

# Tax Free Childcare: Consultation on design and operation

## About The Children's Society

The Children's Society supports nearly 50,000 children and young people every year through our specialist services and children's centres. We believe in achieving a better childhood for every child but have a particular focus on children who have nowhere else to turn, such as children living in poverty, young refugees, children at risk on the streets, disabled children and children in trouble with the law. We seek to give a voice to children and young people and influence policy and practice so they have a better chance in life.

The Children's Society runs a network of around 45 Sure Start Children's Centres, including a number providing nursery provision. We believe that high quality, affordable childcare plays a crucial role in reducing child poverty by helping parents make the move into work. We welcome the opportunity to raise our views about how Tax Free Childcare, and the additional support to be provided for low income working families in Universal Credit, can best be used to support these objectives.

Please contact Sam Royston, Policy Adviser, on 0207 841 4480 or at [sam.royston@childrenssociety.org.uk](mailto:sam.royston@childrenssociety.org.uk), if you require further information on any of the issues raised.

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

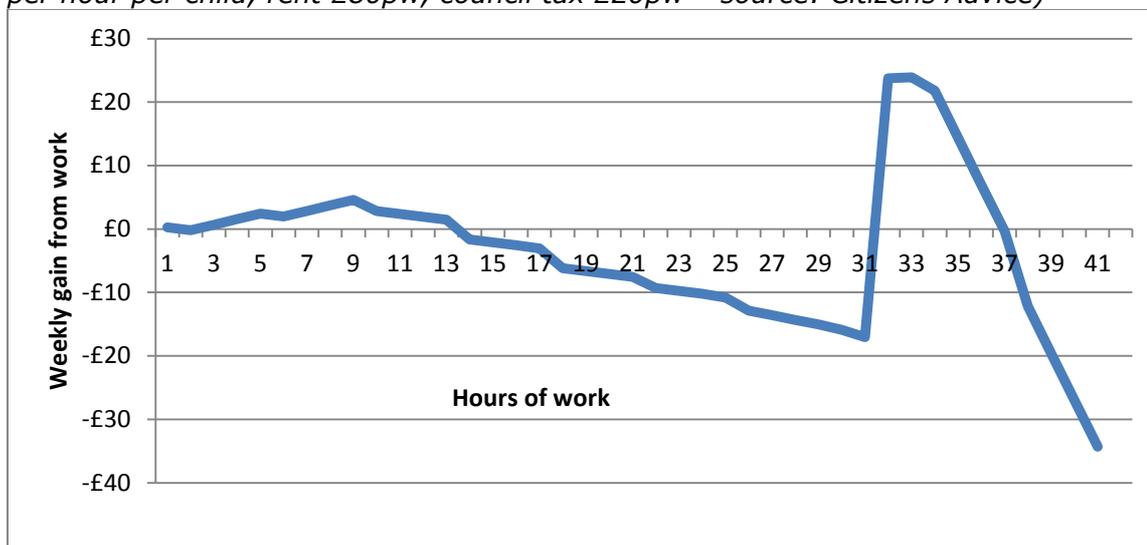
There are two key groups of families that could face problems if incomes fluctuate from month to month. (1) families with one or more parents earning around the income tax threshold and (2) families with household circumstances or earnings which change so as to take them in or out of Universal Credit (UC) entitlement (or to increase/reduce their UC entitlement to the point where they would be worse/better off claiming Tax Free Childcare [TFC] instead).

### **i. Families with one or more parents earning around the income tax threshold**

The current proposals limit the additional support in UC to those families where all parents earn in excess of the personal allowance for income tax.

The graph below shows the weekly gains from working for the second parent in a couple, assuming they have two children (aged 1 and 3), requiring childcare if they decide to move into work paying £6.31 per hour.

**Figure 1. Weekly gain from work for second earner in a couple on UC with two children aged 1 and 3** (first earner earns £200 per week, second earner earns £6.31 per hour, childcare costs £4.44 per hour per child, rent £80pw, council tax £20pw – source: Citizens Advice)



The graph shows that initial gains at very low hours of work (which are largely the result of the free childcare offer for their 3 year old) are quickly lost in entirety as hours increase.

If the parent is able to work 31 hours per week they gain overall because their assistance with childcare costs increases to cover 85%. Unless a parent in the situation above is able to guarantee that they can work between 31 and 37 hours per week, then they cannot be certain that they are better off in work at all.

UC entitlement will be determined on a monthly basis. However, not all parents are able to say at the start of the month, what their earnings will be for the month ahead – this may mean they do not know how much they will gain from that month's work until the end of the month.

This "two tier" system of support with childcare costs for families on UC adds considerable complexity to the decisions that parent needs to make about whether or not they are better off in work. Many parents will be caught in a situation where they are unsure of how much help with childcare they will receive, nor, in some cases, of whether they will be better off from work at all.

## **ii. Families with household circumstances or earnings which change so as to take them in/out of UC entitlement**

Where household circumstances or income change, UC entitlement may be reduced or stopped altogether. In such circumstances, households with childcare costs are likely to need to move their source of support from UC to the TFC offer.

Since households cannot claim support with their childcare costs through UC and through the TFC offer at the same time, families may be affected by this even if they

would be entitled to some level of UC. This is because their TFC entitlement may be higher than their UC entitlement, making them better off if they stop claiming UC altogether and move onto TFC.

