

CHILD CARE TAX RELIEF AND CHILD CARE ALLOWANCE

**Lodged au Greffe on 6th October 1998
by the Finance and Economics Committee**



STATES OF JERSEY

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion -

- (1) to receive the Joint report of the Finance and Economics Committee and the Employment and Social Security Committee dated 1st October 1998 and -
 - (a) to approve the proposals with regard to the Child Care Tax Relief;
 - (b) to approve the proposals with regard to the Child Care Allowance;
- (2) to charge the Finance and Economics Committee to prepare the necessary legislation to implement sub-paragraph (1)(a);
- (3) to charge the Employment and Social Security Committee to prepare the necessary Act of the States to implement sub-paragraph (1)(b).

FINANCE AND ECONOMICS COMMITTEE

NOTE: The Establishment Committee comments are to follow.

REPORT

Subsidising Child Care costs

As a result of Senator Kinnard's amendment during last year's Strategic Policy Debate, the Finance and Economics Committee was instructed to introduce legislation, effective from 1st January 1999, to give tax relief for child care costs.

The Finance and Economics Committee referred the matter to the Fiscal Review Working Group which identified the following principles for the grant of tax relief -

to so subsidise child care costs as to act as a modest incentive to individuals to enter, or stay in, work;

to subsidise child care of known quality only;

to limit tax relief to those in the lower ranges of taxable income currently paying tax at a marginal rate of 30 per cent (identified by the report of the Working Party on Child Care as the group most in need of help with child care costs and representing over half of all taxpayers).

The Working Group noted that typical child care costs ranged between £80 and £120 a week and that the Education Department operated a registration scheme under the Children (Jersey) Law 1969, for nurseries, crèches and childminders which gave the necessary degree of assurance that the proposed scheme would only subsidise care of proven quality. The Law currently applies to the care of children up to the age of five years but the Education Committee has decided to bring amendments to the Law to extend the registration to children aged 12 years.

The basic registration process for childminders and day nurseries involves stringent checks on the premises, staff and equipment before the issue of a certificate to operate and thereafter, yearly, in order to -

assess the suitability and safety of the premises and equipment for use by young children;

ensure that all staff who have access to the children are suitable (for example, police and parish checks are carried out);

observe that all the requirements for good practice are evident.

Detailed guidelines on good practice and some training support have been provided in the past by the Education Department who undertake the registration process. The new Child Care Trust will be addressing the quality issues as part of its remit in future.

The Finance and Economics Committee accepted the recommendations of the Working Group as set out in the following proposals.

Child Care Tax Relief - proposals

- (a) Tax relief shall be granted against the income (net of tax-deductible expenses) derived from employment or self-employment of a -

married woman
single person (male or female)
married man with an incapacitated wife.

However tax relief shall be denied to a single male if he and a partner live together as man and wife. (The female half of the partnership can claim against her income in that situation).

- (b) Tax relief shall be restricted to payments made to a registered child care provider in respect of a child aged five or under in the year of assessment;
- (c) Tax relief shall extend to care of older children when the registration scheme is widened;
- (d) Tax relief shall be subject to the following limits, as applicable -

- (i) the amount actually paid;
- (ii) the claimant's qualifying income in excess of the first £4,100 (the latter amount already being tax-free);
- (iii) an overriding maximum of £5,000 per qualifying child;

With the proviso that no relief shall be given for any payment which qualifies for relief under some other provision of the Income Tax Law.

- (e) A certificate of payments received in respect of the qualifying child shall be supplied by the registered child care provider, showing -

the child's full name and date of birth;

the registered child care provider's name, address and registration number;

the payments received in respect of the child in the calendar year.

- (f) In the case of a claim being made by more than one individual (this could happen where a couple separate) the deduction shall be split as the couple agree or, failing agreement, apportioned to the best of the Comptroller of Income Tax's judgment in the light of the evidence supplied by each party;
- (g) The qualifying payments are to be added to the relevant Small Income Exemptions thereby limiting relief to those in the marginal rate (30 per cent) band.

Example

Assuming entitlement to the full deduction of £5,000, a married couple with one child will benefit from tax relief of up to £1,500 if their joint

income is over £23,150 (at which point liability to tax would otherwise start) and less than £54,150 (at which point the relief finally tapers out).

