

## Employers For Childcare's submission to the 2018 Autumn Budget: Ensuring access to the best form of financial support for working parents in the UK

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## Executive Summary

**This submission sets out the reasons and evidence for why the Government should re-open the Childcare Voucher scheme to new entrants and continue to offer the scheme as an option for working parents alongside Tax-Free Childcare. Childcare Vouchers close to new entrants on 4 October 2018. Keeping Childcare Vouchers open to new entrants is a policy that is aligned with the Government’s objectives, has widespread support from parents, employers, and childcare providers, is achievable within budget, and is easy to implement as the necessary infrastructure is already in place, with the scheme continuing to be available for existing beneficiaries. Closing the scheme to new entrants will prevent the Government from achieving its objectives in relation to childcare by ignoring the complex and changing needs of different families, meaning many will receive less support than they would previously have been entitled to while others will miss out entirely on support. This will lead to many ordinary working families questioning their ability to work full time or at all, and present a barrier to career progression and transition out of the welfare system for others.**

The Government’s stated objective for childcare support is to improve access to childcare and assist working families with household budgets, helping more parents go out to work, or work more. This is **best achieved through keeping both Tax-Free Childcare and Childcare Vouchers open**. Childcare Vouchers provide the best form of support for over a third of families across the UK, and a progressive route out of welfare and onto Tax-Free Childcare for a further third. The Treasury Committee has urged that Childcare Vouchers be kept open to new entrants until there is a better understanding of the ‘winners and losers’ of closing it. Through our work with families across the UK we know it is ordinary working families that stand to lose out the most. Closing Childcare Vouchers to new entrants limits choice for these families, presents a barrier to career progression, and disincentivises some families from transitioning out of the welfare system. This will result in greater costs to the Government over the longer term.

Keeping Childcare Vouchers open to new entrants can be achieved within the Government’s overall budget for childcare support spend. Families cannot benefit from Tax-Free Childcare and Childcare Vouchers at the same time, mitigating the cost of maintaining both. Providing an effective transition out of the welfare system for many families could result in further savings to Government in other parts of the system. Should there be any concern about the cost of keeping Childcare Vouchers open to new entrants, we have offered a solution to lower the cost of the scheme whilst continuing to target support where it is most needed.

In March, when announcing an extension to the closure of Childcare Vouchers (then scheduled to close to new entrants in April 2018), the Government committed to using the time to address specific concerns raised by the public and MPs about the closure. These issues have not been resolved, nor has there been any update on the steps taken to address them. There is widespread support from parents, employers, and childcare providers all calling for Childcare Vouchers to be kept open to new entrants. For example, over 270 employers, representing 141,923 employees, have signed a pledge calling on the Childcare Voucher scheme to be kept open to help working parents maintain a healthy work-life balance and ensure they have a choice of support that best suits their family’s needs. Almost 120,000 people signed a petition earlier this year calling on Childcare Vouchers to be kept open.

While Childcare Vouchers are closing to new entrants on 4 October, the scheme will continue to operate for existing users. This means that the necessary infrastructure is in place to allow Childcare Vouchers to be easily re-opened and kept open to new entrants.

## About Employers For Childcare

Employers For Childcare is a charity established to support parents with dependent children get into and stay in work. We campaign to address barriers preventing parents from entering into, and staying and progressing in, the workforce by addressing childcare as a social, economic and labour market issue. We work directly with parents across the UK through our Family Benefits Advice Service and for parents through research and guidance. We are expert, accredited, independent and impartial. Our charity supports parents across the UK through a Freephone Helpline and outreach service. We do calculations for parents advising them what form of support is best for their family. This is based on each family's individual circumstances. In the last year:

- We helped 13,600+ people, completing 7,500+ calculations identifying the best form of support for working parents
- We answered 8,300+ calls to our Freephone Helpline and provided almost 460 face to face outreach and support sessions
- As a result, we identified collective savings for parents of over £13 million
- 67% of callers who were out of work told us that they felt better prepared to find work as a result of our support, the rest were not looking for work for example due to illness or disability.

We advise approximately a third of eligible families to use Tax-Free Childcare, and two thirds are advised to use Childcare Vouchers, Tax Credits or Universal Credit, or the combination of these – and always because that is what is best for them.

Each year we undertake research which provides us with the evidence to campaign on these issues. We track the cost of childcare and the impact it has on families, both financially and in terms of their well-being, through annual Childcare Cost Surveys.<sup>1</sup> Through our work with families, employers and childcare providers we have gathered the experience, knowledge and evidence which informs this submission.

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<sup>1</sup> [www.employersforchildcare.org/charity/research-and-reports](http://www.employersforchildcare.org/charity/research-and-reports)

## Closing Childcare Vouchers to new entrants impacts negatively on working families

More families, particularly ordinary working families, will be better off – and better able to get into work, or work more – if Childcare Vouchers are kept open to new entrants. For a large majority of parents, their ability to work depends on their ability to afford childcare. For families who are better off on Childcare Vouchers, or unable to access Tax-Free Childcare, losing access to the scheme will have a significant, negative impact.

Take up of Tax-Free Childcare has been significantly below [Government projections](#), in part because many families currently using Childcare Vouchers have found they are better off not moving to the new scheme at this stage, but may transition to it should their income and childcare costs increase. Tax-Free Childcare is of greater benefit to families with higher childcare costs, and is an important source of support for them. The scheme will also benefit two parent households where both parents are self-employed, or households with a self-employed single parent.

Our evidence underpinning this analysis comes from calculations completed for thousands of families across the UK. Based on over 7,000 calls from working parents across the UK to our independent Family Benefits Advice Service, 67% of families have been better off on Childcare Vouchers, Tax Credits or Universal Credit, or a combination of these, than on Tax-Free Childcare. These calculations are based on:

- Actual or projected childcare spend for each family
- Household income, employment status and hours of work
- Family circumstances (single parent, two parent household, number and ages of children, whether there is a disability in the family).

This analysis is **not based on scenarios, averages or assumptions**, but on over 7,000 individual parents who have chosen to contact us. A detailed breakdown of these figures, with supporting case studies, is available at Appendix 1 and Appendix 2. Employers For Childcare is unique across the UK in collecting and collating this level of information.

