HM Treasury

Delivering Tax-Free Childcare:

the Government's response to the consultation on design and operation

March 2014

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Foreword

This Government will always support families. We understand the pressures on families' budgets and the demands that make it hard for parents to decide whether to stay at home or go out to work. This decision is a personal one, but parents should not be deterred from returning to work by the high cost of childcare.

We have already taken radical action to support hard-working families. Personal allowance increases under this Government will be worth over £700 a year in cash terms to a typical basic rate taxpayer; we have frozen fuel duty for the remainder of parliament, so that from next month pump prices will be 16 pence per litre lower than under the last Government's plans. And we're reducing taxes on jobs so that more people can find work. Employment is now at record levels, and there are more women in work than ever before.

As part of our long-term economic plan, last year we announced the introduction of Tax-Free Childcare for working families, to support parents in the decision to go out to work if they want to and provide security for their families. This major new scheme will support working families by giving support equivalent to basic rate tax relief on money spent on childcare.

We have engaged in a thorough consultation with a wide range of parents and stakeholders – those who know the childcare system best. Parents told us they want to access the new scheme as quickly as possible. Tax-Free Childcare will be launched in autumn 2015 and rolled out to all eligible families with children under 12 within the first year of the scheme's operation, instead of just to under 5s in the first year. This will deliver support much more quickly, with the scheme open to around 1.9 million working families within the first year. We have increased the cap, so that parents can now receive up to £2,000 per child, instead of the £1,200 previously proposed. We will deliver a smooth and simple user experience, with a single point of contact for parents to register for the scheme, make payments into their account, and arrange payments to their childcare provider.

As well as introducing Tax-Free Childcare, we are expanding support for those on low incomes. Parents in receipt of Working Tax Credit can already claim 70 per cent of their childcare costs. We announced at Budget 2013 that we are allocating a further £200 million per year to increase the childcare support available under Universal Credit for families where both parents, or a single parent, pay income tax. The Government is now going further and today announces it will raise the proportion to 85 per cent for everyone in Universal Credit. In line with the principles of the welfare cap, offsetting savings to fund this expansion will be found from within the Universal Credit programme. Further details will be set out at Autumn Statement.

We have also extended the offer of free nursery care for three and four year olds to 15 hours a week – and introduced free nursery care for the most disadvantaged two-year olds.

The introduction of Tax-Free Childcare builds on the £5 billion per year the Government already spends on early education and childcare. The Government is proud that despite inheriting the biggest budget deficit since the second world war, it is possible to take these vital steps to keep costs down for working families. And to help ensure that every child has the best possible start in life.

George Osborne
Chancellor of the Exchequer

Danny Alexander
Chief Secretary to the Treasury

Executive summary

One of the biggest challenges that many working families face is the cost of childcare. Therefore, last year the Government announced its intention to introduce Tax-Free Childcare. This new scheme will offer working families 20 per cent support towards qualifying childcare costs – the equivalent of basic rate tax relief. The scheme will be operated through online childcare accounts and will be introduced in autumn 2015.

In August 2013 the Government published a consultation document, seeking views on the design and operation of Tax-Free Childcare. The Government has engaged extensively with a wide range of stakeholders including families and their representative groups, childcare providers, employers and existing childcare voucher providers. The Government also commissioned social research amongst parents and childcare providers and received over 35,000 responses to online questionnaires for parents, childcare providers and employers.

Stakeholders – particularly parents – welcome Tax-Free Childcare. This is especially so for those who will have access to support with childcare costs for the first time, such as the self-employed and those working for employers who do not offer the existing scheme, Employer-Supported Childcare. Indeed their most consistent message was that they want the support to be rolled out as quickly as possible.

The Government can announce that Tax-Free Childcare will be introduced for children under 12 within the first year of the scheme's operation. This is significantly faster than previously announced, where parents of children under 12 would have gradually qualified for the scheme over a seven-year period. The Government will set out further details of the precise rollout of Tax-Free Childcare in due course, and in good time for parents to factor in to their childcare plans.

Parents and other stakeholders also told us that the proposed annual cap on Government support of £1,200 per child – the equivalent of basic rate tax relief on childcare costs up to £6,000 – would mean that many parents would not receive 20 per cent support, as their childcare costs exceed £6,000. The Government is therefore increasing the cap to £2,000 per child; that is 20 per cent support on childcare costs up to £10,000.

In order for Tax-Free Childcare to be effective, respondents told the Government that it must be simple for parents to operate and flexible to the changing demands of childcare. Parents must be able to easily register for the scheme and open a childcare account; pay in money when they want to and receive Government 'top-ups' in a timely fashion; know that their money is being held securely; and spend the money on qualifying childcare at a time of their choosing.

Tax-Free Childcare will deliver all of these features through user-friendly childcare accounts. In particular:

- Tax-Free Childcare will be easily accessible via online accounts, with assisted approaches available for those who cannot access the internet;
- multiple people or parties will be able to pay into childcare accounts. This will enable all parents to make contributions, as well as giving other family members or parents' employers the opportunity to contribute;

- parents will be able to build up balances in their childcare accounts, for example to use over the summer holidays;
- parents will be able to withdraw money from their childcare account, should they wish to do so, with their contributions returned to them, and Government top-ups returned to the Government; and
- parents will not pay fees.

After considering the results of the consultation, the Government has decided that HM Revenue & Customs (HMRC) will deliver Tax-Free Childcare in partnership with National Savings and Investments (NS&I). This will provide parents with a smooth and simple customer experience. They will not be required to choose between, negotiate with or pay fees to account providers. They will instead engage with the Government as a single point of contact to register for the scheme, make payments into their account, and arrange payments to their childcare provider(s). Parents will also have absolute confidence that money they pay into their account is secure, as it will be Government-backed.

Parents will not be required to report changes in their personal circumstances in real time, avoiding some of the difficulties experienced with the tax credit system. Instead, Tax-Free Childcare will operate through quarterly entitlement periods. Once eligible, parents will continue to be entitled to support for three months, regardless of any changes in circumstances they may experience. This gives parents confidence that they will continue to receive support with their childcare costs.

The consultation document sought views on the application of the cap on Government support for each child. For example, it asked about breaking this down into a monthly cap. Stakeholders argued that this would be too restrictive for parents, particularly those with low or fluctuating incomes, and especially the self-employed. The top-up cap will therefore be applied on a quarterly basis, at £500 Government support per child. As well as offering more flexibility to parents, this will increase simplicity, as it will be linked to the quarterly entitlement period.

Tax-Free Childcare is targeted at working families. The Government wants support to be available to those who are gradually moving into work, for example following the birth of a child. To qualify for Tax-Free Childcare, all parents in the household must meet a minimum income level based on working eight hours per week at the National Minimum Wage. Based on the current rate of the National Minimum Wage, parents would each have to earn just over £50 a week on average to qualify for Tax-Free Childcare.[1]

The consultation document was also clear that those who are temporarily absent from the workplace – for example, during paid statutory maternity, paternity or adoption leave – and couples where one member is in work and the other member is in receipt of Carer's Allowance or Employment and Support Allowance will be eligible for Tax-Free Childcare. The Government has extended these eligibility criteria so that:

- parents will be treated as 'in work', and therefore remain eligible for Tax-Free Childcare, throughout paid and unpaid elements of statutory parental leave; and

[1] This is based on the current (2013) rate for those aged 21 and over. For those aged under 21 and apprentices, the minimum income level will be based on working eight hours at the relevant National Minimum Wage.

- couples with one member in work and the other in receipt of Employment and Support Allowance 'credits only' will retain entitlement to Tax-Free Childcare on the basis that they have limited capability for work.

In all, the extension of Tax-Free Childcare to parents on paid sick leave and paid and unpaid maternity, paternity and adoption leave, and to families where one member of a couple is in work and the other is in receipt of Carer's Allowance or contributory or credits-only Employment and Support Allowance mean that around 50,000 more families will be able to receive support through Tax-Free Childcare than would otherwise be the case.

When Tax-Free Childcare is introduced, Employer-Supported Childcare (childcare vouchers and directly-contracted childcare) will be closed to new entrants. Parents who are already receiving support through that scheme will be able to continue receiving support – in exactly the same way – for as long as they continue to work for their current employer, and the employer continues to offer the scheme. Workplace nurseries will not be affected by the changes.

Families in receipt of tax credits already receive more generous support with childcare costs; this is being extended in Universal Credit, where support towards the costs of childcare will be available regardless of the number of hours worked. The introduction of Tax-Free Childcare will, for the first time, ensure that Government support is available to working families with childcare costs as they move off tax credits and Universal Credit. This document details how the interaction between Tax-Free Childcare and other schemes will work.

At Budget 2013 the Government announced an additional £200 million support for childcare in Universal Credit, equivalent to providing 85 per cent support, rather than 70 per cent support, for families where both parents, or a single parent, pay income tax. The Government consulted on this proposal alongside Tax-Free Childcare and has today announced that all families eligible for Universal Credit will benefit from support at this level. Offsetting savings to fund this expansion will be found from within the Universal Credit programme. Further details will be set out at Autumn Statement.

Tax-Free Childcare and increased support for childcare costs under Universal Credit will sit alongside the free entitlement to early education which all three- and four-year-olds receive, which this Government increased to 15 hours per week. The Government has also rolled out this support to the most disadvantaged 20 per cent of two-year-olds, and is extending it further, to reach 40 per cent of two-year olds, later this year.[2] The Government is also announcing £50 million for an early years pupil premium to help improve outcomes for disadvantaged three- and four-year olds in Government-funded early education.

The Government is very grateful for the constructive engagement of all stakeholders during the consultation period, and looks forward to continuing to work with all groups ahead of the introduction of Tax-Free Childcare next year.

[2] Early years education is a devolved issue in Scotland, Wales and Northern Ireland, so different provisions apply.

1 Introduction

Chapter 1 provides background on the Government's plans to introduce Tax-Free Childcare for working families. It sets out the actions that the Government is already taking to improve the supply and affordability of childcare, and explains why further action is needed.

It also explains how the document is structured.

The key points are:

- Tax-Free Childcare will be introduced in autumn 2015, with all eligible working families receiving support with their childcare costs within the first year of the scheme's operation;
- eligible families will receive 20 per cent support towards their childcare costs, up to an annual limit of £2,000 Government support per child;
- lower income families already receive more generous support towards their childcare costs through tax credits. Under Universal Credit, support will be expanded to cover up to 85 per cent of families' childcare costs, up to the existing caps on costs; and
- Tax-Free Childcare will sit alongside the free access to early education, which the Government has increased to 15 hours per week for three- and four-year olds, and is expanding to reach 40 per cent of two-year olds later this year.

Introducing Tax-Free Childcare

1.1 Finding reliable, high quality, affordable childcare is a major concern for working families.[1] For many parents it is difficult to find good childcare, and the high cost of childcare can be one of the largest parts of most working families' household budgets.

1.2 The Government believes that there is a powerful case for improving access to childcare: to ensure that parents are supported to work, if they choose to, and have fulfilling careers with potential for progression; and that children have the best possible start to life through high quality early education.

1.3 That is why the Government has taken action to invest in early education and childcare. Since 2010 the Government has extended to 15 hours free early education for all three- and four- year olds, and has rolled out this offer to the least advantaged 20 per cent of two year olds. The Government is now extending the offer further, to around 40 per cent of two-year olds from September 2014. In addition, the Government is also announcing £50 million for an early years pupil premium to help improve outcomes for disadvantaged three- and four-year olds in funded early education.[2]

[1] Childcare and early years survey of parents, 2012-2013

[2] Early years education is a devolved issue in Scotland, Wales and Northern Ireland, so different provisions apply.

1.4 At Budget 2013, the Government announced its intention to introduce Tax-Free Childcare. This will mean that for the first time, all working families in which no parent is an additional rate taxpayer will be eligible for support with their childcare costs, on top of a high-quality free early education offer to help prepare their children for school.

1.5 Tax-Free Childcare will provide 20 per cent of working families' childcare costs, up to an annual limit of £2,000 Government contribution for each child. This is equivalent to basic rate tax relief of childcare costs up to £10,000 a year. The Government estimates that, once fully rolled out, 1.9 million families will be eligible for support through Tax-Free Childcare.

1.6 The introduction of Tax-Free Childcare represents a major improvement on the current scheme, Employer-Supported Childcare. Childcare costs can still be prohibitively high for many, with many parents receiving no support if they choose to return to work. Survey data suggests that more than half of mothers not in paid work would prefer to be in paid employment if they could arrange reliable, convenient, affordable, good quality childcare.[3] Similarly, nearly a quarter of employed mothers say they would increase their working hours if they could arrange such childcare.[4]

1.7 Employer-Supported Childcare has a number of significant drawbacks. Less than 5 per cent of employers offer it and over half of employees, as well as all self-employed people, are unable to access the scheme.[5] Those who earn the National Minimum Wage are also generally not able to access Employer-Supported Childcare. In addition, Employer-Supported Childcare pays no regard to the number of children in each family and disadvantages lone-parent families, offering a different level of support to lone-parent and two-parent families where both members of a couple are able to receive support.

1.8 All households in which all parents work but do not receive support through tax credits or Universal Credit will be eligible for Tax-Free Childcare, so long as both parents meet the minimum income level and neither parent is an additional rate taxpayer. Households that receive tax credits or Universal Credit can instead get support through those systems.

1.9 Parents will register with the Government and open an online account. The Government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in, subject to a limit of £2,000 Government support per child per year. This is the equivalent of basic rate tax relief on childcare costs up to £10,000.

1.10 After considering the results of the consultation, the Government has decided that Tax-Free Childcare will be delivered by HMRC in partnership with National Savings and Investments (NS&I), the scheme's account provider. It will be available to approximately 1.9 million working families – significantly more than Employer-Supported Childcare. In particular, groups who cannot access Employer-Supported Childcare, such as the self-employed, those who work for an employer who does not offer the scheme, and – generally – those earning National Minimum Wage will have access for the first time. Employer-Supported Childcare will therefore be closed to new entrants when Tax-Free Childcare is introduced, though existing members of the scheme will be able to choose whether to remain in Employer-Supported Childcare or move to the new scheme.

1.11 Tax-Free Childcare will be introduced in autumn 2015. From introduction, all children up to age five – and disabled children under the age of 17 – will be eligible. The scheme will then build up over its first year to include children under 12. The Government will set out further

[3] Huskinson, T. et al (2014), 'Childcare and early years survey of parents 2012-2013' DfE SFR06/2014

[4] Childcare and early years survey of parents, 2012-2013

[5] Further information on these statistics is set out in Annex B.

details of the precise rollout of Tax-Free Childcare in due course, and in good time for parents to factor in to their childcare plans.

The Government's childcare offer

1.12 Tax-Free Childcare will sit alongside support for working parents on lower incomes. The Government already spends over £1 billion on childcare support through tax credits, which will be rolled into Universal Credit from 2016. At Budget 2013 the Government announced an additional £200 million support for childcare in Universal Credit, equivalent to providing 85 per cent support, rather than 70 per cent support, for families where both parents, or a single parent, pay income tax.

1.13 The Government consulted on this proposal alongside Tax-Free Childcare and has announced that all families eligible for Universal Credit will benefit from support at this level. Based on current plans, Universal Credit will be fully available in each part of Great Britain during 2016. Offsetting savings to fund this expansion will be found from within the Universal Credit programme. Further details will be set out at Autumn Statement.

1.14 The Government's childcare offer will provide comprehensive support for all working families within the prescribed income limits:

- through Tax-Free Childcare, all eligible working families will receive 20 per cent support towards qualifying childcare costs, with Government support capped at £2,000 per child per year;
- working families on lower incomes will receive more generous support through tax credits of 70 per cent of childcare costs, up to maximum costs of £9,100 a year for one child (£175 per week) or £15,600 a year for two or more children (£300 per week). This support will be increased in Universal Credit so that all eligible families can receive 85 per cent support, up to the existing caps on costs;
- once their child is aged three, all families will be eligible to receive 15 hours of funded early education a week, in order to help prepare their child for school;
- around 40 per cent of lower-income families will be able to access 15 hours funded early education a year earlier, once their child turns two; and
- the new Early Years Pupil Premium will provide nurseries, schools and other providers of funded early education with extra money for disadvantaged three- or four-year olds. The Government will consult on the programme shortly.

1.15 Taken together, this will provide flexible support for all eligible working families while maintaining a free, universal early education offer. Alongside this, the Government is also taking action to drive up the supply of high quality childcare provision and to open up more choice for parents by:

- actively encouraging schools to offer facilities from 8am to 6pm, and to offer nursery places for younger children, including two-year olds;
- simplifying the regulatory framework and consulting on proposals to relax planning rules so that nurseries can expand more easily;
- enabling 'good' and 'outstanding' childminders to automatically access funding for early education places; and
- creating childminder agencies to make it simpler for people to become childminders and to provide an easy way for parents to access home-based care.

About this document

1.16 In August 2013, the Government published a consultation document, inviting interested parties to comment on the detailed design and operation of Tax-Free Childcare. It set out the approach to managing childcare accounts, the eligibility criteria, the key information and validation processes and account provision. It discussed the considerations that have to be made in designing different aspects of the scheme, and posed questions in those areas where stakeholders are likely to have expertise or insight.

1.17 During the consultation period the Government also:

- ran a series of workshops with stakeholder groups, such as organisations representing parents and families, the childcare industry, employers and the payroll and HR industries, the existing childcare voucher industry, and data agencies and organisations;
- conducted online questionnaires targeted at parents, childcare providers and employers;
- commissioned an external research organisation – *Opinion Leader* – to conduct qualitative research amongst parents and childcare providers; and
- commissioned market economists *Economic Insight* to provide advice on the structure of the market for childcare accounts.

1.18 The Government is grateful to everyone who responded to the consultation, completed an online questionnaire, or took part in the external research. This document outlines how responses received during the consultation period have shaped the design of Tax-Free Childcare. Chapters 2 to 5 set out how various features of the scheme will operate, whilst Chapter 6 discusses the remaining requirements ahead of the introduction of Tax-Free Childcare in autumn 2015. Further detail on the responses received to the consultation questions can be found in Annex A.

1.19 The results of the online questionnaires and Economic Insight's report on the childcare account market have been published alongside this document at www.gov.uk/government/consultations/tax-free-childcare. The research report produced by *Opinion Leader*[6] has been published separately at www.hmrc.gov.uk/research/report296.pdf.

1.20 The consultation document also asked questions around the proposed changes to support for childcare costs in Universal Credit. The Government has announced that all families eligible for Universal Credit will receive 85 per cent support with childcare costs. The Government will publish a separate response to these issues in due course and set out more details, including on how this expansion will be funded from within Universal Credit, at Autumn Statement.

Structure of this document

1.21 A brief summary of the issues covered by each chapter and annex is provided below.

- **Chapter 2** sets out the criteria that the Government will apply in determining eligibility for Tax-Free Childcare.
- **Chapter 3** outlines how Tax-Free Childcare accounts will operate, and explains the role of NS&I as the scheme's account provider.

[6] Tax-Free Childcare: Exploring design considerations for delivery of the new scheme (Research Report 296)

- Chapter 4 explains how Tax-Free Childcare will work for parents, including how accounts are opened and how payments into and out of accounts will be made. It also explains how employers can play a role in Tax-Free Childcare should they wish.
- Chapter 5 provides detail on how the various processes in Tax-Free Childcare will work to ensure that the system is simple and straightforward for all parties to use, whilst minimising the risk of fraud, error and debt.
- Chapter 6 sets out the remaining steps which are required ahead of the introduction of Tax-Free Childcare in autumn 2015.
- Annex A details the main issues raised in response to each of the consultation questions.
- Annex B is a data and sources summary.
- Annex C is a list of respondents to the consultation.

Ongoing engagement

1.22 The publication of this document represents a major landmark for Tax-Free Childcare. The Government will continue to engage with all interested parties to ensure that it gets the design of Tax-Free Childcare right, and to ensure that all stakeholders are prepared ahead of the new scheme's introduction next year.

2 Eligibility

This chapter outlines which families will be eligible for support through Tax-Free Childcare, building on the principles set out during the consultation. It provides details of the central eligibility conditions, outlines how the new scheme will interact with other forms of childcare support and details the types of childcare that will qualify to receive Tax-Free Childcare.

It also outlines new plans for how Tax-Free Childcare will be introduced as Employer-Supported Childcare is phased out.

The key points are:

- the Government is rolling out Tax-Free Childcare more quickly than previously announced. 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;
- to ensure that support targets working families, all parents will need to meet a minimum income level, set at just over £50 per week on average over the course of an entitlement period;
- the Government will extend the range of circumstances where parents can be away from the workplace and remain eligible for Tax-Free Childcare. Tax-Free Childcare will be extended to those on unpaid statutory parental leave and Employment and Support Allowance 'credits only' claimants; and
- the definition of 'qualifying childcare' will match that of Universal Credit and tax credits, ensuring that all parents with registered childcare can receive support.

2.1 Tax-Free Childcare will be a flexible, straightforward and targeted system of support to help working families with the costs of registered childcare incurred as a result of parents' employment.

2.2 During the consultation, the Government sought views on the criteria that will determine whether parents are eligible for Tax-Free Childcare, with the aim of ensuring that Government support is appropriately targeted, while making the criteria as straightforward as possible for parents to understand and apply. In particular, the Government asked for views on:

- the precise definitions of 'parents' and 'the household';
- defining qualifying employment (including self-employment);
- the application of the age limit and the phase-in of Tax-Free Childcare; and
- how to manage changes of circumstances and information flows.

