parents were positive about being able to continue to receive the benefits of the scheme for a period of up to three months subsequent to becoming ineligible. This period of continued eligibility was felt to be different to other Government benefits, for example, tax credits, where ineligibility was described as resulting in immediate withdrawal of benefits.

4.22 The continued eligibility period was welcomed for a number of reasons. It was believed to give parents the opportunity to get another job and therefore become eligible for the scheme in time for the beginning of their next fixed quarter. It was also felt to enable some parents to make changes to their childcare arrangements.

*“It gives you time to organise, because you’re still going to have to pay for childcare, even if you’re not getting the help”*

4.23 Participants highlighted that childcare providers often have a fixed notice period, and as a result they would want to avoid a situation where parents can lose Government support through Tax-Free Childcare from one day to the next if they become ineligible. Parents therefore called for some flexibility in the form of a minimum grace period for continued support or access to their childcare account, regardless of whether this operated in addition to or instead of a quarterly entitlement period.

*“Well they can’t control when they get made redundant can they, so I think it should be just standard, 3 months after”*

### **Reconfirming eligibility**

4.24 Researchers explained to participants that in order to continue to be eligible to take part in Tax-Free Childcare they may need to reconfirm that they are still eligible for the scheme on a regular basis throughout the year, for example every three months as outlined above.

4.25 Participants generally accepted the idea of reconfirming their eligibility on a quarterly basis. Participants expressed a strong desire for an administratively-light system for this reconfirmation, such as simply needing to click a button on the online account to confirm they are still eligible. Some participants were concerned that they would forget to re-confirm their eligibility and wanted to be sent a reminder in the medium of their choice, for example, text message or email.

4.26 Where there was resistance to reconfirming eligibility every three months, this often came from participants who had preconceptions about the amount of administration involved in HMRC schemes. This was often based on prior experience, for example with completing Self Assessments, and tax credits claim management.

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<sup>11</sup> Participants were shown showcard 6 setting out this quarterly entitlement system, and showcards A and B on how quarterly entitlement would work in different scenarios (see appendix B).



## 5. The online childcare account

### Summary

This section explores participants' views of the online childcare account and their preferences around how it is managed.

While some participants found the concept of an online account difficult to envisage, they stressed the importance of the account being easy to set-up and administer.

Childcare providers wanted timely payments and were concerned that putting parents in control of payments into the account, instead of employers as under Employer-Supported Childcare (ESC), may lead to missed or late payments.

The research also explored parents' and childcare providers' views on how account services could be delivered and the benefits of different market structures, as set out in the consultation document. Childcare providers felt that they may be able to guide parents' choice of account provider more than under ESC where the employer would choose the provider, and were happy to do so as long as the provider was reliable. They welcomed choice but felt that a small number of providers would be adequate. This would minimise their administrative burden while still giving parents sufficient selection.

Parents and childcare providers wanted a flexible approach in the management of online childcare accounts, to respond to variations in childcare costs and in personal circumstances.

Parents wanted to be able to access the Government's contribution across the year with no monthly limit on the amount that can be claimed. Parents stated a preference for being able to store unlimited amounts of money in the account, having unlimited access to their money, and no expiry date on the Government top-ups.

### Introduction

5.1 The Tax-Free Childcare scheme will be delivered via an online account which the parents set up through a childcare account provider. Once up and running, parents will pay into this account in order to receive the Government top-up. This chapter explores parents' views and preferences around the different aspects of the childcare account.

### Initial response to the concept of an online childcare account provider

5.2 The initial reactions to the online account were mixed. Some participants struggled with the concept of what was referred to in the focus groups as a 'voucher account'<sup>12</sup>. They were unsure whether it was needed and why HM Revenue and Customs (HMRC) could not pay their childcare provider directly.

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<sup>12</sup> See Showcard 4 for an overview of information about the account given to participants (see appendix B).