### Over 7,000 families across the UK:



Source: Employers For Childcare's Family Benefits Advice Service

## Closing Childcare Vouchers to new entrants would mean some families losing out entirely on support

The Treasury Committee has urged that Childcare Vouchers be kept open, at least until there is a better understanding of the ‘winners and losers’ of closing it to new entrants. This analysis has not been undertaken by the Government. Through our work with families across the UK we know that it is ordinary working families that stand to lose out the most, with some losing all access to support. Families who are ineligible for Tax-Free Childcare, but may be able to access support through Childcare Vouchers include:

- Two parent households where one parent has lost their job due to redundancy
- Two parent households where one parent is out of work caring for an elderly relative<sup>2</sup>
- Households where parents are subject to immigration control (excluded from support through Tax-Free Childcare, Tax Credits or Universal Credit)
- Households with children aged 11-16 paying for out of school childcare or summer schemes.

Current users of Childcare Vouchers who move to a different employer will no longer be eligible, creating **direct losers** for families such as those represented in the bullet points above. This is of concern for two sectors in particular:

**Health Trust staff:** Each NHS Trust is an individual employer so if an employee moves from one trust to another during rotation, they have technically left their employer. Junior doctors – of whom there are approximately 50,000 – typically rotate every 6-12 months. If Childcare Vouchers close to new entrants, these workers will lose all access to the scheme when they make their next rotation.

**Charity workers:** Many staff within the third sector are employed on fixed term contracts dependent on funding, and tend to move between organisations. Charities have told us of their concern at the impact this will have on staff who know they will lose access to Childcare Vouchers once their current contract comes to an end, even though they may move to a similar employer who also offers Childcare Vouchers.

Research published in 2015 suggests that the average UK worker will experience at least six different companies across their working careers<sup>3</sup>. As such, many current users of the Childcare Voucher scheme who are currently better off stand to lose out should they change jobs. Alternatively, they may make the choice not to change jobs in order to retain support through Childcare Vouchers and miss out on career progression. In early March 2018, when Childcare Vouchers were still scheduled to close in April, we were contacted by a large public sector employer who advised that they had offered a job to a candidate who had accepted the post and was due to start in April. Subsequently, the successful candidate withdrew her acceptance of the job citing the fact that she would not be joining in time to sign up for Childcare Vouchers and could not therefore afford to take the job. This situation has the potential to be much more prevalent following the closure of Childcare Vouchers to new entrants.

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<sup>2</sup> Where a parent is in receipt of Carer’s Allowance, they may be eligible for Tax-Free Childcare, however caring for an elderly relative does not in itself give rise to eligibility for Carer’s Allowance which is payable only where the individual being cared for is in receipt of certain disability benefits.

<sup>3</sup> <https://www.aat.org.uk/news/article/work-numbers>

## Working parents subject to Immigration Control

In August it was reported<sup>4</sup> that the most recent ONS figures reveal the number of non-EU nationals working in the UK has risen to 1.27 million, while the number of European Nationals working here continues to fall. According to the CBI, the size of the UK workforce is shrinking, at the same time as vacancies are growing. Employers need access to a skilled and experienced talent pool. Thinking post-Brexit, the Government has accepted the recommendations of the independent Migrant Advisory Committee which has noted the positive contribution to the public finances made by skilled migrants, and urged that the cap on high skilled migrants should be scrapped. In this context, we cannot afford to remove the only form of support with childcare costs from working parents who are subject to immigration control. Childcare Vouchers support skilled migrant workers to contribute to the economy.

## Addressing the perception that there is limited access to Childcare Vouchers

According to ONS figures, there are 32 million people in work in the UK<sup>5</sup>. Based on figures provided by the Childcare Voucher Providers Association (CVPA), over 20 million of these 32 million work for employers that offer Childcare Vouchers. This equates to 62% of employees. CVPA members represent 80% of the Childcare Voucher market meaning the figure is likely to be closer to 26 million, with 20 million as a conservative estimate. Every large company in the UK, along with every public sector organisation (with the only exception being East Riding of Yorkshire Council), and the majority of medium sized organisations, offer Childcare Vouchers. 17% of the workforce is employed in the public sector, while 52% of the private sector workforce is employed by 1% of the largest employers. This means that at least 69% of the workforce has access to Childcare Vouchers.

The seemingly small percentage of employers who offer Childcare Vouchers, compared to the high percentage of access across the workforce, can be explained by that fact that, in the private sector, 76% of UK private sector businesses have no employees.<sup>6</sup> Many employers who do not offer the scheme may have no staff who would benefit. There is evidence of strong employer take up if an employee requests access.

Childcare Voucher scheme	Treasury figures	Reality
Organisations offering the scheme	5%	Every large company, public sector, thousands of SMEs, charities
Percentage of UK workforce covered	50%	62% - 80%

The reality is that Childcare Vouchers offer an accessible scheme that is currently available to a majority of the workforce, should they be eligible and choose to sign up.

<sup>4</sup> <https://www.bbc.co.uk/news/business-45181079>

<sup>5</sup> [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/february2018](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/february2018)

<sup>6</sup> <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06152#fullreport>

## Keeping Childcare Vouchers open to new entrants helps working parents transition to Tax-Free Childcare by facilitating career progression

For many families, the best route to help parents go out to work, or work more, and be in a position where they are benefiting from Tax-Free Childcare, is through Childcare Vouchers which can act as a stepping stone. The transition from the welfare system directly into Tax-Free Childcare is much more difficult, as support from **Tax Credits or Universal Credit stops completely** once a successful application for Tax-Free Childcare is made, presenting a **cliff edge** that will discourage some families from progressing. To illustrate this, we have provided two case studies from parents:

### Case studies of callers to Employers For Childcare's Family Benefits Advice Service

Case study 1: Pauline is a single parent from Dorset with one child and childcare costs of £175 per week. She works full time and her annual income is £23,000. She receives Tax Credits of £7,692 per annum. To be better off on Tax-Free Childcare, with the same childcare costs, Pauline's income would have to increase to £38,000, at which point she would be better off by £278 per annum. This is a significant increase in income, unlikely to be achievable without support to transition to a higher income more gradually. This can be achieved by incorporating Childcare Vouchers into the support she receives, as her Tax Credit support decreases.

