



Experience of using childcare and claiming the childcare element of Working Tax Credit

**Findings from the 2009 Panel Study of Tax Credits and Child Benefit
Customers**

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Executive summary

This report presents research findings on the childcare element of Working Tax Credit (WTC). The material in the report is mostly drawn from the 2009 Panel Study of Tax Credits and Child Benefit Customers.

Use of childcare

Over 85 per cent of all tax credit recipients in the 2009 Panel Study said that they were responsible for at least one child aged under 16 years. Of those:

- under half (46 per cent) did not use any childcare because they or their partner looked after their child/children themselves;
- a quarter (26 per cent) used only childcare provided by the child's grandparents, older siblings, other relatives, friends or neighbours (informal childcare);
- a fifth (20 per cent) used registered or approved formal childcare for at least some of the time; and
- less than one in ten (8 per cent) used only formal childcare that was not registered or approved.

Over half the recipients who were responsible for at least one child aged under 16 years had inconsistent childcare arrangements:

- three in ten used different providers in term time compared with the school holidays; and
- a quarter used the same provider but different hours in the holidays compared with term time.

A quarter of those who used formal childcare used more than one type of provider.

Employer-supported childcare either through childcare vouchers or workplace nurseries was taken up by four per cent of working recipients who used childcare. Twelve per cent said that their employer or their partner's employer provided help with childcare but they did not take-up the support and the remainder (84 per cent) worked for employers who did not offer the support.

Taking up of the childcare element

Recipients who claim WTC and use childcare benefit from the childcare element which helps towards the costs of childcare if they meet three conditions and make a claim. The three conditions are: working 16 hours or more a week; having an income that entitles them to receive more than the family element of Child Tax Credit, using 'eligible' childcare. Statistics published by HMRC show that the take-up of the childcare element among those who are eligible is high.

The childcare arrangements of recipients who met the work and income conditions but were not eligible to claim because they used only informal childcare were explored to assess the likelihood of those recipients being able to change their childcare arrangements to enable them to benefit from the childcare element.

- This group mostly used family members to look after their children.
- The most common reasons this group cited for choosing informal childcare were: the quality of the care (55 per cent); low cost (44 per cent); convenient location (35 per cent); and convenient hours (32 per cent).
- Only 4 per cent of this group chose to use informal care exclusively because they could not find formal childcare.
- These findings indicate that simply increasing the provision of formal childcare without tackling issues such as quality and costs may encourage only a small percentage of those who met the work and income condition to change from informal to formal childcare so that they are in a position to take-up the childcare element.
- Increasing the provision of formal childcare is unlikely to persuade those who have chosen informal childcare on grounds of quality or low costs to switch to formal childcare.

Managing the childcare element claim

To ensure that they benefit from the childcare element, working recipients who use formal childcare have to give HMRC the details of and costs incurred from the formal childcare providers. They also have to report any changes to those details.

- Three-quarters of recipients who had had a change in childcare costs in the 12 months before their interview in 2009 reported the change.
- Those who benefitted from the childcare element were more likely to report the change than those who did not get the childcare element (85 per cent compared with 62 per cent).

The most commonly cited reasons for not reporting a change in childcare costs were:

- the belief that the change would not affect the tax credits award (50 per cent); the majority of those who gave this reason did not benefit from the childcare element;
- the recipient was too busy or did not get round to reporting the change (26 per cent); and
- the recipient did not think about reporting the change when it happened (10 per cent).

Risk of getting an incorrect entitlement to the childcare element

Error and fraud statistics published by HMRC show that one of the main causes of error and fraud in tax credits calculations is from recipients providing incorrect childcare costs. A comparison of the prevalence of the risk factors for getting an incorrect award for the childcare element indicates that the main risk factor was having problems with calculating childcare costs. That was often brought on by having complex childcare arrangements such as using different providers during term time and in the holiday, using the same providers but different hours during term time and in the holidays or using more than one formal provider.

1 Introduction

Child Tax Credit (CTC) and Working Tax Credit (WTC) were introduced in April 2003 and replaced Working Families' Tax Credit and Disabled Person's Tax Credit. The primary aims of tax credits are to reduce child poverty, provide adequate financial incentives to work and to increase financial support for all families. Recipients' tax credits award usually consists of a number of elements. One of the elements that recipients who work and have children may benefit from is the childcare element of WTC. The childcare element takes forward the objective to improve work incentives by helping recipients with children move into work by providing support towards the costs of childcare. Research has shown that that the cost and availability of childcare is a barrier to work (Speight et al., 2009). In addition to taking forward the objective of improving work incentives, the childcare element also addresses tax credits' aim to alleviate child poverty. This is because research has shown that employment is one of the key factors that help people move out of poverty (Bell et al., 2005). Latest statistics show that 448,000 families benefited from the childcare element of WTC in 2008/2009 (HMRC, 2010a).

