

EXPLANATORY MEMORANDUM TO
THE TAXATION OF BENEFITS UNDER GOVERNMENT PILOT SCHEMES
(UP-FRONT CHILDCARE FUND) ORDER 2008

2008 No. 1464

1. This explanatory memorandum has been prepared by Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. **Description**

2.1 This Order provides that any amount of benefit payable by virtue of the Government pilot scheme known as the Up-Front Childcare Fund made on or after 1 July 2008 is not charged to income tax to the extent that it would be taken into account for Part 2 (Employment income: charge to tax) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA).

2.2 Benefit payable by virtue of the Government pilot scheme known as the Up-Front Childcare Fund will be made directly to the childcare provider of the lone parent who makes a successful application for assistance under the scheme. To be eligible for such assistance, the lone parent must be resident in one of the London areas of Jobcentre Plus, have been receiving benefit for 6 months, be participating in the New Deal for Lone Parents and moving into work of at least 16 hours per week. Payments up to a maximum amount will only be made for childcare provided by registered or approved childcare providers, and only for registration fees, deposits and advance payments.

2.3 The effect of this Order is that benefit payable by virtue of the Government pilot scheme known as the Up-Front Childcare Fund will not be brought into account (as it would otherwise be) for the purpose of computing a lone parent's liability to income tax on their employment income.

3. **Matters of special interest to the Joint Committee on Statutory Instruments**

None

4. **Legislative Background**

4.1 ITEPA contains the tax legislation relating to employment income, including social security income and pensions. Part 2 of ITEPA imposes the charge to tax on employment income and sets out how the amount charged to tax for a tax year is to be calculated and who is liable for the tax.

4.2 Section 6 of ITEPA provides that the charge to tax on employment income is a charge to tax on “general earnings” and “specific employment income”.

4.3 Section 7 of ITEPA provides the meanings for “employment income”, “general earnings” and “specific employment income”. “Employment income” means earnings as defined by section 62 ITEPA, any amount treated as earnings and any amount which counts as employment income (specified separately in ITEPA). “General earnings” means earnings as defined by section 62 ITEPA and any amount treated as earnings. “Specific employment income” relates to free-standing charges set out elsewhere in ITEPA.

4.4 Section 62 of ITEPA defines “earnings” for the purposes of employment. Earnings are any salary wage or fee; any gratuity or other profit or incidental benefit of any kind obtained by the employee if it is money or money’s worth; anything else that is an emolument of the employment. “Money’s worth” means something that is of direct monetary value to the employee or capable of being converted into money or of direct monetary value to the employee. Any amount payable by virtue of the Government pilot scheme known as the Up-Front Childcare Fund will be of direct monetary value to a parent by meeting the costs of their childcare. Accordingly, those payments are earnings for the purposes of income tax.

4.5 This Order provides that benefit payable by virtue of the Government pilot scheme known as the Up-Front Childcare Fund is not chargeable to tax on employment income imposed by Part 2 of ITEPA.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 Lone parents moving into work often face up-front childcare costs, such as registration fees, advance payments and a deposit, before receiving their first pay cheque. The level of these up-front costs required by childcare providers can act as a barrier to work.

7.2 From July 2008, the Department for Work and Pensions will launch the Up-Front Childcare Fund for lone parents as a pilot, running in the six Jobcentre Plus Districts in London, to provide up-front financial support for childcare for those lone parents who meet the eligibility criteria.

7.3 Not charging any benefit payable by virtue of the Government pilot scheme known as the Up-Front Childcare Fund to tax for employment income will ensure that the financial support fully meets the up-front cost of childcare and will remove additional complexity for lone parents as they move into work

8. Impact

A full and final Impact Assessment has not been produced for this instrument as no impact on the private or voluntary sectors is foreseen.

9. Contact

Paul Thomas at Her Majesty's Revenue & Customs Tel: 020 7147 2479 or e-mail: paul.thomas@hmrc.gsi.gov.uk can answer any queries regarding the instrument.