Case study 2: Beth is a single parent with one child and lives in London. Her childcare costs are £231 per week. Her income is £25,912 per annum. She combines Childcare Vouchers and Tax Credits for support, receiving £7,692 from Tax Credits and £932 in Childcare Vouchers. For her to be better off on Tax-Free Childcare her income would need to rise to £42,412 per annum – an increase of £16,500. She would need to significantly increase her hours of work to achieve this, for a benefit of £141 per annum. Her saving from Tax-Free Childcare would be £2,000, compared to savings of £1,859 combined through Childcare Vouchers and Tax Credits. Beth is keen to increase her hours of work and her income. However, if she were unable to access Childcare Vouchers, she would be in receipt of less Tax Credits as she would be reporting a higher income, and the transition out of the welfare system would be even more difficult.

Keeping Tax-Free Childcare and Childcare Vouchers open in tandem provides a comprehensive, flexible package of support for working parents, giving them a choice of the scheme that best suits their needs, providing they can transition between them. **Neither is sufficiently comprehensive on its own**, but they complement each other and provide a natural progression for parents getting into, and advancing in, the workforce accessing different forms of support as they take on work, increase their hours, and increase their income.

We know through our work with families how beneficial the ability to continue to access Tax Credits or Universal Credit, alongside Childcare Vouchers, is for parents as they increase their hours and enjoy career progression. Gradually, they can transition out of the welfare system and onto Childcare Vouchers exclusively before moving on to Tax-Free Childcare as their hours of work and childcare costs increase further.

The Government has recognised the importance of transition (page 4 [Impact assessment](#)) - there is a period of up to three months dual provision between Childcare Vouchers and Tax-Free Childcare to ensure a smooth transition between the schemes. This is not built into the transition from Tax Credits or Universal Credit to Tax-Free Childcare. During this transition, support simply stops, creating a cliff edge when this is in fact the more difficult transition.

### **The evidence (detailed in Appendix 1)**

From our work with families across the UK we know that the average amount of support provided to families in receipt of Tax Credits or Universal Credit is £8,404 per annum, compared to £1,804 for families better off using Tax-Free Childcare. This is a difference of £6,600 per annum, and equates to 29% of average household income for those families better off using Tax Credits or Universal Credit.

According to ONS figures, average disposable household income in the UK increased by just 2.3% in the last year.<sup>7</sup> To make a direct transition from Tax Credits or Universal Credit, to Tax-Free Childcare, cost effective for families the household would require a significant uplift in income, one that is considerably above the national average increase in household income (by more than a factor of 10).

The transition is, however, facilitated where a family can begin to incorporate Childcare Vouchers into the support they receive, without losing all access to Tax Credits or Universal Credit. This incentivises them to increase their earned income, resulting in a reduction in the support they are entitled to from Tax Credits or Universal Credit which is managed more easily with support from Childcare Vouchers. The family can then choose the form of support that is best for their circumstances, Childcare Vouchers or Tax-Free Childcare, to transition fully out of support from the welfare system.

The average amount of support provided to families in receipt of a combination of Tax Credits or Universal Credit and Childcare Vouchers is £3,359 per annum, alongside a higher average household income of £36,410. These families have the highest average annual childcare costs, but experience a small decrease in the average percentage of their childcare costs as a proportion of household income compared to those benefiting from Tax Credits or Universal Credit exclusively. This points to a support system that is encouraging them to increase their hours of work and childcare accessed, whilst enabling them to retain more income for the household. As their income increases, they can transition onto Childcare Vouchers and then Tax-Free Childcare as appropriate.

Conversely, where a household is better off on Tax-Free Childcare but, due to a change in circumstances, sees a reduction in their household income and use of childcare, it would be in the Government's interests to keep Childcare Vouchers open as an option for that family. This is because the amount of support it is providing, as a percentage of household income, would be considerably less for the family in receipt of Childcare Vouchers alone or in combination with Tax Credits or Universal Credit than the family in receipt of Tax Credits or Universal Credit alone – 3% and 9% compared to 37%.

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[www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2017](http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2017)

## Solution to keeping Childcare Vouchers open within budget

Keeping Childcare Vouchers open to new entrants can be achieved within budget and offers best possible return on investment through enabling families to maximise the support they receive and access and progress through employment, thus promoting economic growth and productivity. Offering this comprehensive package of support can be achieved within the Government's overall budget for childcare support spend. The latest [OBR Forecasts from March 2018](#) compare with the revised cost estimates published in the Government's impact assessment updated in March 2017:

Cost of Tax-Free Childcare	Estimates March 2017	OBR Forecasts March 2018	Difference
2017/18	£390 million	<i>£0.0 million (£37 million)</i>	<i>£353 million</i>
2018/19	£780 million	£200 million	£580 million
2019/20	£865 million	£500 million	£365 million
2020/21	£910 million	£700 million	£210 million
2021/22	£980 million	£800 million	£180 million
Total	<b>£3.9 billion</b>	<b>£2.2 billion</b>	<b>£1.7 billion</b>

This means a **saving of £1.7 billion** over the next five years and that the Government is in a pivotal position with access to additional funds and an opportunity to adopt a flexible approach to meet the needs of working families within its budget. Should any concern remain about the cost of keeping Childcare Vouchers open alongside Tax-Free Childcare there are feasible solutions to minimise the cost, while targeting support at those who most need it:

### Solution 1: cap the NIC disregard for employers

We have calculated that capping the employer NIC disregard at 8% would save Treasury at least £92 million annually.

	Childcare Vouchers – no NIC cap	Childcare Vouchers – NIC capped 8%	Difference
Users	600,000	600,000	
Cost to Treasury	£756 million	£664 million	£92 million

### Solution 2: limit eligibility for Childcare Vouchers to basic rate tax payers and remove the benefit for higher and additional rate taxpayers

Limiting eligibility for Childcare Vouchers to basic rate tax payers and removing the benefit for higher and additional rate taxpayers would result in significant savings for Treasury while targeting support where it is most needed.

**Saving to Treasury:** £138 million annually - **£690 million** over the next five years.

**Calculating this saving:** We estimate that, last year, higher and additional rate tax payers saved approximately £104 million through the Childcare Voucher scheme. Their employers also saved approximately £34 million on the employers' NIC disregard. Details are in the tables below.