- 5.3 Parents and childcare providers who had experience of the existing Employer-Supported Childcare (ESC) voucher scheme, found the concept of a childcare account easier to envisage. Under the ESC voucher scheme the employers transfer money to a voucher provider, the parent then accesses their online account and directs payments to their childcare provider(s). In general, those who used ESC had positive experiences of it and had found the registration process and management of the account easy. However, some participants had experienced problems and stressed the importance of having an easy and straightforward system. An example of some of the issues experienced with an ESC voucher account is illustrated below:

*"I had to sign on to the email, get the password, sign on to the account and when I was trying to make my PIN, I also had to send a letter to the child carers to inform them about the payment as well. There's a lot of back and forth"*

- 5.4 Some childcare providers expressed concern at the potential implications of parents being in charge of payments into the online childcare account, worrying that they could become involved in chasing payments from parents or the childcare account provider. They thought that parents might be more likely to forget to make payments via the childcare account provider as this transaction was perceived to be more complex and indirect than other modes of payment such as direct debit or cash. Some felt payment under the current ESC scheme is more reliable than Tax-Free Childcare would be as it is managed by the employer:

*"You have some people that are really good with money and some people that are really rubbish. And just now because it's just going straight from their salary it's dealt with by someone outside of that and you know you are going to get the money"*

- 5.5 The issues around reliable and timely payments were raised at several points by childcare providers during the focus groups. Some participants using ESC had experienced late payments due to parents having difficulties in setting up the scheme or delays from the provider. This could result in cash flow problems, and inefficient use of time chasing payments.
- 5.6 While payment preferences varied with size of providers, with larger providers preferring cashless systems, and smaller providers cash or direct debit, one overall theme was the importance of being paid promptly and not letting problems related to financial transactions negatively affect their relationship with parents. Childcare providers also expressed a preference for a system that did not add unnecessary administration.

### **Choosing a childcare account provider**

- 5.7 The research also explored views on how account services could be delivered. The focus groups explored the main factors parents would take into account when considering a potential childcare account provider. Factors such as the reputation of the provider; word of mouth; and any potential benefits that the provider might be able to offer were mentioned. The main priority though would be to choose a suitable childcare provider for their child(ren). It was only once they had decided on the right childcare that they would broach the subject of whether or not the provider accepted Tax-Free Childcare payments, and which providers they were registered with.

*“Surely it won’t matter which voucher provider...because I’m not going to choose a voucher provider, I’m going to choose the childcare”*

- 5.8 Childcare providers were asked whether or not they would recommend a particular childcare account provider if they received a financial incentive from that provider. The most important issue for participants was that childcare account providers offered a good service, and only then, would they recommend them.
- 5.9 Participants were asked about their views on how the Tax-Free Childcare account provider market should look– i.e. if there should be a single provider, a small number of providers or an unlimited number of providers.
- 5.10 Both parents and childcare providers said they would prefer a limited selection of providers. Parents wanted to have some choice but did not want to spend time choosing from a large number of account providers when they anticipated that there would be little to differentiate them in any case.
- 5.11 Childcare providers said they would want to register with and manage payments from a small number of childcare account providers due to the administrative burden involved in managing various account providers. Some were signed up to more than ten account providers under the existing ESC scheme and they felt that this created too much additional work. Childcare providers welcomed that the proposed new system might give them more control over how many and which childcare account providers they sign up with, compared with ESC, which is driven by the employers’ choice of account providers.

*“Well, I suppose if you’ve got 50-60 parents and they all want a different childcare provider and you’ve got to sort all that out..., so I think personally I would rather say I would have all the people that come to me and say right we will use this one”*

## **Managing the online childcare account**

- 5.12 The focus groups explored various options around the management of the account in terms of how payments in should be managed and whether there should be a limit on the amount of money held in the account.

### ***Paying into childcare accounts***

- 5.13 As set out in previous chapters, the Government top-up will depend on the amount that parents pay into the account, and Government will pay this top-up up to a maximum limit of £2,000 per child per year. One way that this limit could be applied in practice is to introduce a regular upper limit on the Government top-ups spread evenly throughout the year, for example through a monthly or quarterly limit. The alternative would be to simply have the annual limit on the top-up. Parents were asked for their views on having the Government contribution spread throughout the year.
- 5.14 Views on payment varied depending on the personal circumstances of parents. Parents with school-aged children had childcare costs which varied across the year. There were particular peaks in school holidays, which meant that a monthly limit on the top-up would not be sufficiently flexible. A less frequent upper limit – for example quarterly, or simply an annual limit – was preferred by parents who felt that it would allow for some seasonal flux in use of childcare.