2.3 The key issues raised during the consultation period were:

- many respondents encouraged the Government to phase in Tax-Free Childcare more quickly, to offer support to all parents with children up to 12 years old – broadening access from the start;

- a number of respondents were keen to extend the definition of parents treated as being in work, for example, to cover those on unpaid statutory maternity, paternity and adoption leave and those in receipt of 'credits only' Employment and Support Allowance;
- there was a general consensus that the new scheme must support those with fluctuating incomes – for example, the self-employed, seasonal workers and those on zero hours contracts – and that the design of the eligibility criteria should ensure these families are not disadvantaged;
- there was a reluctance to introduce an overly tough 'substantive employment' test that would prevent those in part-time work taking advantage of the scheme. If a 'substantive employment' rule were introduced, the preference was generally for a minimum income level, set low enough to ensure that all parents 'transitioning' back into work would still be eligible for support with their childcare costs, while ensuring that the scheme is nevertheless appropriately targeted at working families; and
- given the various schemes which will be in existence, respondents want clear signposting and information to support parents to make an informed choice of whether to access Tax-Free Childcare or another scheme.

Introducing Tax-Free Childcare

2.4 The consultation document outlined how Tax-Free Childcare would be phased in over time as the existing Employer-Supported Childcare scheme is phased out. It proposed that in the first year of operation all children up to age five will be eligible, with scheme eligibility increasing by one year, each year, until children under 12 are eligible. The consultation document also explained that Employer-Supported Childcare (childcare vouchers and directly-contracted childcare) will be closed to new entrants from autumn 2015, rather than terminated immediately. There was strong support from respondents for Tax-Free Childcare to be phased-in more quickly.

2.5 The Government wants to go further in its support for working families. Through the introduction of Tax-Free Childcare, the Government is expanding the number of families who will benefit from support with their childcare costs. The Government wants this support to reach these families more quickly and will therefore open Tax-Free Childcare to all eligible parents with children under the age of 12 within the first year of the scheme being introduced. By opening the scheme more quickly to children under 12, the Government estimates that 1.9 million working families will have access to Tax-Free Childcare within the first year – 700,000 more than would have been the case under the previously announced timetable.

2.6 The Government's decision for National Savings and Investments (NS&I) to be HMRC's delivery partner for Tax-Free Childcare accounts will mean that a single provider is available to families across the country from the very start of the scheme. The Government will be able to roll out Tax-Free Childcare to children under 12 within the first year.

2.7 The Government is introducing Tax-Free Childcare in a managed and careful way, progressively rolling it out to children under 12 within the first year to make sure that the introduction of this new scheme is as smooth as possible for parents. The Government will set out further details of the precise rollout of Tax-Free Childcare in due course, and in good time for parents begin to factor in to their childcare plans.

2.8 As outlined in the consultation document, parents of disabled children under the age of 17 will be eligible for Tax-Free Childcare from autumn 2015, in line with existing rules under Employer-Supported Childcare.

Eligibility criteria

2.9 The consultation document outlined four key criteria that will be used to determine whether a parent is eligible for Tax-Free Childcare:

- children must be under the age of 12. Disabled children must be under the age of 17;
- both parents (or a lone parent) must be in paid work;
- both parents (or a lone parent) must not be in receipt of any support through tax credits, Universal Credit or Employer-Supported Childcare; and
- neither parent (or a lone parent) is an additional rate taxpayer.

2.10 During the consultation period these criteria were developed into a straightforward set of eligibility conditions that parents will need to meet at the date of registration and at each quarterly reconfirmation point in order to qualify for Tax-Free Childcare. These are explained below.

Defining parents and the household

2.11 Unlike Employer-Supported Childcare, for which the level of support is linked to the parent without regard to the number of children in a family, Tax-Free Childcare will take a fairer approach with the level of support linked to the number of children. This means, for example, that two-parent and lone-parent households with the same number of children will have access to the same level of support through Tax-Free Childcare, of up to £2,000 per child per year.

2.12 Tax-Free Childcare claims must be made by, and awarded to, an individual. In a two-parent household, parents can choose who applies. The individual must be over the age of 16 at the time that they make the claim.

2.13 Where a parent is part of a couple, to ensure that all households are treated consistently, the Government needs to consider the employment status and income of each member of the couple. The definition of a partner, as an individual who lives together in the same household with another person as a single unit, will mirror the current rules in tax credits and Universal Credit. Adult children living in the house will not form part of 'the household' for scheme eligibility purposes.

2.14 For the purposes of Tax-Free Childcare, an individual must be responsible for a child and normally live with the child. This does not define parental responsibility in legal terms; instead it takes a similar approach to tax credits and Universal Credit, allowing for temporary or occasional absences from the household.

2.15 As set out in the consultation document, the Government wishes to ensure that those who have responsibly for looking after a child, regardless of their biological relationship, can benefit from Tax-Free Childcare. This will include adoptive parents, extended family members and others who have taken on responsibility for raising a child, and who live with the child.

2.16 A couple can decide between themselves who will claim Tax-Free Childcare for the eligible child(ren) in the household. This follows the same approach as Child Benefit. In cases of shared responsibility where the child has two residences – including where the child spends equal time with each parent – only one parent will be able to open a Tax-Free Childcare account for that child. This will ensure that all eligible children receive the same level of support.

2.17 In a small minority of cases, the adults in a family may be unable to reach agreement about which of them should claim. In these cases, HMRC would consider the facts of the case and make a decision. To assist claimants in such cases, the Government will provide guidance on the factors that HMRC would take into account in making a decision. The parent that is unable to claim under the scheme as a result of any HMRC decision will be able to seek a review of that decision and take the matter to tribunal if they remain unhappy following the review. This is consistent with HMRC's approach to other schemes.

Defining an eligible child

2.18 Support will be focused on those children under the age of 12, where childcare costs are often the highest. Following the approach taken in tax credits and Universal Credit, eligibility will end in the first week of September following the child's 11th birthday.

2.19 The Government has confirmed that parents of disabled children will continue to be eligible for Tax-Free Childcare (if they continue to meet the other eligibility criteria) until the September following their 16th birthday, in recognition of the fact that childcare costs for this group can remain high in later years. A child will be considered disabled for the purposes of Tax-Free Childcare where Disability Living Allowance or Personal Independence Payment[1] is paid in respect of the child, or the child is registered as blind. This takes the same approach as Universal Credit, tax credits and Employer-Supported Childcare.

2.20 For most cases this requirement will be simple to meet. However, in some instances it can, for example, take a considerable time for a Disability Living Allowance claim to go into payment if the decision is subject to an appeal. If this situation arises, Tax-Free Childcare claims will be backdated by means of an increased Government 'top-up' once eligibility is established. If in the interim period a parent has a change of circumstances meaning they are no longer eligible for Tax-Free Childcare, the parent will only have access to backdated Tax-Free Childcare 'top-ups'; future entitlement will cease. The time period over which any increased 'top-up' is available will reflect the period for which the parent was entitled to Tax-Free Childcare.

Defining the income limit

2.21 An upper income limit will be set. Parents will not be eligible if they, or any partner, are an additional rate taxpayer. The additional rate takes into account income from all sources, not just employment or self-employment. By introducing this limit, the Government estimates that around 100,000 families will not be entitled to Tax-Free Childcare who otherwise would be.

2.22 Aligning Tax-Free Childcare to this established parameter will make it simpler to administer and simpler for parents to understand. Rather than introducing a new threshold, this builds on parents' awareness of their tax status and the rate of tax they pay, making it straightforward for parents to assess their eligibility for the scheme.

Support for working families

2.23 Tax-Free Childcare is to support working families. For the scheme to be most effective, the Government's limited resources must be restricted to childcare arrangements that enable parents to take up paid work or to continue in paid work. Survey data suggests that more than half of mothers not in paid work would prefer to be in paid employment if they could arrange reliable, convenient, affordable, good quality childcare.[2]

2.24 Parents will therefore only be able to use their Tax-Free Childcare accounts to pay for childcare that enables them to work. The Government will check this in a measured and

[1] Personal Independence Payments are made to those 16 years old and over.

[2] Huskinson, T. et al (2014), 'Childcare and early years survey of parents 2012-2013' DfE SFR06/2014

proportionate way. It will require that one of the main reasons for incurring childcare costs is to enable parents to work, while at the same time allowing parents to use Tax-Free Childcare flexibly, for example to cover commuting time, or to pay for childcare in blocks of time or sessions, that puts them in a position to work.

2.25 As suggested by some respondents, this follows a similar approach to Universal Credit and draws a direct link between the childcare support to which a parent is entitled and the extent to which that support enables them to work. The Government will provide clear guidance to parents on how this will apply.

Defining paid work

2.26 The consultation document set out that all parents in a household must be working in order to be eligible for Tax-Free Childcare. Parents who are either employees receiving a salary or registered with HMRC as self-employed (or a combination of the two) will be defined as 'in paid work'.

2.27 At the date of registration and all reconfirmation points, both parents (or a lone parent) will need to be in paid work. The Government also wants to allow parents to claim Tax-Free Childcare shortly in advance of starting work to support the transition back to the workplace and allow parents to settle their child(ren) into childcare in advance. Tax-Free Childcare will therefore be extended to parents who have an offer of paid work to commence in the next seven days.

Time away from the workplace and exemptions to the 'in-work' requirement

2.28 The consultation document set out that families will remain eligible for Tax-Free Childcare where parents are away from work on paid sick leave, or maternity, paternity or adoption leave. During the consultation, stakeholders confirmed that it is important for parents who are otherwise eligible for Tax-Free Childcare to be able to maintain their childcare arrangements when they spend time away from the workplace.

2.29 Respondents were supportive of the inclusion of parents taking paid maternity, paternity and adoption leave or claiming the Maternity Allowance, as in these instances parents may need childcare for older children to enable them to look after their new child. Stakeholders also proposed extending the 'in work' exemption to cover the full 52 weeks of statutory leave – both the paid and unpaid elements.

2.30 The Government agrees that continuing payment of support towards childcare costs during periods of paid and unpaid parental leave is important to facilitate parents' return to work, and to ensure that childcare arrangements for older children are not disrupted. The Government therefore confirms extension of Tax-Free Childcare to cover the full 52 weeks of statutory leave.

2.31 In these situations, parents must be eligible for Tax-Free Childcare, including meeting the requirement to be 'in paid work', before their statutory period of leave starts. Parents will be able to claim for those children who were eligible for Tax-Free Childcare before they began their period of leave. This approach will ensure that parents can continue to receive support with their childcare costs for their older children while they take time away from the workplace to adjust to the new arrival.

2.32 The consultation document also outlined the Government's intention to support families where one member of a couple is in work and the other is either a full-time carer in receipt of Carer's Allowance, or in receipt of contributory Employment and Support Allowance. This approach will ensure that couples in which one parent is a full-time carer, and couples in which one parent has limited capability for work due to a health condition or disability, can receive support through Tax-Free Childcare.

2.33 Respondents noted that on expiry of a parent's twelve months' entitlement to contributory Employment and Support Allowance for those in the Work-Related Activity Group, the parent will remain entitled to National Insurance credits on the basis that they still have limited capability for work. The Government is therefore extending the exemption from the 'in work' requirement to include Employment and Support Allowance 'credits only' claimants.

2.34 The extension of Tax-Free Childcare to parents on paid sick leave and paid and unpaid maternity, paternity and adoption leave, and to families where one member of a couple is in work and the other is in receipt of Carer's Allowance or contributory or credits-only Employment and Support Allowance will mean that approximately 50,000 additional families will be able to receive support through Tax-Free Childcare, compared to what would otherwise have been the case.

Minimum income level for qualifying employment

2.35 Tax-Free Childcare is to support working families with the costs of childcare. It is therefore important that those parents who claim Tax-Free Childcare are in substantive paid employment.

2.36 The consultation document set out the Government's ambition to devise a metric for determining substantive employment that is easy for parents to understand and against which to assess their eligibility. The Government proposed either a minimum income or minimum hours rule.

2.37 There was a clear consensus from respondents that any test should be based on a single, simple rule that is straightforward for parents, easy and efficient to administer, and works with today's flexible labour market. The general preference was for a minimum income rule, set at a level that supports parents who are gradually moving into the workplace, for example, after the birth of a new child. Many stakeholders highlighted that the transition back into work is likely to be taken in a series of small steps.

2.38 The Government will introduce a minimum income level. Parents will be asked at registration and reconfirmation points whether they expect to earn an amount equal to, or above, the minimum income level for the forthcoming quarterly entitlement period. Parents with more than one source of earned income, for example a parent with two part-time jobs, will be asked to confirm that their total earned income across all their employment(s) and/or self-employment is at, or above, the minimum income level.

2.39 The minimum income level will be based on a parent working eight hours a week at National Minimum Wage. Based on the current rate of the National Minimum Wage for those aged 21 or over, parents would each have to earn a little over £50 a week on average to qualify for Tax-Free Childcare, or just over £605 across a quarterly entitlement period. For parents who are under 21 or apprentices, the minimum income level will be based on the rate of the National Minimum Wage which applies to them.[3]

2.40 The Government does not want to impose unnecessary burdens and will not require precise earnings information to be reported routinely by parents. Instead parents will be asked to confirm whether they expect their earned income to be above the minimum level over the quarterly entitlement period. The Government believes that introducing this assessment strikes

[3] The current rate (2013) of the National Minimum Wage is £6.31 for those aged 21 and over; £5.03 for those aged 18-20, £3.72 for under 18s and £2.68 for an apprentice.

the right balance between targeting support at working families while not introducing complex reporting requirements.

2.41 The consultation document explained that HMRC gathers a range of information to understand an individual's employment history, and this can be used to assess, through a risk-based approach, whether a claim for Tax–Free Childcare is valid. As accurate earnings information is reportable for tax purposes, HMRC will be able to use its existing information streams to make this assessment. For example, HMRC will easily be able to access information about parents' earnings through Real Time Information checks on the Pay As You Earn (PAYE) system. More information on how parents' income will be validated is provided in paragraphs 5.32-5.37.

2.42 Self-employed income is reported to HMRC via the submission of annual (Self-Assessment) tax returns. All self-employed applicants will be required to have registered with HMRC for Self-Assessment before registering for Tax-Free Childcare. To provide for broad parity of treatment between employed and self-employed parents, the Government will not require additional in-year reporting for self-employed parents. Rather, they will similarly be asked to confirm that they expect their income to be above the minimum level over the quarterly entitlement period.

2.43 The Government will use profit as the measure of income for self-employed parents, defined as total receipts less expenditure incurred in running the business, as this provides the best parity with employment income. At each reconfirmation, self-employed parents will need to confirm that they expect their profits to meet the minimum income level for the upcoming quarterly entitlement period.

2.44 The Government recognises that self-employment provides a vital contribution to the economy and wants to support new businesses. Many businesses do not make a profit when they are first established, so meeting the minimum income level may be challenging. The Government is therefore introducing a 'start-up period' during which a self-employed individual will not have to earn the minimum income level. This start-up period will equal four entitlement periods, that is, around twelve months. Further information on entitlement periods in Tax-Free Childcare is set out in Chapter 4.

2.45 In cases where both parents are self-employed and have recently started trading, both parents will be granted a start-up period. In two-parent households where only one parent is newly self-employed, the other parent will have to earn the minimum income level.

2.46 If a business has been trading for less than twelve months at the point the parent registers for Tax-Free Childcare, the parent will not be required to earn the minimum income level during the start-up period. If a parent is already receiving Tax-Free Childcare when they establish their new business, the start-up period will follow the entitlement period in which they first start to trade. In the case of trades undertaken as business partnerships, both business partners will qualify for the start-up period, provided they meet the relevant conditions.

2.47 The Government wants to encourage individuals to increase their earnings through developing their businesses, and recognises that many people learn from previous experiences, and sometimes start new enterprises. The Government is therefore allowing each self-employed parent one start-up period every five years.

2.48 The Government expects the minimum income level to be simple to understand and apply in most cases. Box 2.A outlines some more complicated cases where individuals' circumstances change.

Box 2.A: Minimum income case studies

Example 1: Household meets minimum income level

Ms Davies has one child and works for an events agency. She is on a zero hours contract and her work fluctuates across the year. At the reconfirmation point, Ms Davies confirms that she expects to earn above the minimum income level for the forthcoming entitlement period, as she anticipates working at a large upcoming event. However, four weeks later Ms Davies is told that she will only be required to work for a short period. Ms Davies' income will not meet the minimum income level; however, as she expected to meet the requirement when she reconfirmed, Ms Davies remains eligible for Tax-Free Childcare during this period.

Example 2: Household meets minimum income level

Mr and Mrs Martin claim Tax-Free Childcare for two of their three children. Mr Martin is employed by an engineering company and Mrs Martin is currently on statutory maternity leave, caring for their newborn child. For the purpose of the work condition, Mrs Martin is treated as being in work.

At the reconfirmation point, Mrs Martin declares that she is on statutory maternity leave and that Mr Martin's income is expected to be above the minimum income level for the forthcoming quarter. However, five weeks later Mr Martin is made redundant. As the household could not have anticipated this change in circumstances, Mrs Martin is able to receive Tax-Free Childcare until the end of the entitlement period. At the next reconfirmation point, if Mr Martin has not moved back into employment (or begun self-employment) he will not meet the in-work requirement and their Tax-Free Childcare 'top-ups' will cease at the end of the entitlement period. Mrs Martin will be able to use her accrued balance to pay for qualifying childcare (see paragraph 4.27 for more information).

Example 3: Household meets minimum income level

Mr and Mrs Ali live together with one child. Mrs Ali works as a dentist. Mr Ali starts an IT consultancy business and shortly afterwards registers for and claims Tax-Free Childcare.

Mr Ali confirms that Mrs Ali expects to earn over the minimum income level for the forthcoming quarter. At the point of registration for Tax-Free Childcare, Mr Ali had been trading for less than twelve months and is therefore granted a start-up period; he does not have to meet the minimum income level for the first four entitlement periods.

Example 4: Household does not meet minimum income level

Mr Plant and Ms Watkins live together with their four children. Mr Plant has a full-time job as a carer. Ms Watkins is a teacher who provides substitute cover.

Ms Watkins had been working at the same school for the past nine months while claiming Tax-Free Childcare. Before the reconfirmation point in July, Ms Watkins is told that no substitute cover will be needed over the summer period and the school expects to recruit more full-time staff to cover lessons in the new school year, starting in September. Ms Watkins plans to spend the summer period looking after her children. At reconfirmation, even though Ms Watkins is currently working, she confirms she does not expect her income to be above the minimum income level for the forthcoming quarter and her Tax-Free Childcare entitlement ends. She will be able to continue using her accrued credit to pay for qualifying childcare (see paragraph 4.27 for more information).

Support for parents resident or working in the UK

2.49 Tax-Free Childcare will support parents who are in work or want to work, to benefit families and the wider UK economy. Tax-Free Childcare will therefore be restricted to parents who live or work in the UK.

2.50 The Government, however, recognises that there will be cases where parents need childcare support when they are absent from the UK and working abroad. Parents who work overseas for an extended period for the UK government, such as members of the armed forces, are still required to pay UK tax and the Government will allow these parents and their partners access to Tax-Free Childcare. This follows the approach in tax credits and Universal Credit by treating these households as if they were resident in the UK and, at the Government's discretion, classifying certain childcare providers overseas as providing 'qualifying childcare' for the purposes of Tax-Free Childcare.

2.51 Periods of short, temporary absence from the UK will also be disregarded for the parent who is the Tax-Free Childcare account holder. This offers a level of stability where members of the household are absent. A parent can be temporarily absent abroad for up to eight weeks for any reason, for example, a holiday or visiting relatives; or for a longer period for up to six months in exceptional circumstances, for example, where a parent is undergoing medical treatment abroad, is a mariner, or is an oil worker on the continental shelf. During this time, the parent will remain eligible for Tax-Free Childcare. This takes the same approach as Universal Credit.

Employer-Supported Childcare

2.52 As set out in the consultation document, Tax-Free Childcare will be a significant step forward compared to Employer-Supported Childcare. Unlike that scheme, Tax-Free Childcare will be available to all working families, and will not depend on employers deciding whether or not to offer the scheme. Support is extended to the self-employed and all employees whose employer does not offer Employer-Supported Childcare. In addition, the level of support in Tax-Free Childcare will be linked to the child rather than the parent. This is a fairer approach than Employer-Supported Childcare, which pays no regard to the number of children in each family and disadvantages lone-parent families, offering a different level of support to lone-parent and two-parent families where both members of a couple are able to receive support.

2.53 When Tax-Free Childcare is introduced, Employer-Supported Childcare voucher schemes and directly-contracted childcare will be closed to new entrants, including those transitioning between employers who run such schemes. Current members of these schemes may choose to remain in their current scheme, or move to Tax-Free Childcare, but a household cannot simultaneously be in receipt of support through both schemes.[4]

2.54 After Employer-Supported Childcare is closed to new entrants, employers can still choose to change voucher providers. This will not affect their employees' entitlement to Employer-Supported Childcare.

2.55 The provision of workplace nurseries by employers will not be affected by the introduction of Tax-Free Childcare. Employees will continue to be able to join workplace nursery schemes offered by their employers. Parents will be able to access a workplace nursery and receive Tax-Free Childcare (for example, if the child attends qualifying childcare outside of the time that they are in the workplace nursery).

[4] Where a child lives in more than one household, a claim to Tax-Free Childcare will not affect an Employer-Supported Childcare claim in a separate household.

2.56 Families' circumstances vary in terms of numbers of children, working patterns and childcare costs, and are subject to change. Tax-Free Childcare will be available to more families than Employer-Supported Childcare and will be paid on a fairer and more equal basis. As Employer-Supported Childcare will remain open to existing users of the scheme, where their employer continues to offer it, there will be no cash losers as a result of the changes.

