Tax credits: improving delivery and choice – a discussion paper

Consultation response

September 2008
Introduction

This paper responds to the May Treasury consultation document ‘Tax credits: improving delivery and choice – a discussion paper’. We are pleased to respond to the consultation and welcome the Government's willingness to look at further reform. This response emphasizes improving childcare delivery (and separating it out from the other tax credit elements) and rolling out the transformation programme work as key priorities.

Child Poverty Action Group campaigns for the eradication and the prevention of child poverty in the UK; we are a second tier advice agency with social policy and welfare rights expertise on the benefit and tax credit system; we publish guidance, provide training and second tier telephone advice on tax credits and work with advisers through our tax credit monitoring network from which we have sought feedback in writing this response.

This response has three parts, the context; general issues; and specifically answering the consultation questions. We hope this paper provides a poverty proofing tool – highlighting some of what can be done better in the scheme to support the 2010 and 2020 goals to halve and eradicate child poverty.

Context

The key context for the tax credits is the 2010 and 2020 targets to halve and then to eradicate child poverty. Tax credits can support this goal in three specific ways:

- By redistributing money to lower income families with children through the child tax credit;
- By improving gains to work though the working tax credit and the related childcare payment;
- By ensuring childcare not only helps parental employment but supports child development.

Of these, CPAG supports the necessary increased generosity in the tax credit system¹ (compared with the previous Income Support scale rates) and moves to help parents fulfil ambitions to move into employment (we regard attempts by the Department for Work and Pensions to increase sanctions on different groups as both wrong and counter-productive). Redistribution has been important in achieving the falls in child poverty we have seen since 1998/99, and though transfers alone are not enough to reach or sustain the 2020 position CPAG does not accept we have reached the ‘end of the line’ for redistribution. Increased generosity of financial support is a necessary element in reaching the 2020 ambition. We believe that there is much greater scope for childcare payments to support higher quality childcare.

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¹ That said, the safety net often pays well below the poverty line and the tight restrictions on free school meal entitlement (passported from tax credits for families not in work or in very low paid employment), are very mean. Currently considerably fewer children are entitled to free school meals than are in poverty. Widening the FSM entitlement base would reduce a major barrier to work.
provision to support the child development agenda better, whether or not the parent is in or out of work.

Too often government has looked at tax credits in isolation to other elements of social security but this is not how claimants view or experience the system. In formulating policy, HM Treasury needs to proof any policy change to examine its interactions with other parts of the tax and benefits system and to understand the impact that reform may have on families.

There are perhaps two fundamental problems with the tax credit system.

- it is intrinsically complex as current change can affect a past entitlement and, linked to this;
- the design principles of tax credits suit those with stable incomes, they are not well adapted to changing incomes or personal circumstances and those with fluctuating circumstances are more likely to be poor.

The first problem is unlikely to be easily surmountable – equipping the population with maths PhDs aside – but it would be less of a problem if the administration was effective. Complex financial support systems require claimants to seek advice and support and so, by definition, are less empowering than systems which are easy to navigate. Even within a complex system however more can be done to instil public confidence that HM Revenue and Customs is making the right decisions. As a parallel example, it seems unlikely that most people understand their tax code yet HM Revenue and Customs is trusted to get it right – the same degree of trust is needed in tax credits.

The second problem again is deeply problematic within an annual system. The incremental solution to this problem is to improve the way in which services are received – providing much better (and face to face) support to those claimants who need or prefer such service and so helping users to negotiate the scheme. Part of this requires better trained staff able to look at the claimant ‘in the round’ (using casework principles where appropriate) and who are less ‘script’ bound. We draw from work such as has been going on at Wallsend that there is much more scope for local collaboration between HMRC and Job Centre Plus.