<b>Annual cost of the Childcare Voucher scheme at present</b>	
Employers' NIC disregard (13.8% of total Voucher value)	£220 million
<i>Associated with basic rate tax payers</i>	<i>£186 million</i>
<i>Associated with higher rate tax payers</i>	<i>£31 million</i>
<i>Associated with additional rate tax payers</i>	<i>£3 million</i>
Total Voucher value (including parent salary sacrifice)	£1,594 million
<i>Basic rate tax payer savings (81.8% population – saving 32%)</i>	<i>£432 million</i>
<i>Higher rate tax payer savings (13.7% population – saving 42%)</i>	<i>£95 million</i>
<i>Additional rate tax payer savings (1.2% population – saving 47%)</i>	<i>£9 million</i>
Total savings for working parents through NIC and Income Tax disregard	£536 million
<b>Cost to Treasury (Employers' NIC disregard plus total savings for working parents)</b>	<b>£756 million</b>

<b>Annual cost of the Childcare Voucher scheme for basic rate tax payers only</b>	
Employers' NIC disregard (13.8% of total Voucher value)	£186 million
Total savings for working parents through NIC and Income Tax disregard	£432 million
<b>Cost to Treasury (Employers' NIC disregard plus savings for working parents)</b>	<b>£618 million</b>

<b>Savings for HM Treasury from closing Childcare Vouchers to higher and additional rate taxpayers</b>	
Annual saving (Cost to Treasury at present minus cost for basic rate tax payers only)	£138 million
<b>Savings over the next five years</b>	<b>£690 million</b>

If there is a higher proportion of higher or additional rate tax payers using Childcare Vouchers then the saving to Treasury will be even greater. Additionally, the cost of the Childcare Voucher scheme will decrease over time as some existing users migrate to Tax-Free Childcare. The cost continues to be mitigated by savings on Tax-Free Childcare spend as families can't access both schemes. Importantly, this solution would be at no additional burden to the employer, as they are already required to account separately for different rate tax payers in their Basic Earnings Assessment.

## Conclusion

The Government has committed to ensuring that families are not worse off as a result of its childcare support policies. However, many families across the UK – both those currently accessing support, and those who hope to do so in the future – will lose out from the closure of Childcare Vouchers to new entrants. This is evidenced by the real-life case studies presented in this briefing, representative of the many thousands of parents who have contacted us.

To remove Childcare Vouchers as an option for families would not only leave those families who benefit from this scheme worse off, but make it more difficult for families who are benefiting exclusively from Tax Credits or Universal Credit to transition fully out of the welfare system.

The evidence in this briefing points to the importance of retaining the comprehensive package of support for working parents that is currently on offer: Tax-Free Childcare, Childcare Vouchers – either exclusively or in combination with welfare support, and Tax Credits or Universal Credit.

Within this package, Childcare Vouchers provide the best form of support for over one third of families, and a progressive route out of the welfare system and onto Tax-Free Childcare for a further third. Closing Childcare Vouchers to new entrants would limit choice for ordinary working families, present a barrier to career progression, and disincentivise some families from transitioning out of the welfare system. This would result in a greater cost to the Government financially, and work against achieving the Government's own stated objective of enabling parents to go out to work, and to work more.

Employers For Childcare supports and promotes the Tax-Free Childcare scheme as it is the best form of support for some families, including a third of all callers to our helpline last year. We would welcome adjustments to the Tax-Free Childcare scheme that would enable more families to benefit, including extending the age to which children are eligible. However, the fundamental issues raised in this submission cannot be addressed simply through amendments to the Tax-Free Childcare scheme. For example:

- Supporting working families to transition out of the welfare system
- Providing support for families who are subject to immigration control, but working and paying tax.

Childcare Vouchers and Tax-Free Childcare are fundamentally different in their targeting. For the Government to meet its objective to improve access to childcare and assist working families with household budgets, helping more parents go out to work, or work more, it must make the decision to keep Childcare Vouchers open to new entrants alongside Tax-Free Childcare. Fortunately, the evidence within this submission demonstrates that not only is this in line with the Government's stated policy, it is both affordable and achievable.

Employers For Childcare would welcome the opportunity to discuss this submission with you further, and would be glad to provide further detail on the evidence presented. We look forward to hearing from you.

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## Appendix 1: Detailed analysis of impact based on calculations completed for families across the UK

The statistics in the tables on the following pages are based on 7,085 calls from working parents across the UK to our independent Family Benefits Advice Service Freephone Helpline from the introduction of Tax-Free Childcare in April 2017 to 9 August 2018. These calculations are based on:

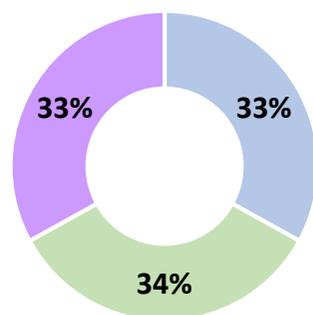
- Actual childcare spend for the family
- Household income, employment status and hours of work
- Family circumstances (single parent, two parent household, number and ages of children)
- Whether there is a disability in the family.

These figures are **not based on scenarios, averages or assumptions**, but on individual parents who have contacted us. As well as the statistics, we have provided real life case studies to assist in understanding the nature of the calls we receive, and the evidence we hold. Employers For Childcare is unique across the UK in collating this level of information.

### Overall demographics:

- Average childcare spend: £7,558
- Average household income: £38,409
- 82% two parent households, 18% single parent households
- Average number of children per household: 1.67 children (ranging from one to six)
- Average age of children: 3.18

## All households



- Better off on Tax Credits or Universal Credit
- Better off on Childcare Vouchers
- Better off on Tax-Free Childcare