2.57 Table 2.A summarises the support available under Tax-Free Childcare and Employer-Supported Childcare for different family groups. It shows the maximum level of support available under Employer-Supported Childcare and maximum support available for families under the new scheme. This increase is shown for both the £6,000 cap announced at Budget 13 and the new £10,000 cap. The actual level of support in Tax-Free Childcare will depend on a family's childcare costs.

Table 2.A: Comparison of Employer-Supported Childcare and Tax-Free Childcare

	Number of children under 12	Maximum support through Employer-Supported Childcare	Increase in maximum support	
			With £6,000 cap announced at Budget 2013[1]	With £10,000 cap[2]
Single parent or working couple one basic rate taxpayer in receipt of Employer-Supported Childcare	1	£933[3]	£267	£1,067
	2	£933	£1,467	£3,067
	3	£933	£2,667	£5,067
Working couple, both basic rate taxpayers in receipt of Employer-Supported Childcare	1	£1,866	-£666	£134
	2	£1,866	£534	£2,134
	3	£1,866	£1,734	£4,134
Single parent or working couple with one higher rate taxpayer in receipt of Employer-Supported Childcare[4]	1	£625[5]	£575	£1,375
	2	£625	£1,775	£3,375
	3	£625	£2,975	£5,375
Working couple, both higher rate taxpayers in receipt of Employer-Supported Childcare[4]	1	£1,250	-£50	£750
	2	£1,250	£1,150	£2,750
	3	£1,250	£2,350	£4,750
Working couple, one basic rate taxpayer, one higher rate taxpayer in receipt of Employer-Supported Childcare[4]	1	£1,558	-£358	£442
	2	£1,558	£842	£2,442
	3	£1,558	£2,042	£4,442

1 Based on claiming the maximum available support under Tax-Free Childcare as announced at Budget 2013, equal to £1,200 per child each year for childcare costs of £6,000

2 Based on claiming the maximum available support under Tax-Free Childcare, equal to £2,000 per child each year for childcare costs of £10,000

3 Calculated by multiplying the maximum qualifying voucher amount a basic rate taxpayer can receive each year (£2,916) by their marginal rate of tax (20 per cent) plus their marginal NICs (12 per cent): £2,916 X 32% = £933

4 Where the higher rate earner(s) joined Employer-Supported Childcare after 5 April 2011

5 Calculated by multiplying the maximum qualifying voucher amount a higher rate taxpayer can receive each year (£1,488) by their marginal rate of tax (40 per cent) plus their marginal NICs (2 per cent): £1,488 X 42% = £625

Support through other Government childcare schemes

2.58 Tax-Free Childcare will not be available to families claiming financial help with the cost of childcare through other Government childcare schemes. Those families who pay for their childcare through money received from other Government childcare schemes, for example the

Childcare Grant,[5] will not be eligible for Tax-Free Childcare. Parents will be able to choose which childcare scheme best meets their needs and will be able to move between the schemes. The Government will provide detailed guidance to support parents in making an informed choice about which scheme to access.

2.59 Parents will remain eligible for Tax-Free Childcare if they access a free childcare place as part of the 15 hours per week of funded early education for all three- and four-year-olds, and two-year olds from lower income households. Eligible working parents will be able to use Tax-Free Childcare to help pay for any additional childcare they need in addition to their free entitlement.[6]

Households claiming tax credits or Universal Credit

2.60 The Government is committed to fairness and supporting those who want to work hard and get on. The Government is already spending over £1 billion per year on childcare support through tax credits, and will be extending this support in Universal Credit. The Government is now going further. Tax-Free Childcare will support families as they increase their income and, for the first time, guarantee that Government support is available for parents with childcare costs as they move off benefits. Tax-Free Childcare will therefore not be available to parents claiming tax credits or Universal Credit.

2.61 The childcare element of Working Tax Credit was introduced in recognition of the extra burdens faced by working parents with childcare needs. This support already provides parents on low incomes who work at least 16 hours a week with 70 per cent of childcare costs, up to maximum costs of £9,100 a year for one child (£175 per week) or £15,600 a year for two or more children (£300 per week).

2.62 Universal Credit is a new system of means-tested support for working-age people and brings together support for housing costs, children and childcare costs into one benefit. Universal Credit will extend support with childcare costs for the first time to those working fewer than 16 hours per week, enabling parents to take their first steps into work. At Budget 2013 the Government announced an additional £200 million support for childcare in Universal Credit, equivalent to providing 85 per cent support, rather than 70 per cent support, for families where both parents, or a single parent, pay income tax.

2.63 The Government has consulted on this proposal, alongside Tax-Free Childcare and has announced that all families eligible for Universal Credit will benefit from support at this level. Based on current plans, Universal Credit will be fully available in each part of Great Britain during 2016. Offsetting savings to fund this expansion will be found from within the Universal Credit programme. Further details will be set out at Autumn Statement.

2.64 Most people in receipt of Working Tax Credit or Universal Credit will already be receiving a higher level of support than that offered through Tax-Free Childcare and will be better off receiving the childcare element of either Working Tax Credit or Universal Credit.

2.65 As household income increases, support from tax credits and Universal Credit is gradually tapered away. There will therefore be a small number of parents who are eligible for tax credits or Universal Credit but who might be better off claiming Tax-Free Childcare instead. The Government estimates that there will be around 50,000 such families. These will typically (but not exclusively) be two-parent families with average or slightly higher earnings, with one or two children. Further detail on particular cases is set out in Box 2.B below.

[5] The Childcare Grant supports parents in full-time education courses with up to 85 per cent of their childcare costs.

[6] Similarly, parents in the Devolved Administrations will be able to receive Tax-Free Childcare in addition to receipt of funded early education.

2.66 To be eligible for Tax-Free Childcare, both parents (or a lone parent) therefore must not be claiming tax credits or Universal Credit. The Government wants to preserve parents' choice. Parents who are eligible for tax credits or Universal Credit will be able to 'opt out' of these schemes if they wish to claim Tax-Free Childcare instead and once in Tax-Free Childcare they will be able to move to tax credits or Universal Credit if their circumstances change. The Government will provide detailed guidance to support parents in making an informed choice about which scheme.

Box 2.B: Case studies of those who are receiving tax credits or Universal Credit who are better off in Tax-Free Childcare

Tax credits household that is better off claiming Tax-Free Childcare

Ms Stevens (a lone parent with one child aged four)

- Ms Stevens earns £41,608 per year working full time, with childcare costs of £126 per week. After her income is taken into account, Ms Stevens receives a weekly tax credit award of £18.16.
- Ms Stevens is eligible for Tax-Free Childcare. Based on £126 per week childcare costs, she could claim £1,313.93 in a year, which amounts to £25.20 per week. Ms Stevens is therefore better off by £7.04 per week if she moves from tax credits to Tax-Free Childcare.

Universal Credit household that is better off claiming Tax-Free Childcare

Mr and Mrs Patel (a couple with two children: Vijay, aged four and Kumar, aged one).

- Mrs Patel works full time (35 hours a week) and earns £15 an hour, an above-average wage. Mr Patel works 20 hours a week and also earns an above average wage of £13 an hour.
- Their weekly childcare costs are £148.50 in total after the full 15 hours free early years' childcare entitlement for Vijay is taken up.
- They are eligible for 85 per cent of their weekly childcare costs through Universal Credit (under proposals published for consultation). This is added to their maximum Universal Credit award before the taper is applied. After the taper is applied, they would receive £16.40 per week through Universal Credit (including support towards their childcare costs).
- Under Tax-Free Childcare, the family would be entitled to £29.70 in childcare support (20 per cent of £148.50).
- This means that Mr and Mrs Patel are £13.30 per week better off under Tax-Free Childcare.

Key assumptions:
All benefit rates are in 2014-15 prices.
Hourly cost of childcare is £4.50.
Both families have no housing costs under Universal Credit.
The lone parent or second earner is assumed to require an hour of extra childcare for each child for each additional hour worked.
All hourly wages are gross. The Universal Credit award is based upon household net income.
These figures reflect the announcement at Autumn Statement 2013 that the Universal Credit work allowances (disregards) for all claimants will be maintained at their current level for a period of three years from April 2014. The disregard is the net income that a claimant can earn prior to their benefit being tapered away.

Interactions between Tax-Free Childcare and other schemes

2.67 As families move into work and increase their income, they may move from tax credits or Universal Credit to Tax-Free Childcare, or may choose to 'opt out' of tax credits or Universal

Credit and instead claim Tax-Free Childcare. The introduction of Tax-Free Childcare will give parents confidence that, as they increase their income, they will continue to receive Government support towards their childcare costs.

2.68 Respondents have outlined the need for the interactions to be smooth and not place excessive administrative burdens on parents. At the same time, respondents were supportive of offering parents a choice of in which scheme they participate, and the flexibility to move between the schemes.

2.69 The Government does not want parents to receive support from more than one scheme at a time, but will not limit the number of times parents can move between tax credits or Universal Credit and Tax-Free Childcare, where parents meet the eligibility conditions for both schemes. Parents will be able to choose which scheme best meets their needs and will be able to move schemes as their circumstances change.

2.70 The Government recognises the importance of providing information and support to help parents make an informed choice about which scheme to access. Respondents noted the value of online tools such as 'better-off calculators' in guiding parents' decision-making. Alongside wider guidance and information, the Government will provide support for parents choosing between tax credits or Universal Credit and Tax-Free Childcare, as well as supporting parents' decision on whether to leave Employer-Supported Childcare and start claiming Tax-Free Childcare instead.

2.71 The Government wants to make it as straightforward as possible to move between Tax-Free Childcare and other schemes, and wants to ensure that there are no detrimental effects of doing so. Stakeholders noted that parents sometimes find it difficult to understand how their entitlement to tax credits interacts with their Employer-Supported Childcare vouchers. Parents are currently able to claim both the childcare element of Working Tax Credit and Employer-Supported Childcare at the same time, although the amount of Employer-Support Childcare received reduces the amount of tax credits a parent is eligible to receive. Tax-Free Childcare will take a different approach.

2.72 The fixed quarterly entitlement period under Tax-Free Childcare means that there will be points when parents move from one scheme to the other when they could have accrued funds under one scheme to use after they become eligible for the other, or have a limited period where they are entitled to receive support under both schemes. In these circumstances, tax credits and Universal Credit awards will not be affected by Tax-Free Childcare payments in the same quarterly entitlement period.

2.73 A parent may accrue money in their Tax-Free Childcare account to, for example, cover school holidays. If a parent falls out of eligibility or stops claiming Tax-Free Childcare and starts to receive tax credits or Universal Credit before they have spent their accrued balance, they will be able to access this money for up 24 months after their eligibility for Tax-Free Childcare has ceased (see paragraph 4.27). In these instances, parents will be able to use their Tax-Free Childcare top-up without this having an effect on the amount of tax credits or Universal Credit awarded, making it straightforward for parents to calculate what childcare support they are entitled to receive.

2.74 Where parents' circumstances change within the quarterly entitlement period so that they are eligible for and start claiming tax credits or Universal Credit, the parent will continue to be entitled to Tax-Free Childcare top-up payments until the end of their current entitlement period. There will therefore be a limited period where a parent is eligible for both schemes. Box 2.C below provides examples of how parents will move between the different schemes.

Box 2.C: Case studies of families with changing circumstances

Ms Wilson – change of household

Ms Wilson lives with her partner and her four-year-old child. Ms Wilson works full time and starts claiming Tax-Free Childcare in January 2016. However, in February Ms Wilson's partner moves out of the household.

Ms Wilson calculates that she will now be better off claiming tax credits so makes a claim. Ms Wilson starts claiming tax credits following a change in her circumstances; therefore she is entitled to Tax-Free Childcare for the remainder of the current entitlement period.

Ms Wilson starts receiving tax credits payments in March. At the end of the Tax-Free Childcare entitlement period, Ms Wilson does not reconfirm and Tax-Free Childcare 'top-ups' cease.

Ms Wilson has £150 in her Tax-Free Childcare account when her quarterly entitlement period ends. She is able to use this money with an approved childcare provider (see paragraph 4.27), and her tax credits award will not be adjusted or reduced because of this money.

Mr Singh – changes in working hours

Mr Singh is a lone parent with two children. He works for an estate agency and regularly works 35 hours per week. Mr Singh registers for Tax-Free Childcare in May 2016.

At the end of May 2016, Mr Singh's shifts are reduced to eight hours a week. He would be better off on Universal Credit, so Mr Singh makes a claim to Universal Credit.

Mr Singh moves to Universal Credit because of his change in personal circumstances, therefore his Tax-Free Childcare claim was valid.

Mr Singh does not reconfirm his eligibility for Tax-Free Childcare at the end of his current quarterly entitlement period, and his 'top-up' payments cease at that point. He is still able to use any money in his account with an approved childcare provider, and his Universal Credit award will not be adjusted or reduced because of this money.

Qualifying childcare

2.75 Tax-Free Childcare will support parents with the costs of childcare that is formally registered or approved. This can include childcare provided by nurseries, play-schemes, childminders, nannies and school-based care.

2.76 Tax-Free Childcare will define 'registered and approved' childcare in the same way as tax credits, Universal Credit and Employer-Supported Childcare. The Government wants to make it straightforward for parents to move between the schemes and does not want to ask parents to switch childcare providers to access different schemes. Childcare must be registered with Ofsted in England, with equivalent authorities in Scotland, Wales and Northern Ireland, or other recognised, regulatory bodies.

2.77 As with tax credits, if a parent employs someone as a registered or approved home childcare provider the parent will be able to use Tax-Free Childcare to pay for the gross costs of employment.

3 Childcare accounts

Working families will access Tax-Free Childcare support through childcare accounts. Chapter 3 outlines how these accounts will work. It also explains that National Savings and Investments (NS&I) will be the scheme's account provider, working in partnership with HMRC.

The key points are:

- Tax-Free Childcare will provide working families with 20 per cent support towards qualifying childcare costs, up to £2,000 per child per year;
- an analysis of the options for delivering Tax-Free Childcare; and
- the benefits that HMRC working in partnership with NS&I will bring:
  - for parents in significantly simplifying their access to Tax-Free Childcare through a single contact point, the absence of administration fees and the certainty that money in their account is safe, and the enabling of a faster rollout of the scheme;
  - for childcare providers by reducing complexity, offering a sole source of Tax-Free Childcare funds; and
  - for taxpayers by reducing costs and complexity to administer the scheme, and reducing the opportunity for fraud and criminal attacks on the system.

3.1 Childcare accounts will be central to the delivery of the Tax-Free Childcare scheme. They will act as an intermediary between parents and childcare providers. Eligible parents will be able to open a childcare account online; pay money towards their childcare costs into that account; and have the payments topped up automatically by the Government at a rate of 20 per cent, up to an annual cap of £2,000 Government support per child. They will then allocate this money to the qualifying childcare provider(s) of their choice, with the account provider making the payment direct to the childcare provider(s).

3.2 The consultation document asked questions about:

- the right market structure for administering a large-scale scheme of support towards childcare costs;
- how to keep administration costs low; and
- how to protect money in childcare accounts and safeguard personal data.

3.3 The key themes voiced by stakeholders during the consultation period were:

- parents value the key features which childcare accounts will deliver: convenience, simplicity and flexibility;

- there was a range of views on the right structure for the provision and operation of accounts; and
- all stakeholders agreed on the need for parents' money and data to be held securely.

Childcare accounts

3.4 Childcare accounts are an easy way of managing childcare costs as they are simple to operate, give parents flexibility and control, and allow timely payments to childcare providers. They also help to ensure that taxpayers' money is spent on its intended purpose.

3.5 The consultation document set out the basics of how childcare accounts will work. Parents will open an account, then pay money towards childcare costs into the account, with the Government paying a top-up to their contribution. Parents will be able to use this topped-up credit with the qualifying childcare provider (or providers) of their choice.

3.6 Box 3.A and Chart 3.A set out how childcare accounts will work under Tax-Free Childcare.

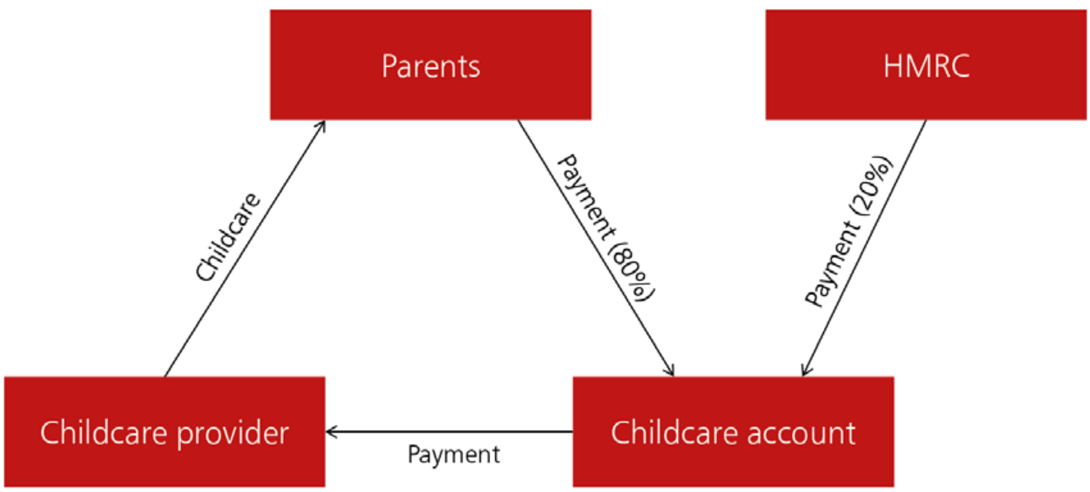
Box 3.A: Operation of Tax-Free Childcare

To receive Tax-Free Childcare, a working family will register with the Government who will check their eligibility.

The family will then pay money into their Tax-Free Childcare account, similar to a regular bank transfer. The Government will top up the family's payment, at a rate of 20p for every 80p the family pays in. The amount that the Government will contribute is subject to a limit of £2,000 per child, per year. This is the equivalent of basic-rate tax relief on childcare costs up to £10,000.

The family will then be able to use this money to pay one or more qualifying childcare providers for childcare.

Chart 3.A: Operation of Tax-Free Childcare



Delivering registration and childcare account services

3.7 An important question for the smooth delivery of Tax-Free Childcare is who will run childcare accounts. Tax-Free Childcare represents a move to a new business model, which is not dependent on employers and which will significantly widen access to Government support. This will mean any account provider having contact with and facilitating payments for a much greater number of individual customers than is the case for the existing scheme, Employer-Supported Childcare.

3.8 The consultation document set out a range of possible options for delivering registration and childcare account services for Tax-Free Childcare, ranging from a single or limited number of appointed provider(s) or an unlimited number of suppliers. To appraise the options, the Government said that it wanted to develop a childcare account system that is:

- simple – easy for parents to understand and join so that Tax-Free Childcare is widely taken up;
- efficient – low costs to childcare account providers, the Government, parents and childcare providers of establishing, maintaining and participating in the scheme;
- competitive – competition in the market for voucher provision (or competition for the market) which ensures that parents benefit as much as possible from Government support;
- secure – parents are protected if childcare account providers fail or make errors, fraud is mitigated and personal information is handled securely; and
- responsive – minimising the time between parents paying into their account, the government top-up being received, and payments made to childcare providers, and ensuring that changes of circumstances are quickly and effectively accounted for.

3.9 Other key issues that the Government considered to determine the market structure were:

- the impact of different market structures on parents' willingness to take up the scheme, and the complexity of choices and information required;
- which structure would produce high service standards at the lowest cost;
- the balance between regulation to protect money in the account and the costs these might place on account providers; and
- ensuring as great a proportion as possible of the Government's support funds childcare rather than the administration of the scheme.

3.10 The Government wants as much as possible of its support to go directly to parents. The administrative costs of the current scheme, Employer-Supported Childcare, are funded by the Government via a National Insurance Contributions (NICs) disregard as received by the employer. Employees generally receive the support via a salary sacrifice arrangement, and the employer does not pay employer NICs on the amount sacrificed. Employers generally use the substantive NICs saving to pay for the cost of the provision of the account. By contrast, in Tax-Free Childcare, the Government expects a significantly greater proportion of its overall support to go direct to parents to help them with the costs of childcare.

3.11 There were mixed views from stakeholders during the consultation period on how Tax-Free Childcare accounts should be delivered. However, a clear theme from stakeholders was that a simple and straightforward parent experience was a key way of ensuring that as many parents as possible would receive support through Tax-Free Childcare. It was also noted that a simple scheme would reduce administration costs for childcare providers.

3.12 There were a number of views on how to make the scheme as efficient as possible, so that administrative costs could be kept down for parents, childcare providers and the Government. Many stakeholders stressed that it would be important to keep the overall design of Tax-Free Childcare as simple as possible. It was suggested that one way to do this was for the Government rather than account providers to perform most eligibility and compliance checks.

3.13 A number of existing voucher providers and their main representative body – the Childcare Voucher Providers Association – suggested that, to keep administration costs down, there should be a significant mandatory employer role in Tax-Free Childcare, as dealing individually with parents would be more complex and costly.

3.14 The Government is keen for those employers that wish to play a role in Tax-Free Childcare to be able to do so; details on how employers can play a role are outlined in paragraphs 4.30-4.37. However, the Government strongly believes that employers should not be mandated to play a role, such as being compelled to offer access to the scheme or performing eligibility checks on their employees and their partners. This would impose significant burdens on employers – disproportionately on small businesses with relatively few employees. Tax-Free Childcare is intended to be a simple system extending support on an equal basis to those who do not have access to Employer-Supported Childcare, including the self-employed. The Government wants to avoid creating a complex two-tier system dependant on whether parents are employed or self-employed – indeed many parents are likely to have income from both sources.