This report presents research findings on the childcare element from the 2009 Panel Study of Tax Credits and Child Benefit Customers. The 2009 Panel Study was the first of a series of a large-scale surveys commissioned by HM Revenue and Customs (HMRC) to explore recipients' experience of claiming tax credits and Child Benefit. The 2009 study was carried out by the National Centre for Social Research and it interviewed 3,706 current and previous tax credits recipients between October 2008 and March 2009. Many of the recipients interviewed in the 2009 study were followed up over a period of three years.¹

The 2009 Panel Study included questions on all the main processes of the tax credits system and collected information on recipients' experience, behaviour, motivations and views as well as background data such as recipients' employment, financial situation, family composition and childcare arrangements. The study collected the following information on childcare and the childcare element:

- recipients' use of childcare;
- reason for choice of childcare;
- awareness of the requirements for claiming the childcare element, for example, reporting changes in their childcare arrangements and costs; and
- the steps recipients took to manage their claim.

Questions from the Panel Study can be used to explore policy and operational issues related to the childcare element, in particular, the take-up of the childcare element among recipients and whether they are claiming the correct amount. These are important areas given that the take-up of the childcare element may have a bearing on the effectiveness of tax credits as a work incentive and one of the main causes of error and fraud in tax credits entitlement is from recipients providing incorrect childcare costs (HMRC 2010b). HMRC has published statistics on the take-up of the childcare element as well as findings from qualitative research on recipients' experience of claiming the childcare element (HMRC, 2011, Pereira, 2009 and

¹ Please refer to the technical report of the 2009 Panel Study of Tax Credits and Child Benefit Customers for the full details (see <http://www.natcen.ac.uk/study/tax-credit--child-benefit-study>)

Turley and Dickens, 2009). This report builds on those previous findings and focuses on exploring the policy and operational aspects of the childcare element.

The remainder of this report is in four sections. The next section sets out the eligibility rules and requirements for claiming the childcare element to provide a context for the rest of the report. Section 3 describes how recipients of tax credits used childcare and sections 4 and 5 highlight findings that are relevant for exploring the policy and operational aspects of the childcare element.

2 Requirements for claiming the childcare element

2.1 Claiming the childcare element

Not all tax credits recipients can benefit from the childcare element of Working Tax Credit. In 2009, only recipients who met all the conditions below benefited from the childcare element.

- Worked 16 hours or more a week (in couple families, both recipients had to work 16 hours or more a week except in cases where one of the recipients was incapacitated and received a disability benefit or in hospital or prison).
- Had an income that entitled them to receive more than the family element of Child Tax Credit (currently £545 a year).
- Used 'eligible' childcare.

With a few exceptions, 'eligible' childcare corresponds fairly closely to what is often known as 'formal' childcare, that is, childcare provided by a carer who is registered with or approved by the appropriate authorities (for example, Ofsted in England). Eligible childcare encompasses settings such as nurseries, playgroups and out-of-school clubs, and also care provided by registered childminders. It can also be provided within the child's home, for example by a nanny, as long as the childcare provider is approved and is not a relative of the parent.²

Recipients who meet the work, income and childcare conditions and, as a result, can benefit from the childcare element, need to make a claim for the childcare element. That involves giving HMRC details of the eligible childcare providers they use and the costs incurred from eligible childcare during the initial tax credits claim or by calling the Tax Credits Helpline.

2.2 The procedure for calculating a recipient's entitlement

The value of the childcare element is not fixed but is dependent on the recipient's childcare costs and household income. In 2009, the element covered a maximum of 80 per cent of childcare costs up to a weekly maximum of £175 for one child and £300 for two or more children.³ Recipients who benefit from the childcare element receive the childcare element as part of their total tax credits award. The total award is calculated by first adding together all the elements that apply based on the circumstances of the family (including their childcare costs) and then tapering the award according to household income to arrive at the amount of childcare element to which the family is entitled. As a result, families on the lowest incomes receive 80% of their childcare costs, whilst those further up the income distribution receive less.

² The definition of eligible childcare is set out in the Tax Credits Manual (http://www.hmrc.gov.uk/manuals/ntcmanual/eligibility_childcare/ntc0260100.htm).

³ The 2010 Spending Review announced that the level of support would return to 70% of eligible childcare costs from 2011-12 onwards. The Tax Credits Manual has the current maximum rate of the childcare element (see: <http://www.hmrc.gov.uk/manuals/ntcmanual/>).

2.3 The requirements for claiming the childcare element

Recipients have to provide details of their eligible childcare costs when they apply to claim the childcare element so that HMRC can calculate their entitlement. In addition, recipients have to update HMRC of any changes to their childcare costs and arrangements.

3 Recipients' use of childcare

3.1 Information on the use of childcare by recipients of tax credits

This section describes how recipients of tax credits used childcare and the cost of that care. It is important to note that the findings presented here relate only to the use of childcare by recipients of tax credits. They are therefore not directly comparable to the overall findings of research such as the Childcare and Early Years Survey (Speight et al., 2009) which explores the use of childcare by all parents. This is because childcare arrangements vary by household income and the average household income of tax credits recipients is lower than the average income of all parents. In addition, prevalence figures reported in the Childcare and Early Years Survey are also not directly comparable to the figures reported here. The Childcare and Early Years Survey reports on childcare used by individual children included in the survey during a reference week while the Panel Study covers the usual childcare arrangements of the families in the study.

3.2 Childcare used by tax credits recipients

Over 85 per cent of the tax credit recipients in the Panel Study said that they were responsible for at least one child aged under 16 years when they were interviewed in the 2009 Panel Study. Table 3.1 shows that just under half of the recipients who were responsible for at least one child (46 per cent) did not use any childcare because they or their partner looked after their child/children themselves. About a quarter (26 per cent) used only informal childcare provided by the child's grandparents, older siblings, other relatives, friends or neighbours. A fifth used registered or approved formal childcare for at least some of the time and less than one in ten (8 per cent) used only formal childcare that was not registered or approved.

