Childcare update

General Features

01 February 2016

LITRG provides an update on guidance and tax credit

The Autumn Statement announced, for both tax-free childcare (TFC) and the extended provision of free childcare, a revised minimum weekly income level per parent equivalent to 16 hours at the national living wage. It appears that the minimum for those under 25 will be 16 hours at the lower national minimum wage.

The Childcare Payments Act 2014 and related regulations set out the TFC rules. Consideration of the Childcare Bill extending provision of free childcare to 30 hours a week began in the Lords, and a Commons public bill committee considered the legislation in December 2015. LITRG's evidence to the committee expressed support for the extension but concern about the potential impact of the new limits. Parents who are self-employed and those on zero-hours contracts may struggle to meet the new condition. We have suggested that some flexibility should be introduced to allow people with fluctuating hours some certainty that their childcare arrangements can continue.

Guidance

The new childcare support landscape will be complex and we have stressed the importance of providing users with guidance that not only explains the rules of each scheme but also gives enough information for users to choose between schemes. Research published by HMRC has found 'very strong support' for an online calculator. However, parents – particularly those in two-parent households – often assumed they would be ineligible for TFC. This suggests that HMRC faces a challenge in raising awareness among parents.

Tax credits

Autumn Statement 2015 announced the reversal of most of the tax credits cuts announced at the summer Budget and scheduled for April 2016. Changes that will go ahead include a reduction in the income rise disregard, a four-year freeze in elements except those on disability, and for some households an increase in the rate of recovery of overpayments.

The Welfare Reform and Work Bill that introduces the four-year freeze, as well as the two-child limit on child tax credit from April 2017 and corresponding changes to universal credit, was set to complete its Lords committee and report stages in January.