



CARE Briefing On

Tax-Free Childcare: consultation on design and operation

Introduction

The Government is currently inviting consultation responses on its proposed child care tax break. The consultation [Tax-Free Childcare: consultation on design and operation](#), closes on 14th October 2013. See: www.gov.uk/government/consultations/tax-free-childcare

This policy is extremely controversial because it proposes a child care tax break for all families so long as they are not one-earner couple families. Part of the reason why this discrimination is so problematic is that it has been proposed against the backdrop of one-earner couple families already getting a very raw deal when it comes to tax. This was greatly compounded at the beginning of the year with the introduction of the Higher Income Child Benefit Charge which severely penalises one-earner families. With the exception of the recently announced and extremely modest transferable allowance proposals for one-earner married couples, the general drift of policy seem very much against one-earner families and this latest initiative will significantly exacerbate the problem.

What the Government is proposing

1. Increased coverage of costs of childcare from 70% to 85%.

The first policy is targeted at those who will be eligible for Universal Credit. In relation to this group, the Government has announced that for dual income parents paying income tax (thus having an income of above £9,440 per annum¹ and who are due to be entitled to Universal Credit, the Government will cover childcare costs up to 85 per cent (as opposed to 70 per cent as is the case currently.) Of the 1.5 million working families with children who are eligible for Universal Credit nearly 600,000 families will potentially benefit from this extra support – around 40 per cent. However, over 900,000 working families with children who are eligible for Universal Credit – 60 per cent of the total – will be excluded from this extra support because they do not earn enough to pay income tax, usually because one or both parents is in low-paid, part-time work.²

2. Tax Breaks relating to childcare costs

The Coalition has said that couples earning up to £150,000 each will be eligible for a childcare tax break of 20% cent of childcare costs up to £6,000 per child, meaning a maximum benefit of £1,200 per child.³ This support will come in the form of a voucher and will be introduced for under-5s in

¹ The personal allowance as of October 2013, see: <https://www.gov.uk/income-tax-rates>

² New Childcare support is welcome but it's skewed towards the affluent and misses out the poorest working families, Resolution Foundation, accessible at: http://www.resolutionfoundation.org/media/media/downloads/NEW_CHILD_CARE_SUPPORT_IS_WELCOME_BUT_ITS_SKEWED_TOWARDS_THE_AFFLUENT_1.pdf

³ Families with two working parents will be offered Government help with childcare, Hennessy, The Daily Telegraph, August 2013, accessible at: <http://www.telegraph.co.uk/news/politics/10220898/Families-with-two-working-parents-will-be-offered-Government-help-with-childcare.html>

2015 before being extended to children under 12 by 2020. Once this rollout is complete, over 2 million working families will be eligible for the tax free childcare voucher.

This proposal will mostly benefit better off families (those in the upper half of the income distribution). Of those families who are eligible for the tax-free childcare voucher, 80 per cent are in the top 40 per cent of the income distribution. Almost no families (less than 1 per cent) in the bottom 40 per cent of the income distribution will be eligible for the vouchers.⁴

Increased childcare support for dual-earner couple families via the upcoming Universal Credit will come into effect in Autumn 2016⁵, and tax-free childcare vouchers for these families not receiving the Universal Credit are due to come into being in Autumn 2015.

This discriminates against one-earner couple families

Both the above policies do nothing for one-earner couple families which are ineligible. Although it is true that David Cameron has recently announced a tax break for one-earner married couples⁶ this is extremely modest in comparison to the above policies. Indeed, the Government have committed some £1.4 billion to their childcare tax break policy, whilst (at the time of writing) only committing £600 million to a transferable allowance for married couples.

We view it as unfair and quite wrong that families that have sacrificed a second salary, so one parent can be at home for the children when they are young, should be discriminated against in this way. Rather than being penalised such families should be affirmed for making an important investment in the future of our nation, helping to ensure that their children grow up well adjusted, able to pursue educational qualifications, secure employment, become taxpayers and make a contribution to society. If other major European economies such as Germany, where a tax credit of 150 euros per month is given to families where one person stays at home to take on caring responsibilities, can recognise that some people wish to structure their families in this way, then why can't the UK?⁷

The context of unfairness currently facing UK one-earner couple families

What is more, these two new childcare policies have been announced at a time when one-earner couple families are already discriminated against in both a domestic and international context. In what follows, we shall set out ways in which these families are already discriminated against.

1. Tax Burdens

In our latest 'taxation of families – international comparisons' report CARE revealed that a one-earner couple with two children on the OECD average wage (£34,286 per year) in 2011 faced a tax burden that is 42% greater than the OECD average, whereas single people with two children faced a

⁴ As footnote 2

⁵ This may be affected by delays to implementing the Universal Credit, see: <http://central-government.governmentcomputing.com/news/cameron-not-religious-about-universal-credit-timing>

⁶ David Cameron unveils marriage tax plan, BBC News, September 2013, accessible at: <http://www.bbc.co.uk/news/uk-politics-24309634>

⁷ Kathy Gyngell: "Outflank the Tories on the family" <http://www.conservativehome.com/leftwatch/2013/08/labour.html>

burden that was 30% greater whilst single people without children faced a burden that was only slightly greater than their OECD counterparts.⁸

2. Marginal Effective Tax Rates (METRs)

Further, when it comes to METRs (the 'take home income' from every extra £1 earned by the primary earner) one-earner families on 36% (the UK minimum wage), 50% and 75% OECD average with children are also at a distinct disadvantage. These families face METRs of 73%, meaning that for every extra £1 earned, only 27 pence comes into the household. Again, this is at odds with much of the OECD and other family types. This METR of 73% for one-earner couple families on 75% average wage for example is nearly double the OECD one-earner couple with two children average and considerably greater than the EU15 and EU21 averages.⁹ Why is it that our fiscal arrangements effectively trap these one-earner families in relative poverty?