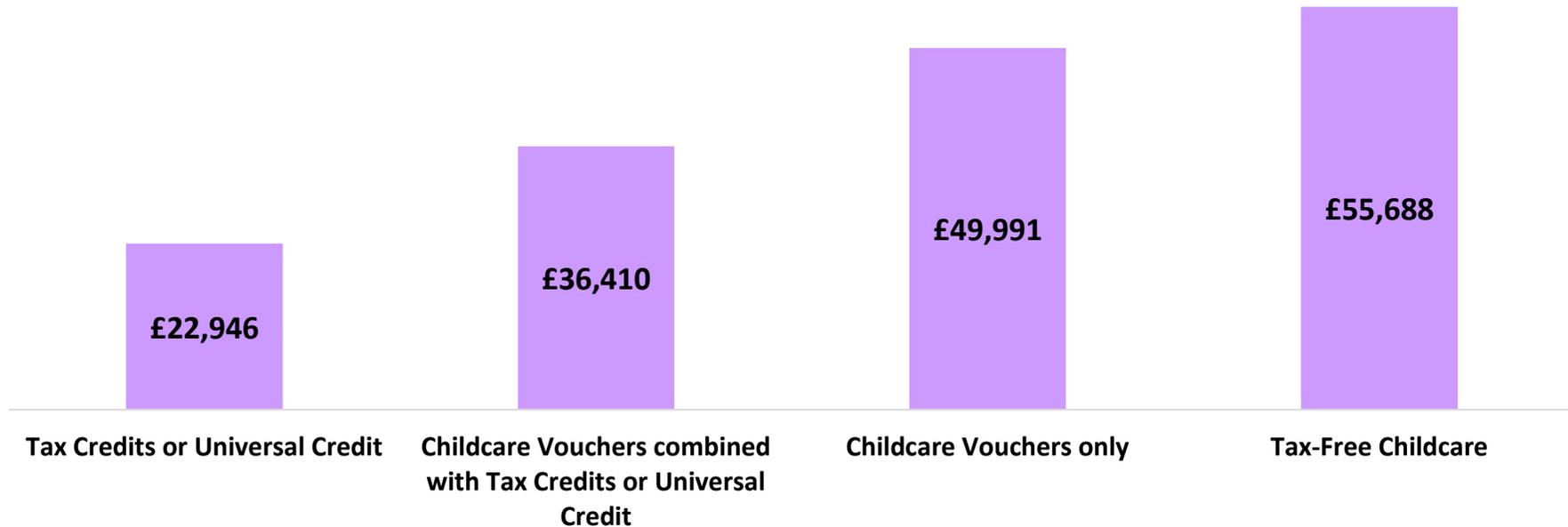
<b>Table 1: All households Families better off on:</b>	<b>Tax Credits or Universal Credit</b>	<b>Childcare Vouchers</b>		<b>Tax-Free Childcare</b>
<b>Percentage of households</b>	<b>33%</b>	<b>34%</b>		<b>33%</b>
		<i>Combined with Tax Credits or Universal Credit</i>	<i>Childcare Vouchers only</i>	
Percentage of households		6%	28%	
Average household income	£22,946	£36,410	£49,991	£55,688
Lowest household income	£0	£12,788	£14,000	£13,205
Highest household income	£59,601	£68,264	£160,000	£178,000
Average annual childcare costs	£7,064	£10,989	£5,295	£9,474
Highest annual childcare costs	£22,100 (3 children)	£23,400 (2 children)	£20,384 (2 children)	£32,396 (4 children)
Lowest annual childcare costs	£416 (1 child)	£936 (3 children)	£156 (2 children)	£520 (3 children)
Average amount of support	£8,404	£3,359	£1,417	£1,804
Support as a % of household income	37%	9%	3%	3%
Average number of children	1.77	2.01	1.5	1.67
Average age of children	3.62	3.40	2.93	2.75
Average % of childcare costs as proportion of household income <sup>8</sup>	43.97%	41.64%	11.32%	17.51%

<sup>8</sup> This is an average of the percentage calculated individually for each household.

**Key findings:**

- Just over one third of households are better off accessing Childcare Vouchers, with one third better off using Tax Credits or Universal Credit only. One third are better off using Tax-Free Childcare.
- Households that are better off on Tax-Free Childcare are those with the highest household incomes.
- The average number of children per household is similar across each category of household.
- The average age of children in the household is highest where the family is better off on Tax Credits or Universal Credit at 3.62, and lowest for those better off on Tax-Free Childcare at 2.75, however there is not a significant difference between households better off on Childcare Vouchers compared to those better off on Tax-Free Childcare – 2.93 compared to 2.75.
- Incorporating Childcare Vouchers with Tax Credits or Universal Credit allows families to increase their spend on childcare whilst reducing the percentage of their childcare spend as a proportion of household income. This minimises the ‘cliff edge’ for families going straight from support through the welfare system to benefiting from Tax-Free Childcare, allowing for a gradual transition that incentivises more work.

The chart below shows the **average household income** for all households categorised by the form of support that is best for them:



## Case studies:

### Better off on Tax Credits or Universal Credit:

#### Case Study 3

- Single parent
- Two children, childcare costs of £672/month
- Household income £15,600

Claire works part-time and pays £672 per month on childcare for her two young children, aged 1 and 2. Claire gets 70% of her registered childcare costs through the Childcare element of Working Tax Credits and as her first child was born before April 2017 she is also entitled to the Family Premium. Through Tax-Free Childcare Claire would add £537 to her account and claim £135 per month from the Government. She would not be eligible for any other support. *Tax Credits offer the best form of assistance with Claire's registered childcare costs giving £948 per month more in assistance compared to Tax-Free Childcare.*

### Better off combining Childcare Vouchers and Tax Credits or Universal Credit:

#### Case study 4

- Married couple
- One child under the age of 1, childcare costs of £69/week
- Household income £13,000

Clara and Andy are married. Clara works over 30 hours a week and Andy is a full-time student. As Andy is a student they will not qualify for help with childcare costs through Tax-Free Childcare. *Childcare Vouchers offer the best form of assistance with their registered childcare costs giving a saving of £650 per annum. They would also be entitled to total Universal Credit of £4,133 per annum due to their low income.*

### Better off on Childcare Vouchers:

#### Case Study 5

- Two parent household, both employed full time
- Two children, aged 1 and 2, childcare costs of £688/month
- Household income £66,000 per annum

Jennifer and Daniel work full time, and pay £160 per week on average on childcare for their two children, both of whom are under the age of three. Jennifer and Daniel both salary sacrifice the full amount from their pay, saving £1,866 through Childcare Vouchers. They could benefit from £1,664 a year through Tax-Free Childcare. *Childcare Vouchers offer the best form of assistance to this family providing an additional £202 in support across the year.*

**Better off on Tax-Free Childcare:**

Case Study 6

- Two parent household, both employed full time
- Five children, ranging in age from 1 to 15
- Household income £68,000 per annum

Gavin and Orla pay £230 per week on average on childcare, and their combined household income is £68,000 per annum. Gavin and Orla pay into each child's Tax-Free Childcare account and receive £2,392 in support across the year. This compares to £1,866 they would receive through the Childcare Voucher scheme. *Tax-Free Childcare offers the best form of assistance to this family providing an additional £526 in support across the year.*

