



TAX-FREE CHILDCARE

ICAEW welcomes the opportunity to comment on the consultation paper *Tax-free childcare: consultation on childcare account provision* published by HM Treasury and HM Revenue & Customs on 23 May 2014.

This response of 27 June 2014 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

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SUMMARY

1. Based on the government's criteria, NS&I is our preferred provider.

RESPONSE TO SPECIFIC QUESTION

Q: The government would welcome views on the options to deliver Tax-Free Childcare accounts in the light of the issues and assessment set out in this document

2. We agree that the criteria cited in para 3.3 – Simple, Efficient, Competitive, Secure and Responsive – are the right ones to assess options for childcare account provision. This approach is similar to our own *Ten Tenets for a Better Tax System*, summarised in Appendix 1, which we use to benchmark the tax system and changes to it.
3. We feel that key criteria for parents will be trust, simplicity and cost. Parents will not necessarily welcome the chore of having to compare one provider with another. And as it is government policy to encourage parents into the workplace, there needs to be as few as possible potential barriers to claiming childcare costs.
4. NS&I is a trusted provider. Deposits are guaranteed by the Treasury and NS&I has over many years proven its credentials for good service.
5. The other potential state provider is HMRC. We consider that there is a real danger that the prospect of HMRC being able to recover tax debts from bank accounts (which people may perceive could include seizing the 20% child care monies en route to a childcare account) without appeal and continuing disappointing experiences for a significant number of employees and employers and payroll agents following the introduction of PAYE Real Time Information (which may be perceived as calling into question the ability of HMRC to maintain accurate records of PAYE liabilities and payments and maintain a database adequate to ensure that communications reach their intended recipient) will discourage many from claiming tax-free child care if HMRC is the provider. Such a barrier will undermine the government's policy to encourage parents into work.
6. We also think that using HMRC as the state provider would lead to confusion for parents between the current childcare voucher system and the new tax-free childcare accounts.
7. In summary, based on the government's criteria and the concerns that we have noted above, we believe that NS&I would be the ideal state provider.
8. We agree with the decision noted in para 3.14 of the [government's response document](#) dated 18 March 2014 that employers should not be mandated to play a role, such as being compelled to offer access to the scheme or performing eligibility checks on their employees and their partners, as this would impose significant burdens on employers. We also feel that employer involvement would blur the distinction between the new tax free childcare system and the current regimes.
9. Having said that, we recommend that the government or the state provider makes available a downloadable 'quick guide' summarising the scheme in simple terms and signposting the main source of guidance (we suggest covering not more than one sheet of paper when printed) that employers and advisers can give to individuals who come to them with queries.
10. The ['better off' calculator](#) which currently helps an individual to decide whether to take existing employer supported childcare instead of salary (because of the impact on a tax credits claim) is a useful tool. We trust that it will be moved to Gov.uk and incorporate the new choices available to parents.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see icaew.com/en/technical/tax/tax-faculty/-/media/Files/Technical/Tax/Tax%20news/TaxGuides/TAXGUIDE-4-99-Towards-a-Better-tax-system.ashx)