3. Higher Income Child Benefit Charge

Domestically speaking, other policies such as the Higher Income Child Benefit Charge have also directly discriminated against one-earner couple families with children. One-earner couple families with a partner/spouse earning above £50,000 per year will begin to have their child benefit withdrawn, with any payment being completely lost if earnings exceed £60,000. This directly discriminates against one-earner couple families because dual earner households where both partners/spouses earn less than £50,000 but have a combined income far exceeding £50,000-£60,000 (for example, if both earn £49,999 resulting in a total income of £99,998) will keep all of their Child Benefit payment. It's also worth remembering at this point too that one-earner couples on an income of £60,000 with four children are in the lower half of the income distribution, whilst a one-earner couple on an income of £50,000 with three children is only just in the upper half, better off than 51% of the population.¹⁰

Further, the New High Income Child Benefit Charge (HICB) came into force in January and places a great burden on one earner couples. Before the Higher Income Child Benefit Charge one-earner couples already paid far more tax than two-earner couples with the same income, largely because they accessed only one tax allowance rather than two. A one-earner couple with two children with an income of £60,000 paid income tax of £13,950. A comparable two child, two-earner couple family, each earning £30,000, paid just £8,768!¹¹

With the Higher Income Child Benefit Charge added, the one-earner couple's tax bill rises to £15,667. This is £6,899 more than that of the two-earner couple. Put another way, a one-earner family with two children and on an income of £60,000 already paid 59% more tax than a comparable two-earner couple, each earning £30,000. With the introduction of the HICBC, the one-earner couple pays 79% more tax. The charge increases the one-earner two-child family's annual tax bill by £1,717.

⁸ Pearson and Binder, Taxation of Families – International Comparisons, CARE, 2013, p. 9.

⁹ Ibid, p.30

¹⁰ Derived by CARE from the DWP Tax Benefit Model Table and IFS 'Where do you fit in' calculator, correct for tax year

¹¹ CARE briefing, The impact on families to changes to tax and benefits. Briefing for House of Lords debate, 17th Jan 2013.

Over the lifetime of the children, if child benefit is claimed for each child up to the age of 18, this represents a £30,000 increase in the family's tax bills.

Problem for the Government

It is particularly concerning that a Conservative Treasury should seek to introduce this discriminatory child care tax break on the back of its Higher Income Child Benefit Charge which already makes life much more difficult for one-earner families, given that before coming to office and introducing either of these policies, they suggested that they were particularly concerned about addressing the existing discrimination in our fiscal arrangements against one-earner couple families. In February 2009 the then Shadow Chief Secretary to the Treasury spoke to The Express about Conservative concern regarding *'the continuing bias in the tax system against two parent families where only one adult works. No other European country penalises families in this way. If we want to end child poverty we must end this discrimination.'*¹²

How to respond

Given that the Government's newly announced childcare policies will do nothing for one-earner couple families, and given the unfairness already faced by these households domestically and internationally, we would urge you to respond to this Government consultation.

In your response, we would recommend you mention the following points:

1. The proposal should be broadened so that it does not discriminate against one-earner families.
2. The problem with the discriminatory nature of the proposal is that our fiscal arrangements already discriminate against one-earner couples with children. A one-earner married couple with two children on average wage has a tax burden that is 42% greater than the OECD average. The new Higher Income Child Benefit Charge introduced in January also massively compounds the problem. This is completely contrary to the Conservatives stated commitment to address the bias in our tax system against one-earner couple families.
3. The Government's recently announced transferable allowance for married couples, which will affect one-earner couples, is only very modest in comparison and will be in receipt of less than half the funds to be invested in the child care tax break. Moreover, it is not a child care support and applies to both families with, and families without, children.

You can make a submission in one of two ways. Either:

- i. Send an email stating that it is a response to the Tax-Free Childcare: consultation on design and operation and in your own words make the above points
- ii. Send an email, explaining that in your response you want to answer questions 6 and 7, see below, which provide a perfect opportunity to make the above points.

6) Does the proposed definition of "parents" ensure that all individuals who have responsibility for a child can benefit from Tax-Free Childcare?

¹² Daily Express, 9 February 2009 <http://www.express.co.uk/news/uk/84036/Marriage-tax-anger-as-British-families-are-penalised>

7) Is the proposed definition of “the household” fair and workable?

The deadline for responses is Monday 14th October.

To access the consultation please visit: www.gov.uk/government/consultations/tax-free-childcare

Email to: tax-free.childcare@hmrc.gsi.gov.uk

Write to: Tax-Free Childcare Team

HMRC

Room 1C/07

100 Parliament Street

London

SW1A 2BQ

CARE Public Policy Team
53 Romney Street, London SW1P 3RF