Tax credits have been operating for 5 years and though there have been clear improvements, that is a long time to wait. CPAG is supportive of many of the changes being made under the transformation programme but these are often small scale. In particular the provision of more face to face advice through children's centres is very much to be welcomed but we understand that it is currently limited to a service of one or one and a half days a week – insufficient to provide effective support at grass roots level. CPAG is most concerned about those facing the greatest risk of poverty and many of these families need local and intensive support, support able to cope with frequently changing circumstances and language difficulties (literacy and not having English as a first language). A proactive and intensive service could both check and identify changes of circumstances and potential under and overpayments more quickly and so reduce the scale and impact of each on these families. Whereas the transformation programme is very much to be welcomed, it is often small scale – we need to see national roll out of an improved customer service.
General issues

The consultation document, though offering a wide context specifies some fairly narrow consultation questions. This section takes a broader view highlighting ongoing concerns we urge the HM Treasury to consider.

Child Benefit; rebalancing financial support for families

Though CPAG recognises the role of tax credits in reducing child poverty, HM Revenue and Customs also administers the child benefit scheme. CPAG urges rebalancing financial support towards child benefit, with a particular focus on increasing the value of child benefit paid to second and subsequent children to that paid for the first child. CPAG has written at length elsewhere about the advantages of the near universal child benefit. Here we reiterate the fact that child benefit reaches more poor children than does child tax credit (with wider reach and not suffering the non-take up associated with more complex or means tested financial support). It does not create the level of overpayments which bedevil the tax credit scheme and it supports moves into work by being a steady income source unaltered by changing hours or earnings. CPAG has welcomed a number of recent investments in child benefit (paying it in the last period of pregnancy, increasing the first child rate to £20 and disregarding this as income for council tax and housing benefit assessment). Child benefit remains the popular, well functioning, linchpin of financial support for families with children – the government could and should do much more with it.

Delivering for all families – fixed or responsive awards

CPAG has repeatedly voiced concerns since the tax credits were introduced around differential experience of the scheme. For some, particularly those with stable incomes, the current system is light touch and works well. However for those with fluctuating income, particularly where the fluctuation is below previous year income or where there are frequent changes of personal /family circumstances the system has performed much less well. Those with changing income or personal circumstances have needed greater clarity about what and when to report and the implications for their award of certain types of changes. Problems have been greater with more frequent changes of circumstances and the impact worse where income has is spiralling downwards or has fluctuated below the level of the previous year’s income because this group is then denied the protection of the £25,000 disregard. CPAG is strongly of the view that while an annual system remains in place a means should be found to compensate those who do not have access to the £25,000 disregard – this group are often more vulnerable and are more likely to experience problems of underpayment, overpayment recovery, or of error.

CPAG wrote (together with Citizens Advice and One Parent Families) to the Chancellor of the Exchequer after the publication of the latest overpayment figures in May. In that letter we floated the idea of a fixed award system as a way of cutting through many of the problems which have been experienced. The attraction of a fixed system would be to eliminate overpayments and, in doing so, simplify and stabilise the system so that HM Revenue and Customs would be better able to

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2 See Bennett, F with Dornan, P, 2006, Child Benefit fit for the future, Child Poverty Action Group. See also www.makechildbenefitcount.org
deliver it. We however accept a fixed system brings with it considerable, potential, disadvantages.³

The arguments for and against a fixed system are finely balanced – on the one hand CPAG does not believe claimants are ever likely to be in the position to fully understand their awards – the annual system is intrinsically hard to grasp; on the other hand we recognise other systems (for instance working families tax credit) had major disadvantages (awards were fixed so if income fell a family might not get any additional Working Families Tax Credit⁴ unless the circumstances changed to the extent that they fell within the test for income support).

At this stage CPAG is not advocating a fixed award – but our reasons for being interested in such a system have not gone away. The first priority is that the HM Revenue and Customs (and HM Treasury as sponsoring department) needs to radically improve customer service especially for those whose circumstances are variable. We approve of the work going into the transformation programme, and would like to see many of the supports increased and rolled out wider and faster—better customer service for the poorest families means more intensive, regular and local provision of support. We expect government to deliver a system which is responsive to need, transparent and simple to access. Unless the current service is quickly and fundamentally improved CPAG is likely to call for a more fundamental change, probably that we move towards a shorter run fixed award with protection for those whose need rises.

**Childcare and tax credits**

CPAG would have liked to have seen greater evidence in the consultation document of joined up thinking across government on childcare. Different bits of government (HMRC, DCSF, DWP and local authorities) have an interest in or provide support for childcare in different ways. We would like to see more thinking about how the childcare payments within tax credits could better support the quality improvements necessary to support the child development agenda and so improve poorer children’s life chances.