Table 3.1 The use of childcare by recipients of tax credits responsible for at least one child aged under 16 years

	%
Did not use any childcare at all – cared for by their partner or themselves	46
Used registered or approved formal childcare at least some of the time	20
Used informal childcare only	26
Used formal childcare that was not registered or approved only	8
Total	100
<i>Base</i>	2869

Base: Recipients who took part in the Panel Study, were in a tax credits award in 2007/8 and were responsible for at least one child aged under 16 years.

3.3 What proportion of recipients would benefit from the childcare element if they had made a claim?

Of the fifth of recipients who used registered or approved formal childcare for at least some of the time, a proportion would benefit from the childcare element if they also met the work and income conditions and had made a claim for the element. Table 3.2 shows the proportion who would benefit from the childcare element by breaking down the groups of recipient using different types of childcare by whether they also met the work and income conditions. This shows that:

- Six per cent of recipients who were responsible for a child aged under 16 years met all three conditions for benefiting from the childcare element: used registered or approved formal childcare, they (or their partner, if they had one, both) worked 16 hours or more a week and they had a household income that entitled them to receive more than the family element of Child Tax Credit.
- About one in six (15 per cent) met the work and income conditions but would not benefit from the childcare element because of the type of childcare they used: they either looked after their children themselves (7 per cent), used informal childcare only (6 per cent) or used formal childcare that was not registered or approved (2 per cent).
- Just under eight in ten (79 per cent) would not benefit because they did not meet the work or income conditions.

Section 4 explores the take-up of the childcare element in more detail. It discusses the extent to which recipients who met all three conditions claimed the childcare element and also explores how likely it is that those who met the work and income conditions but not the childcare condition would change their childcare arrangements so that they could benefit from the childcare element.

Table 3.2 Recipients who would or would not benefit from the childcare element

	Recipients responsible for at least one child aged under 16 years:		
	Met work & income conditions for childcare element	Did not meet work & income conditions for childcare element	All ¹
	%	%	%
Did not use any childcare at all – cared for by customer or their partner	7	37	44
Used registered or approved formal childcare at least some of the time	6 (would benefit)	14	20
Used informal childcare only	6	21	27
Used formal childcare that was not registered or approved only	2	7	9
Total	21	79	100
<i>Base</i>			2373

Base: Recipients who took part in the Panel Study, were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years and agreed to HMRC linking the information from their interview to HMRC administrative data.

¹ The total column is not consistent with table 3.1 because the analysis presented here required us to link information from the Panel Study to information held by the HMRC administrative data. Some recipients did not consent to HMRC linking the information from their interview to HMRC administrative data and they excluded from this table.

3.4 Childcare cost

Table 3.3 shows the average (median) weekly childcare costs that recipients incurred. The figures cover payments to all the providers used to look after all the children in the family and exclude any employer contributions⁴. To ensure that the figures reflect only the costs incurred by those who had to pay for childcare, the calculations exclude any recipients who did not use childcare or used free childcare exclusively.

In 2009, the median total childcare cost incurred by those on the Panel Study was £68 per family per week in term time and £95 per family per week during the holidays.⁵ Not surprisingly, the term time costs for recipients who had school age

⁴ Cost information is not available by the number of children who used childcare in the family.

⁵ The cost figures presented in this report are per family figures. This is because the amount of childcare support a recipient gets from the childcare element is assessed using per family childcare costs. In contrast, some surveys on childcare report childcare costs at the child

children only was lower compared with those who had younger children (£56 per family per week compared with £90 per family per week).

The average total weekly childcare costs may also vary by other factors such as the types of provider used, whether the family is a lone parent or a couple family, household income and where the family lives. Speight et al. have discussed those issues in detail.

Table 3.3 Median weekly childcare cost incurred by recipients in term time and during school holidays

	Median weekly cost, term time	Median weekly cost, school holidays	Base, term time	Base, school holidays
	£	£		
Families with school age children only	56	90	391	296
Families with at least one child below school age	91	103	224	192
All recipients	68	95	615	489

Base: Recipients who took part in the Panel Study, were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years, who used childcare and who had to pay for at least some of their childcare.

3.5 Use of employer-supported childcare

Some employers provide their staff with support for childcare either through childcare vouchers or workplace nurseries. However, employer-supported childcare in any form was not widely used by working tax credits recipients on the 2009 Panel Study. Over eight in ten recipients (84 per cent) who had at least one child aged under 16 years and who used childcare said that their employer or their partner's employer did not provide help with childcare. Just over one in ten (12 per cent) said that their employer or their partner's employer provided help with childcare but they did not take-up the support. Employer-supported childcare was taken up by only four per cent of working recipients who used childcare; two per cent were in a salary sacrifice scheme through which they received a reduced salary in exchange for the employer support and the other two per cent were not part of a salary sacrifice scheme.

level and that is one reason why the figures presented in this report are higher compared with the information based on other surveys.