3.15 Most existing voucher providers in the Employer-Supported Childcare scheme preferred an open market approach, with either an 'accredited provider' model or a lighter touch regulatory option. An independent economic consultancy – Economic Insight – was asked to consider whether there are any reasons why a competitive market for childcare accounts might not function well. It compared it to a closed model in which there is competition to select a limited number of childcare account providers. It concluded that there were no reasons why a competitive market could not function effectively as parents would be able to assess the differences between the offers and choose accordingly. The report is published alongside this document at www.gov.uk/government/consultations/tax-free-childcare.

3.16 However, our overall engagement with stakeholders representing parents and childcare providers has shown less support for an open market approach. While parents may be able to shop around, this isn't necessarily what they want from Tax-Free Childcare. There was reluctance for parents to have to decide between or negotiate with a large number of account providers, and it was considered that some might find having to choose between a number of options time-consuming, potentially confusing and therefore off-putting. Parents want certainty that Tax-Free Childcare will be a simple, user friendly and efficient scheme that they can easily pay into, which can transmit payments quickly to their childcare provider, and where they have a guarantee that their money and data are secure. Parents have not told us that their priority is having a wide choice of childcare account provider.

3.17 The security of accounts in Tax-Free Childcare will also be very important. On data security, it was accepted that compliance with the Data Protection Act is the right place to start. Some respondents proposed going further, but there was acknowledgment that this could be prohibitive for smaller businesses wishing to become account providers.

3.18 All respondents agreed that the protection of parents' money in accounts will be absolutely critical to the success of Tax-Free Childcare. Parents will only receive Government top-ups once they have put their own money into the account; they need to know that that their money is safe and secure before investing in the scheme. However, there was no consensus on how this could be best achieved. Many existing voucher providers suggested separating account providers' funds from parents' money. However, other existing voucher providers expressed concerns about the prohibitive costs that this or other approaches to protecting money could impose.

3.19 Safeguarding parents' funds will be vital in Tax-Free Childcare. The consultation responses confirmed this. Parents were clear that for the scheme to work, they would need to have complete confidence that their money is safe. Other responses noted that the extent to which funds could be protected in any of the market structures set out had to be considered against the costs that they would impose, and the proportionality of potential regulatory regimes which could be needed. It is also clear that simplicity of account provision, as with the rest of the design of Tax-Free Childcare, is what many parents want and is therefore critical for its success.

National Savings and Investments

3.20 During the consultation process, the Government considered the option of delivering Tax-Free Childcare itself, using NS&I – an Executive Agency of HM Treasury – as delivery partner. This would provide greater simplicity for parents through engaging with a single point of contact. It would provide a smooth customer experience for parents and childcare providers; ensure that parents' money and data is safe and secure; and minimise cost and complexity for the Government.

3.21 The Government believes that there are significant advantages from the model of NS&I working in partnership with HMRC:

- parents will benefit from simple access to Tax-Free Childcare through a one-stop customer journey, the absence of administration fees and the certainty that money in their accounts is safe;
- childcare providers will benefit from the reduced complexity, with the Government offering a sole source of Tax-Free Childcare funds; and
- taxpayers will benefit from minimising the cost and complexity of administering the scheme, and the reduction in the opportunity for fraud and criminal attacks on the system.

3.22 The Government has therefore decided that NS&I will be HMRCs delivery partner for account provision within Tax-Free Childcare. It believes that this approach is the best way to meet the priorities of parents and childcare providers: to make the scheme as simple and secure as possible.

3.23 Parents will not need to spend time shopping around and comparing account providers' schemes. Instead, they will register, complete eligibility checks, notify any changes, and manage their account and payments all in one place, rather than having to engage with both an account provider and the Government. There will be no need for negotiation with account providers about the services that they will provide and whether parents will face any additional fees or charges. The 20 per cent support that parents receive from the Government will be protected and guaranteed.

3.24 Parents will also benefit from absolute certainty that their money invested in childcare accounts is safe, as it will be Government-backed. NS&I is one of the largest savings organisations in the UK with over 25 million customers and it already has a strong reputation as an organisation that can be trusted. Childcare providers will also get the benefit of this certainty, which will ensure that they receive a reliable cash flow.

3.25 NS&I is able to share the benefits of its public procurement with other public bodies by offering payment services at rates which reflect the economies of scale afforded by being part of a larger contract, providing savings for the taxpayer. The partnership between NS&I and HMRC will deliver a joined-up approach to the online and back-office services to register parents onto Tax-Free Childcare and check their eligibility, benefitting the Government in terms of reduced cost and complexity in delivering the scheme compared to open market options.

3.26 Providing Tax-Free Childcare through a single Government gateway provides a simple user experience for parents, engaging with a single point of contact from initial registration, through eligibility checks and confirmation, to running their account. An integrated process makes the scheme more responsive and flexible, and so improves parents' experience should any issues arise, as parents can resolve these direct with the Government rather than multiple contact points.

3.27 NS&I's ability to use their existing capability will allow swift development of the infrastructure needed to deliver Tax-Free Childcare. This will ensure that the accelerated roll out outlined in Chapter 2 will be as smooth as possible.

3.28 In summary, the Government is confident that, for the reasons set out above, using NS&I is the best way to ensure that Tax-Free Childcare will be a simple and straightforward customer experience for parents and childcare providers; that parents' money will be secure; that support can be rolled out to all eligible working families within the first year of the scheme's operation; and that it reduces the opportunity for fraud and criminal attacks.

3.29 In its Open Public Services White Paper in July 2011, the Government committed that, wherever possible, it will seek to increase choice over the public services that people use. Giving people greater control over their public services and opening up the delivery of those services to a diverse set of providers will lead to better and more innovative public services for all. In the case of childcare account provision, however, having considered responses to our consultation, we heard that parents' priority was simplicity and convenience, as can be delivered in partnership with NS&I, rather than choice. Parents will of course have choice in childcare provision itself.

4 Customer experience

Tax-Free Childcare will be a simple scheme offering working families 20 per cent support towards childcare costs. Chapter 4 explains how childcare accounts will be opened and closed and how payments into and out of the accounts will be made.

It also sets out how the entitlement period and top-up cap for Tax-Free Childcare will work for parents, and how employers can play a role in Tax-Free Childcare if they wish to do so.

The key points are:

- Tax-Free Childcare will be a simple, user-friendly scheme, operated through online childcare accounts;
- eligible families will receive 20 per cent support towards their childcare costs up to an annual limit of £2,000 Government support per child;
- quarterly entitlement periods will give parents confidence that they will continue to receive support, regardless of any immediate changes in circumstances; and
- a range of features – such as the ability for multiple people or parties to pay into individual childcare accounts, and for parents to accrue credit – will ensure that Tax-Free Childcare is a smooth and flexible scheme for parents.

4.1 In order for Tax-Free Childcare to be as effective as possible, the system must be flexible, simple and secure for parents and make timely and efficient payments to childcare providers. Childcare accounts will be at the heart of this process. It must be easy for parents to open and pay into these accounts, and they should be able to use their money at one or more qualifying childcare providers of their choice at a time that meets their needs. They should also have confidence that their information is secure and the money held in Tax-Free Childcare accounts is safe.

4.2 The consultation document asked questions about:

- the features that the Tax-Free Childcare system should have to ensure that it meets the requirements of parents and childcare providers;
- how Tax-Free Childcare should deal with changes of circumstances;
- how the annual cap on Government support per child per year should be applied; and
- potential voluntary roles for employers and other third parties in Tax-Free Childcare.

4.3 The key issues raised during the consultation period were:

- childcare accounts must be easy to open and operate for parents, making full use of digital channels whilst also offering appropriate support for those without digital access;
- the payment system must work in a fast, accurate manner, with payment to childcare providers clearly attributed to a particular child;

- stakeholders stressed that the proposed cap on Government support of £1,200 per child would mean that many families do not receive 20 per cent support towards their childcare costs, as their costs exceed £6,000;
- parents should have as much flexibility as possible whilst operating Tax-Free Childcare, for example around the application of the top-up cap, and the use of accrued credit if they become ineligible for Tax-Free Childcare;
- parents should have a 'grace period' when they lose eligibility for Tax-Free Childcare;
- the system must be able to cope with monthly or annual peaks in operational activity;
- qualifying childcare must be readily identifiable; and
- there was interest from parents for employers to play a role in Tax-Free Childcare where possible. There was interest in doing so from a number of the large public and private employers with whom the Government has engaged.

Ease and simplicity

4.4 A key theme of consultation responses was the need for the Tax-Free Childcare scheme to be as easy, simple and accessible as possible for parents. The Government agrees, and will ensure that this is met in a number of ways. For example:

- Tax-Free Childcare will be easily accessible via online accounts, with assisted approaches for those without access to the internet;
- the Government will allow multiple people or parties to pay into childcare accounts. This will enable all parents to make contributions, as well as giving other family members, parents' employers and other parties the opportunity to contribute;
- parents will be able to make additional payments (which would not attract Government top-ups) where a child's childcare costs exceed £10,000, to allow parents to manage their entire costs in one place;
- parents will be able to build up balances in their childcare accounts, for example to use over the summer holidays;
- quarterly reconfirmation will be done via a light touch process, with no need for parents to enter all of their personal details again;
- the 'reconfirmation window' will last for around three weeks, enabling parents to reconfirm at a time that suits them. Where a parent misses the reconfirmation deadline, they can easily restart entitlement at any time by notifying continuing (or renewed) eligibility;
- the Government will align entitlement periods for siblings so that parents will only need to log-in once to reconfirm eligibility for all children. There will be a single log-in service where parents have accounts for multiple children;
- each childcare account will have a unique identifier. All transactions between the Government and childcare providers will include this reference, to enable them to readily identify an account and allocate funds accordingly. This will ensure that Tax-Free Childcare avoids a problem frequently experienced in Employer-Supported Childcare, where childcare providers often cannot easily identify for which child the payments from a voucher provider relate; and

- the Government will allow parents to withdraw money from their childcare account, should they wish to do so, with parents' contributions returned to them, and Government top-ups returned to the Government.

Opening and operating childcare accounts

4.5 In their responses to the consultation, stakeholders emphasised that there must be a smooth and simple customer experience in order to ensure that parents are attracted to use Tax-Free Childcare. This must be balanced with ensuring that there are sufficient checks built in to minimise fraud, error and debt. This section sets out how Tax-Free Childcare will provide a smooth customer experience in a secure system.

Opening a childcare account

4.6 In order to access support through Tax-Free Childcare, working parents will open an online childcare account for each child for whom they wish to claim Tax-Free Childcare. Assisted approaches will be available for those who cannot otherwise access online channels.

4.7 Box 4.A shows how parents will open a Tax-Free Childcare account.

Box 4.A: The process for opening a Tax-Free Childcare account

1. Parents will be directed to an online registration portal where they can open a Tax-Free Childcare account.
2. Parents will be asked to provide sufficient information to validate their identity.
3. Parents will then be able to complete the online application for Tax-Free Childcare. Parents will provide information and declarations to show that they are eligible for the scheme, such as details about their child, their work and their household. Chapter 2 provides more information on eligibility criteria.
4. The Government will generally confirm eligibility within a few days. Parents will then be able to start paying money into the account, receive Government top-ups and use the money to pay for childcare.

Should the Government determine that the parent is not eligible, they will be advised accordingly. The parent will be informed how to re-apply if, for example, they had inadvertently made a mistake in the information they provided, causing their application to fail. Parents will also have the right of appeal, and will be provided with the relevant information.

Payments and Government top-ups

4.8 Parents' contributions to a childcare account will be topped-up by the Government at a rate of 20p for every 80p paid in. At Budget 2013, the Government announced that Government support will be limited to £1,200 per child per year, meaning that parents will be able to receive top-ups on contributions up to £4,800. This would be the equivalent of basic-rate tax relief on childcare costs of up £6,000 per child.

4.9 Parents and other stakeholders told us that this would mean that many parents would not receive 20 per cent support towards their childcare costs, as they exceed £6,000. The Government is therefore increasing the support available to eligible families to £2,000 per child. In this way, Tax-Free Childcare will provide the equivalent of basic-rate tax relief on childcare costs up to £10,000.

4.10 In keeping with stakeholder feedback, parents will be able to use a range of payment methods to pay into their childcare account. Parents will also be able to readily identify how much top-up they have used in the current entitlement period, and therefore how much they have remaining – although, as explained in paragraph 4.4, they will be able to make additional payments (which would not attract top-ups) into their account.

4.11 The Government recognises that many parents will wish to pay money into their Tax-Free Childcare account close to the time that they need to pay their childcare provider. The top-up process will be quick and efficient.

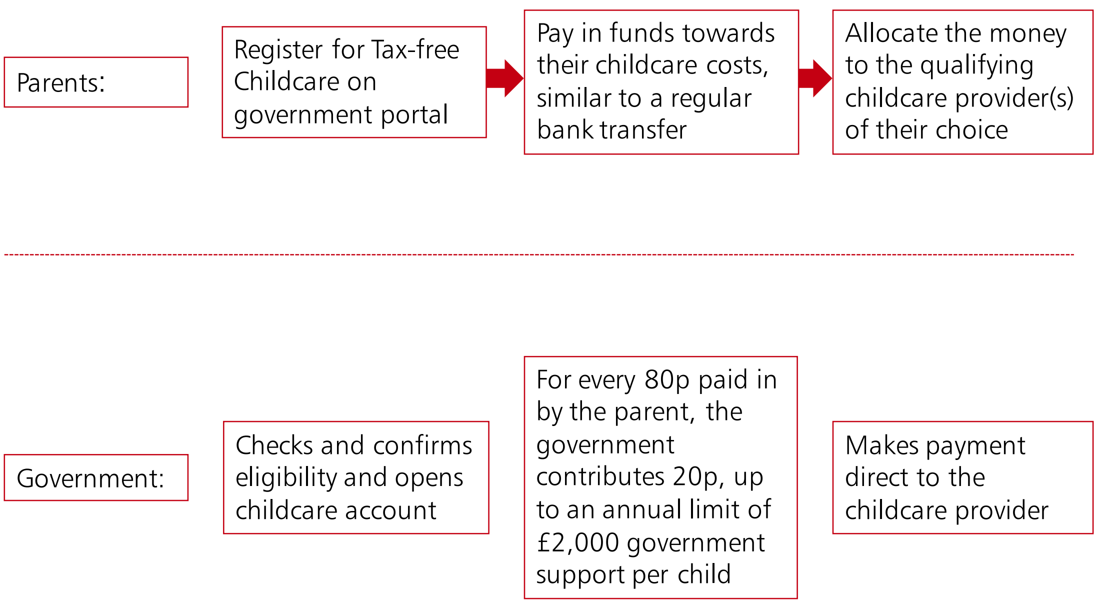
Making payments to childcare providers

4.12 For Tax-Free Childcare to be a smooth, effective and flexible scheme, parents must be able to make payments to the qualifying childcare provider(s) of their choice, at the time of their choosing. The vast majority of childcare providers are small organisations or self-employed, and they will want to be paid on time with any administration kept to a minimum, so that they can focus on providing high quality childcare.

4.13 There will be a simple process for parents making payments to childcare providers in Tax-Free Childcare. Parents will log into their childcare account and set up either one-off or regular payments to the qualifying childcare provider(s) of their choice – similar to payments made via online banking. Childcare providers will receive the funds with a unique identifier so that they can easily identify for which child the payment relates.

4.14 Chart 4.A shows how parents will open a Tax-Free Childcare account, make payments, receive top-ups and pay one or more childcare provider(s).

Chart 4.A: The process for opening and operating a Tax-Free Childcare account



Entitlement period

4.15 People's circumstances can change, and this is likely to mean that some parents will fall in and out of eligibility for Tax-Free Childcare. Parents may face:

- periods of temporary unemployment;
- fluctuations in income; or

- changes in household composition – for example, a new household being formed between a parent claiming Tax-Free Childcare and a parent claiming tax credits or Universal Credit.

4.16 However, the Government wishes to avoid situations where parents have to reapply regularly for different schemes, or where parents are regularly required to pay overpayments back to the Government, or are subjected to intrusive compliance checks.

4.17 Tax-Free Childcare will therefore operate on a fixed quarterly entitlement period. Once a parent meets the eligibility conditions when they register for Tax-Free Childcare and open a childcare account, an entitlement period of approximately three months will start; entitlement will run until the end of that period. The parent will be required to reconfirm their continuing eligibility towards the end of each entitlement period in order for entitlement to continue into the next period. Timely reconfirmations will be the best way for parents to ensure that payments into and out of their childcare accounts can continue smoothly and uninterrupted. If the parent makes no reconfirmation, their entitlement will cease at the end of the current entitlement period, but they will be able to easily restart entitlement at any time by notifying continuing (or renewed) eligibility.

4.18 The quarterly reconfirmation process will mean that payments to ineligible parents will be significantly reduced, diminishing the need for parents to subsequently pay back money. It will also give parents certainty that they will receive top-ups for the whole period regardless of any unexpected changes in their circumstances. It will also eliminate the need for parents to report (and the Government to process) changes in circumstances as a separate requirement. Instead this will all be done as part of the reconfirmation.

4.19 During the consultation, childcare providers emphasised the importance of ensuring that entitlement period end dates do not coincide with the end of the month, when they would be most likely to disrupt payment. Entitlement period end dates will therefore be set around the middle of each month; to achieve this, the first entitlement period is likely to be slightly shorter or longer than three months. Entitlement period end dates will be clearly visible to all parents using Tax-Free Childcare, with parents receiving timely reminders as they approach the end of each period.

4.20 Tax-Free Childcare will operate on the basis of one account per child. Where a parent has accounts for two or more children, there will be a user-friendly interface, allowing one log-in to view both or all accounts. Where parents have more than one qualifying child, the entitlement periods for their children will be aligned to ensure as simple a process as possible for parents.

Application of the top-up cap

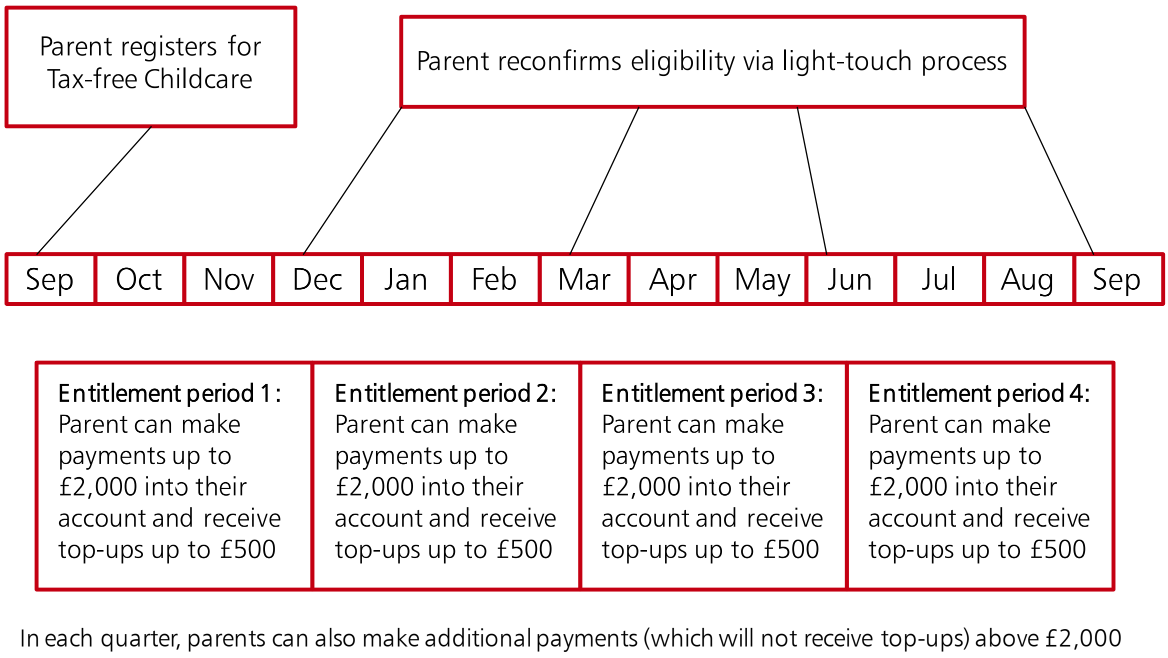
4.21 The consultation document sought views on applying the cap on Government support for each child monthly. Many stakeholders felt that this would be too restrictive, in particular for those on low or fluctuating incomes, such as those on zero hours contracts and the self-employed.

4.22 In light of this, and given the use of a quarterly entitlement period, the Government has decided that a quarterly top-up cap (of £500 on parent contributions up to £2,000) should be applied. This longer top-up period will support those on low and fluctuating incomes, whilst aligning the entitlement and top-up periods will ensure that the system is simple for parents to understand and operate. The top-up cap will be flexible: parents can make one quarterly contribution of £2,000 and receive the full £500 top-up immediately, or may wish to spread out contributions (and therefore the tops-ups) across the entitlement period, for example in three monthly payments.

4.23 Where parents have longer or shorter initial entitlement periods (see paragraph 4.19) the top-up cap will be pro-rated to ensure a consistent maximum level of support for all parents.