We see potential to extend the generosity of the current scheme to support families often highlighted as in need of greater support. A higher threshold for larger families would support a group which both faces particular barriers to work and a higher poverty rate. Meeting the need of families with disabled children could be improved with an additional payment to cater for the special/partial needs of disabled children - the other elements of the tax credits contain disability increments, it is inconsistent that the childcare payments do not. We would like to see more evidence on the use of childcare by families with disabled children as we are concerned some may opt out of provision because of the difficulty in accessing care in the first place - improved support may help bridge this gap. If there is concern that an additional element is unnecessary as current payments (where parents often claim well below the maximums) are thought adequate, then raising the amount which might be claimed would not be expensive.

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³ The HM Treasury’s characterisation description of fixed awards (annual with no capacity to increase if need rises) is rather unreasonable and is harsher than was working families tax credit (fixed for a shorter period, with the ability to increase the award for a new baby and to top up with income support payments if circumstances changed radically).

⁴ But if a parent lost employment or their hours fell drastically they might be able their income might be topped up by income support.
CPAG supports mechanistically separating out the childcare payment from the tax credits (though at this stage we suggest using the same claim process to avoid reducing take up). Childcare is a disproportionately large and variable element and including it as part of the tax credit award distorts the calculation of overpayments. Because it is variable it is difficult for those whose lives are complex and subject to change to access the payments because they do not know what their future pattern of need will be. Alternatively claimants must be aware of changes of costs and use of childcare so that these are reported in accordance with the rules. By separating out the childcare element the continuity of tax credit payments could be protected by not recovering overpayments from CTC.

There is an opportunity from this consultation exercise to better link the childcare support paid with working tax credit with the child development agenda. WTC childcare support is driven by a desire to support moves into employment (and therefore probably for women with older children) whilst concerns around child development typically focus on much younger children. The linking point between these two agendas is child poverty – the first by improving gains from employment, the second by reducing the heritability of poverty. Demand side childcare support needs to better support quality childcare and its sustainability, which may well mean the costs of childcare may need to rise. This increase should not be met by the user but by the community at large via taxation. Moreover linking childcare support to work status means that (though there is run-on protection for short periods out of the labour market – there is a case to improve this protection) children will have to leave childcare when their parents leave employment. This churn in and out of childcare, as a consequence of linking it to employment is not likely to be in the best interests of the child and may also leave a parent in a less flexible situation when seeking another job.

As a stated and time bound objective CPAG would like to see good quality childcare provided as a public service, and free at the point of delivery (irrespective of parental work status). We regard the successful 3 and 4 year old provision as one step towards this and would like to see this built upon. The norm is now much longer hours of paid employment from parents, whereas childcare (its lack, quality and cost) is correctly often cited as a barrier to employment. An ambitious government would deal with this challenge by supporting family life build on the 10 year child care strategy and the universal offer and progressively develop childcare as a 21st century public service, free at the point of delivery.

**Write off historical debt**

At the height of the tax credit administrative crisis in 2003-5 there were numerous calls, including from CPAG, for HM Revenue and Customs to have an overpayment amnesty. The process for recovery was arguably unlawful because it was automatic and so did not reflect law which gave the HMRC the discretion to waive or reduce recovery. Moreover the build up of overpayments had been due to poor public administration, the reasons for and the amount of overpayments could not be explained and the systems for recovering overpayments were placing many families in hardship, virtually without warning.

The Government resisted these amnesty calls but instead introduced a streamlined formula to write off the dubious overpayment debt. The rationale was sensible – both because of the poor quality of administration, general difficulty for claimants in understanding the system and the administrative burden this was placing on HMRC. Having run the streamlined formulae for a number of months HM Revenue and
Customs stopped it, presumably because it felt its systems could cope better and so it had a duty to recover outstanding overpayment debt.