- 5.15 Other participants, for example those currently claiming tax credits were in favour of a regular monthly limit because they thought that it would help them to budget.

*“Because then you budget and know that extra £100 is going in each month and you know how much you need to add to cover your costs.”*

### **Account limits**

- 5.16 Participants were asked their thoughts on having a limit on the amount of money that could be held in their childcare account. A limit of £6,000 was tested, i.e. consisting of £4,800 parental contribution corresponding to the proposed £1,200 maximum Government top-up announced at Budget 2013.

- 5.17 Parents in the focus groups expressed mixed reactions to a £6,000 childcare account limit.

- 5.18 Those who preferred no limit to the amount they could keep in the childcare accounts did so because this would give parents the flexibility to continue to use the childcare account to pay their entire childcare costs throughout the year. For some, childcare costs were considerably higher than £6,000.

*“Why don’t you just pay it into that scheme and they’ll pay the 20% up to that value and anything else you put in extra yourself so you’ve only got to make a payment to one individual voucher scheme... It seems far more sensible than paying two separate bills”*

- 5.19 Childcare providers in the focus groups favoured no limit to the amount of money placed in the childcare account to avoid needing to process multiple payments for a single invoice. It was also felt that it would be easier to keep track of payments if single payment methods were used. Although a single payment was the preferred option, childcare providers were not resistant to accept multiple payments which they said they were already used to managing through ESC.

- 5.20 Those who preferred to limit the amount held in the account identified that they may not receive interest on money in the account whereas they would if they kept it in their bank account. Others preferred a limit as they did not want what they perceived as ‘the Government’ keeping their money beyond the point at which they stopped receiving top-ups.

### **Validity and withdrawals**

- 5.21 A further issue explored in the focus groups relating to managing the account, was the validity of the top-up element. The research explored participants’ views on the Government top-up element having a limited lifetime, for example one year, and if top-ups that have already been made should be available for use by someone who has become ineligible for the scheme. Participants were also asked whether or not they should be able to withdraw money from the account.

- 5.22 There were strong feelings expressed by participants that they should be able to use the money in the account including top-ups in perpetuity. However, if an expiry date was necessary, parents in the focus groups were in favour of receiving a refund for any contributions they had made but had not used within the year.

*"[People should be able to use the vouchers] indefinitely. You know they've done it in good faith in the first place. They would never be aware of the circumstances changing in the future."*

- 5.23 If a parent became ineligible to use the scheme, participants thought that they should be able to use any top-ups already received which were unused at that point. If they did not want to use these, they felt that their own contribution to the childcare account should be refunded and the Government contribution returned to HMRC.
- 5.24 Participants expected to be able to withdraw their contribution (80 pence in the pound) at any point, as they perceived it to be 'their money'. They said they would want to make the withdrawal directly from the childcare account if they needed to.

## 6. Support and information needs

### Summary

The research explored the role of childcare providers in promoting the scheme and what additional support tax credits customers and Employer Supported Childcare (ESC) users would need to make better-off calculations.

There was a strong feeling among participants that the Government had a significant role to play in promoting the Tax-Free Childcare scheme to parents.

While some of the childcare providers would actively promote the scheme to parents and support them in claiming, others felt this would merely create more administration, or that this was simply not within their remit. Those who would promote the scheme expected the Government to provide promotional material to disseminate.

There was little appetite among those on tax credits or using ESC to take on additional administration to switch between Tax-Free Childcare and other Government supported schemes. Parents wanted support to be able to decide whether to switch between benefits and schemes offering financial support with childcare costs.

### Introduction

- 6.1 The research briefly touched on some of the communication needed around Tax-Free Childcare with childcare providers, exploring the role childcare providers could play in promoting the scheme and checking eligibility.
- 6.2 In addition, this section explores the needs of particular groups who may want additional support and information to decide whether to join Tax-Free Childcare or remain on their current programme, for example those claiming tax credits or current users of the Employer-Supported Childcare (ESC) voucher scheme.

### Promoting the scheme to parents

- 6.3 Childcare providers typically felt that the Government had the leading role in promoting the Tax-Free Childcare scheme to parents. They thought that the Government should promote the scheme via a general awareness campaign and by providing literature to childcare providers.
- 6.4 Some childcare providers, in particular institutions such as nurseries and school-based schemes, said that they would promote the scheme to parents. They felt this was part of their duty towards their clients. However, others said that they would not actively promote it as it would encroach on their personal time or would entail additional administration. This attitude was more common among individuals such as nannies and childminders.