Table 3.4 Use of employer-supported childcare

	%
Neither employer nor partner's employer provided help with childcare	84
Employer or partner's employer provided help with childcare but did not take it up	12
Use employer-supported childcare through a salary sacrifice scheme	2
Used employer-supported childcare but not through a salary sacrifice scheme	2
Total	100
<i>Base</i>	<i>1364</i>

Base: Recipients who took part in the Panel Study, were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years, used childcare and in work or with a partner who was in work.

4 Take-up of the childcare element

4.1 Take-up of the childcare element among eligible recipients

Published statistics based on information from the 2009 Panel Study and the Family Resources Survey (HMRC 2011) showed that the take-up of the childcare element among eligible families was high. Those statistics show that in 2008-09, an estimated 81 per cent of all those eligible for childcare element claimed it.⁶

4.2 Recipients who met some but not all the conditions for benefiting from the childcare element

The next three sections examine the work patterns, family composition and childcare arrangements of three groups of recipients who met some but not all the conditions for benefitting from the childcare element if they had claimed for it. The purpose of the analysis is to explore the likelihood of those recipients being able to change their work or childcare arrangements to enable them to benefit from the childcare element.

4.2.1 Recipients who used approved or registered childcare but did not meet the work or income conditions

The recipients in this group met the childcare condition because they used approved or registered childcare. However, in 92 per cent of cases, their high income meant that they would not benefit from the childcare element.

The remainder of this group would benefit from the childcare element if they (and their partner if they had one, both) worked more than 16 hours a week. The 2009 Panel Study found that only a small proportion (one per cent) of tax credit recipients responsible for a child under 16 years met the childcare and income conditions but did not meet the work condition (26 recipients). Their rarity has meant that it was not possible to carry out detailed analysis on these recipients.

4.2.2 Recipients who met the work and income conditions but used informal childcare only

Recipients who met the work and income conditions but used informal childcare only were therefore less likely to need childcare during school hours compared with those who met all the conditions. Just over a fifth (21 per cent) of the recipients who met the work and income conditions but used informal childcare only had a child under school age (Table 4.1). In contrast, over half of those who met all three conditions (55 per cent) had a child under school age. In addition, their exclusive use of informal childcare did not seem to have limited the number of hours these recipients

⁶ The number of eligible non-claimants used in the calculation included the estimated number of tax credit recipients who were eligible for but did not claim childcare element (based on the 2009 Panel Study), as well as an estimate (from the Family Resources Survey) of families who did not claim tax credits but would have been eligible for childcare element had they done so.

worked. Table 4.2 shows that these recipients did not work significantly fewer hours compared with those who met all three conditions.

Table 4.1 Family composition of different groups of recipients with children

	Met income and work condition¹ but used informal childcare only	Met all three conditions
	%	%
Number of dependent children		
One	52	42
Two or more	48	58
Total	100	100
Number of children below school age		
None	79	45
At least one	21	55
Total	100	100
<i>Base</i>	<i>144</i>	<i>144</i>

Base: Recipients who took part in the Panel Study, were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years.

¹ Work 16 hours or more a week (in couple families, both recipients have to work 16 hours or more a week except in cases where one of the recipients is incapacitated and receives a disability benefit or in hospital or prison).

Table 4.2 Number of hours worked by different groups of recipients with children

Number of hours worked	Met income and work condition¹ but used informal childcare only %	Met all three conditions %
Couples		
Both 30 hours or more	2	6
One 30 hours or more, one 16-30 hours	10	16
One 30 hours or more, one fewer than 16 hours	-	-
One 30 hours or more, one not working	1	1
Both 16-30 hours	3	3
One 16-30 hours, one fewer than 16 hours	-	-
One 16-30 hours, one not working	-	1
Both fewer than 16 hours	-	-
One fewer than 16 hours, one not working	-	-
Both not working	-	-
Lone parents		
30 hours or more	32	29
16-30 hours	52	44
Fewer than 16 hours	-	-
Not working	-	-
Total	100	100
<i>Base</i>	<i>144</i>	<i>144</i>

Base: Recipients who took part in the Panel Study, were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years.

¹ Work 16 hours or more a week (in couple families, both recipients have to work 16 hours or more a week except in cases where one of the recipients is incapacitated and receives a disability benefit or in hospital or prison).

Table 4.5 shows that the recipients who met the work and income conditions but used only informal childcare mostly used family members to look after their children. There is no significant difference in the types of informal childcare providers that recipients used between term time and in the holidays. About two-thirds used the children's grandparents (68 per cent), a quarter used their former partner/spouse and between a quarter and a fifth used another relative. Over one in ten used friends or neighbours or an older child in the family. Some of these recipients used more than one type of informal childcare.

Table 4.5 Types of childcare used by recipients who met the work and income conditions but used informal childcare only

	Term time %	School holidays %
The child's grandparent(s)	68	68
Ex-husband/wife/partner (the child's other parent who does not live in this household)	26	26
Another relative	22	24
A friend or neighbour	17	14
An older child in the family	14	14
<i>Base</i>	133	135

Base: Recipients who were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years and who met the work and income conditions but used informal childcare only.

Note: Column sums to more than 100 per cent because some recipients used more than one form of childcare.

The most common reasons for using informal childcare were:

- the quality of the care (55 per cent);
- low cost (44 per cent);
- convenient location (35 per cent); and
- convenient hours (32 per cent).