Several years on, CPAG continues to be concerned by the cases reported where there is a long history of overpayment problems, some dating from the 2003-2005 period. We would welcome a government decision to introduce a legacy programme to write off this old debt. It does no good for the scheme that such old debt, which arose in dubious circumstances, continues to mark current experiences and perceptions of the scheme. A write off would allow HMRC to invest staff time focusing on improving the service to customers now and trialling new systems of providing advice at local level that will prevent these overpayments arising in the future. We accept that a write off would not appear fair to all (and neither was the streamlined formula) but we feel it would be an administratively sensible move; a legacy programme would help draw a (final) line under the early problems.

Dealing with current debt recovery

Overpayment debt has been a continual thorn in the side both of families experiencing recovery and the system itself. Though this has been (considerably) regularised by the imposition of set maximum deductions to ongoing tax credit awards we would like to see a more open process of debt recovery where the claimant is required to repay direct or there is a question about whether the standard maximum deduction from an ongoing award should be reduced. At present Debt Management and Banking (DMB) section operations are shrouded in mystery and there is a lack of communication between this section and the different parts of the Tax Credit Office (TCO). DMB moreover deal with all aspects of debt recovery for HMRC and CPAG are not convinced that they are fully aware of the difficult circumstances experienced by some claimants. We believe they should have greater awareness of child poverty issues when dealing with recovery of tax credits.

Concerns are most likely to arise where a claimant is required to repay direct because s/he has a debt from a previous award and is currently receiving tax credits from a new award. This commonly occurs for example where there has been a family breakdown and the (new) lone parent has an entitlement to tax credits but also has to repay part of the joint debt from the previous award. That debt under current rules cannot be deducted from the ongoing award of tax credits. A number of issues have arisen in connection with the operations of DMB:

- there is a lack of criteria when deciding whether hardship exists. Guidance in the COP 26 is extremely brief. We have heard of examples where DMB exercises discretion generously in favour of the claimant but there are also cases where there appears to be a lack of awareness of the circumstances of those in receipt of means tested benefits and tax credits.

- Evidence of a lack of communication between the TCO and DMB so that the latter is unaware when a recovery is challenged or entitlement appealed thus resulting in suspension of recovery. It is therefore important that there is good communication between DMB and tax credit office and between central DMB staff and their field operators.

- An apparent inability to appreciate the implications of the decision to limit deductions to a percentage figure and, as part of this, a decision that a deduction can only be made either for an in year overpayment or an end of year overpayment but not both. The same does not apply if the claimant is
repaying a debt from a previous award and is having a deduction made to the current award.

- An apparent inability to appreciate the need for clear communication with the claimant so that s/he knows that there are different possible ways of repaying the debt.

As a result of concerns expressed by tax credit consultative group members special meetings were held to examine the work of DMB and Ann Chinnor made proposals for reform as part of her work on the Tax Credit Overpayment Recovery Project. In brief these proposals were that matters relating to tax credit overpayments, hardship, debt repayment should be relocated in one unit within TCO. This proposal was made in March 2008 and was favourably received by most members of the Consultative Group. But there appears to have been no subsequent action as yet by HMRC to implement these suggestions. CPAG urges HMRC proceed to implement the main body of these proposals. We accept that particular issues were left outstanding (for instance including notional entitlement) but this does not affect the central decision on whether a single tax credit debt unit be established within TCO.

We also believe that existing processes and rules do not protect claimants from discrimination – there is a disproportionate rate of recovery if the maximum award is high because this is a percentage not cash figure (a particular issue where CTC includes a disability element). This problem does not arise with means tested benefit recovery as there is no recovery from the child’s allowance and the amount is flat rate and not a percentage of an award. Where there is a family breakdown advisers report that it is common practice for the Revenue to pursue the remaining lone parent for the debt rather than seeking half from each members of the ex-couple or even reducing the percentage for the lone parent.

Currently overpayment recovery can be made from child payments within tax credits, reducing these amounts to below the level these would ordinarily be paid at. As a point of principle, CPAG rejects it is reasonable to do this – we believe that child welfare dictates that child payments should be protected as these are the amounts provided specifically for a child’s needs. If the primary consideration is meeting a child’s needs the fact that there is an overpayment is irrelevant. We are particularly concerned about recovery from the child payment where the overpayment has arisen not from a CTC but has, for instance, derived from overpaid childcare – this is a transfer away from children and should not occur.