*"I don't think it's the childcare provider's job to be explaining this, when there's a lack of staff and you've got better things to do"*

- 6.5 Those who expressed an interest in promoting the scheme said that they would do this by proactively mentioning and explaining the scheme to parents. These providers wanted support materials to do so. However, they did not feel that it was within their remit or necessarily within their skill set to advise parents about which Government childcare scheme was right for them. Some said that they did not want to discuss financial matters with parents because this could make themselves or the parents embarrassed.

*"We are going to have to be educated on it, so the Government's going to probably have to come in and have a pack readily available to childcare providers, and let us know how to advise people, because we don't want to be in a position where a parent comes back to us because we've given them the wrong advice"*

- 6.6 In terms of checking whether parents were actually eligible to use the scheme, childcare providers expressed mixed views. Some were happy to check details that parents would need to provide them with in any case, for example birth certificates, whereas others were not comfortable doing this. Those who did not routinely ask for this type of documentation, such as some nannies and childminders, were particularly resistant to starting to do so.

### **Tax credits and Employer-Supported Childcare users**

- 6.7 Researchers explained to participants currently receiving tax credits and those using the Employer-Supported Childcare (ESC) scheme that there could be situations where people may want or need to switch between their current scheme and the Tax-Free Childcare scheme. Participants were asked to imagine this scenario and to consider both the best way of transferring between schemes as well as the support they would need.
- 6.8 Parents wanted any transfer between schemes to be as seamless as possible so that they would not lose out financially due to gaps in support. They also wanted any associated processes to be simple and avoid excessive form-filling. Participants wanted to be in control of whether or not they switched between schemes in order to make a decision themselves how they would be better-off.

*"Well I get my tax credits weekly and then so for me if I lost my tax credits one week I would expect the childcare vouchers to start the following week because otherwise I'd lose the money somewhere, so then I'd find myself a bit short"*

- 6.9 Participants receiving tax credits and those using the ESC scheme wanted support to determine which scheme would be more beneficial to them. Some wanted information all in one place about the potential childcare-related schemes that were available. Participants typically wanted web-based support as they felt that this was convenient and accessible. Some suggested having an online calculator that would allow them to see the financial impact of using different schemes taking into account their personal circumstances. Some

wanted to have access to a telephone helpline since they preferred to receive personalised advice and interact with a human being rather than use the internet.

*“Really you could do with a calculator so you can put your figures in there and straightaway you can look and that’s my earnings, oh I know I’m going to get this much, this scheme’s better for me.”*



## 7. Conclusions

- 7.1 Participants' responses throughout the research provide helpful insight into the design considerations around the Tax-Free Childcare scheme as well as parents' information and support needs. Some common themes that emerged in the focus groups and interviews included: attitudes towards how the scheme should operate and areas where clear explanations may be needed in communications. Childcare providers gave their opinions on promoting the scheme and support they would require to do so.

### **Attitudes to using Tax-Free Childcare**

- 7.2 Parents generally welcomed the idea of a Government contribution to assist with childcare costs, and childcare providers felt that this could help parents. Parents had mixed reactions to joining and using the new Tax-Free Childcare scheme. This was often related to their personal or working circumstances. Those already eligible – in that they were already in paid work and using formal childcare – typically said that they would use the scheme.
- 7.3 Those using informal childcare expressed various views. Some felt they might join the scheme to give family/friends some relief. Others questioned if the 20 per cent Government contribution would be sufficient for them to change their current working or childcare patterns. It is possible that some families who hear about Tax-Free Childcare may view this scheme in isolation without considering the wider childcare support on offer. Providing clear and comprehensive information about all support available and the respective eligibility criteria, will enable parents to make informed choices about their arrangements.
- 7.4 Likewise, parents currently receiving financial assistance with childcare through Employer-Supported Childcare and tax credits said they would want information on all childcare schemes accessible in one place, enabling them to make better-off decisions. The internet was generally mentioned as an appropriate platform, but some also felt a telephone helpline would be required.