Only four per cent of recipients who met the work and income conditions but not the childcare condition chose to use only informal care because they could not find formal childcare. (Table 4.6)

Table 4.6 Recipients who met the work and income conditions but used informal childcare only - reasons for choosing to use informal childcare

	%
Quality of care provided	55
Cost	44
Location	35
Suitable hours	32
No places available at formal childcare providers	4
<i>Base</i>	<i>143</i>

Base: Recipients who were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years and who met the work and income conditions but used informal childcare only.

Note: Column do not sum to 100 per cent because customers could choose more than one reason.

The findings above indicate that simply increasing the provision of formal childcare may encourage only a minority of those who met the work and income condition to change from informal to formal childcare so as to benefit from the childcare element. This is because increasing provision is unlikely to persuade the half of this group who chose informal childcare on grounds of quality to switch to formal childcare. Likewise, increasing provision is also unlikely to encourage the 44 per cent of this group who chose informal childcare for its low cost to move to formal childcare. Nearly all the recipients who used informal childcare said that the informal childcare they used was free. Since the childcare element covers only a percentage of childcare costs, moving to formal childcare could result in an increase in childcare costs for this group despite the support provided by the childcare element. In addition,

4.3 Experience of taking up the childcare element

Information from an on-line survey of 200 parents carried out in 2009 by the Daycare Trust indicated that some parents found it difficult to cover the up-front payments or deposits required by their childcare provider (Bartholoneou et al, 2009). Despite the high take-up of the childcare element, some recipients may find it difficult to cover the up-front childcare payments because tax credits are paid in arrears. If that was the case, some recipients might be discouraged from claiming.

Table 4.7 shows that, among recipients who benefitted from the childcare element, over half said that they did not have to make upfront payments, while a third had to make upfront payments but did not have any difficulties making those payments. About one in seven (14 per cent) of the recipients who benefitted from the childcare element said that they had difficulties making upfront payments.

Table 4.7 Ease of paying deposit or upfront payment by household income

	Recipients benefitted from the childcare element
	%
Did not have to pay upfront payments	56
Did not have problems paying the upfront payment	30
Had difficulties paying the upfront payment	14
<i>Base</i>	<i>260</i>

Base: Recipients who were in a tax credits award in 2007/8, benefitted from the childcare element and agreed to HMRC linking the information from their interview to HMRC administrative data.

5. Claiming the correct amount of the childcare element

HMRC's error and fraud statistics from 2008-09 (HMRC 2010b) estimated that there were 325,000 cases of childcare-related error and fraud favouring the recipient out of a total of 448,000 families benefiting from the childcare element. This section examines the factors that were likely to increase the risk of a recipient getting an incorrect entitlement of the childcare element.

5.1 Potential causes of errors in awards for the childcare element

A number of factors can cause errors in the amount of the childcare element awarded.

- Awareness - A recipient may not know that he/she is obliged to give HMRC the details of the eligible childcare providers they use, the costs incurred as well as to report changes to those details.
- Decision making - A recipient may decide not to report all the changes to his/her childcare costs or arrangements.
- Difficulties with calculations - A recipient may have problems calculating his/her childcare costs or providing the childcare details required.
- HMRC error – HMRC may have incorrectly recorded some of the information the recipient has provided.

The factors above can be seen as risk factors that can lead to incorrect awards being calculated. The Panel Study did not explore the issues related to the HMRC errors but had information on the prevalence of the factors related to awareness of the obligations, decision making and difficulties with calculations. The study could therefore provide a means to assess the relative size of the first three risk factors. Sections 5.2 to 5.4 describe the prevalence of the three risk factors and section 5.5 compares the prevalence information in order to gauge the relative risks.

The discussion in the rest of this section focuses on the prevalence of the risk factors among the recipients who benefitted from the childcare element, that is, those who met the work, income and childcare conditions and had made a claim for the childcare element.⁷

⁷ To avoid recall error, we used tax credits administrative data to classify recipients by whether they benefitted from the childcare element or not. That involved linking the information recipients provided on the Panel Study to the tax credits administrative data. To safeguard data security, we asked recipients for their consent to carry out the data linking and 80 per cent gave us permission. The discussion in sections 5.2 to 5.4 is therefore based only on those recipients who agreed to data linking.

5.2 Awareness of the requirement to report changes in childcare costs

Recipients' awareness of the requirement to report changes in childcare costs was high. Not surprisingly, recipients who benefitted from the childcare element were more likely to know about the requirement (97 per cent) compared with other recipients with a child aged under 16 years (90 per cent). (Table 5.1)

Table 5.1 Awareness about the requirement to report changes in childcare costs

	Recipients with at least one child aged under 16 years:		
	Benefitted from the childcare element ^{1,2}	Did not get the childcare element ¹	All ³
	%	%	%
Knew that changes in childcare costs have to be reported	97	90	91
Did not know that changes in childcare costs have to be reported	3	10	9
<i>Base</i>	297	2064	2825

Base: Recipients who were in a tax credits award in 2007/8 and agreed to answer the self-completion section of the interview.

¹ Includes only recipients who agreed to HMRC linking the information from their interview to HMRC administrative data.

² Recipients who benefitted from the childcare element were those who met the work, income and childcare conditions for claiming the childcare element **and** had made a claim for it.

³ Includes those who did not agree to HMRC linking the information from their interview to HMRC administrative data.