4.24 Chart 4.B illustrates how the fixed quarterly entitlement system and top-up cap will work.

Chart 4.B: Quarterly entitlement period and top-up cap



Closing accounts and getting refunds

4.25 Parents may wish to build up balances in their childcare accounts over time, for example to use over the summer holidays. In some cases, parents might have built up credit and then want to close their account – they may, for example, no longer need childcare. If parents have credit in their childcare account which they no longer wish to redeem, they will be able get their contributions back; any remaining top-ups would be returned to the Government.

4.26 Parents will also be able to request a withdrawal, or partial withdrawal, from their account without needing to close the account. As with account closures, this will trigger a corresponding repayment of top-up to the Government. In order to prevent childcare accounts being used as a substitute for a standard bank account there may be a limit on the number of free withdrawals allowed.

4.27 There are also various scenarios where parents may stop paying in – they might have become ineligible – but still wish to use their accrued credit. The consultation document asked stakeholders for their views on when parents should be able to spend saved-up credit. Having considered these contributions, the Government has decided that where parents lose eligibility for Tax-Free Childcare they should be able to used saved-up credit to pay for qualifying childcare as below:

- where the child has reached the upper age limit, the childcare account will remain open for 12 months, after which parents' contributions will be returned to parents and Government top-ups to the Government; and
- in all other situations where a parent becomes ineligible, the childcare account will remain open for two years, after which parents' contributions will be returned to

parents and Government top-ups to the Government. This gives more flexibility, for example, to parents who had accumulated credit before taking a career break, enabling them to use the credit when they return to work. The Government feels that two years strikes the right balance between allowing as much flexibility as possible for parents without allowing the credit (including taxpayers' money) to run on indefinitely.

4.28 When an account that still contains funds is closed due to the time that has elapsed since eligibility ceased, any remaining payments will be returned to the parent and any remaining top-ups paid back to the Government. Where parents become ineligible and there are no topped-up funds in the account, rather than keep the account open for 12 or 24 months, the Government may seek to close the account more quickly.

4.29 The consultation document noted that, even where parents remain eligible, there may be situations where accounts are left open and in credit for long periods without use, and said the Government would explore how to define and treat 'dormant accounts' in order to manage the risk that parents' and the Government's money is lying unintentionally unused. One option for doing this would be via a credit validity period. However, the quarterly entitlement period approach addresses this concern. Provided that parents remain eligible for Tax-Free Childcare and continue to reconfirm eligibility each quarter, there will be no expiry date on any credit they build up. If parents do not reconfirm, as outlined in paragraph 4.27, their account will remain open for up to two years. If parents notify the Government of continuing (or renewed) eligibility, credit will not be subject to the expiry date.

The role of employers

4.30 Employers play an important role in Employer-Supported Childcare – indeed the scheme is only available where a parent has an employer who wishes to offer it. However, less than 5 per cent of employers offer Employer-Supported Childcare and more than half of employees cannot access support.[1]

4.31 The Government wants to expand support to all eligible parents, regardless of their employer. However, the Government took the important decision not to mandate employers to offer Employer-Supported Childcare to their employees. This would have been an unwelcome burden on business, particularly for the small- and medium-sized businesses which form the backbone of the UK economy. It would also not address the other weaknesses of Employer-Supported Childcare, such as the lack of support for the self-employed and the unequal and unfair basis on which payments are made.

4.32 Instead, the Government announced Tax-Free Childcare, through which all eligible parents can receive support with their childcare costs, regardless of their employer, on a fair and equal basis. The Government also committed to explore how employers could play a role in Tax-Free Childcare if they wish to do so.

4.33 Consultation responses show that employers that offer Employer-Supported Childcare like helping their employees with childcare costs, and value offering a family-friendly employee package. They believe that the more support they offer staff, the more they can minimise disruption to the workplace because of childcare issues – and the more they can improve the employer-employee bond, driving increased employee loyalty. The consultation process also confirmed that there is support from parents for employers to play a role where possible.

[1] Further information on these statistics is set out in Annex B.

4.34 The Government has worked with a number of large public and private sector employers and their representative bodies to scope out how employers can play a role in Tax-Free Childcare if they wish to do so. This can be via a light-touch process of acting as a source of information, or being more closely involved, making payments into their employee's childcare accounts, as is shown in Chart 4.C and Box 4.B.

Chart 4.C: Possible voluntary employer roles in Tax-Free Childcare

Information

Employer refers employee to government web portal for advice on Tax-free Childcare

No further employer role

There will also be other means for parents to hear about Tax-free Childcare, such as via their childcare provider, HMRC or a third party

Payment

Employer pays into employees' childcare accounts either through net pay or additional payments

This could be done as one bulk payment

Employees can make additional payments as required – or opt to make their own arrangements if they prefer

Box 4.B: Voluntary employer role in Tax-Free Childcare

Information role

- This role may be popular amongst employers who do not currently offer Employer-Supported Childcare.
- Employers may pass information onto employees, for example, prior to and when they return from periods of parental leave.

Payment role

- Employers make payments into employees' childcare accounts either via net pay or as additional payments.[2] In keeping with stakeholder feedback, employers will be able to make payments in bulk. Employer payments would provide ease and simplicity for employees, who would not have to make payments themselves.
- Parents would retain the ability to make additional payments into accounts. This would allow, for example, where couples wish to split their childcare costs, one member of the couple to pay in via their employer and the other member to make a payment themselves – or also via their employer.
- This role will not require employers to take on any wider responsibilities, such as checking employees' eligibility or finding out information about their partners. This would remain the responsibility of the Government.

4.35 The Government recognises that many employers will not wish to play a substantive role in Tax-Free Childcare. The scheme will allow this, and, unlike at present, their employees will still be able to receive support. Where employers do wish to play a *Payment* role, for many this will be

[2] Any payment made by an employer into an employee's childcare account which is in addition to agreed cash remuneration will be classed as earnings. The employee will be liable to income tax and Class 1 National Insurance Contributions on the amount paid. The employer will also be subject to employer Class 1 National Insurance Contributions on the same amount.

simple to operate and relatively inexpensive. Tax-Free Childcare will have a number of potential benefits for employees and employers, as summarised in Box 4.C.

Box 4.C: Potential benefits of employer role in Tax-Free Childcare

For employees:

- Employees indicated in the online questionnaire which formed part of the consultation process that they would welcome their employer playing a role in Tax-Free Childcare.
- Under the *Payment* role, parents would not have to make or budget for payments themselves; they would be made automatically.

For employers:

- Employers will be able to continue to offer support as part of a family-friendly employee package, with employees receiving support with their childcare costs.
- The *Information* role would be relatively low cost for employers.
- The *Payment* role would be relatively simple to operate – and could be made via one bulk payment. Unlike in Employer-Supported Childcare, employers would not be required to complete Basic Earnings Assessments or check remaining pay against the National Minimum Wage.
- When payments are made through net pay, this would be likely to take a payroll administrator no more than a few hours per month, depending on the software available and the number of employees, so would have a cost to the employer of at most a few thousand pounds per year. Employers and payroll and HR experts have suggested that some employers may consider this a small price to pay for being able to support their staff and continue offering help with childcare in a family-friendly employee benefits package. However, the Government recognises that this will be an economic decision to be made by individual employers.
- If employers wish to ensure that their employees receive support without their (remaining) pay being reduced, they can make contributions into their employees' childcare accounts as additional support.[3] This may be attractive for those employers who currently offer Employer-Supported Childcare on a 'salary plus' basis, although, as above, this will be an economic decision to be made by individual employers.
- Where employers choose to play a role in Tax-Free Childcare, as childcare accounts will be provided by the Government, employers will not face any costs, such as account provider fees, beyond their own administration costs.

4.36 As part of the consultation the Government engaged in detailed discussions with a small number of large public and private sector employers. A number of these employers were interested in adopting the *Payment* role in Tax-Free Childcare, although the Government recognises that the relationship between the employer and account provider will be important. The Government will continue to engage with employers and employer groups ahead of the introduction of Tax-Free Childcare to allow them to make the necessary preparations.

[3] Any payment made by an employer into an employee's childcare account which is in addition to agreed cash remuneration will be classed as earnings. The employee will be liable to income tax and Class 1 National Insurance Contributions on the amount paid. The employer will also be subject to employer Class 1 National Insurance Contributions on the same amount.

4.37 Employers that offer Employer-Supported Childcare will be able to continue offering the scheme to existing members for as long as they wish to do so. In addition, workplace nurseries will not be affected by the introduction of Tax-Free Childcare.

5 Information and validation

For it to be a successful scheme, Tax-Free Childcare needs to be simple, secure and responsive for all parties.

Parents must find it easy to access and engage with the scheme, understand what information they need to provide, why they need to do so, and when to provide it. The interplay between each of the main parties involved in the scheme – parents, childcare providers and the Government – will need to be underpinned by effective flows of information.

Chapter 5 outlines how parents will engage with Tax-Free Childcare, the information flows required to successfully operate the scheme, the validation checks that will be applied at each stage, and thus how the scheme will be safeguarded against fraud, error and debt.

The key points are:

- Tax-Free Childcare will be easy and simple for parents to use, in line with the Government's stated 'digital by default' ambitions; and
- the Government will undertake robust upfront checks at registration. In line with stakeholder feedback, this 'check-now, pay-later' approach will minimise the potential for fraud, error and debt in the new scheme.

5.1 Tax-Free Childcare will provide a smooth and effective means of delivering support to working families with childcare costs, whilst having sufficient in-built protections to safeguard it against fraud, error and debt.

5.2 The consultation document asked questions about:

- the application process;
- the responsibilities and information requirements of parents, childcare account providers, childcare providers and the Government, and the information flows between these parties;
- necessary validation processes;
- the payment and top-up process; and
- the Government's responsibility to minimise fraud, error and debt.

5.3 The key issues raised during the consultation were:

- parents wanted a simple scheme;
- respondents felt that the proposed registration information requirements appeared appropriate and proportionate to enable the Government to confirm parents' eligibility;

- responses suggested that parents should register for Tax-Free Childcare via a single portal;
- all stakeholders recognised the Government remained the final arbiters in confirming a parent's eligibility;
- there was acceptance of the need for the Government to undertake robust upfront checks to ensure parents' eligibility and minimise the potential for error and fraud, while ensuring this activity does not overly burden parents;
- self-employed parent groups supported proposals to check self-employed income details based on year-end returns (as opposed to in-year checks);
- all respondents believed that the Government needs to ensure that parents' eligibility is determined within a few days at most. Parents accepted that authorisation should be finalised before the Government pays any top-up payments in order to minimise the potential for payments to be made in error, as this would require subsequent debt recovery from parents;
- respondents felt that the Government needs to identify parents who become ineligible quickly to ensure that the account provider does not request top-ups from HMRC in these cases;
- respondents said that the Government should always provide parents with the necessary information to explain why an application for Tax-Free Childcare was refused, signposting to an appeals process where parents dispute a decision; and
- there was recognition of the benefits of dealing with changes of circumstances via light-touch quarterly reconfirmations rather than them having to be reported in real-time.

Developing Tax-Free Childcare as an online system

5.4 In order to ensure that it is simple and flexible for parents to use, Tax-Free Childcare will be developed as a 'digital by default' scheme – placing it at the heart of the Government's future digital ambitions. Parents will register for the scheme via an online Government portal, and in the vast majority of cases will not be required to submit any documentary evidence to support their application. As is described later in this chapter, the Government will undertake proportionate upfront checks to confirm applicants' eligibility to use the scheme. Registration, being in one place, should however be completed in just a few days. Once approved, an online account will be opened enabling parents to pay in money and receive top-ups.

5.5 Whilst fundamentally a digital process, the Government recognises that there will be small numbers of parents who are unable to engage with the scheme via online means. Tax-Free Childcare will ensure that appropriate assistance is available to allow such parents to engage with the scheme and gain access to support. In addition, any childcare provider which does not have access to digital channels will be able to contact National Savings and Investments (NS&I) by phone.

Registration for Tax-Free Childcare

5.6 The consultation document proposed three options for parental registration for Tax-Free Childcare:

- Option A – registering via an account provider;
- Option B – registering via Government channels; and
- Option C – registering via Government and a third party compliance agent.

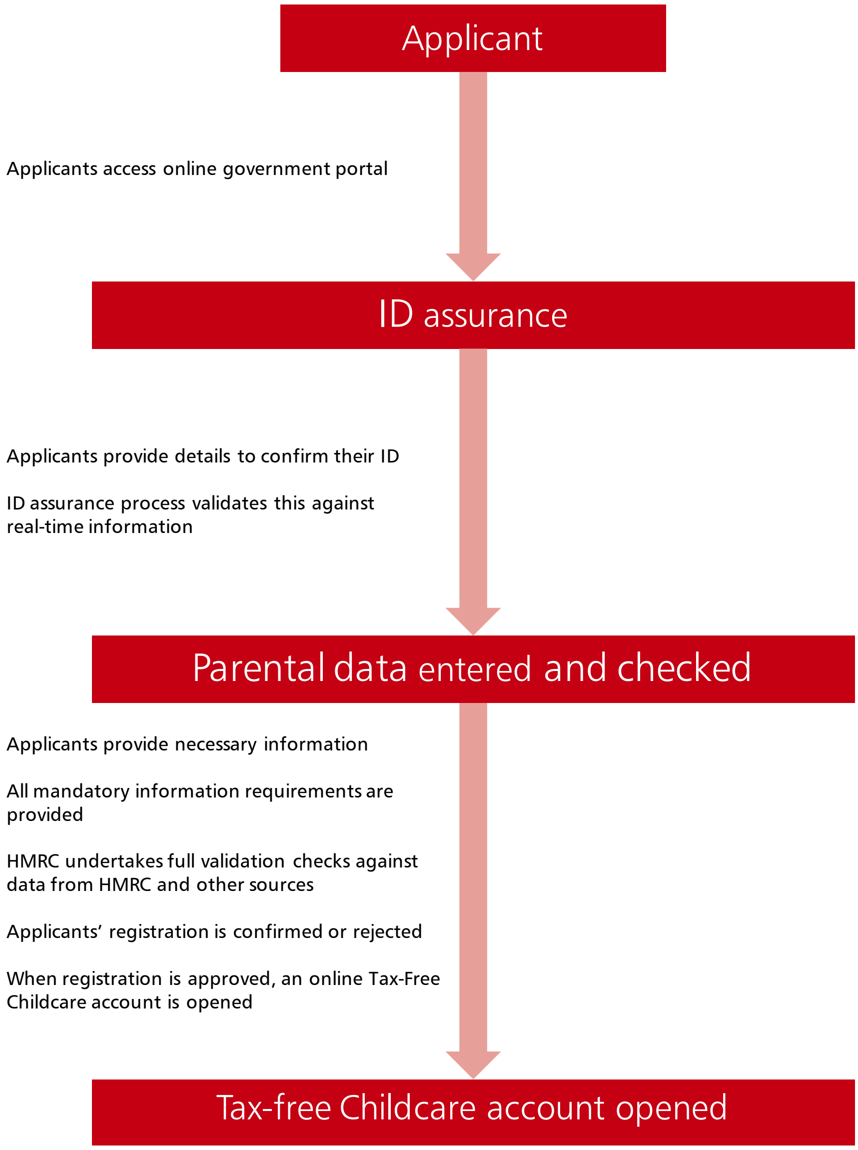
5.7 Most written responses received to the consultation favoured Option B, whereby parents would register for Tax-Free Childcare via Government. Given the ability to create a simpler customer journey by using NS&I as a delivery partner, the Government will proceed with a single Governmental portal for registration.

5.8 Directing all applications through a single Government portal will ensure consistency of treatment of all claims and reduce the potential for error and delays in the registration process. To minimise levels of error and fraud in the new scheme, all of an applicant's registration details will be validated by the Government, thereby ensuring that only eligible parents can register for Tax-Free Childcare and receive top-ups.

5.9 Implementing a single Government portal also addresses other points made during the consultation, including parents' suggestion that they would be more comfortable sharing their personal information with a Government source, as opposed to third parties, as this provides necessary assurances for data security and protection. In addition, given the array of support with childcare costs which will be available when Tax-Free Childcare is introduced, a Government portal will also be the obvious place to provide clear and simple independent guidance to help parents determine which childcare scheme would best meet their circumstances.

5.10 Chart 5.A sets out the intended registration process for Tax-Free Childcare.

Chart 5.A: Proposed Tax-Free Childcare registration process



5.11 In order to keep parents' data secure from identify fraud, applicants must first validate their personal credentials via an online ID assurance process. Applicants whose ID details have been confirmed will be able to register for Tax-Free Childcare via the Government portal. Applications where the individual's details cannot be confirmed will be rejected.

5.12 In applying to register for Tax-Free Childcare, applicants will be required to provide appropriate information and declarations on themselves, any partner in the household, and the child(ren) for whom they are seeking Tax-Free Childcare support.

5.13 The online registration process will provide parents with all the necessary help and guidance to enable them to complete their registration quickly and accurately. Applicants will be advised where mandatory details are required, and will receive online prompts if answers are missing or where information appears to have been input in the wrong format – for example if applicants confuse the numbers and letters when entering their National Insurance Number – to help them through the registration process.

5.14 HMRC will undertake full validation checks to verify the applicant's eligibility. It will check the applicant's details against its own system-held data – for example, in checking tax records to ensure that applicants are in declared work, and are earning appropriate incomes that make them eligible to receive top-ups. HMRC will also check against other information sources as required.

5.15 The Government will then open an online Tax-Free Childcare account for those whose applications have been approved. Where applications are rejected, applicants will be told why, and advised how they can re-apply should their circumstances change to make them eligible. The Government will ensure that those who make unsuccessful applications are notified as quickly as possible. All Government communications will signpost parents to the appeals process that will be made available if they dispute the grounds for the rejection of their application.

5.16 Once an account has been opened, parents can input the details of their childcare provider(s) and begin paying in, receiving top-ups and paying for qualifying childcare. The Government will check that the childcare provider(s) are suitably registered with an appropriate body to qualify for the scheme.

Information requirements at registration

5.17 The consultation document noted that Tax-Free Childcare will only operate efficiently if it is built on accurate and effective flows of information between all parties involved in the new scheme. The Government recognises that this is a shared ambition – clearly all parties want the scheme to run smoothly, with the minimum necessary information requests, whilst ensuring that the right support is provided to all eligible parents as quickly and seamlessly as possible.

Provision of information by parents

5.18 In line with the Information Commissioner's Office's Data Protection Act principles, any details collected from parents when registering for Tax-Free Childcare should be relevant, adequate for the purpose but not excessive. Parents should only be required to provide the necessary information, and no more, to confirm their eligibility for the scheme.

5.19 Respondents commented that the proposed information requirements as set out in the consultation document seemed relevant and proportionate for the purpose of confirming a parent's eligibility to use the scheme. The one possible exception to this was parents' bank details which, the Government confirms, will not form part of the information needed to register for Tax-Free Childcare. However, this information may be required after registration, for example to enable parents to withdraw money from their account.

5.20 Some respondents queried whether the Government would be able to cope with the increased administrative burdens involved in checking all parents' details as the new scheme will remove the filtering of parents' details currently undertaken by employers in Employer-Supported Childcare. The Government is comfortable that the validation undertaken to verify parents' initial applications for Tax-Free Childcare will be delivered efficiently and effectively. With the Government providing the childcare accounts, parents will only have to log into a single Government portal in order to open an account. The design of the new scheme will also not require employers having to undertake time-consuming eligibility checks.

5.21 The information parents must provide at registration is listed in Box 5.A below.

Box 5.A: Tax-Free Childcare registration information requirements

- Confirmation of whether the Tax-Free Childcare registration is being made by a lone-parent or two-parent household.
- Personal details for all adults named on the application – including:
  - name;
  - address;
  - date of birth;
  - National Insurance number; and
  - email address and telephone number (for contact purposes).
- Confirmation that the individual(s) hold(s) responsibility for the child in question.
- Child's personal details (including name, address, date of birth).
- Child Benefit reference number relating to the child.
- Where appropriate, Disability Living Allowance (or Personal Independence Payment) reference to confirm that the child is registered disabled, or relevant supporting evidence to confirm that the child is registered blind.
- Details of the employment status of all parents named on the application:
  - if employed – PAYE reference number(s) (or confirmation that employment is to begin in the next seven days); and
  - if self-employed – date of commencement of trading and Self-Assessment Unique Taxpayer Reference or evidence to confirm that it has been applied for.
- Confirmation of whether an applicant is on statutory leave.
- Declaration that all individuals named on the application meet the minimum income level.
- Declaration that no individual named on the application earns, or expects to earn, in excess of the upper income limit.
- Declaration that no individual named on the application is receiving tax credits, or that the individual wants to automatically end their entitlement to tax credits by virtue of them registering for Tax-Free Childcare.
- Declaration that no parent named on the application is in receipt of Employer-Supported Childcare tax relief and National Insurance Contributions disregard, or that such receipt will be brought to an end by virtue of them registering for Tax-Free Childcare.
- Declaration that no additional disqualifying support for the child in question is being claimed by a parent named on the application.

5.22 The Government will make it straightforward for those parents looking to register multiple children onto the scheme. Parents registering more than one child – for example, registering siblings at the launch of Tax-Free Childcare in autumn 2015, or registering subsequent children once the scheme is up and running – will not have to complete a separate personal registration for each child. Instead, once they have verified their own details, they will be able to quickly add extra children's details as required, to enable separate accounts to be set up from the same application process. This will ensure that siblings' accounts operate to the same reconfirmation cycle, making it easier for parents to operate all the accounts relating to their children. There will also be a single log-in service where parents have accounts for multiple children.