## Single parent households only

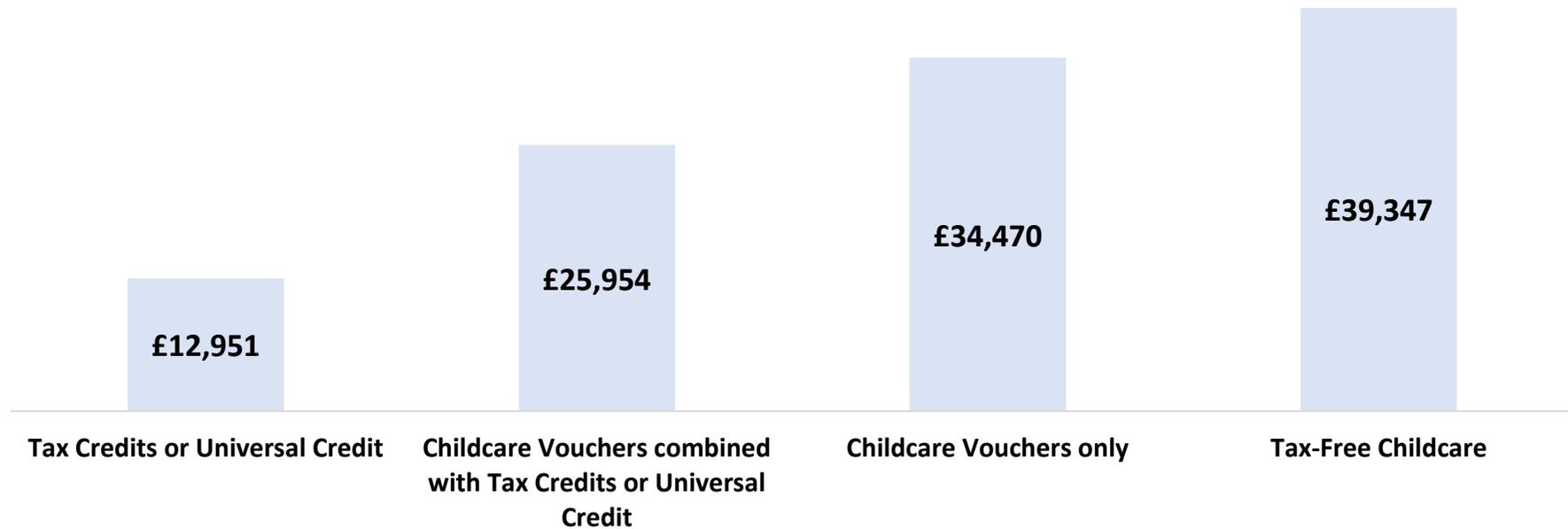


Table 2: Single parent households Families better off on:	Tax Credits or Universal Credit	Childcare Vouchers		Tax-Free Childcare
Percentage of households	83%	10%		7%
		<i>Combined with Tax Credits or Universal Credit</i>	<i>Childcare Vouchers only</i>	
Percentage of households	83%	4%	6%	7%
Average household income	£12,951	£25,954	£34,470	£39,347
Lowest household income	£0	£12,788	£14,000	£13,205
Highest household income	£46,000	£50,000	£82,000	£83,000
Average childcare costs	£6,388	£10,657	£3,914	£7,796
Highest annual childcare costs	£20,956 (5 children)	£23,036 (4 children)	£10,296 (2 children)	£17,420 (1 child, GB)
Lowest annual childcare costs	£416 (1 child)	£3,120 (1 child)	£988 (1 child)	£2,028 (1 child)
Average number of children	1.63	1.71	1.2	1.38
Average age of children	4.25	5.4	4.5	3.70
Average % of childcare costs as proportion of household income	66%	44.08%	14.48%	23.25%

**Key findings:**

- The impact assessment for Tax-Free Childcare included an assumption that Tax-Free Childcare will be the better form of support for single parent households however the evidence from families across the UK is that this is not the case.
- For the majority of single parent households, 83%, the best form of support is Tax Credits or Universal Credit.
- 10% of single parent households are better off using Childcare Vouchers (some in combination with Tax Credits or Universal Credit).
- 7% of single parent households are better off using Tax-Free Childcare.
- Typically childcare spend for single parent households is a greater proportion of household income, therefore the cliff edge for these families is likely to be even more significant should they seek to transition out of the welfare system and on to Tax-Free Childcare.

The chart below shows the **average household income** for single parent households categorised by the form of support that is best for them:



## Single parent household case studies:

### Better off on Tax Credits or Universal Credit:

#### Case Study 7

- Single parent
- Three children, childcare costs of £156/week
- Household income £6,240
- Child in receipt of Disability Living Allowance

Annabelle is moving from Income Support to 16 hours work at the National Living Wage (based on 2017/18 NLW figures). One of her children receives Disability Living Allowance. She will incur childcare costs of £156 per week. She will get 70% of her childcare costs covered through Tax Credits. *Tax Credits offer the best form of assistance with Annabelle's registered childcare costs giving £109.20 per week of additional assistance. Her total entitlement to Tax Credits and Housing Benefit amounts to £27,666 per annum. Her Tax-Free Childcare saving would only be £1,622 per annum.*

### Better off combining Childcare Vouchers and Tax Credits or Universal Credit:

#### Case Study 8

- Single parent (in receipt of disability benefits)
- One child (in receipt of Disability Living Allowance), childcare costs of £254/week
- Household income £27,000

Charlotte is working full-time. Her child receives Disability Living Allowance. She will incur childcare costs of £254 per week and will get 70% of her childcare costs covered through Tax Credits. As tax credits will only look at childcare costs of £175 per week she can also use Childcare Vouchers to get help towards the excess childcare costs. *A combination of Tax Credits and Childcare Vouchers offers the best form of assistance with Charlotte's registered childcare costs giving £122.50 per week of Tax Credits assistance and £933 per annum of savings through Childcare Vouchers. Her total entitlement to Tax Credits amounts to £13,696 per annum. Under the Tax-Free Childcare Scheme she would save £2,642 per annum.*

### Better off on Childcare Vouchers:

#### Case Study 9

- Single parent
- One child (adopted), childcare costs of £70/week

- Household income between £30,000 and £40,000

Bridgette works part-time (under 30 hours per week) and will soon adopt a child. She will incur childcare costs of £70 per week. She is not entitled to any means tested benefits. *Childcare Vouchers offer the best form of assistance with Bridgette's registered childcare costs giving a saving of £933 per annum. She would save £728 per annum under the Tax-Free Childcare Scheme.*