N.B. the figures are based on current tax allowances which will be subject to change when the Budget details are announced later this year.

Child Care Tax Relief - cost

The cost in terms of tax is estimated at £1.8 million in 1999. The cost will increase in later years when the registration scheme is extended as described in paragraph (c) above.

Child Care Allowance

The Employment and Social Security Committee (“the Committee”) has been planning to introduce support towards the costs of child care for low income groups as part of a reform of the Family Allowance system. The intention is to replace the present system with a current means tested low income support benefit based on the work currently in progress to establish what the “poverty line” should be and how the various benefits and taxation systems can be aligned to avoid poverty traps and disincentives in the system.

The Committee’s aim is to introduce the new system in the year 2000. However, the Fiscal Review Working Group felt strongly that it would be unfair to introduce child care tax relief next year in accordance with the States decision when those who do not pay income tax, and whose need is likely to be much greater, would not receive any help until the following year. The Committee has therefore decided that a separate, interim child care allowance scheme should be introduced on 1st May 1999, in the same year as the Child Care Tax Relief Scheme becomes effective.

The Committee’s proposal is that the child care allowance should be based on the simple principle of “making work pay”. It should encourage people to work and so reduce reliance on benefits. This is not to say that parents who stay at home to care for very young children should be discouraged from doing so. The current Family Allowance system is designed to support low income families whether they stay at

home or go out to work and the Committee believes that any new Low Income Support system should do the same.

Child Care Allowance - proposals

It is proposed that the criteria for child care allowance should mirror those for child care tax relief -

child must be in registered child care

claimant and child must be present in Jersey and have been resident in Jersey for six months

claimant must be deriving income from employment or self-employment and where salary exceeds £3,027 per annum (80 per cent of the earned income threshold for self-employed contribution purposes)

child absence (and parent absence from work) through illness will be disregarded for short periods (28 days)

It is proposed that the assessment of the interim Child Care Allowance system would be as follows -

based on a current means test

using a graduated scale (similar to the Family Allowance one) but taking account of child care costs against family income;

the Child Care Allowance will not exceed the amount actually paid;

the ‘taper’ would start at £100 for one child (or £200 maximum for two or more children) for those on very low incomes and reducing to a minimum of £30 for those whose income is around the tax threshold;

income would be calculated taking all earned income and maintenance into account (including spouse and de facto spouse income);

Family Allowance payments would be excluded along with any other benefit which is not a compensation for loss of earnings. For example Attendance Allowance and Disablement Benefit would not be included as income; and

controlled in close liaison with the Income Tax Department to avoid any overlap between the allowance and the tax relief.

Calculation of Child Care Allowance

Child care allowance will be calculated on a sliding scale which will stop when tax liability effectively starts. Because tax thresholds vary for many reasons, the income at which child care allowance ceases will be taken as the tax threshold for a married couple with one child and each child of the family in registered child care will be assessed against this slide. The figures for 1999 have yet to be published but as an indicator of the likely rates of the allowance, the 1998 figure of £23,150 has been used to produce the following table. The table is constructed with the sliding scale or taper starting at £100 a week reducing to £30 a week at £23,150. For families with several children in registered child care, the maximum permissible rate of child care allowance is set at £200.

Table showing potential child care allowance rates for various incomes based on 1998 marginal tax thresholds -

Income	£3,027	£5,000	£10,000	£15,000	£20,000
Maximum Child Care income per child	£100.00	£93.14	£75.73	£58.33	£40.93

Child Care Allowance - resources

Cost

The cost of granting this allowance is impossible to estimate as the incomes of those using child care facilities are unknown but it will probably cost at least £1 million a year and probably be nearer £2 million. The Finance and Economics Committee has made £2 million available to the Committee for 1999.

Staffing

A means tested system will be costly to administer and is likely to require at least two additional staff. The Employment and Social Security Department is unable to absorb any of this work as a recent Service Review has highlighted. Consideration has been given to outsourcing this work but it would not appear to be a practical solution as there will need to be close liaison between Employment and Social Security, the Parishes, Income Tax, Education and other Departments, employers and child care providers (including exchange of information) if the system is to achieve its purpose.

1st October 1998.