5.23 In order to register for Tax-Free Childcare, applicants need to confirm that they have a child of a qualifying age. To ensure a smoother and quicker customer experience, the Government will undertake automated system checks wherever possible to verify registration details. Where available, parents will be asked for the Child Benefit number for the relevant child in their Tax-Free Childcare application. This avoids the need for parents to resubmit their child's birth certificate when registering for Tax-Free Childcare.

5.24 Applicants who do not have a Child Benefit number and do not intend to claim Child Benefit will be required to send in their child's birth certificate when registering for Tax-Free Childcare, so that HMRC can undertake checks on the document to verify the child's details.

5.25 Self-employed individuals are required to register with HMRC for Self-Assessment purposes. This obliges them to submit an annual tax return. As is explained in paragraph 5.34, requiring self-employed applicants to be registered for Self-Assessment will enable HMRC to use annual tax return details to check self-employed individuals' income eligibility rather than require them to report income details in-year. This ensures that Tax-Free Childcare will avoid adding significant potential burdens on the self-employed.

5.26 To mitigate the risk of false self-employment, all applicants with any form of self-employment income (whether they are fully self-employed or they have self-employed income in addition to employed income) will need to register with HMRC for Self-Assessment (for self-employment purposes) and provide their Unique Taxpayer Reference (UTR) before registering for Tax-Free Childcare. Applicants who have recently registered for Self-Assessment but who have not yet received their UTR from HMRC will be able to register for Tax-Free Childcare as long as they can demonstrate that they have registered for their UTR. They will then be expected to provide their UTR at their first reconfirmation.

5.27 Feedback received during the consultation – including from self-employed parents within *Opinion Leader's* qualitative research – supported the Government's view that asking for a parent's UTR at registration for Tax-Free Childcare is reasonable, and self-employed parents believed that it would not deter genuine self-employed individuals from taking up Tax-Free Childcare.

5.28 As applicants may not, at the point they register for Tax-Free Childcare, have yet entered into arrangements with a childcare provider, they will not be required to confirm their childcare provider's details when registering for the scheme. Instead, they will need to provide these details when setting up their childcare payments from their online account.

5.29 It is expected that the vast majority of parents will be able to register for Tax-Free Childcare without the need to provide supporting documentation. However, the Government recognises that in some cases, further information or documentary evidence may be required to validate a parent's application; the Government will develop effective processes for this, along with clear guidance to explain how this will work.

Confirming parents' information

5.30 Respondents to the consultation believed that parents' applications should be checked as quickly as possible – ideally in real-time – in order not to delay the receipt of top-up payments. Whilst most of the Government's validation will be undertaken seamlessly via automated system-to-system checks, some checks may take a few days to complete. This will enable the Government to ensure that all parents meet the eligibility criteria before receiving top-up payments, and will avoid the need for the Government to reclaim top-ups in cases where the parent was ineligible.

5.31 When the eligibility checks have been passed, the Government will contact the applicant to confirm that a Tax-Free Childcare account has been opened for the child in question. Parents can then start paying money into their account, and receive Government top-ups.

Validating income details

Employees

5.32 During the consultation, the Government explained that employees' income would be checked to ensure that it meets the scheme's minimum and maximum income levels via Real Time Information checks on the Pay As You Earn (PAYE) system. Employed parents will be asked to confirm details of all their employment(s) at registration (and thereafter at reconfirmation where changes have occurred) so that checks can be made to confirm that a parent is above the minimum, and below the maximum, income levels. Monthly checks on their PAYE reference(s) will then enable HMRC to monitor employees' income throughout the year to ensure that it meets the income thresholds in each entitlement period.

5.33 In cases where employed parents' (PAYE) income returns indicate that they were earning less than the minimum or more than the maximum income levels, the Government may contact parents to query their circumstances. In cases where an employee's income has fallen outside the relevant income limits, parents would remain eligible to receive top-ups for the duration of the relevant entitlement period if it can be seen that they genuinely expected their earnings to meet the scheme's income limits when they made their application or reconfirmation.

The self-employed

5.34 The consultation document noted that in-year income details will not be available for self-employed parents; they will instead submit this information via their annual Self-Assessment tax return. The vast majority of the consultation feedback was supportive of an approach which avoids imposing any unnecessary additional administrative burdens on self-employed parents, especially compared to the alternative of requiring the self-employed to report their income to HMRC regularly during the year. Self-employed parents will, therefore, be required to use their annual Self-Assessment return to confirm details of their income.

5.35 Whilst in-year reporting will not be required, self-employed parents will still be required to assess their income and confirm that they expect it to be within the income limits for each entitlement period as part of the quarterly reconfirmation process. These declarations will then be checked against their actual income figures submitted via their annual Self-Assessment return. The Government will contact parents to check their circumstances if their declared income does not meet the scheme's income eligibility requirements.

5.36 Respondents agreed that the combination of quarterly declarations of eligibility (at reconfirmation) allied to annual checks made by HMRC on the income figures submitted on their annual tax return will be sufficient to establish the income eligibility of a self-employed parent.

5.37 As explained in paragraph 2.43, the Government will use profits as the measure of income for the self employed as this is viewed as a comparable equivalent to employees' income. As outlined in paragraph 2.44, there will be a start-up period in which a newly self-employed parent will not have to meet the minimum income level. This start-up period will equal four entitlement periods, that is, around twelve months. As outlined in paragraph 2.47, self-employed parents will be allowed one start-up period every five years.

Changes of circumstances affecting eligibility

5.38 During the consultation, the Government sought views on how changes in circumstances should be dealt with in Tax-Free Childcare – whether they should be reported in real time, within a month as in tax credits, or at some other frequency.

5.39 Paragraph 4.17 explained that parents' entitlement to Tax-Free Childcare will be based on quarterly periods. This means that parents will be able to receive top-ups for three months at a time and will not need to report any changes of circumstances in real time. Moreover, the fact that entitlement will be guaranteed for three months provides parents added certainty that, even when changes of circumstance occur, they will still continue to be able to receive Tax-Free Childcare for the remainder of the entitlement period. It also avoids the scheme becoming tied up in processing large volumes of change-of-circumstance notifications.

5.40 Under the quarterly reconfirmation system, parents will receive reminders notifying them of the need to reconfirm that they remain entitled to receive support towards the end of each entitlement period. Where changes have occurred which mean that the parent is no longer eligible, they will still be able to receive support until the end of their current entitlement period. Where parents are no longer eligible for Tax-Free Childcare, they will not be required to provide any information to the Government. They will not be able to reconfirm for the entitlement period ahead. As explained in paragraph 4.27, even where a parent loses entitlement to Tax-Free Childcare, they will be able to spend any accrued credit in their childcare account.

Reconfirmation process

5.41 Tax-Free Childcare will require a parent to reconfirm their ongoing eligibility via quarterly declarations towards the end of each entitlement period. Failure to reconfirm will mean that their accounts will be flagged so that they cannot receive further top-up payments until such time as their eligibility is reconfirmed.

5.42 Parents will reconfirm their details by logging back into the same Government Tax-Free Childcare portal and selecting the appropriate reconfirmation option. Parents will not have to provide all of their personal details again. Instead, they will make a declaration that they still meet all of the scheme's eligibility conditions – for example, that they are still in paid work; expect to earn above the minimum and below the maximum income limits; and are not claiming other benefits that would mean they were not eligible to receive Tax-Free Childcare support. To ensure that their details are kept up to date, when parents reconfirm they will be required to notify any changes in their employment – such as if they have changed employers, or started any form of self-employment – as HMRC will need a record of all current PAYE reference(s) and confirmation of registration for Self-Assessment in order to verify a parent's income details.

5.43 The Government will undertake regular automated system checks to identify information to confirm parents' ongoing eligibility. For example, HMRC may check employees' declared earnings totals to ensure that they continue to meet the income requirements, and will run checks with the Department for Work and Pensions (DWP) to confirm that parents have not begun claiming Universal Credit. The Government also remains in discussion with credit reference agencies to determine the degree to which further checks will be made to confirm the status of households claiming Tax-Free Childcare. A recent trial focusing on undeclared (ineligible) partners in tax credits proved very effective in detecting suspected fraud. Given this success, HMRC is extending this initiative, and Tax-Free Childcare will seek to learn lessons from this to shape the extent to which a similar approach is taken in the new scheme to tackle the issue of ineligible second adults in a household.

5.44 When validating eligibility, the Government may pick up information indicating that a parent should no longer receive top-up support under Tax-Free Childcare. When this happens, the Government will query the applicants' next reconfirmation (stating ongoing eligibility), if received. In such cases a relevant flag will be set on the account to stop any further top-up payments being paid whilst the parent is contacted to confirm whether they are indeed entitled to receive further support. Where this contact determines that the parent is legitimately entitled to ongoing support, the flag on their account will be lifted and their reconfirmation will be allowed. However, where the parent is found to be ineligible, their account will be amended to prevent further top-up payments from being paid. Depending on the reason for the parent attempting to reconfirm when ineligible, HMRC may also decide to take further action.

5.45 An appeals process will operate to allow parents to dispute the decision to suspend their eligibility and stop their top-up payments.

Balancing information requirements against the need to minimise fraud, error and debt

5.46 The Government is clear that whilst Tax-Free Childcare needs to be a user-friendly scheme it also needs to remain closed to wide-scale error and/or abuse. To achieve this, the Government's plans are geared towards minimising the burdens on parents wherever possible by making maximum use of automated system checks to validate parents' details against existing HMRC, DWP and third party data.

5.47 As outlined above, applicants will be required to provide sufficient personal details when registering for Tax-Free Childcare to enable the Government to quickly and efficiently confirm their eligibility. However, experience of other schemes shows that self-declaration alone is not sufficient to verify applicants' details, as individuals sometimes submit incomplete, inaccurate or occasionally falsified registration details. The Government therefore has a duty to undertake effective, timely validation checks to ensure that it minimises the potential for error and fraud in Tax-Free Childcare.

5.48 In summary, the validation process will involve the following approach:

- ID assurance portal – the parent validates their personal credentials, protecting their account from ID fraud;
- registration – parents provide appropriate information (on themselves, their household, child, work, benefits, etc) online. The Government undertakes a series of automated system checks to confirm their initial eligibility;
- childcare account – the Government opens an online Tax-Free Childcare account for each approved application;
- qualifying childcare – the Government checks parents' childcare providers are, and remain, suitably registered;
- reconfirmation – parents reconfirm their eligibility for their next entitlement period, which the Government checks for authenticity having also run behind-the-scenes risk checks in advance of this; and
- self-employed checks – self-employed parents reconfirm that they expect to meet the minimum and maximum income levels on a quarterly basis, with HMRC checking the income reported on their annual tax return.

5.49 A significant amount of feedback received during the consultation – especially from parents and their representative groups – clearly supported the Government's plans to undertake an effective upfront 'check now; pay later' approach to ensure that only eligible parents are registered for the scheme. In particular, many stakeholders drew parallels to tax credits where it was perceived that insufficient initial (and then in-year) checks on parents' details allowed unwanted levels of error to creep into the system, leading to large numbers of ineligible claims being identified, and accompanying consequential upset and hardship when debts needed repaying.

5.50 The Government is confident that its proposed combination of checks will proportionately, yet robustly, serve to minimise the risk of error and fraud. Allowing parents to engage with the scheme via a single portal will ensure that the customer experience is as seamless and simple as possible. The automated nature of the systematic checks will also minimise burdens and costs for parents and the Government and squeeze the potential for error and fraud, and so reduce the levels of compliance activities required thereafter.

5.51 Challenging parents' claims should, in the main, be risk-based and exceptional. In certain cases, information may come to light meaning that the Government, on checking the parent's circumstances, will determine that the parent was not in fact eligible to have received support. In such cases HMRC will likely seek to recover the value of the top-up payments made to the ineligible parent. Depending on the facts of each case, HMRC will also have powers to charge additional penalties if it is proven that the overpayment was due to careless or deliberate behaviour. More details are included in the fraud, error and debt section later in this chapter.

The response to error and fraud

Error and fraud by parents

5.52 Once registered for the scheme, the majority of parents are anticipated to remain eligible for support because their circumstances stay the same, or at least do not change so significantly as to make the parent ineligible to receive top-ups. However, the Government recognises that some individuals will experience changes in their circumstances which will make them ineligible for the scheme. When this occurs, they would be expected not to reconfirm for ongoing support. If they do attempt to reconfirm, the Government's automated system checks should cross reference the necessary information to spot this and allow the reconfirmation to be challenged. This should ensure that error and fraud is a relatively uncommon occurrence.

5.53 Although the Government is confident that the design of Tax-Free Childcare will minimise error and fraud, the Government will have the necessary powers to take action where top-up support has been found to have been paid in ineligible and/or fraudulent cases. Where an investigation concludes that support has been paid to a parent when they were not eligible to receive it, the Government will recover this overpayment from parents.

5.54 The Government will not look to penalise honest mistakes. However, in cases where carelessness and/or deliberate dishonesty are evidenced, HMRC will have the power to charge additional penalties, on top of overpaid top-up amounts. This will encourage compliance and reassure those who do comply that they are not being disadvantaged.

5.55 Penalties may be imposed where parents carelessly or dishonestly make false declarations at registration and/or quarterly reconfirmation; provide false documentation; fail to provide the Government with information when requested; or make repeated unauthorised payments from their account – for example to pay for a non-qualifying child's childcare costs. In addition, HMRC will be able to charge interest on overpayments and/or additional financial penalties.

5.56 Akin to new powers being introduced in tax credits, where dishonest behaviour is evidenced, the Government may also apply additional sanctions to further restrict parents' ability to operate a Tax-Free Childcare account. HMRC will have the power to withdraw applicants' entitlement to receive top-up payments for a set period of time. In more serious cases where prolific or persistent false claims are made under the scheme, the Government will have powers to bar individuals from the scheme altogether. When HMRC takes such action, the parent will be unable to receive top-ups in relation to all current and future child accounts for the duration of their barring.

5.57 The Government believes that its proposed penalties will be a proportionate, but suitably powerful, sanction to tackle cases of parental non-compliance. However, whilst criminal activity by parents is expected to be rare, in mirroring approaches to tax credits and Universal Credit, HMRC will also have provisions to apply appropriate criminal and civil sanctions to penalise cases where individuals have committed fraud in Tax-Free Childcare.

Error and fraud involving childcare providers

5.58 Tax-Free Childcare legislation will also include provisions for HMRC to tackle any fraudulent activities involving dishonest childcare providers.

5.59 To mitigate the scenario in which unscrupulous childcare providers could facilitate false childcare claims in order to illegitimately claim top-ups, the Government will have powers to deal with such dishonesty as a criminal act where appropriate. HMRC will also have the power to debar dishonest childcare provider(s) from operating in Tax-Free Childcare.

5.60 These powers are intended not only to deal with the fraudulent provider(s) themselves, but also to act as a strong deterrent to others considering trying to defraud the scheme.

Recovering debt

5.61 The Government is hopeful that debts in Tax-Free Childcare will be minimal. However, to ensure the integrity of the scheme, HMRC will have suitable provisions to recover debt whenever Tax-Free Childcare support has been assessed to have been overpaid; when monetary penalties have been applied due to deliberate or careless behaviour; and when interest is charged.

5.62 The consultation document asked stakeholders how funds should be recovered if and when overpayments are found to have been made to parents. In their responses, rather than formal debt proceedings being started, most stakeholders favoured overpaid top-ups being recovered via parents' Tax-Free Childcare accounts where possible. Where this is not possible, or desirable, respondents believed that HMRC should instead look to make adjustments via the parent's PAYE or Self-Assessment tax codes as this was seen as an effective and less intrusive means of debt collection.

5.63 HMRC will therefore have powers to enable it to successfully recover the full range of Tax-Free Childcare debts. Its approach will mirror respondents' feedback during the consultation. Recovery will initially be attempted via unspent top-up amounts in parents' scheme accounts, with additional facilities to make adjustments to the parent's tax code. If for any reason the full debt cannot be recovered via these approaches, direct debt recovery action will be pursued.

6 Next steps

Tax-Free Childcare will be introduced in autumn 2015. Although the key decisions on scheme design and operation have now been set out, there remain a number of requirements ahead of the scheme's rollout.

Chapter 6 details the various pieces of work required before autumn 2015.

The key points are:

- there will be a Bill to introduce Tax-Free Childcare in the fourth session of Parliament;
- the Tax-Free Childcare registration and account system will be built in consultation with future users to ensure a user-friendly scheme; and
- the Government will continue to engage with all stakeholders – especially parents and childcare providers – to allow all parties to make the necessary preparations for Tax-Free Childcare.

6.1 Tax-Free Childcare is a major new scheme, delivering support with childcare costs to all eligible families. It is a significant step forward in the Government's support for working families, building on what works for parents and extending support more widely and more fairly.

6.2 There are a number of requirements which must be met before the new scheme can be introduced: there are new systems to build and processes to implement, and the relationships between parents, employers, childcare providers and the Government will need to change. Time is needed to get these changes right, and this is why the Government has announced that the new scheme will start in autumn 2015. This will allow legislation to be enacted, systems to be developed and tested by the Government and all parties to prepare for Tax-Free Childcare.

Preparing for Tax-Free Childcare

Legislation

6.3 There will be a Bill and accompanying secondary legislation to implement Tax-Free Childcare. The Government expects to introduce the Bill at the start of the fourth session of Parliament and to publish draft secondary legislation shortly afterwards.

System design

6.4 The Tax-Free Childcare registration and account systems will be built with the help and support of future users, with focus groups to test the designs at key stages of the process. Tax-Free Childcare will be an online scheme, helping the Government to meet its aspiration to make the bulk of interactions with citizens digital.

Ongoing engagement

6.5 Throughout the consultation period the Government engaged with a wide range of stakeholders to ensure that Tax-Free Childcare is designed in the simplest, fairest and most efficient way. Although this document sets out many details on how Tax-Free Childcare will work, the Government is keen to continue the conversation with all interested parties as it progresses with the legislative process and system design.

6.6 The Government will continue to host workshops, meetings and discussions with organisations with an interest in Tax-Free Childcare to inform the detailed development of the scheme's operation.

6.7 The Government will also continue to engage with existing voucher providers in the Employer-Supported Childcare scheme during the transition to Tax-Free Childcare.

Communications

6.8 Tax-Free Childcare will only be effective if parents are aware of the scheme and know how to register for it, make payments into their accounts and receive Government top-ups. Similarly childcare providers will need to know how to operate Tax-Free Childcare; employers must know about the changes which are being introduced to allow them to make the necessary preparations and communicate with their employees, both about the new scheme and any existing arrangements under the existing scheme; and other groups such as local authorities and voluntary organisations will need to be aware of the changes so that they can offer appropriate help and support to families.

6.9 Following the publication of this document, the Government will work with stakeholders and other parts of the public sector to continue our engagement to ensure that all relevant parties have access to information regarding the changes which are being made.

6.10 The Government will also work with stakeholders to develop guidance to help parents (and other interested parties) to understand particular aspects of the scheme – for example potential interactions between Tax-Free Childcare and other Government support. In addition, clear guidance and communications tools will help parents to make informed decisions on which scheme is best for their circumstances.

6.11 The Government will deliver a targeted communications campaign that is responsive to parents' and childcare providers' feedback and delivers information and products that suit their needs. The Government will provide detailed online information and consider other communications channels that can be used to raise awareness and understanding of Tax-Free Childcare.

6.12 The Government recognises that employers have a particular interest in the changes which are being introduced because of the effect they may have on their employee benefits packages, and as many employers are likely to wish to play a role in Tax-Free Childcare. The Government will continue to work with employers, through their various representative bodies and HMRC's employer forums, to ensure that all employers receive the information and support they require to allow them to prepare for the gradual removal of Employer-Supported Childcare and the introduction of Tax-Free Childcare.

A Summary of responses

A.1 A summary of responses to the consultation questions can be found below:

Tax-Free Childcare: voucher accounts

Question	Issues raised
1 What features will the payment system need to have to ensure that it meets the needs of parents and childcare providers?	Parents The most common theme in the responses was the need for the system to be as simple, easy to use and flexible as possible. There was a call for multi-channel access to childcare accounts (e.g. via mobile phones), but also a recognition that for some there would need to be alternative or assisted options. It was noted that in order for the scheme to be as effective as possible, childcare vouchers must be accepted by all qualifying childcare providers – including schools offering pre- or post-school childcare. In addition, qualifying childcare providers should be readily identifiable, so that parents know where they can use their credit. It was felt to be important that the Government application process and account provider registration process are aligned. Some respondents suggested that employers opting to pay into childcare accounts via payroll would be popular with parents. There was a call to set minimum customer standards for the childcare account provider, covering, for example, the protection of money and data and expectations of when payments are to be made. Helplines enabling parents to contact the government and childcare account providers when a difficulty arises would also be important. Childcare Providers The main message received was that the system must be designed to ensure prompt and accurate payment. For example, it was noted that the system must be able to cope with any monthly or annual peaks. Childcare providers would like the scheme to involve as little administration as possible. Some expressed concern that childcare providers may be required to register with an unlimited number of childcare account providers. Childcare providers felt that it is imperative that funds received from childcare account providers are clearly identifiable to a particular child (it was mentioned that, under Employer-Supported Childcare, childcare providers often receive money from voucher providers where it is not clear

	in respect of which child it is intended, resulting in additional administration time). Some childcare providers would like parents to be able to pay additional money into childcare accounts so that, where childcare costs for a child exceed the annual cap, the entire bill can be paid through the childcare account, rather than additional forms of payment being required. It was noted that childcare accounts should work for couples (for example, so that either member can pay in) but must also protect each member's confidentiality. If there are multiple childcare account providers, it should be easy to change provider or to secure a refund (of the parent's contribution) should a parent wish to do so.
2 What are the advantages and disadvantages of applying the £1,200 [now £2,000] limit by means of a monthly cap as opposed to other options?	**Advantages** There was a feeling that a monthly system would be easier to budget for as this would often fit with payment cycles It was noted that a monthly system would be consistent with Universal Credit, making transition between the two systems easier. A monthly cap would avoid a rush at year-end, which could be difficult for HMRC to administer. **Disadvantages** There was concern that a monthly cap would disadvantage those on fluctuating incomes. This includes self employed parents and those on zero hours contracts. A monthly system would disadvantage those who join the scheme at a time of year with high childcare costs (such the summer holidays) as they may be unable to make full use of the total annual support. There was concern that a monthly cap could cause confusion or difficulties aligning with payroll if the cut-off fell at the end of the month. A monthly cap would prevent parents creating short periods of employment in order to qualify for Tax-Free Childcare (although some queried how likely this would be anyway). **Quarterly top-up cap** Officials discussed the proposed quarterly entitlement period and top-up cap with a wide range of stakeholders during the consultation period. There was widespread support for aligning the eligibility period and top-up period in this way.
3 In what situations should parents be able to spend saved-up vouchers if they become ineligible?	A number of respondents said that, provided that parents were eligible when they acquired the vouchers, there should be no restrictions on when they can be used. Others suggested vouchers should become invalid after a certain time period (e.g. three months, one year or two years); once the child exceeds the maximum age for Tax-Free Childcare; or at another age (e.g. school leaving age).