Where debt is owed to the Revenue it begins to be recovered immediately, in contrast that owed by the Revenue to claimants (underpayments that arise in year) is now withheld by HMRC until the end of the tax year. We do not accept the justice of this asymmetric relationship. Though we understand the HMRC’s desire to reduce future overpayments, the groups which get underpayments (generally poorer and with falling incomes) are not necessarily the same as those getting overpayments (somewhat better off and with, typically, rising incomes). We would like to see research into the circumstances of those getting underpayments to show the extent to which they suffer material deprivation and debt which might be affected by underpayment lump sums now being withheld.

**Working tax credit**

Whilst supporting moves to increase returns from paid employment, and therefore increasing the employment rate, CPAG nevertheless regrets the public subsidy provided for low wage employers and we would like to see the national minimum
wage ‘floor’ raised to tackle the particular problem Britain experiences of wage inequality. If Britain is to have a true ‘Contract out of Poverty’, as argued in Ending Child Poverty Everybody’s business, employers need to pay decent wages. We understand some will argue against a rising national minimum wage, but good employers already pay above this rate and a low minimum wage acts to subsidise bad employers to undercut good ones. The usual arguments against a rate rise are that a higher NMW would cause unemployment which has been disproved in practice or that jobs will go abroad. This last argument is particularly weak as many low pay jobs are not exportable and others are in the public sector or its supply chain.

The IT system

Policy should drive implementation and IT should support but never proscribe policy development. This sounds self-evident but the opposite seems to occur regularly in tax credit delivery. In fact computerisation has also had adverse consequences on rules and delivery systems across social security systems but it has reached its zenith with the quality of service possible with the current IT system for tax credits. The IT system has prevented the implementation of a pause before the automatic recovery of an overpayment – a process CPAG continues to believe is unlawful given the legal framework which provides for discretion on recovery. Moreover the limitations of the IT have created a backlog of changes which both independent advisers and members of staff at HMRC would wish to see but which we understand cannot be introduced without compromising the systems’ ability to deliver.

CPAG is pleased by the willingness to consider IT changes in the consultation document around childcare payments but we would like to see a wider IT review. We are not so unrealistic as to believe that any change in public policy can be delivered over night without risking interrupting payments to millions of low income families by making a system change without fully understanding the consequences but there is strong case for a review. If IT constraints are preventing tax credit reform whether in terms of substance or delivery the government should be looking to solve this even if it means a new, and more flexible, IT system.

Strengthen legal rights to tax credits

There are three key areas where CPAG feels the child poverty agenda would benefit from stronger legal rights in the tax credit system.

First, claimants need stronger and clearer legal protection within the system. Such protection is not only in the interests of empowerment and natural justice but acts as a lever for improving service quality by holding HMRC to account when it makes mistakes and ensuring bad administrative practice is recognised and dealt with. CPAG continues to argue for an independent appeal right to challenge recovery of an overpayment, internal HMRC processes for dealing with disputes are not sufficient.

Secondly, CPAG objects to the systematic, different, treatment of migrants within the tax credit and benefits system, the official policy to first reduce and then end child poverty should apply to all children and not exclude those whose immigration status

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5 HM Treasury, Department for Children, Schools and Families and Department for Work and Pensions, Ending Child Poverty Everybody’s business, 2008

6 As witnessed by the living wage campaign

7 We realise there will be those argue for restraint whilst economic storm clouds loom, it follows from this that when the clouds clear government should move much more assertively to tackle poverty pay by progressively increasing the level of the national minimum wage.
is not settled. We view with concern likely developments in immigration policies that are likely to exacerbate the numbers denied benefit and thus the number of children affected. We hope CTC will remain a payment that is available to couples with mixed status but we would prefer a different approach which ignores immigration status or residence and would then comply with the principles of the UN Convention on the Rights of the Child. For those groups of recent EU migrants able to work (for instance from accession states, right of residence and, therefore, rights to CTC is linked to employment status. The worst impact of this policy is to create the situation where some highly vulnerable families lose financial support when economic activity is necessarily interrupted (for instance after pregnancy or if a mother flees domestic violence). Concern for children at greatest risk of poverty suggests policy needs to ensure financial support is not interrupted for these families.