### **Understanding of the Tax-Free Childcare system**

- 7.5 Some participants found it hard to understand the concept and need for an online childcare account and account provider, feeling that this role could be carried out by the Government. More abstract concepts such as 'childcare account' and 'account providers' will therefore need explaining clearly in communications about Tax-Free Childcare, as this may have an effect on potential service users' attitudes to using the scheme.

### **Perceptions around administrative burdens**

- 7.6 Parents were generally accepting of the Tax-Free Childcare processes outlined in the focus groups, providing that they are administratively light. There were some concerns among parents about the amount of administration they perceived would be involved, in particular with certain aspects such as a quarterly reconfirmation of eligibility. Some said that considerable administration could deter them from using the scheme. This was especially prevalent among particular groups who had prior experience of communicating with HMRC, for example the self-employed and tax credits customers. This highlights that communications about the scheme will need to be clear about the level of work involved for parents, and provide reassurance where appropriate.

- 7.7 Childcare providers also had some concerns that they may have to spend time chasing late payments, which could affect their relationship with parents. They felt that payments may be more reliable under Employer-Supported Childcare, where money is taken directly from parents' salaries and transferred to the voucher provider who makes the payment. Under Tax-Free Childcare, parents will be responsible for paying money directly into their childcare account. Childcare providers worried that parents may forget to complete these tasks in time. They emphasised that they would need information on who to contact regarding late payments.

### **Use of childcare account and Government top-ups**

- 7.8 Parents felt strongly about having flexibility in how they can use the childcare account, including being able to store an unlimited amount of money in the account to pay for childcare, and being able to make withdrawals.
- 7.9 The self-employed pointed out that any estimation of their income or working hours for the coming month could be highly inaccurate. They generally accepted that HMRC would check their real income/hours at the end of the year and said that they kept accurate records. However they expressed resistance at the idea of top-ups being clawed back, if parents had made their estimate in good faith. Explanations about how these processes would work in practice and evidence that the self-employed can provide to support their estimates will need to be made clear in communications with this customer group.

### **The role of childcare providers in promoting the scheme and supporting parents**

- 7.10 There was some appetite among childcare providers to tell their customers about the new Tax-Free Childcare scheme. These providers called for support materials and information from the Government to do so. Some also said that they could check particular documentation, e.g. birth certificates, if this was something they already required parents to provide. Some felt that this additional responsibility would require training or equivalent assistance from the Government.
- 7.11 In summary, this research has provided insight into the initial outline of the Tax-Free Childcare scheme, and as such, highlighted areas where parents and childcare providers may need more support or information going forward.

# Appendix A: Sample

## **Parent groups**

The table below shows a full breakdown of the sample for the eleven focus groups with parents:

<b>Groups</b>	<b>Format</b>	<b>Quantity</b>	<b>Location</b>
Self-employed parents	Focus groups	4	London; Newcastle
Tax Credits customers (at the upper threshold)	Focus groups	2	London; Coventry
Employed parents with household income over £42,000	Focus groups	2	London; Newcastle
Parents aspiring to start working or increase their working hours	Focus groups	2	London; Coventry
Employer-Supported Childcare (ESC) users	Focus groups	1	London

Across groups, the researchers recruited participants with a range of the following criteria to explore a range of situations and needs:

- Involvement in decision-making around childcare
- Residency arrangements for their children
- Childcare arrangements
- Parents with children of various ages
- Employment situations
- Range of incomes
- Household status
- Self-employed parent groups included a range of business tenure, types of business and range of household incomes.

## **Childcare provider groups**

The table below shows a full breakdown of the sample for the four focus groups with childcare providers and six depth interviews with childcare agencies:

<b>Groups</b>	<b>Format</b>	<b>Quantity</b>	<b>Location</b>
Non-agency nannies and childminders	Focus groups	2	London; Newcastle
Independent nurseries and school-based (school-based playschemes & school-based care)	Focus groups	2	London; Glasgow
Agencies that nannies or childminders operate through	Depth interviews	6	London; Glasgow

Across groups and in-depth interviews, the researchers recruited participants with a range of the following criteria:

- Agency and non-agency staff

- Those registered and not-registered with Ofsted, or the equivalent in Devolved Administrations
- Acceptance of Employer-Supported Childcare vouchers