### **Better off on Tax-Free Childcare:**

#### Case Study 10

- Single parent
- One child aged 3, childcare costs of £138/week
- Household income £68,000

Georgina works full-time and was using Childcare Vouchers when she contacted us. She incurs childcare costs of £138 per week. She is not entitled to any means tested benefits. *We advised Georgina that Tax-Free Childcare offers the best form of assistance with Georgina's registered childcare costs giving £1,435 per annum. This equates to £810 of additional assistance. Her current Childcare Vouchers saving is only £625 per annum as she is a higher rate tax payer.*

## Two parent households only

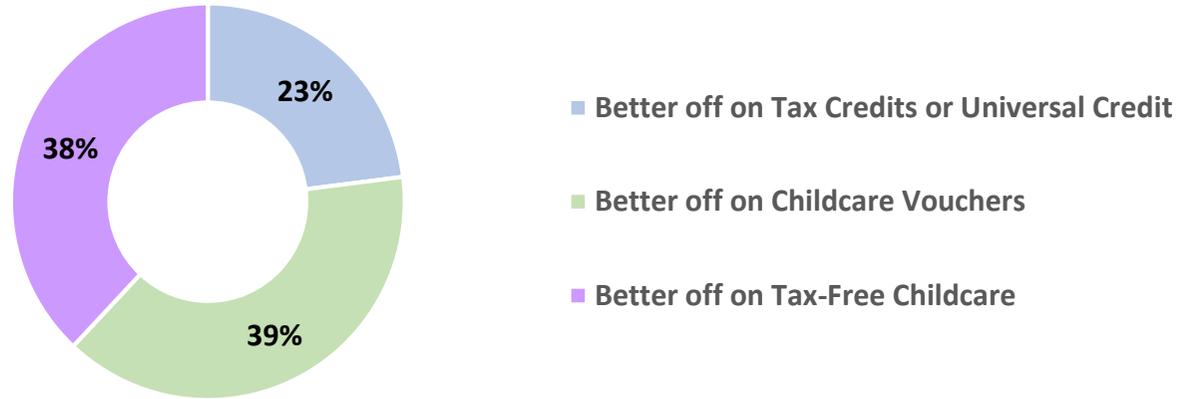
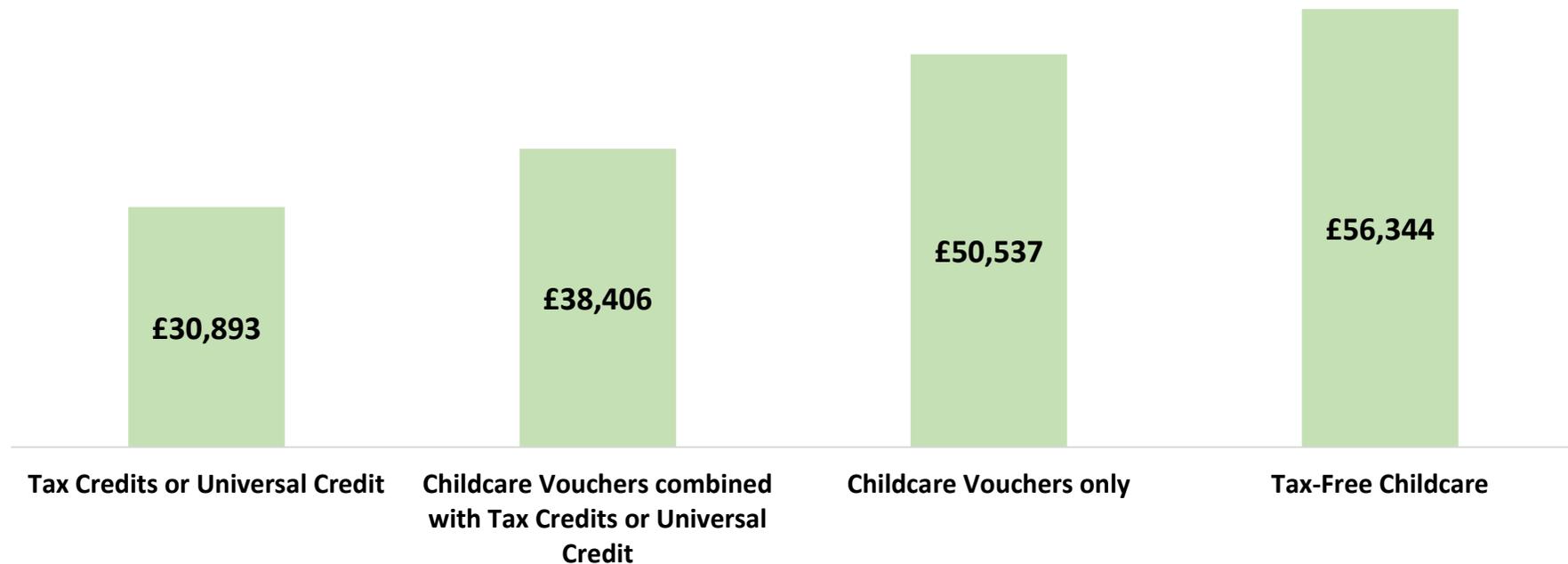


Table 3: Two parent households Families better off on:	Tax Credits or Universal Credit	Childcare Vouchers		Tax-Free Childcare
Percentage of households	23%	39%		38%
		<i>Combined with Tax Credits or Universal Credit</i>	<i>Childcare Vouchers only</i>	
Percentage of households		6%	33%	
Average household income	£30,893	£38,406	£50,537	£56,344
Lowest household income	£1,500	£13,000	£20,843	£20,000
Highest household income	£59,601	£68,264	£160,000	£178,000
Average childcare costs	£7,599	£11,096	£5,367	£9,543
Highest childcare costs	£22,100 (3 children)	£23,400 (3 children)	£20,384 (2 children)	£32,396 (4 children)
Lowest childcare costs	£416 (1 child)	£936 (3 children)	£156 (2 children)	£520 (3 children)
Average number of children	1.87	2.07	1.46	1.68
Average age of children	3.16	2.76	2.88	2.7
Average % of childcare costs as proportion of household income	26%	29%	11.21%	17.28%

**Key findings:**

- 39% of two parent households are better off using Childcare Vouchers, 38% Tax-Free Childcare and 23% Tax Credits or Universal Credit
- As for the full sample, and for single parent households, average household income is highest for those families who are better off using Tax-Free Childcare and lowest for those families better off on Tax Credits or Universal Credit
- There is no significant difference in terms of the number of children per household, or average age of children in the household, when comparing families better off on Tax-Free Childcare to those better off using Childcare Vouchers