	Some felt that it is important that vouchers remained eligible during a grace period after a parent left work, or whilst they were actively seeking further work. Some thought that the ability to use vouchers should be linked to whether or not the parent(s) qualified for alternative forms of support (e.g. through tax credits or Universal Credit). One respondent felt that it was important that vouchers were not available after the parent lost eligibility, otherwise this would encourage parents to 'game' the system by deliberately stockpiling vouchers while eligible. An existing voucher provider suggested that, where the Government withdraws its contribution, this does not mean that the voucher itself need become invalid. It could still be used to pay for childcare. It was felt to be a crucial principle that once a childcare provider had received payment in good faith, these funds should not be refundable, whatever changes in parent's eligibility might occur. The need was noted for good communications (for example when a child is approaching the maximum age limit) to prevent unnecessary voucher build up.
4 The Government is committed to giving employers the opportunity to remain involved in the provision of support for childcare in any ways that are consistent with the principles and operation of Tax-Free Childcare. How can the Government best ensure this happens?	Many respondents argued that an employer role that carries costs needs to be funded. Suggestions for how this could be achieved included an employer National Insurance contributions break or a tax break on administration costs. However, many employers would want to play a role even without a tax or NICs break. There was a feeling from some large employers that it wouldn't 'sit well with our company values' if they were not actively involved. It was noted that employer roles must require minimal administration time in order for them to be attractive. Employers could offer guidance to employees, but would not feel comfortable advising employees what support they would receive under the different schemes. Some employers expressed an interest in making payments to a childcare account provider through payroll. Others would be interested in signposting employees towards a particular provider, should there be multiple childcare account providers. There were mixed views on whether employers are well positioned to play a wider role in the Tax-Free Childcare system, such as by checking eligibility. Employer groups noted that any employer role must not be classified as a benefit in kind, which would require P11Ds to be completed and would act as a disincentive to employers getting involved in Tax-Free Childcare. It was noted that other options that some employers might consider included entering an open childcare account market or offering a workplace nursery.

5 What roles might other organisations play in helping parents access Tax-Free Childcare?	There was a feeling that many organisations would be well positioned to offer advice, guidance and support to parents, as appropriate. These included: • childcare providers; • the employee benefits industry; • local authorities, Devolved Administrations and Family Information Services; • third sector organisations; • Jobcentre Plus and private/voluntary training organisations; and • Post Offices. Other suggestions included banks facilitating easy payments into childcare accounts and libraries offering internet access for those without home, workplace or mobile access.

Tax-Free Childcare: eligibility

Question	Issues Raised
Overarching themes	Overall, respondents welcomed the extension of the scheme to the self-employed and to parents whose employer does not offer Employer-Supported Childcare. There was a call for the Government to phase Tax-Free Childcare in quicker, to offer support to all parents with children up to 12 years old as soon as possible. A few respondents instead proposed allowing new entrants to Employer-Supported Childcare until Tax-Free Childcare is fully in place. Some respondents suggested increasing the age limit to provide access to Tax-Free Childcare for parents with children up to the age of 16 who may need support with the costs of after-school care. More generally, respondents were supportive of the extra help offered to parents of disabled children by allowing eligibility for disabled children up to the age of 17. A number of respondents encouraged the Government to reduce the upper income limit by breaking the alignment with the additional rate tax threshold. It was noted by a few that childcare costs are higher in particular locations, such as London, and encouraged the Government to consider regionalising the amount of support offered. Others suggested that parents of disabled children should have access to a higher level of support in recognition of the increased costs of childcare. Respondents were keen to extend the definition of parents treated as being in-work, for example, to cover those on unpaid statutory maternity, paternity and adoption leave and those in receipt of 'credits only' Employment and Support Allowance. Some respondents suggested that the 'in-work' definition should be widened further to include households where one parent does not work.

Others supported the Government's commitment to helping more second earners to enter work and work more hours.

There was a general consensus that the new scheme needs to support those with fluctuating incomes and that the design of the eligibility criteria should ensure these families are not disadvantaged.

A few respondents suggested that Tax-Free Childcare should be available only for hours of employment (plus an amount of time for travelling to and from the workplace), given its objective to support working families.

It was noted that moving between the different childcare schemes – Tax-Free Childcare, Employer-Supported Childcare, tax credits, free entitlement for two-, three- and four-year-olds and Universal Credit – should be as simple as possible, with clear signposting and support for parents to know what support they are eligible for under the various schemes.

Respondents agreed with the requirement for qualifying childcare to be regulated and inspected by Ofsted or equivalents in devolved administrations. Some suggested this should be extended to care regulated by inspectorates operating in the independent sector across the UK, in line with other schemes.

Responses to each question

6.	Does the proposed definition of 'parents' ensure that all individuals who have responsibility for a child can benefit from Tax-Free Childcare?	Stakeholders were generally supportive of the proposed definition of parents as outlined in the consultation document. Many noted the benefits of aligning with definitions set out in tax credits and Universal Credit. There was support for the wide definition of parent that allows those who have responsibility for raising a child, including adoptive parents, extended family members or others who have taken on responsibility for the child, to benefit from Tax-Free Childcare. Some respondents were concerned that, whereas under Employer-Supported Childcare, separated parents could both accrue vouchers, only one claim per child would be allowed under Tax-Free Childcare. Others proposed that parents who do not live with their children but who make a contribution to the costs of childcare should be allowed to claim Tax-Free Childcare. A few stakeholders wanted the eligibility rules to be tightly defined to reduce the risk of rival claims from parents and to minimise complexity in the system. Respondents called on the Government to provide the right to appeal a decision.
7.	Is the proposed definition of 'the household' fair and workable?	Stakeholders were generally supportive of the definition of 'household' in the consultation document. Some respondents suggested that it would be simpler to only define 'a couple' for the purposes of Tax-Free Childcare, following the definition used in Universal Credit. A few respondents noted the difficulties in determining the status of a

		claimant, or joint claimants, for tax credits purposes. They requested clear guidance on when, for example, separating couples living under the same roof would be defined as a couple within Tax-Free Childcare. It was felt that the risk of parents misreporting their relationship status in order to claim Tax-Free Childcare could lead to HMRC to develop an onerous checking process. Some respondents noted that the definition should consider parents who live apart temporarily. There were some concerns that the working status of an adult with no legal responsibility for a child or who does not contribute to their childcare costs would have to be considered when determining eligibility for Tax-Free Childcare. Some respondents suggested that households where one parent does not work should be eligible for Tax-Free Childcare.
8.	What are the potential benefits and risks of a minimum income rule or hours rule in defining qualifying employment?	The most common theme in responses was the need for a clear and simple rule that parents can easily understand and assess themselves against and one which is efficient to administer. In general, there was a reluctance to introduce a tough 'substantive employment' test that would preclude part-time work. If one were introduced, the preference was generally for a minimum rule set low enough to ensure all parents transitioning back into work would still be eligible for support with their childcare costs. A number of respondents proposed that the level of any minimum rule should be set at working eight hours per week at the National Minimum Wage, to support parents returning to the workplace. Minimum Income Rule A number of respondents noted that Universal Credit, unlike tax credits, does not adhere to a minimum hours rule and suggested that Tax-Free Childcare should base eligibility on earned income. Some felt that a minimum income rule would better support part-time workers who may not work a sufficient number of hours to qualify for Tax-Free Childcare if a minimum of 16 hours were introduced. Respondents suggested that this could particularly affect women as they may be more likely to work part time. A few respondents noted that parents who are self-employed or directors of small businesses do not have prescribed hours. Others noted that some employees' hours can be variable, and this supports a flexible labour market. Respondents noted that hours may be erratic and therefore difficult for parents to predict. In general, many felt that a minimum income rule would be simpler to administer than a minimum hours rule. For the self-employed and those on zero-hours contracts, it was recognised that a minimum income rule would be the only practical option as it would be very challenging to track hours

worked, and would make Tax-Free Childcare more susceptible to fraud.

Some respondents felt that the introduction of Real Time Information reporting of income details would put HMRC in a stronger position to check employees' income and that this would reduce onerous compliance checks for parents and HMRC.

Minimum Hours Rule

Respondents highlighted that a minimum hours rule would prevent high earners who work a few hours per week from being able to claim Tax-Free Childcare, but would allow parents on low income working considerable hours access to support.

Others noted that a minimum hours rule would best support low-paid workers who may not meet a minimum income requirement.

There was, however, no consensus on which system parents would find most straightforward. Some respondents felt that parents would find it easier to forecast their income rather than their hours and it would be less susceptible to fluctuations; others suggested a threshold based on hours would be easier for parents to understand.

Wider Points

More generally, any minimum rule was felt to impact on parents in a seasonal role, as they may not meet the minimum in quieter periods.

A few respondents encouraged the Government to determine eligibility over a sufficiently long period to allow for short-term changes in working patterns to average out.

Some called on the Government to introduce a rule that is sufficiently sensitive to the flexible nature of the labour market. Others encouraged the Government to take a universalist approach to childcare support to encourage more people back to the workplace.

Many respondents encouraged the Government to offer a 'grace period' for self-employed parents, failing to turn a profit, especially for newly established businesses.

9. What alternative ways are there to define qualifying employment, and what are the potential risks and benefits of these approaches?

The general view was that, beyond an income or hours rule, there are few alternative ways of defining substantive employment.

One alternative suggested was to maintain the employer role within Tax-Free Childcare, allowing the employer to confirm employed parents' working status.

A few suggested that it could be possible to have a combined income and hours rule, although noted that this could add complexity.

One respondent suggested that a contract could denote qualifying employment.

Wider Points

Some respondents suggested that eligibility should be extended to full-

		time students when they do not meet the minimum employment rule. Others suggested that parents undertaking voluntary work should qualify for support. A number of respondents called on the Government to continue payment of Tax-Free Childcare during periods of paid and unpaid maternity, paternity and adoption leave to facilitate parents' return to work, and to ensure that childcare arrangements for older children are not disrupted. Absent this, some stakeholders noted that confusion could arise from the interaction between Tax-Free Childcare's quarterly entitlement period and the 13-week 'entitlement gap' after paid maternity leave expires. There was a call for Tax-Free Childcare to be extended to parents who on expiry of their twelve months' entitlement to contributory Employment and Support Allowance still have limited capability for work and remain entitled to National Insurance credits. Others suggested widening the definition further to include all those who have a partner who cannot work because of health reasons regardless of whether they are in receipt of Employment and Support Allowance. A few respondents proposed extending Tax-Free Childcare to parents looking for work. Others suggested that Tax-Free Childcare should be made available immediately in advance of a parent starting work as some childcare providers require advance booking for childcare places.
10	Will the proposed operation of the age cut-off rule (set out above) ensure that all children who are eligible for Tax-Free Childcare in year one remain eligible until the end of the school year in which they turn 11?	Respondents were clear that the age cut-off rule should ensure that any child eligible in year one does not fall out of the scheme as it is phased in. Stakeholders raised concerns that the phased introduction may disadvantage parents who are in employment with children aged over five in 2015. Some respondents indicated that this would particularly affect parents with primary school-aged children who are reliant on wrap-around childcare. A number of respondents felt that a phased introduction of Tax-Free Childcare over several years would unfairly penalise parents who are unable to access Employer-Supported Childcare when it is closed to new entrants. Respondents also noted that those parents receiving Employer-Supported Childcare who are ineligible for Tax-Free Childcare face being tied to their present employer or face a significant financial loss if they move jobs. Most stakeholders therefore called for a faster roll out with some suggesting that the scheme should be available to families with children aged 12 from or soon after autumn 2015. A number of respondents also suggested that parents should be allowed access to money accrued in their Tax-Free Childcare account for up to a year after the child has reached the age limit.
11.	How often do stakeholders expect issues around	In general, stakeholders expected parents' eligibility to change more frequently than under Employer-Supported Childcare due to the nature of the current job market and the proposed eligibility criteria. It was noted that those on seasonal and zero hours contracts may move in

	changes to eligibility to arise, and do stakeholders hold information that could help inform the Government's thinking on the scale of this issue?	and out of eligibility frequently. Respondents suggested that regular changes of circumstances, such as changes of household status, changes of working hours and changes of wages, could be expected and encouraged the Government to introduce sufficiently flexible eligibility criteria to ensure that administration does not become problematic and discourage parents from accessing the support.
12.	What are the best ways of ensuring that all parents have the information they need to judge whether they will be eligible for Tax-Free Childcare, and to make the best choice for themselves?	A large number of parents highlighted a need for online resources from a central Government portal, such as a calculator, and a phone line to discuss any queries. Many also highlighted that consideration needs to be given to those without access to the internet. It was mentioned that health visitors,[1] childcare providers and childcare account providers will be a valuable source of information for parents. Respondents also suggested that information is given out shortly after a birth. It was noted that employers currently play an important role in disseminating information to parents and this should be retained where possible. In addition, local authorities and job centres were thought to be able to provide information around eligibility. Case studies like those presented in the consultation document were highlighted as helpful for parents' understanding of how Tax-Free Childcare will work.

Tax-Free Childcare: information and validation

Question		Issues raised
13.	Considering the objectives set out in paragraph 4.3 [of the consultation document], what information should parents provide when registering	Most respondents felt that registration for Tax-Free Childcare should be undertaken with Government, rather than via multiple account providers and/or other third parties. Respondents felt that parents would not object to providing the proposed information to the Government in order to access support in Tax-Free Childcare. Many respondents noted that parents currently provide a good deal of personal data to the Government, voucher providers and/or childcare providers in order to register for childcare arrangements and/or other benefits. It was therefore felt to be proportionate to expect Tax-Free Childcare to require provision of relevant personal details. It was felt that the suggested information requirements in the consultation

[1] Health visitors support and educate families from pregnancy through to a child's fifth birthday.

	for Tax-Free Childcare? Would parents be content to pass personal information to a voucher provider, the Government, or other third-parties on registering for the scheme?	document were appropriate and proportionate, and covered the details that the Government would need from parents in order to confirm their eligibility for the scheme. However, parent groups suggested that bank details would not be required. A couple of respondents pointed out the increased burden placed on the Government in checking the information that parents provide when registering. Under current arrangements, employers filter some of the parents' details. Without employers providing this role in Tax-Free Childcare, it was noted that the Government will need to shoulder the responsibility for verifying all of the information provided by parents. A few respondents were keen to emphasise that in terms of Data Protection Act issues, information collected from parents should be adequate, relevant and proportionate for the purposes of checking parents' eligibility to use the scheme. Stakeholders agreed that the Government should make maximum use of system-to-system checks in order to verify parents' details, rather than requiring documentary evidence to be provided at registration. All respondents agreed that registration for Tax-Free Childcare should be delivered via online means. However, it was noted that the Government would need to provide alternative registration processes where/when online processes could not be used.
14.	Considering the objectives set out in paragraph 4.3 [of the consultation document], what are the strengths and weaknesses for each of the alternative ways in which the initial registration, and validation, of parents' registration information could be undertaken? What opportunities might third parties bring	Whilst a few respondents favoured Option A (registering for Tax-Free Childcare with account providers), most respondents felt that parents should register for Tax-Free Childcare direct with the Government (Option B). Those respondents that favoured Option A – including some existing voucher providers – saw benefits in the account provider being the first port of call for parents to register their interest in Tax-Free Childcare, suggesting that the account provider could also use this initial contact to set up the necessary payment processes with parents. However, even those respondents who favoured Option A recognised that the Government had to remain the final arbiter in deciding a parent's eligibility and, even if parents first registered with an account provider, their details would still need to be passed to the Government to undertake the necessary validation checks. Most opinion was therefore in favour of Option B as being the most effective means of registering for Tax-Free Childcare, as this would keep processes to a minimum. It was also noted that this option provides a single registration and validation process which would ensure consistency of outcomes. A central Government registration portal was felt would reduce the margins of error, and cut down any potential for delays. It could also provide the additional certainty of being the single source of approved information and tools to help parents decide between Tax-Free Childcare and other schemes. It was also felt that registering via a central Government portal would enable any queries and/or disputes to be handled more easily. Some respondents also saw the benefits of linking the Tax-Free Childcare registration portal to existing Government ID assurance processes.

	to assist the Government in validating registration information?	Registering direct with the Government was felt to offer much greater benefits in this respect. No respondents identified a required need, or preference, for third parties to be involved in the registration process (Option C).
15.	Considering the objectives set out in paragraph 4.3 [of the consultation document], how quickly should the Government confirm eligibility based on the registration details provided to it? What should happen in cases where a parent is deemed to be ineligible for Tax-Free Childcare? How should the parent be informed?	All respondents were unanimous that parents' eligibility should be checked as quickly as possible – ideally in real-time. However, whilst respondents believed most validation checks could be undertaken very quickly, there was understanding that other checks might take a few days to process. The majority of feedback felt that registration and validation should not take more than three working days. A variety of means were suggested as to how the confirmation or rejection of parents' applications might be communicated. Many respondents also suggested that a quick, unambiguous response is especially important for any parent who is deemed to be ineligible for Tax-Free Childcare, as they should be told that they are not able to receive support before they make, and potentially pay for, childcare arrangements. A number of responses suggested that ineligible parents should be told the reasons why their application was rejected, as well as how and where they can appeal that decision if they wish to dispute the grounds for the rejection.
16.	Would annual checks be sufficient to confirm that self-employed parents continue to meet the (income) eligibility criteria for Tax-Free Childcare?	Most respondents felt that it was right not to ask the self-employed to provide additional income reports to HMRC during the year. However, it was recognised that checks based on the submission of an annual Self-Assessment return could hide periods of ineligibility. Some respondents therefore suggested that self-employed parents should be required to confirm their eligibility to HMRC every six months. Overall, the combination of an in-year declaration (of eligibility) allied to annual checks made on the Self-Assessment return was felt to be sufficient to establish the eligibility of a self-employed parent.

