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Monday 15th December 2014

Dear Sir/Madam,

Re: Tax-Free Childcare – Comments on Draft Guidance

4Children welcomes the opportunity to comment on HMRC's draft guidance for the new Tax-Free Childcare scheme.

4Children is the national charity all about children and families. We have spearheaded a joined-up, integrated approach to support for children and families and work with a wide range of partners around the country to ensure children and families have access to the services and support they need in their communities. We run Sure Start Children's Centres as well as family and youth services across Britain. We develop, influence and shape national policy on all aspects of the lives of children, young people and families.

The final guidance on Tax-Free Childcare will represent a crucial source of information for parents, providers and employers, and we recognise that it will be vital for this to convey key messaging about the scheme in a way that is both easy to understand and informative. As members of HMRC's Tax-Free Childcare Implementation Advisory Forum we have had an initial opportunity to feed in comments on the draft guidance, and in this response will make a number of specific follow-up points, as well as suggestions for how the clarity and ease of use of the guidance could be improved.

- **The importance of re-confirmation (pages 7 and 33):** In our view, the need for parents to re-confirm their eligibility on a quarterly basis will represent a crucial aspect of the messaging around the scheme, as understanding this will be key to parents' ability to utilise Tax-Free Childcare effectively. Currently the draft guidance contains a brief initial reference to quarterly re-confirmation on page 7, followed by a more detailed discussion on page 33. In our view, it would be helpful if the need for quarterly re-confirmation was given greater prominence in the early stages of the final guidance, to help ensure that the importance of this is highlighted to parents from the start.

- “Reasonable expectation” and the minimum income rule (pages 8, 14 and 17):** The concept of claimants having a “reasonable expectation” of meeting the minimum income rule at the point of re-confirmation will be a crucial one for parents to grasp. Indeed, in many cases understanding what this means in practice will be essential if parents are to have confidence that they are using Tax-Free Childcare legitimately, and are not inadvertently deterred from claiming support they are actually entitled to under the scheme. The concept of “expectation” or “reasonable expectation” with respect to earned income is mentioned several times in the draft guidance on pages 8, 14 and 17, but we feel that it may be helpful if the final guidance included further explanation around what this means and the terms under which the “reasonable expectation” test will be met. For example, one issue that could emerge is a claimant having a firm job offer at the point of re-confirmation which subsequently falls through – in instances such as this, it may be helpful if the guidance made clear that the claimant would have met the “reasonable expectation” threshold at the point of re-confirming, and would therefore remain eligible throughout the quarterly entitlement period.
- Implications of terminating a tax credit / Universal Credit claim (pages 9, 19 and 20):** Another vital aspect of the scheme for Tax-Free Childcare users to be aware of concerns the financial implications of transferring onto Tax-Free Childcare from either tax credits or Universal Credit. It is therefore helpful that the draft guidance makes early reference on page 9 to the fact that a successful Tax-Free Childcare claim will automatically terminate a tax credit award, and that anyone in receipt of Universal Credit will be required to end their claim before applying for Tax-Free Childcare. However, we feel that this section, as well as the more detailed information contained on pages 19 and 20, could usefully include reference to the fact that ending a tax credit or Universal Credit award could also have broader financial implications for claimants through the loss of “passported” benefits (i.e. those benefits which are contingent on a tax credit or Universal Credit award being in place in the first place), as in our view it is important for claimants to understand that potentially losing such “passported” support is an additional consequence of transferring between the two systems.
- Requirement to submit a childcare account notice to end support through Employer Supported Childcare (page 22):** The draft guidance sets out on page 22 that parents who are in receipt of childcare vouchers or directly-contracted childcare through existing Employer Supported Childcare schemes will be required to end this support within three months of opening a Tax-Free Childcare account. However, we feel that it would be helpful if the final guidance included some indication that parents will have to actively inform their employer that they wish to terminate this support through the submission of a childcare account notice, going beyond the existing advice that “Your employer will be able to tell you how to stop the support they provide”.

- **Greater prominence around the status of the free entitlement (page 23):** Page 23 of the draft guidance sets out that parents will be unable to claim Tax-Free Childcare if they are also in receipt of support through other Government childcare schemes, with the exception of the free early years education entitlement. Given the prominence and high take-up rate of the free entitlement, we feel it may be helpful if this exception was given greater emphasis within the final guidance so that those parents who are in receipt of it will be left in no doubt as to the fact that they will still be able to make a legitimate claim for Tax-Free Childcare.
- **Clarification around the illustrative top-up payments table (page 32):** The current draft guidance includes an illustrative table on page 32, which sets out the level of top-ups that will be paid out if parents pay in specific amounts (including an indication of the fact that the maximum level of top-ups available in a single entitlement period is £500). This is useful in demonstrating how the top-up system works, but it may be helpful if there was greater clarity (perhaps in the title or column headings) that this chart applies specifically to a three-month entitlement period – in our view, this would help avoid any potential for confusion, for example if readers were to mistakenly interpret the table as applying to their full annual entitlement, which would imply that the maximum amount of support available through the scheme each year was £500 rather than £2,000.
- **Penalties and appeals (pages 42, 43 and 44):** We feel that the information in the sections of the draft guidance that deal with the penalties that HMRC can apply should accounts be misused may need to be refined. Currently there are certain aspects of this part of the guidance which we feel could be confusing for parents. For example, the fact that claimants can ask HMRC to review decisions is first mentioned on page 43, in relation to timescales around repaying penalties. However, the review process itself is not properly explained until slightly later on in the draft guidance, primarily on page 44. In our view, it may be helpful if some further work was done on these particular sections of the draft guidance to make them easier to use – one approach, for instance, might be to separate out the information on penalties currently contained in section 7, possibly making this a new section in its own right which follows on from the information about the review and appeals processes in section 8.

As a final point, we would also like highlight the broader importance of guidance being available in non-digital form. We note that the guidance is being developed by HMRC in collaboration with the Government Digital Service, but believe that it is also important for it to be available in a format which is accessible for those who do not have easy access to a computer. In our view, this is an important aspect of ensuring that the Tax-Free Childcare scheme is inclusive for all families, including those who may be experiencing “digital exclusion”.

If you wish to discuss this or any of the other issues raised in this submission in more detail, please do not hesitate to get in touch.

Yours sincerely,



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