

Tax-Free Childcare Response by the Chartered Institute of Taxation

1 Introduction and Summary

- 1.1 The Chartered Institute of Taxation (CIOT) sets out its comments on the consultation on the design and operation of Tax-Free Childcare. Our comments are restricted to the transition from Employer-Supported Childcare to Tax-Free Childcare and, in particular, the interaction between the two schemes.
- 1.2 Employees benefitting from existing Employer-Supported Childcare arrangements will want clear guidance on whether it is in their interests to continue with Employer-Supported Childcare vouchers or whether it would be preferable to cease doing so and to start to receive vouchers under the Tax-Free Childcare scheme.
- 1.3 Individuals will want to be able to choose whichever is better for them financially. To that end, we think it will be essential for HMRC and/or DWP to provide an internet-based tool which enables individuals to work out whether they are eligible for Tax-Free Childcare and, if so, whether or not they are better off opting-out of an existing Employer-Supported Childcare arrangement and instead receiving Tax-Free Childcare.
- 1.4 This tool should also address the position of those on Tax Credits/Universal Credits and whether they would be better off continuing with Tax Credits/Universal Credits or taking up Tax-Free Childcare. The calculations involved are complex (see Boxes 6C and 6D of the consultative document) and clear communication is going to be very important – we would not underestimate this aspect. Indeed we would suggest that the tool is piloted amongst those intended to use it so it can be made as user-friendly as possible.
- 1.5 We also think that where employers want to be involved in assisting their employees with access to Tax-Free Childcare vouchers, eg by their bulk buying vouchers, no benefit-in-kind should arise on the employee for any administrative fee that the employer incurs in obtaining the vouchers.

2 Transition from Employer-Supported Childcare

- 2.1 As the consultation document notes (Box 2.A) there are three types of Employer-Supported Childcare that have specific tax rules to provide exemptions from income tax and NICs: childcare vouchers; directly-contracted childcare and workplace nurseries. While workplace nurseries will continue to benefit from the existing full income tax and NICs exemptions (paragraph 3.36), the tax exemptions for childcare vouchers and directly-contracted childcare are to be phased out.
- 2.2 Since employers can choose to continue to provide Tax-Free Employer-Supported Childcare, while an employee remains eligible, we would expect employers to be asked questions by their employees about both existing arrangements and the transition to Tax-Free Childcare. For example, whether the employee should remain in an Employer-Supported Childcare scheme (while they remain eligible) or opt-out and take up Tax-Free Childcare instead. Table 3.A illustrates some of the gains and losses arising depending on which option is taken.
- 2.3 We think that Government will need to support employers in this respect by providing clear guidance and calculation tools that employers can signpost employees to, so that the individual can decide what they are eligible for, for what period they may remain eligible, how their entitlement may change as circumstances change and so what their best option is.
- 2.4 We think an internet-based calculation tool will be essential (similar to the 'better-off calculator' provided by HMRC to help individuals determine the effect on Tax Credit entitlement if they opt for Employer-Supported Childcare vouchers). We think the interaction between Employer-Supported Childcare, Tax-Free Childcare, Tax Credits and Universal Credit will just be too complicated for the Government to simply provide the information for individuals to do their own calculations. A calculation tool will be essential, if individuals are to be able to see which option is best in their particular circumstances. We think the tool should be thoroughly tested by piloting it amongst those for whom it is intended to be used so that it can be made as user-friendly as possible.
- 2.5 Paragraph 3.1 advises that to receive Tax-Free Childcare, the parent(s) must not be in receipt of any support under an Employer-Supported Childcare Scheme. Can HMT/HMRC clarify whether this includes a workplace nursery place for a child provided tax-free by his/her employer?
- 2.6 ***Q4. 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?***
- 2.7 We agree that some employers may want to play a role in Tax-Free Childcare and we think that this should be encouraged so long as employer involvement is not mandatory. In particular, under the existing Employer-Supported Childcare voucher scheme employers are required to validate employee income in order that the appropriate amount of tax relief is given; this task takes up employer time and adds to their overall administrative burden. Accordingly, we do not think that employers should be required to become directly involved in Tax-Free Childcare (eg in confirming employment income) and the assurances in the consultation document (paragraph 2.22) that there will be no mandated role for employers are therefore welcome.

- 2.8 In this regard we note the comments at paragraphs 4.14 and 4.18 of the consultation document concerning use/interaction with the PAYE system and Real Time Information ('RTI') in extracting the details that the Government will require to validate information for those who are employees. However, as we understand it, the Government would access existing information already being supplied under RTI and there would therefore be no further administrative burden imposed on employers.
- 2.9 As the consultation document identifies (Table 2.A) 'employer help' could include buying Tax-Free Childcare vouchers for employees. However, rather than being tax-free, the provision of Tax-Free Childcare vouchers to employees by employers would be by way of a deduction from net pay – there would be no income tax or NIC relief available for these vouchers. During the transition period where employers may be providing vouchers under both an Employer-Supported Childcare scheme and a Tax-Free Childcare scheme it will be important to distinguish between them so that two employees in similar positions but one receiving Employer-Supported Childcare vouchers and the other Tax-Free Childcare vouchers can understand why one is being taxed more highly than the other.
- 2.10 We also note (Table 2.A) that where employers meet all or part of the administrative fees charged by the voucher providers, the consultation document raises the possibility that this will result in a benefit-in-kind arising to the employee. We would recommend that legislation be brought forward to exempt such administrative costs from the benefits-in-kind regime – this will save time and costs for employers and may then encourage them to become more involved with Tax-Free Childcare.
- 2.11 Q12. 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?**
- 2.12 As noted above at 2.3-2.4, we think that the Government will need to provide an internet-based calculation tool to enable individuals to judge which choice is the best choice for them. That said, consideration should also be given to those who for whatever reason may not have immediate access to the internet and how they would arrive at the right choice in their particular circumstances.

3 The Chartered Institute of Taxation

- 3.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 17,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

The Chartered Institute of Taxation
14 October 2013