17.	How quickly should parents be required to inform changes of circumstances that affect their eligibility, and how can they be reminded to do this? What does this mean for voucher providers' systems?	Many of those consulted indicated that changes of circumstances should be reported to similar timescales as those used in tax credits – i.e. within one month of the change occurring. Some respondents believed that changes should be reported via the account provider to ensure that the provider's systems could be updated so as to prevent payments being made to ineligible parents. It was recognised that the failure of parents reporting changes in their circumstances was a key cause of error in current systems like tax credits. Respondents therefore felt that Tax-Free Childcare would require both the Government and account providers to provide parents with clear communications at regular points by reminding them that changes in their circumstances could affect their eligibility for Tax-Free Childcare.
18.	What processes should be used to recover payments made to ineligible parents?	There was recognition that the cause of an overpayment may dictate the means by which HMRC sought to recover that debt. For example, overpayments arising from fraudulent activity might need to be recovered quicker and more intrusively than debts arising from parental error. However, most respondents appeared to favour an approach by which overpaid Tax-Free Childcare support is recovered via money in the parent's account – either via currently available money, or offset against future entitlement. (This would require accounts to show clear divisions between the parental and governmental portions of the current account balance.) If it were not possible, or desirable, to recover overpayments via a parent's account, many respondents believed that HMRC should seek to make adjustments via the parent's tax codes – this was seen to be an effective and less intrusive means of debt collection. A few respondents also suggested that HMRC's usual debt collection procedures could be followed, or alternatively debt collection agencies could be used. But these were minority views.
19.	How do voucher providers suggest their systems alert the Government payment system to make a top-up payment? How responsive	It was widely recognised that many parents would only pay money into their account close to the point when they need to pay their childcare provider. The Government would therefore have only a short window to pay the required top-ups. All respondents therefore considered that the account provider would need to update HMRC on a daily basis to identify those accounts which required top-up payments. HMRC would then be required to pay the appropriate top-up as quickly as possible to ensure that the parent has the necessary money in order to pay their childcare provider. It was felt that if HMRC were to receive details from the account provider on a daily basis it follows that an overnight cycle should operate – so that HMRC paid top-ups the next (working) day after

	does the Government system need to be?	receiving the relevant notifications. However, some of the existing voucher providers suggested that the scheme should operate on a pre-funded basis, whereby HMRC provide approved account providers with funds with which to pay parents immediately.
20.	How would voucher providers deal with orphaned (e.g. payments that 'bounce' or do not clear) and ineligible payments? How – and how quickly – would the Government's 20 per cent top-up be retrieved if already paid to the voucher provider?	Existing voucher account providers generally felt that top-ups would only be sought on parents' received (and cleared) money, thus removing any issue with bounced or uncleared money. This should therefore be a relatively uncommon issue, although it was noted that issues could still arise with direct debit payments or credit card payments which could be cancelled by the parent after money has been received into the parent's account. If it were discovered that a top-up payment had been made erroneously where parents' payments have not cleared, existing voucher providers felt it should be relatively easy to retrieve these amounts from the parents' account as long as the payments had not yet been spent on childcare. Even then, if sufficient amounts remained in the parent's account, the relevant amount could be retrieved immediately. However, if payments had already been made for childcare, and insufficient money remained in the parent's account, existing voucher providers indicated that the amount might need to be sought from the childcare provider. Similar arrangements exist in Employer-Supported Childcare to cater for the rare occasions when salary sacrifices were not made but funds were sent to childcare providers. However, existing voucher providers indicated that this sometimes caused difficulties at the childcare provider's end so, in these instances, existing voucher providers thought it may require HMRC to recover the overpayment direct from the parent.
21.	How can voucher providers' systems ensure voucher accounts provide the flexibility parents need when paying in, while protecting themselves from defaults and the Government from making excess top-ups?	Again, it was felt that top-ups will only be sought once parents' money has properly cleared, limiting the opportunities for payments to be made erroneously. Existing voucher providers also suggested that the scheme should operate on a pre-funded basis, whereby HMRC provide approved account providers with funds with which to pay parents immediately. Many respondents – including some existing voucher providers – felt that parents should have full choice as to how and when they could pay into their account – i.e. the account should be open 24/7, and should accept a full variety of payment methods (including debit/credit card payments and bank transfers). Other voucher providers, however, felt that an account provider should reserve the right to charge parents for the use of certain payment methods (e.g. credit cards) and that in addition parents should be restricted to only paying into their account once a month. Existing voucher providers suggested that parameters could be set on parents' accounts to ensure the top-up cap is not exceeded – thus preventing the need to claw back any payments of top-ups that were found

		to exceed the top-up cap. Other suggestions for providing parents with the flexibility that they would need included: • parents being able to access clear statements detailing the money in their account, split between their own contributions and Government top-ups, and a summary of what further top-ups they were entitled to (that quarter, year, etc); • the ability to access their account via smartphone apps; and • parents being able to save up their money in their account in order to use during later and/or specific periods of childcare.
22.	What channels need to be established to enable parents, voucher providers, and childcare providers to communicate with each other and the Government, to resolve queries and problems?	If parents were to register for Tax-Free Childcare via a central Government portal, HMRC would need to provide parents with full access to channels through which to resolve any queries. Respondents suggested that an effective helpline and online facilities would be required to assist parents in the early stages. Existing voucher providers and childcare providers emphasised that good communications currently existed between themselves and parents in Employer-Supported Childcare. It was believed that similar relationships should exist in Tax-Free Childcare. Respondents suggested that parents would deal with the childcare provider and/or account provider to resolve any queries they might have regarding Tax-Free Childcare. This would also require the account provider and childcare provider to provide suitable channels such as email, SMS, phone, Twitter through which parents could contact the provider at all times. Many respondents also made clear that the Government would need to create a centrally-managed complaints and/or appeals process, backed up by independent review, to provide the necessary protection or assurance for parents that their queries would be resolved appropriately. Finally, several respondents mentioned that Tax-Free Childcare should be publicised better than the current scheme has been, to ensure that parents are aware of the eligibility requirements, their responsibilities and how the scheme works.
23.	Are there any information flows or validation checks that are required but not mentioned in this chapter, and who would be best placed	Various responses were made to identify additional information flows that could benefit the operation of Tax-Free Childcare, including: • an Employer-Supported Childcare database to ensure that HMRC is aware of parents continuing to receive support through the scheme after autumn 2015; • account providers notifying parents when large unspent balances remain in the parent's account; • emails or SMS reminders advising parents to reconfirm their eligibility; • emails or SMS reminders advising parents when vouchers are approaching expiry;

	to undertake them?	• data which could influence the future direction of the scheme (for example, take-up rates among different sectors of the population, cost of performing the eligibility checks, information relating to the availability of childcare); • reports from the childcare provider to the account provider confirming as and when a child (in Tax-Free Childcare) is removed from their childcare (to ensure automatic payments are stopped when childcare is discontinued); • regular checks (by account providers) that childcare providers continue to retain their qualifying (e.g. Ofsted registered) status; and • additional checks on nannies' PAYE records to ensure the amounts declared as being paid to the nanny match their declared earnings.
24.	What changes in capabilities and capacities does Tax-Free Childcare entail, especially for voucher providers?	Some existing voucher providers responded that they were unclear as to the Tax-Free Childcare financial model and how they would be remunerated. It was noted that Tax-Free Childcare will involve significant changes to the existing scheme, in particular the removal of the integral employer role and the change from a business-to-business model to a business-to-customer model for account providers, including: • potentially longer opening hours for dealing with expected increased volumes of parent contact (helpdesks, etc); • an increase in the number of incoming and outgoing variable payments in Tax-Free Childcare which will require the effective receipt and reconciliation of payments; • the ability to deal with (perhaps frequent) changes to eligibility and put stops on individual accounts when HMRC notify that the parent in question is now ineligible; • processes to notify HMRC of parent accounts requiring top-ups, and then manage HMRC's payment of the relevant top-ups; • systems integration with Government (and the associated, and perhaps significant, new investment in IT); • the ability to separate out payments for each child as individual accounts need to be managed (as opposed to Employer-Supported Childcare where several children can be accommodated in the same account and/or childcare provider invoice); • certainty as to the order in which the money within a parent's account would be spent; • the ability to manage expired vouchers; and • the potential need for a central regulatory body to monitor account provider standards and consistency in Tax-Free Childcare.
25.	How might third parties with additional capabilities improve the	Respondents did not identify many ways in which third-parties could bring additional capabilities to assist the operation of Tax-Free Childcare. Most existing voucher providers highlighted the role employers could play in Tax-Free Childcare which they felt would help in: • promoting the scheme;

operation of Tax-Free Childcare?	• monitoring employees' continuing eligibility; • making post-tax deductions from salary; and • identification of (employed) parents already receiving Employer-Supported Childcare. Elsewhere a couple of respondents mentioned the role that voluntary and community sector organisations could play in providing information or advice to parents, helping them to open or manage an account, or helping in choosing childcare. Finally, a few respondents identified that credit reference agencies could be involved in helping verify certain household and/or background details on parents.

Tax-Free Childcare: the market for childcare vouchers

Question	Issues Raised
Overarching themes	There were mixed views on the type of markets which would best meet the Government's objectives for Tax-Free Childcare. Most existing voucher providers were generally in favour of an accreditation option, with no imposed limits on the number of account providers in the new market, as the best way of creating an efficient market which would reduce costs and increase service standards. Some respondents outside the market backed this view, but others thought that a sole or limited number of providers would be easier for parents to understand and engage with, and give them certainty that their money would be protected. It was also noted that a sole provider would be simpler (and reduce administration costs) for childcare providers. On keeping costs low, many existing voucher providers advocated a role for employers to help keep administrative costs low, and believed that beyond charging fees for the running of the accounts, the opportunities for making money via the other channels set out were negligible. Other stakeholders were keen that costs were kept as low as possible, so as not to dilute the Government's childcare offer. A recurring theme across all respondents was the need for parents to have certainty that their money is safe under the new scheme. Some thought that it was necessary for this to be guaranteed, and there were a number of different proposals for how money could be best protected.
<u>Responses to each question</u>	
26. Is the Data Protection Act 1998 sufficient to protect personal data? What are the costs and benefits of	Stakeholders were unanimous that the protection of personal data is a key issue to give confidence to parents, and that there should be a minimum standard which account providers should be required to meet. One stakeholder said that any decision on data security should be considered in the round with how the Government intends to operate the registration process and therefore who would hold and have to pass information.

mandating further standards, such as ISO/IEC 27000?	Most respondents believed that the Data Protection Act is a good place to start – and some didn't believe that it was necessary to go beyond this. However, a number suggested that the Government could go further and mandate that the account provider(s) in Tax-Free Childcare should be required to meet the ISO/IEC 27000 standard. It was argued that this would increase the reliability and security of systems, reducing information risks and vulnerabilities. It was acknowledged, however, that account providers may find this difficult as the timing and cost issues could be prohibitive or impose disproportional costs on small business.
27. What are the costs and benefits of further safeguards to protect parents' funds, such as ring-fencing funds from working capital, an insurance-type arrangement, or authorisation by the Prudential Regulation Authority? What other options might be proportionate?	Stakeholders recognised the importance to the success of Tax-Free Childcare that parents have confidence that there are robust safeguards in place to protect their and the Government's money. It was pointed out that parents would expect an absolute guarantee of the safety of their money. One of the most common suggestions was to require some form of separation of parents' and Government money from working capital. In a number of instances it was suggested that this could be best done via a trust arrangement with trustees responsible for ensuring that parents' and Government money were separated. Many respondents believed that the Government should prescribe the form of protection which the account provider would need to follow. This ranged from having protection as a key part of the accreditation process, to something similar to the Financial Services Compensation Scheme where the Government would guarantee in full parents' money should the account provider become insolvent. A number of respondents raised the need for proportionality in deciding what level of protection is appropriate. There were concerns that in an open market the protection could be prohibitive for some potential new entrants, and while coming under the auspices of the Prudential Regulation Authority was mentioned a couple of times as an option, it was considered to be a higher level of protection than is appropriate.
28. Which market structure is most likely to deliver the Government's objectives?	Most of the stakeholders involved in delivering vouchers under the current Employer-Supported Childcare market thought that the accredited provider model – where firms could enter the market if they had been accredited by Government beforehand – is the best option. This was on the basis that having an accreditation process would allow parents to know that all providers in the market would meet a certain set of standards. They also felt that accreditation struck the right balance between safeguarding money and enabling an efficient market to operate. This model was considered to be close to what works in Employer-Supported Childcare and would lower costs and drive out efficiencies. Several replies suggested that to ensure the viability of entering an open market, the accreditation should last for anywhere between three and five years. They acknowledged the right for the Government to withdraw this accreditation should an account provider not meet the required standards.

A small number of replies referenced the view that much of the competition would likely be on service standards rather than price, and they thought that options with a limited number of providers in the market were likely to offer poor service to parents. It was also suggested that having one or a limited number of suppliers would, over time, provide little competition in the market, and could have implications for the Employer-Supported Childcare market.

A couple of respondents recommended that a more open market would be preferable, with the model operated by the Childcare Voucher Provider Association as a basis for Tax-Free Childcare. No-one thought that a fully laissez-faire approach is appropriate, given the confusion and lack of security that parents would feel.

Outside existing voucher providers, some stakeholders thought that there would be merit in considering either a single or limited number of providers. This was largely on the basis that parents would have the most confidence in Tax-Free Childcare if there is a single or small number of providers in the market, and that the current Employer-Supported Childcare scheme imposed additional administrative burdens on childcare providers. There were also arguments put forward that this would make regulation of the market much simpler, and that it might have benefits for groups dealing with specific areas of childcare provision.

29. How should administration costs be kept low?

A number of respondents again argued that a mandated role for employers would be the main way to reduce administration costs, with the current role they played in reducing phone contact and ensuring eligibility and timely payments seen as keeping costs low. There was a suggestion that employers could receive a National Insurance Contributions disregard for this role. Others who were not pressing for a mandatory role for employers were keen to see them still involved in the process.

More generally, the simplicity of the processes for Tax-Free Childcare was thought to be key in helping to drive costs down. The more that the Government could do to keep costs associated with eligibility issues to a minimum, and provide clear processes and guidelines in certain key situations such as repayments, will help reduce queries. Making Tax-Free Childcare available online was considered important.

Many focused on who should pay fees (and how) as a key issue for this question. There was near universal acceptance that childcare providers should not be charged for providing the service as these costs would be passed onto parents via higher fees. The Government paying a flat fee for a minimum level of service was suggested on a number of occasions, but it was noted that this would require the fee being set at a high enough level to encourage providers to enter the market.

As with the previous question, a number of respondents focussed on the market option, with a split between those who thought that a more open market would provide the best results, against those who considered reducing the number of suppliers as the best way to minimise costs.

30. What should the balance be between protecting parents' money and allowing providers to generate revenues from the funds that they hold?	There were three distinct themes that emerged in response to this question. Firstly, virtually all replies indicated that in considering protecting parents' money against allowing a childcare account provider to generate revenues from the funds that they hold, the balance should be much in favour of protecting parents' money. While not all the respondents were against an account provider being able to make a return on the money that they hold, the main priority should be ensuring that parents' money is not put at risk. Secondly, there were a number of replies arguing that with low interest rates and the increased speed of movement of funds out of Tax-Free Childcare accounts, there are not likely to be significant funds at stake. A number also added that with the low returns likely to be made from cross-selling and advertising, there was no prospect of them being able to have a no-fee account in an open market. Thirdly, a number of existing voucher providers thought that an account provider should be able to make interest from the balances that they hold, provided they are low risk investments such as deposit accounts in UK-registered banks.

Tax-Free Childcare: interactions between Tax-Free Childcare and Universal Credit[2]

Question	Issues Raised
35. Is offering a choice between Universal Credit and Tax-Free Childcare 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?	Some stakeholders felt that offering a choice between Universal Credit and Tax-Free Childcare was necessary to support those parents who are eligible for Universal Credit but better off under Tax-Free Childcare. Most respondents did not see any reason to limit the number of times a parent can move between Universal Credit and Tax-Free Childcare, although they acknowledged the potential administrative complexities for the Government. Some felt that a limit would have a detrimental impact on parents whose income and hours fluctuate. Concerns were also expressed that a limit on the number of switches would act as a disincentive for those on Universal Credit to increase their hours. However, some suggested that giving parents this choice will create complexity as they may be unsure of in which scheme they will be better off. Concerns were raised that this could lead to low take-up of the schemes. One solution offered by some stakeholders would be to allow parents to claim both Universal Credit at a rate of 70 per cent and Tax-Free Childcare. Others suggested limiting parents to four switches a year.
36. How can the Government best design the	Stakeholders advised that parents need to be given easy-to-understand information and guidance on how to move between both schemes.

[2] The Government will respond to the consultation on extending childcare support in Universal Credit in due course. Only questions relating to the interaction between Tax-Free Childcare and Universal Credit are covered below.

<table>
<tr><td></td><td>process to ensure that the journey off Universal Credit is as smooth as possible?</td><td>A few respondents suggested that parents' details should only be checked once by Government and information should be shared between Departments and schemes.</td></tr>
<tr><td>37.</td><td>What information and tools do families in this position need to inform their decision, and how can this be best provided?</td><td>Most stakeholders agreed that parents need information in various formats, a helpline (through HMRC or Jobcentre Plus) and online calculator to help them to decide under which scheme they will be better off. Most felt this information should include:
levels of support available;
eligibility criteria;
administrative requirements;
the differences in entitlement periods between Universal Credit and Tax-Free Childcare; and
details of organisations that can support parents in making their decision.
Others suggested that using Real Time Information, the Government could proactively inform parents if they were better off under another scheme.

In order to provide useful information for parents, some stakeholders suggested holding workshops with interested parties to exchange ideas and test proposed tools.</td></tr>
<tr><td>38.</td><td>What factors are parents likely to take into account when deciding which scheme works best for them, and under what circumstances?</td><td>Most stakeholders suggested that the main factor for parents when determining which scheme works best for them would be financial. In other words, which scheme maximises the level of support they receive.

Others suggested that the differences in reporting requirements between Universal Credit and Tax-Free Childcare would form the basis of some parents' choices, provided these were clearly outlined in any information provided.

Other factors that respondents highlighted included:
how long parents expected to be eligible for either scheme;
the likelihood of overpayments and having to pay money back;
how the schemes recognised changes in household or employment circumstances; and
the ease of the registration processes.</td></tr>
</table>

B Data and sources summary

B.1 This annex summarises the data set out in the document and aims to inform readers either where that data has been previously published or from where it is derived.

B.2 In all cases below, the most recent available data is provided. All data provided in the document may be subject to change as sources and/or estimation methods are revised.

Tax-Free Childcare

B.3 Tax-Free Childcare will be available to families with children under 12, where both parents, or a lone parent, are in work, earning below the upper earnings limit, earning above the minimum income level and not in receipt of Employer-Supported Childcare, tax credits or Universal Credit.

B.4 It is estimated that around 1.9 million families (around 2.6 million children) will be eligible for Tax-Free Childcare once the scheme is available to children under 12, within the first year of the scheme's operation. This includes 0.7 million families (around 1.2 million children) who would not have been eligible within the first year under the previously announced timetable.

B.5 Of the estimated 1.9 million families to whom the scheme is open, it is estimated that around two-thirds will have qualifying childcare costs.

B.6 Of the 1.9 million families, the increase of the £6,000 cap on costs per child to £10,000 is expected to benefit around 100,000 families.

B.7 The 2011-12 Family Resources Survey has been used to estimate the numbers of eligible families.[1] The Family Resources Survey is a major annual study sponsored by the Department for Work and Pensions. It provides facts and figures about the incomes and other circumstances of people living in the UK.

B.8 The Department for Education Childcare and Early Years survey of parents: 2012 to 2013 has been used to derive the costs and usage of childcare for different family and childcare types.[2]

Employer-Supported Childcare

B.9 Employer-Supported Childcare (childcare vouchers and directly contracted childcare) will be closed to new entrants from autumn 2015. Workplace nurseries will not be affected by this change.

B.10 It is estimated that approximately 520,000 families are in receipt of employer-provided childcare vouchers or directly contracted childcare. This estimate is based principally on information supplied to HM Revenue & Customs by childcare voucher providers, and is supplemented by information from the Department for Education Childcare and Early Years survey of parents.

[1] Source: (https://www.gov.uk/government/collections/family-resources-survey--2)

[2] Source: (https://www.gov.uk/government/publications/childcare-and-early-years-survey-of-parents-2012-to-2013)

B.11 Based on the available data from voucher providers together with statistics of numbers of employers from the Department for Business, Innovation and Skills indicate that fewer than 5 per cent of employers offer childcare vouchers and survey evidence (both Family Resources Survey and Early Years Survey) suggest that fewer than 50 per cent of employees have access to childcare vouchers.

Tax credits

B.12 Families receiving ongoing support through tax credits will not be eligible for Tax-Free Childcare.

B.13 As at December 2013 4.1 million families, containing 7.7 million children, were tax credit recipients or were receiving the equivalent child support through benefits.

B.14 These families comprised:

- 1.4 million in which no adult was in-work, receiving only Child Tax Credit (CTC);
- 1.9 million in-work receiving the maximum CTC, and also receiving Working Tax Credit (WTC); and
- 0.8 million in-work receiving less than the maximum CTC.

B.15 As at December 2013 422,000 families were benefiting from the childcare element of WTC, receiving an average of £59 per week support for childcare costs.[3]

B.16 Along with other income-related benefits, tax credits will ultimately be rolled into Universal Credit – details of this migration were announced on 5 December 2013.

[3] Source: Child and Working Tax Credits statistics: provisional awards December 2013.

C List of respondents

4 in 10
4Children
Abacus Voucher Solutions
Active Kids Day Nursery
Advice NI
Airdale NHS
Allsave
Association of Accounting Technicians
Barnardos
Blackpool Council
Blois Meadow Day Nurseries Ltd
Bradford Metropolitan District Council
British Airways
Busy Bees
Cambridgeshire Council
Camden Council
CARE
Carillion PLC
Chartered Institute of Payroll Professionals
Chartered Institute of Personal Development
Chartered Institute of Taxation
Chartered Institute Payroll Professionals
Child Poverty Action Group
Childcare Voucher Providers Association
Children in Scotland
Children's Society
Chwarae Teg
Citizens Advice
Citizens Advice (Northern Ireland)
Clybiau Plant Cymru kids Club
Confederation of British Industry
Co-operative Flexible Benefits
Cornwall Council
Crown Prosecution Service
Early Years – the organisation for young children
Employers for Childcare Charitable Group
Endenred UK Group Limited
E-ON UK
Family and Childcare Trust
Family Education Co Antrim
Family Education Trust
Federation of Small Business
Fideliti Ltd
Fun Lodge limited
Gingerbread
Glasgow City Council
Hampshire County Council
Information Commissioner's Office
Islington Council, Early Years and Childcare Children's Services
Joseph Rowntree Foundation
Linking Up Childcare Provider
London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council
Low Income Tax Reform Group
Mid Lothian Council
Mid Yorkshire Chamber of Commerce
Mid Yorkshire Hospitals NHS Trust
Mothers at Home Matter
Motivcom PLC
Multi Resource Marketing Ltd
National Day Nurseries Association
NHS Employers
Northern Ireland Government Departments
Out of School Alliance
P&MM
Playboard Northern Ireland
Policy Exchange
PriceWaterhouseCoopers LLP
Professional Association for Childcare and Early Years
Recruitment and Employment Federation UK
Resolution Foundation
Save the Children
Scottish Childminding Association
Scottish Out of School Care Network
Sodexo Motivation Solutions Ltd
Super Camps Ltd
The Association for Professional Nannies in the UK
The Mid Yorkshire Hospital's NHS Trust
The Open University
Trade Union Congress
TURN 2 US
Twins and Multiple Births Association
UK Women's Budget Group
Unison – The Public Service Trade Union
Wider Plan Limited
Working Families

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This document can be downloaded from www.gov.uk

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