Recipients who did not have a child aged under 16 years were probably less interested in the requirement for recipients to report changes that relate to the children in the family. As a result, it is not surprising that those who did not have children aged under 16 years were less likely to know that childcare changes had to be reported to HMRC (86 per cent compared with 91 per cent). (Table 5.2)

Table 5.2 Comparison of the knowledge about the requirement to report changes in childcare costs between recipients with and without children

	Recipients with at least one child aged under 16 years	Other recipients	All recipients
	%	%	%
Knew that changes in childcare costs have to be reported	91	86	89
Did not know that changes in childcare costs have to be reported	9	14	11
<i>Base</i>	2825	435	3262

Base: Recipients who were in a tax credits award in 2007/8 and agreed to answer the self-completion section of the interview.

5.3 Decisions about reporting changes in childcare costs

Given this very high awareness of the need to report changes in childcare costs, it might be expected that there would be very high levels of reporting of changes in childcare costs among those who experienced them.

However, the proportion who had experienced and reported changes in circumstances was lower than the proportion who were aware. Three-quarters of recipients who had had a change in childcare costs in the 12 months before their interview in 2009 reported the change.

Those who benefitted from the childcare element were more likely to report the change than those who did not get the childcare element (85 per cent compared with 62 per cent). That means that over 15 per cent of those who benefitted from the childcare element and who had experienced a change in childcare cost did not report it. However, information from the Panel Study cannot determine the percentage of recipients who have exposed themselves to the risk of getting an incorrect childcare element. Recipients have to report only changes of over £10 week lasting for at least four weeks but the Panel Study could not go into so much detail and asked only about changes in childcare costs in general. Therefore, some of those recipients who did not report their childcare costs may be correct in not doing so.

Table 5.3 Prevalence of reporting changes to childcare costs in the twelve months before the interview

Recipients with at least one child aged under 16 years:			
	Benefitted from the childcare element ^{1,2}	Did not get the childcare element ¹	All ³
	%	%	%
Childcare costs had changed and reported the change	85	62	76
Childcare costs had changed but did not report the change	15	38	24
<i>Base</i>	136	98	284

Base: Recipients who were in a tax credits award in 2007/8, responsible for at least one child aged under 16 years and whose childcare costs changed in the twelve months before the interview.

¹ Includes only recipients who agreed to HMRC linking the information from their interview to HMRC administrative data.

² Recipients who benefitted from the childcare element were those who met the work, income and childcare conditions for claiming the childcare element **and** had made a claim for it.

³ Includes those who did not agree to HMRC linking the information from their interview to HMRC administrative data.

Recipients gave a range of reasons for not reporting changes in childcare costs and some gave more than one reason. The most commonly cited reason was the belief that the change would not affect the tax credits award (50 per cent); the majority of those who gave this reason were not benefiting from the childcare element. The second and third most common reasons were that the recipient was too busy or simply did not get round to reporting the change (26 per cent) and that the recipient did not think about reporting the change when it happened (10 per cent). Only a small percentage said that they did not report a change because it was not permanent (4 per cent) and even smaller percentages said that they were not planning to report the change (2 per cent) or that HMRC had the information from another source (1 per cent). (Table 5.4)

Table 5.4 Reason for not reporting changes in childcare costs

	%
Would not affect the award	50
Did not get round to reporting the change (including too busy)	26
Did not think about reporting the change	10
The change was not a permanent change	4
Did not plan to report the change	2
HMRC should have the information from another source	1
Other reasons	17
<i>Base</i>	<i>68</i>

Base: Recipients who were in a tax credits award in 2007/8 whose childcare costs had changed in the year before the interview but did not report the change.

Note: Columns do not sum to 100 per cent because customers could choose more than one reason.

Most recipients were prompt with reporting the change. Over six in ten recipients (66 per cent) who benefitted from the childcare element and who reported a change in childcare costs stated that they did so within a week of the change. A further two in ten reported the change between a week and a month. However a notable minority took between one and three months (10 per cent) or three months or more (3 per cent) and therefore put themselves at risk of getting an incorrect award. There was no significant difference in the time lag between those who benefitted from the childcare element and other recipients. (Table 5.5)

Table 5.5 Time lag between the change in childcare costs and reporting

	Recipients with at least one child aged under 16 years:		
	Benefitted from the childcare element ^{1,2}	Did not get the childcare element ¹	All ³
	%	%	%
Less than one week	66	62	62
More than one week but within one month	22	22	20
More than one month but within three months	10	7	9
Three months or more	3	10	9
<i>Base</i>	<i>116</i>	<i>60</i>	<i>212</i>

Base: Recipients who were in a tax credits award in 2007/8, responsible for at least one child aged under 16 years and who reported changes in childcare costs.

¹ Includes only recipients who agreed to HMRC linking the information from their interview to HMRC administrative data.

² Recipients who benefitted from the childcare element were those who met the work, income and childcare conditions for claiming the childcare element **and** had made a claim for it.

³ Includes those who did not agree to HMRC linking the information from their interview to HMRC administrative data.

5.4 Problems with calculating childcare costs or providing information about childcare

5.4.1 Recipients' perceived difficulties with calculating childcare costs

Qualitative studies have highlighted that some recipients were unable to carry out the calculations required to determine their average weekly childcare costs (Pereira, 2009 and Turley and Dickens, 2009). Findings from the 2009 Panel Study have revealed nearly a fifth (19 per cent) of recipients who made a claim for the childcare element in 2007 and 2008 said that they had had difficulty calculating their childcare costs when they made their claim.

