**House of Commons Public Bill Committee – Childcare Bill 2015-16**

**Written evidence from the Low Incomes Tax Reform Group (LITRG)**

## 1 Executive summary

1.1 We welcome the opportunity to provide evidence to the House of Commons Public Bill Committee on the Childcare Bill 2015-16 ('The Bill').

1.2 Whilst we are wholly supportive of extending free childcare to 30 hours, and also of the Government support for childcare through the tax-free childcare (TFC) scheme, the childcare landscape that results will be decidedly complex. It is therefore critical that users are given complete guidance that not only explains the rules of each childcare scheme but also gives enough information for them to choose between schemes or to understand how they interact.

1.3 We are particularly interested in the potential interactions between the proposals in the Bill and other childcare schemes including TFC, the childcare element of working tax credit (WTC) and the childcare element of universal credit (UC).

1.4 We are concerned about the potential impact of increases, announced in the Autumn Statement 2015, in minimum income limits for both extended provision of free childcare and the delayed TFC scheme.

1.4.1 We are particularly concerned about the adverse effect these changes will have on parents who are self-employed and those who are employed on zero-hours contracts. While parents who are paid a higher hourly rate may indeed qualify for support by working a low number of hours per week, those who earn basic statutory hourly rates or less will effectively have to work more hours to qualify for the same type of support. Those extra hours may not be available to them. It is important to ensure that enough flexibility is built into the regulations

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to allow people with fluctuating hours to have some certainty that their childcare arrangements can continue during intervening periods when they are unable to muster the requisite number of hours on the low wages they can command.

1.5 The Bill itself provides a framework for the 30-hour free childcare offering, but the majority of detail is left to regulations which may not be available for some time.

## 2 About Us

2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

2.2 LITRG works extensively with HM Revenue &Customs and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

## 3 Specific comments

### 3.1 *Revised income limits*

3.1.1 The Childcare Bill provides that the Secretary of State must secure that free childcare is available for qualifying childcare of working parents for 30 hours in each of 38 weeks (or for an equivalent period) in any year. This represents an extension of the existing provision, which is equivalent to 15 hours a week for eligible three and four year olds and disadvantaged two year olds.

3.1.2 The Government's intention is that eligibility for 30 hours free childcare should broadly align with the TFC system.[1] The Bill does not define who counts as a "working" parent, instead this is left to Regulations to define.

3.1.3 In the Autumn Statement, the Government announced that an upper limit of £100,000 per parent would be introduced for both the extended free childcare entitlement and the TFC scheme (reducing the current £150,000 limit in TFC).

3.1.4 The current TFC scheme has a minimum weekly income level per parent equivalent to 8 hours at the national minimum wage (NMW). However, following the Autumn Statement this will be increased to 16 hours at the national living wage for both TFC and the extended childcare provision.

3.1.5 The policy costings paper accompanying the Autumn Statement confirmed that the minimum income requirement for TFC would be aligned to the national living wage (for those aged 25 or over) or the NMW (for those under 25). We would welcome confirmation that the same approach will be adopted for the extended free childcare provision given that people under 25 will not be eligible for the national living wage.

3.2 ***Impacts***

3.2.1 Given that much of the detail around the new threshold is to be left to Regulations, which may not be available for some time, there are a number of unanswered questions. At this stage it is not clear how aligned the definitions will be between the free childcare provision and the TFC scheme in respect of the minimum earnings level. We strongly recommend that the schemes are aligned unless there is a pressing need for differences.

3.2.2 The TFC scheme is based on parents confirming their expected income is above the minimum required for the next three month entitlement period. It is not yet clear whether the threshold for free childcare provision will be based on expected or actual income or over what period it will be assessed.

3.2.3 We have some concerns about the use of expected incomes, in particular the consequences if someone makes an estimate which with hindsight turns out to be inaccurate. It is important that parents are given adequate guidance on how to estimate their income and what happens if it turns out to be wrong. If the free childcare provision uses a similar system of expected incomes this is something that needs to be given consideration.

3.2.4 Whilst we have some understanding of why the minimum threshold has been increased, we are concerned that it could exclude some who are seeking to move back into work. Use of a

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/465446/Childcare_Bill_Policy_statement.pdf

minimum income requirement principle, rather than a clear minimum hours requirement principle, has the potential to work against those at the lower end of the pay-scale.

3.2.5 For parents who are paid a higher hourly rate, they may indeed qualify for this support by working a low number of hours per week as they edge into work (or remain on low hours if they so choose) whereas those who earn basic statutory hourly rates or less will effectively have to work more hours to qualify for the same type of support. Indeed, those who find themselves working to a 'zero-hours' contract may find they cannot take advantage of this extension if their hours are unpredictable. It is therefore important to ensure that enough flexibility is built into the regulations to allow people with fluctuating hours to have some certainty.

3.2.6 We are also concerned about the impact of the increased minimum earnings threshold on parents who are self-employed. If a business has a difficult year, or has fluctuating income because of the timing of major expenditure, critical childcare support may be withdrawn. Much will depend on the period of assessment to be used, which is not set out in the Bill.

3.2.7 We raised similar issues when the TFC scheme legislation was being developed. In the draft eligibility regulations, a self-employed person could only qualify if their self-employed earnings (as defined for TFC purposes) were expected to meet the minimum earnings level for the three month entitlement period. However, this meant that self-employed parents with fluctuating incomes (for example farmers) may not have access to support consistently.

3.2.8 As a result of these concerns, HMRC introduced an extra provision to allow self-employed parents to qualify if their expected income for the tax year was above four times the relevant threshold (the relevant threshold for TFC being set for a three month period).

3.2.9 Whilst this change is helpful, it does not go far enough to protect self-employed workers who may have a particularly bad period or who have a large business expense in a particular period.

3.2.10 We strongly urge HMRC to consider allowing the self-employed, for both schemes, to qualify for the extended provision of free childcare through an hours-based requirement.

3.3 ***Guidance and information***

3.3.1 In our evidence to your Committee on the Childcare Payments Bill (which introduced TFC) we outlined a number of concerns about the provision of guidance and information regarding the TFC scheme but more importantly the interaction of the TFC scheme with other childcare provision.

3.3.2 Whilst we are wholly supportive of extending free childcare to 30 hours, this extension adds yet another complication to the already complex childcare landscape.

3.3.3 It is critical that users are given complete guidance that not only explains the rules of each childcare scheme but also gives enough information for them to choose between schemes or to understand how they interact. Such guidance needs to be supported by telephone support with advisers who are able to answer questions in more difficult cases.

LITRG
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