Finally though tax credits have now been operating for five years the mechanism to ensure that tax credits keep (at least) their current value is weak. The per child element is currently being increased in line with earnings inflation (though promised for this Parliament only), other elements have been frozen (so falling in real terms). This is weak future proofing and a dangerous hostage to fortune. An administration keen to cut tax credits could do so quickly by failing to uprate tax credits and could call on the current treatment of the family element as precedent. CPAG urges a requirement to uprate be placed in statute to ensure tax credits are not allowed to 'wither on the vine' by a future failure to uprate them.

**Specific questions**

This section turns to the specific questions raised by the Consultation.

**Question 6.1: The Government would be interested in views on the benefits, in a UK context, of introducing a system of income bands.**

We appreciate the desire here is to further reduce overpayments but we are unconvinced implementing income bands would improve the current scheme. We recognise the Treasury concern that parents may find it easier to estimate income in bands, however this introduces potentially large cliff edges and implies a considerable roughening of the system (and implicitly means underpaying families their awards – if the Treasury places families within a band but pays them on the basis they are at the band top) whilst the modelled impact (£10 million) on overpayments looks small.

**Question 6.2: The Government would therefore welcome views on whether further run-ons of entitlement should be introduced, including for customers whose hours fall below 30 hours a week.**

CPAG supports the idea of a well implemented run-on for those whose hours fall below 30 hours. Our view is that this run-on could increase financial stability. We would however like to see the relationship between tax credits and benefits thought through to ensure implementation works effectively and the run on is easy for claimants to understand and use.

There are a number of other areas government should be looking at. There is a case for run on’s around transition points, for instance when a child or young person leaves education and training; when there are changes in Disability Living Allowance status or when a parent is no longer counted as responsible for a child. Also when a child is taken away from the family and placed in local authority care (referred to as...
‘looked after’ children), CTC stops immediately. This contrasts with child benefit which stops after 8 weeks. Social workers generally complete a child benefit change of circumstances form on behalf of the family so that child benefit stops in time. There is no such system that we are aware of to notify CTC changes. We think it may well be assumed by professionals and families alike that the CTC entitlement would follow Child Benefit (CB) entitlement, and that a CB notification would be communicated to the Tax Credit Office – neither of which is true. Families, at their most vulnerable and unable to cope, immediately begin to accrue CTC overpayments. We would recommend that CTC has an 8-week run on for families in these circumstances to bring it into line with CB. Automatic notification of changes of circumstances between the CB Centre and TCO would help reduce overpayments.

**Question 6.3:** The Government is therefore seeking views on whether, in the longer-term, further reforms should be introduced, building on those introduced to date, to help customers build up end-year top-up payments by, following the Australian example, giving customers more choices about how they receive their awards. An example of such choice could be to allow customers to choose to defer some or all of the family element until the end of the year.

We accept this model could be popular with some families (especially if offered as a choice), but the reason for this popularity are likely to be precisely because of the perceived instability in tax credit awards and risk of getting an overpayment. Though this model is more compelling than the New Zealand option, it still means reducing current family incomes in order to offset debt to the Revenue and in doing so it preferences HMRC debt reduction over current family incomes. We have two key child poverty concerns: first this means paying families less on a week by week basis than they are currently getting (if the family element were held to the year end, families would get £10.48 less per week). Secondly, and more philosophically, paying the family element at year end may further separate this out from the main tax credit scheme for some families and weaken the progressive universalism element which has been one of the key advantages of the child tax credit.

**Question 6.4:** The Government is therefore interested in views on whether the advantages of giving customers more choice are outweighed by the risk of increased complexity in the system.

We start from the principle of wanting a stable tax credit system which delivers for all families. Where service improvement is needed it should be driven by a desire to deliver the best service for those poorer families who need it most – we place this need for quality higher than that of choice. Choice is also not enough on its own, it needs to be informed and this is clearly difficult given the inherent complexity of the tax credit system. As suggested elsewhere in this response we see scope for a much more supportive tax credit system with better trained staff able to spot and deal with problems more quickly.