Table 5.6 Perceived difficulties with calculating childcare costs when making a new claim for tax credits in 2007 and 2008

	%
Had difficulties calculating costs when making a new claim	19
No difficulties calculating costs when making a new claim	81
<i>Base</i>	<i>84</i>

Base: Recipients who were in a tax credits award in 2007/8, responsible for at least one child aged under 16 years and had made a new claim for tax credits in 2007 or 2008.

Indicative information suggested that the main difficulties were the complexity of the calculation and complications associated with variations in childcare costs from week to week or between term time and the school holidays.⁸ Findings from qualitative research (Pereira, 2009 and Turley and Dickens, 2009) echo this. The main findings that have emerged from qualitative research were as follows:

- Some recipients assumed that the term 'average' meant 'roughly' not the arithmetic average.
- When they worked out their average weekly costs, some recipients divided the annual childcare cost by the number of weeks in which they had used childcare rather than the number of weeks in a year.
- Some recipients entered the cost paid per week but did not take into account the weeks the childcare was not used or when costs fluctuated.
- Some recipients were unsure how to calculate the average in relation to the tax year cycle when childcare costs changed in relation to the school year cycle.
- Recipients who had relatively complex childcare arrangements tended to have more problems providing the required childcare information. The groups who had particular problems with reporting childcare costs included:
 - Recipients whose childcare arrangements were not consistent throughout the year.
 - Those whose childcare costs varied over the course of a year.
 - Families who used multiple providers.
 - Working recipients who used childcare vouchers or whose costs were partly or fully covered by their employer.
 - Families who received the Early Years Education Grant, a grant which provided 12.5 hours of free early years education for 38 weeks of the year.⁹

The sections below use findings from the 2009 Panel Study to quantify the size of the groups that have particular problems with reporting childcare costs.

5.4.2 Consistency in childcare arrangements and costs

The first of the factors that can cause complexities in a recipient's childcare arrangements is the consistency of arrangements. Table 5.7 shows that more recipients had inconsistent than consistent childcare arrangements and there was no difference in the complexity of the arrangement among recipients who benefited from the childcare element and those who did not get it. Over half of recipients who benefitted from the childcare element (57 per cent) used different childcare arrangements in term time compared with the holidays while about four in ten used the same arrangements. The 57 per cent who used different arrangements comprised of:

- 28 per cent who used different providers in term time compared with the school holidays; and
- 29 per cent who used the same provider but different hours in the holidays compared with term time.

⁸ Figures showing the prevalence of the types of problems recipients had with calculating childcare costs are not available because the number of recipients reporting problems was not large enough to provide reliable percentages.

⁹ The Early Years Education Grant is provided by local authorities to parents of children aged between three and four years. The number of hours of early years education provided through the grant increased to 15 hours in September 2010.

Those complexities could increase the chances of making errors in the calculation of childcare costs and thus could raise the risk of getting an incorrect entitlement.

Table 5.7 Childcare arrangements between term time and school holidays

	Recipients who benefitted from the childcare element^{1,2} %	Recipients who did not get the childcare element¹ %	All³ %
Used different childcare arrangements:	57	56	56
Used different providers during term and holiday time	28	29	29
Used same provider(s) but different hours in the holidays	29	27	27
Used same provider(s) and hours in term time and during the holidays	43	44	44
<i>Base</i>	<i>281</i>	<i>1036</i>	<i>1538</i>

Base: Customers who were responsible for at least one child aged 16 years or under and mentioned that they used childcare.

¹ Includes recipients who agreed to HMRC linking the information from their interview to HMRC admin data only.

² Recipients who benefitted from the childcare element were those who met the work, income and childcare conditions for claiming the childcare element **and** had made a claim for it.

³ Includes those who did not agree to HMRC linking the information from their interview to HMRC administrative data.

5.4.3 The use of more than one formal childcare provider

Qualitative research (Pereira, 2009) has revealed that those who used more than one provider tended to have more difficulties reporting childcare costs. The 2009 Panel Study showed that about a quarter of recipients who used formal childcare used only one formal provider so a quarter of recipients were more likely to have an increased risk of having problems with reporting childcare costs (Table 5.8). Recipients who benefitted from the childcare element were more likely to use more than one type of formal childcare provider (30 per cent compared with 22 per cent among recipients who did not receive the childcare element).

Table 5.8 Number of types of formal childcare providers used

	Recipients who benefitted from the childcare element ^{1,2} %	Recipients who did not get the childcare element ¹ %	All ³ %
One	70	78	74
More than one:			
Two	23	19	20
Three	6	3	4
Four	2	0	1
<i>Base</i>	<i>260</i>	<i>423</i>	<i>798</i>

Base: Recipients who were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years and used formal childcare for at least some of the time.

¹ Includes only those recipients who agreed to HMRC linking the information from their interview to HMRC administrative data only.

² Recipients who benefitted from the childcare element were those who met the work, income and childcare conditions for claiming the childcare element **and** had made a claim for it.

³ Includes those who did not agree to HMRC linking the information from their interview to HMRC administrative data.