The chart below shows the **average household income** for two parent households categorised by the form of support that is best for them:



## Two parent household case studies:

### Better off on Tax Credits or Universal Credit:

#### Case Study 11

- Couple. One adult is in receipt of a disability benefit.
- Three children, childcare costs of £1,300/month
- Household income £33,917

Mary and Conor have 3 children, a 3-year-old, a one year old, and a new born. Mary is in receipt of Disability Living Allowance and hopes to return to work part-time after maternity leave. The household's childcare costs will be £1,300 per month. Conor is self-employed. The household's best form of financial assistance with their childcare costs is through Tax Credits. Their Tax Credit calculation contains the Disability element, Childcare element and 30 hours element of Working Tax Credit and Family and Child elements for three children of Child Tax Credits. Through Tax-Free Childcare Conor and Mary would add £1,040 to their Tax Free Childcare accounts and overall claim £260 per month from the Government. The household would not be eligible for any other support. *Tax Credits offer the best form of assistance with Conor and Mary's registered childcare costs giving £1,013 per month more in assistance compared to Tax-Free Childcare.*

### Better off combining Childcare Vouchers and Tax Credits or Universal Credit:

#### Case Study 12

- Couple
- Two children, childcare costs of £1,343/month
- Household income £52,430

Chris and Joanne both work full-time and pay childcare costs of £1,344 per month for their two young children aged three and one. Chris can avail of the Childcare Voucher scheme through his employer, while Joanne is self-employed. The couple are able to put their remaining childcare costs through the Childcare Element of Working Tax Credit. The Childcare Voucher scheme will assist the couple with £933 per year of their childcare costs through tax and national insurance exemptions, while Tax Credits will also grant assistance of £3,359 per year. Through Tax-Free Childcare Chris and Joanne would add £1,075 per month to her account and claim £269 per month from the Government. They would not be eligible for any other support. *The combination of Childcare Vouchers and Tax Credits offers additional assistance of £89 per month.*

## **Better off on Childcare Vouchers:**

### Case Study 13

- Couple with no recourse to public funds.
- Two children, childcare costs of £850/month
- Household income £55,330

Wendy and James moved to the UK from Singapore to take up positions of employment, they have no recourse to public funds stamped on their passports. The couple have two children aged three and one. Wendy and James only have access to the Childcare Voucher scheme to assist them with the cost of their registered childcare costs. Applying for Tax Credits, Universal Credit or Tax-Free Childcare could potentially have an adverse effect on any future application for British Citizenship. The Childcare Voucher scheme will assist the couple with £1,866 per year of their childcare costs through tax and national insurance exemptions. *The Childcare Voucher scheme is the couple's only form of financial assistance with their childcare costs.*

## **Better off on Tax-Free Childcare:**

### Case Study 14

- Couple. One higher rate tax payer and another a basic rate tax payer
- Two children, childcare costs of £800/month
- Household income £100,000

Philip and Aine currently have two children, Josh who is four, and one-year old Eva. Philip and Aine had both been using the Childcare Voucher scheme to help with the cost of their childcare. The household saved £1,558 in tax and national insurance savings per year. Through Tax-Free Childcare Philip and Aine could add £640 per month to their accounts and claim £160 per month from the Government. They would not be eligible for any other support. *The Tax-Free Childcare scheme offered £30.17 per month of additional assistance.*

## Appendix 2: Examples of families who are losing out as a result of the closure of Childcare Vouchers

### **Family 1: Family will lose out as a result of the closure of Childcare Vouchers due to parent rotating between Health Trusts**

On 17 August 2018 our Family Benefits Advice Service spoke with a parent who will be impacted by the closure of Childcare Vouchers because her husband works in the NHS. The couple have one child, age one. Both parents are employed. The father is a junior doctor who is required to rotate every 6 months between different Health Trusts. Their annual savings are calculated as £1,186 from Childcare Vouchers and £1,557 from Tax-Free Childcare based on £494 a month of childcare costs. As a result, they would be £371 a year (£31 a month) better off on Childcare Vouchers rather than Tax-Free Childcare. However they will be forced to come off Vouchers onto Tax-Free Childcare when he moves to another Trust and can no longer access Childcare Vouchers.

### **Family 2: Expectant parents who will be worse off because their baby will be born after the scheduled closure of Childcare Vouchers to new entrants**

Lorraine and her husband John contacted us on 31 August 2018. They are expecting their first child, due in December. Lorraine and John expect their registered childcare costs to be around £500 a month. Both could have joined their employer's Childcare Voucher scheme when their child is born in December if the scheme was not scheduled to close to new entrants. Lorraine and John would have saved £155 a month through Childcare Vouchers, while their savings through Tax-Free Childcare will be £100 a month. The family will be £55 a month worse off if Childcare Vouchers close to new entrants. This is well over one month's childcare costs for the family.

### **Family 3: Expectant parents who will be worse off because their twins are due in November**

On 3 September we spoke to Jen and Chris who are expecting their first children, twins, in November 2018. Both parents work for employers who offer the Childcare Voucher scheme, however they will be unable to join before the scheme closes to new entrants. The family will have childcare costs of £152 a week when Jen goes back to work after maternity leave. Their annual savings are calculated as £1,186 from Childcare Vouchers and £1,580 from Tax-Free Childcare. They will be able to use Tax-Free Childcare however they will be £268 a year worse off than if they had been able to use Childcare Vouchers.

### **Family 4: Parent moving jobs while wife is on maternity leave**

Gavin contacted us on 4 September. He is moving jobs and, as a result, will lose eligibility for Childcare Vouchers. Gavin told us: *"My wife is currently on maternity leave and I was happy when I discovered I could avail of the childcare voucher scheme as this would really help our childcare costs in the future. However, I have recently secured new employment and when I tried to switch employers on the scheme I was advised I can no longer avail of the scheme as it closes on 4 October 2018 – even though I commence my new role on 1 October 2018. I am very disappointed that I am excluded from the scheme due to the fact I have changed job roles to further my career. Furthermore I think it is a disgrace I am excluded when this change in employment occurs before the scheme actually closes. I believe the removal of this scheme is another hurdle placed in the way of parents trying to remain in full time employment and support their families."*