The reverse may also be the case (TFC recipients have a change in circumstances meaning that they are better off on UC.)

Households with repeated income fluctuations or changes of household circumstances which affect their UC award may need to repeatedly move between the two systems.

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

Whilst we greatly welcome the provision of additional support with childcare costs for many families on UC, we are deeply concerned that limiting the additional support for UC to families where all parents earn in excess of the income tax threshold will create an overly complex system which will fail to support those families that are most in need.

The proposals are overly complex as stated in the response to question 31 above.

The proposals also fail to adequately target support at families that need extra help the most as there is no additional support for the lowest income working families (those with someone earning below the personal allowance threshold for income tax).

These families are the ones who are most likely to lose out from the move to UC. Currently around 100,000 families with childcare costs receive support through tax credits and housing benefit (worth about 20% of their childcare costs) meaning they can currently get up to 90% of their childcare costs covered. These families are typically living on a very low income so are particularly likely to have earnings which are too low to get help through the additional UC provision. As a result, many of these families would see their help with childcare reduced from 90% to just 70% under UC.

**Recommendation: The additional support with childcare costs should be extended to the lowest income working families in receipt of UC, who would miss out on the basis of the current proposals.**

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

It is important to ensure that for people who have to take a period of absence from work as a result of sickness, maternity or adoption, are able to make the return to work as simple as possible.

Even if receipt of these benefits were treated as earnings, many of these families would not have earnings which are sufficient to take them above the income threshold which provides entitlement to 85% support within UC.

These families are likely to find it particularly hard to afford to continue their childcare. It will be considerably harder for them to return to work if they have to remove their child from childcare as they are likely to lose their place.

Rules for UC also provide for a childcare element to be paid to those with an offer of paid work due to start before the end of their next monthly assessment period for UC. They also provide for help with childcare costs to run-on for a month after the parent leaves work.

**Recommendation: If a parent is shortly going to begin a new job which will meet the requirements for 85% childcare support, or is on sick leave or maternity leave from a job which met those requirements, or is leaving a job which met those requirements, they should receive the additional support component.**

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

It will be crucial for families to be clear about how much support with childcare costs they will receive each month and how this will affect their overall income.

Having a “two-tier” system for support with childcare costs in UC will make this extremely difficult, since, as illustrated in figure 1, small changes in earnings can have a major impact on household income. Parents will need to be clear about this so that they are able to plan their work in a way which ensures that work always pays.

This provides an additional reason why childcare support should be provided at 85% for all families in receipt of UC.

**35 Is offering a choice between UC and TFC the best approach without driving up costs to the Government or increasing complexity for claimants? Should there be a limit on the number of times that a parent can switch?**

Offering a choice between UC and TFC will inevitably create some complexity for claimants. As discussed previously, claimants will have to make a choice between the two systems, which in some circumstances, could be a very difficult decision to make.

In addition, some parents will inevitably misunderstand the rules, and claim both UC and TFC, leading to overpayments.

Instead of providing 85% of childcare costs to UC claimants, one possible alternative would be to extend the TFC offer to those on UC. This would mean that claimants would receive 70% of childcare costs through UC, plus, up to 20% of childcare costs through TFC.

This would have a number of advantages over the current proposals:

**i. Simplification of the interaction with UC**

Providing TFC to households in receipt of UC could considerably simplify the interaction between the two schemes. In particular, it would mean that families no longer need to make a decision between claiming UC and claiming TFC, or to move between the two schemes as household income or circumstances change.

Instead UC would gradually taper away with earnings increases until it has been lost in entirety, however, TFC would continue to be received in full as a separate entitlement.

Providing TFC to those who would miss out on the additional childcare support in current proposals would help to ensure a fairer system which supports those on the lowest incomes.

**ii. It would help to reduce error and overpayments**

Enabling households in receipt of UC to also receive TFC would ensure that families would not face overpayments as a result of wrongly claiming support with childcare from both schemes.

**iii. It would help to move families off benefits**

Providing TFC to families in receipt of UC instead of providing an enhanced childcare component of UC, would help to move people off benefits. This is because a lower childcare component would reduce maximum entitlement to UC, which would also ensure that entitlement tapers away at a lower income threshold.

**iv. It would provide a more aligned system between those in receipt of benefits and those not in receipt of benefits.**

UC is designed to provide as close a relationship between life on and off benefits as possible. It is for this reason that payments are to be made monthly, and support with housing costs is to be paid to the claimant rather than direct to the landlord.

**Recommendation: The government should consider whether providing TFC to families on UC could work to achieve a simpler system which is fairer to families who need support the most**

**36. How can the Government best design the process to ensure that the journey off UC is as smooth as possible?**

As per the previous recommendation - the government should consider whether providing TFC to families on UC could work to achieve a simpler system which is fairer to families who need support the most

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

On the current proposals, working families with childcare costs and no UC entitlement will need to know whether and how to claim TFC instead.

Households on UC will need to know that they cannot receive both UC and TFC. As outlined above, some families are likely to be unaware that they are unable to receive both, and will receive overpayments as a result. Clear communications are essential to minimise these errors.

Families with a low level of UC entitlement may be better off receiving support through the TFC offer, rather than through UC. In these cases a better off calculator will be required in order that they know which system provides better support for them.