5.4.4 Use of employer-supported childcare

Pereira (2009) found that recipients participating in qualitative research on the childcare element had very little awareness of how to integrate employer-supported childcare vouchers into their calculation of childcare costs. However, the use of employer-supported childcare either through childcare vouchers or workplace nurseries was not common. Fewer than one in ten of the recipients who benefitted from the childcare element used employer-supported childcare so the risk of getting an error in the childcare element award through the use of employer-supported childcare was relatively low. (Table 5.9)

Table 5.9 Use of employer-supported childcare by whether got the childcare element

	Recipients who benefitted from the childcare element ^{1, 2} %	Recipients who did not get the childcare element ¹ %	All ³ %
Neither employer nor partner's employer provided help with childcare	77	84	84
Employer or partner's employer provided help with childcare but did not take it up	14	11	12
Used employer-supported childcare	9	4	4
Total	100	100	100
<i>Base</i>	<i>278</i>	<i>878</i>	<i>1364</i>

Base: Recipients who took part in the Panel Study, were in a tax credits award in 2007/8, were responsible for at least one child aged under 16 years and in work or with a partner who was in work.

¹ Includes recipients who agreed to HMRC linking the information from their interview to HMRC admin data only.

² Recipients who benefitted from the childcare element were those who met the work, income and childcare conditions for claiming the childcare element **and** had made a claim for it.

³ Includes those who did not agree to HMRC linking the information from their interview to HMRC administrative data.

5.4.4 The Early Years Education Grant

The final feature that can add complexity to a recipient's claim for the childcare element was the use of the Early Years Education Grant. Recipients' take-up of the grant was covered in the 2010 but not the 2009 Panel Study. Findings on recipients' use of the grant will be presented with other findings from that study.

5.5 The relative size of the risk factors that can lead to errors in entitlements

Section 5.1 highlighted a number of risk factors associated with errors in awards for the childcare element entitlement and sections 5.2 to 5.4 described the prevalence of each of the three risk factors on which the Panel Study has information, namely, lack of awareness of the requirement to report changes in childcare costs, decision not to report changes in childcare costs and problems with calculating childcare costs. A comparison of the prevalence figures presented above suggests that:

- The risks associated with the lack of awareness of the requirement to report changes in childcare costs were relatively low. A large majority of recipients were aware of the requirement to report changes in childcare costs to HMRC.
- Not reporting changes in childcare costs was likely to be a contributor to errors in awards but the Panel Study did not have sufficiently detailed information to determine the level of this risk.

- Although qualitative research has revealed that some recipients who used employer-supported childcare were unclear about how to take account of that support when reporting childcare costs, the risk of errors in awards brought on by problems with reporting the costs of employer-supported childcare was relatively low; only a small percentage of recipients used employer-supported childcare.
- Problems with calculating childcare costs were likely to be the main risk factor for introducing errors into awards. A fifth of recipients who applied for the childcare element between 2007 and 2008 said that they had problems with calculating their childcare costs when they made their claim. In addition, it was usual for recipients to have complex childcare arrangements, such as, using different providers for term time and in the holidays, using the same providers but different hours during term time and in the holidays, or using more than one formal provider. A majority of recipients therefore had to carry out complicated calculations to work out their childcare costs and can further aggravate the risks of getting errors into entitlements.

6. Conclusion

This report presents findings on the use of childcare by recipients of tax credits and their experience of claiming the childcare element of WTC. The discussion and commentary have demonstrated that the information can be used to explore the take-up of the childcare element and to identify the key risk factors for introducing errors into entitlements.

Section 4 highlighted that among the recipients who were not eligible for the childcare element because they used only informal childcare, only a small percentage chose to use informal childcare because there were no formal childcare places available. The factors that drove those recipients to choose informal childcare were the quality and the low cost of informal childcare. These findings indicate that increasing the provision of formal childcare is unlikely to persuade a large percentage of that group to take-up formal childcare and become eligible to claim the childcare element.

A comparison of the prevalence of the risk factors for getting an incorrect entitlement of the childcare element in section 5 indicated that the main risk factor was having problems with calculating childcare costs which was often brought on by having complex childcare arrangements.

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Appendix A – Table conventions

Tables are percentaged as indicated by the percentage signs. The percentages in the tables generally sum to 100, however there may be some instances where percentages will not sum to exactly 100% because of rounding.

- Base The weighted count is the base presented in all tables.
- 0 Percentage value is greater than 0, but less than 0.5, which is rounded down.
- Indicates that there were no responses in the category.
- * Figures are based on less than 25 cases and are not robust, therefore results not presented in this report.

Unless stated otherwise, all the differences cited in the text or presented in the charts are statistically significant at the 0.05 level.

The information presented in this report uses data from the Panel Study that has been statistically weighted to take account of the technical issues such as sample design.

Appendix B – Definition of formal and informal childcare

The following forms of childcare are defined as formal childcare in this report:

- Nursery school, nursery class or reception class
- Special day school or nursery or unit for children with special educational needs
- Day Nursery
- Playgroup or pre-school
- Childminder
- Nanny or au pair or childcarer in the home
- Baby-sitter who came to home
- Breakfast club or After school club/activities
- Holiday club/scheme

The following forms of childcare are defined as informal childcare in this report:

- Ex-husband/wife/partner (the child's non resident parent)
- Grandparents
- The child's older brother/sister
- Another relative
- A friend or neighbour