**Question 7.1:** The Government seeks views on whether basing childcare support on actual costs incurred, and therefore paid in arrears, would simplify the system for customers, or create problems for customers and/or providers in managing their cash flow. If such a system were adopted, the Government would also welcome views on whether customers or providers should have responsibility for informing HMRC about childcare costs incurred.

The advantage in this move would be parents are more likely to understand the support on offer and make decisions accordingly. The (major) disadvantages are
payment in arrears and the probably higher reporting criteria (though we are aware many families may already be frequently reporting changes). The first problem, payment in arrears, is a clear barrier to work and would hit the poorest families hardest. This would be perhaps most acute around the first move into work but could also be problematic if childcare cost subsequently went up for whatever reason. If Government decides to go down this route, an improvement would be to provide an advanced payment (a float), though this might be fairly crude.

Though the debt problem is partly soluble by providing a float when parents move into work, the increased reporting requirements placed on either claimants or providers (and in consequence on HMRC) do not look soluble (though it would be helpful to know from HMRC how many parents already report month by month changes).

If this were to be implemented we would prefer providers provide the information to HMRC and in some ways (given providers would be typically reporting for a larger number of children) this could be more reliable. However we recognise the administrative burden that could create for providers (many of which already struggle) and we reject the possible quid pro quo where providers accepted more reporting requirements in return for direct payments.

Question 7.2: The Government seeks views on whether basing entitlement to childcare support on income bands, rather than a precise income level, would simplify the system for customers, relative to the current system.

Greater clarity of what support is on offer would be of a considerable benefit to families. Though there are cliff edge problems with this banded system, we do see advantages in seeking to make it clearer what support is on offer. The idea of providing some kind of look up table with clearer illustrations than seem currently possible of what people in which groups might expect to receive could be very helpful in helping parents make employment decisions.

Box 7.7 provides illustrative bands, one advantage that this system could deliver would be a new band, providing 100% of childcare costs for those below the poverty line. For this group the 20% of childcare costs they are expected to find are acting as a major disincentive to move into employment, given the current (often surprisingly low) amounts being typically claimed for childcare support, such a move would be affordable and would incentivise moves into employment. Since over half of poor children have a parent in work this would also help improve the material circumstances of families experiencing in-work poverty by helping with direct costs.

Question 7.3: The Government would also be interested in views about the appropriate balance between minimising the number of income bands to provide simplicity, and ensuring that customers do not face significant decreases in support (cliff edges) as their income increases.

Setting the bandwith is clearly a balance, CPAG urges wider income bands for lower income families to weight support for those who need it most and to reduce the effects of marginal deduction rates as income rises.

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8 We are also reminded of the case of paying WTC through employers which employers found burdensome and this responsibility was taken back by HMRC- this could also happen to childcare reporting requirements once providers found how burdensome this was.

9 On the 60% of median income before or after housing costs are accounted for, using 2006/07 figures from the Department for Work and Pensions, Households below Average Income Series, 2008
Question 7.4: The Government seeks views on the advantages and disadvantages of increasing certainty for customers over their entitlement to childcare support, by basing entitlement to childcare support on the school year and on the previous year’s income.

We do not back this proposal, this move provides a further complication to the annual tax year based system and is unlikely to be an improvement for those families with pre-school age children. We are also unclear about how different term times (for instance between England and Scotland) would be dealt with. This proposal still implies predicting childcare need over a long period where change is likely.

Question 7.5: The Government seeks views on whether the current system, where payments are made to the customer, remains the right approach going forward.

We believe payment to customer – not provider – remains the most appropriate and empowering approach. We accept some parents may well like direct payments to be made to providers. However this proposal does not fit with the approach suggested by the local housing allowance reforms and runs against promoting choice, is disempowering, potentially stigmatising. This change may also make it harder to move providers if necessary and it is not clear where responsibility for overpayment would lie if a child did not attend a session and there was a dispute about payment.

Question 7.6: The Government is interested in identifying all options to simplify the delivery of childcare support through the tax credit system. In particular, it is interested in views on the options identified in this chapter.

See ‘general issues’ section

About CPAG

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes, training courses and publications.

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