

# Free childcare would raise millions in tax on working mums, says thinktank <sup>[1]</sup>

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## EXCERPTS:

Free nursery care would raise millions of pounds for the government by enabling mothers to return to work, according to a report by the Institute for Public Policy Research (IPPR). The thinktank says the increased tax revenues that would result would outstrip the cost of providing care for all pre-school children.

Many women, especially those on low to middle incomes, stop work after having children because of the high cost of childcare in the UK. In the 34 developed nations that make up the Organisation for Economic Co-operation & Development, a couple who are both earning average wages spend 12% of their income on childcare. However, in the UK that figure is 27%.

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The IPPR estimates that the cost of universal childcare would be £6.7bn, which could be funded, it suggests, by restricting tax relief on pension contributions to the basic rate. Money could also be raised by means-testing winter fuel payments, free travel passes and television licences for pensioners.

Each mother returning to work full-time on an average wage after a year's maternity leave would make the government £20,050 a year over four years, the IPPR analysis shows. The cost of their childcare over that period - until the child starts school - is estimated to be £14,000 (taking account of the fact that there are already 15 free hours available for three- and four-year-olds); the mother's gross income would be £103,500 and she would accordingly pay £34,050 in national insurance and income tax.

When the fact that many mothers return to part-time work or do not earn enough to pay income tax or national insurance is taken into account, the net gain from an additional mother returning to work would be £4,860.

Families are under added pressure from the rising cost of childcare - up by 4.8% since last year, according to the Daycare Trust - and from other living costs, while wages remain static.

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Introducing universal childcare would have to be combined with improved economic growth and rising levels of employment to ensure jobs for those women returning to the workforce, says the IPPR.

Nick Pearce, the institute's director, said: "At a time of severe fiscal constraint, it is vital for Britain to focus resources where they will make the most difference - in helping families with the cost of living and strengthening the public finances over the long term."

A separate report by the Resolution Foundation looks at the potential for raising living standards by boosting female employment, especially in less well-off households. From 1968 to 2008, women's work drove more than a quarter of all income growth in families with low to middle incomes. In more recent years it has become even more important, counterbalancing flat wages and falls in male employment. Yet in the 1990s and 2000s the number of women in work flatlined, and now the level of UK female employment ranks 15th in the OECD.

The UK slips further behind other countries when women have children, especially more than one - 44% of mothers with three or more children work compared with 66% in the "best" countries. Many mothers reduce their hours after starting a family - 42% of British women who work part-time say they do so because of childcare responsibilities, the highest percentage in the OECD.

The report also points out that 13% of couples with children under six would like the man to work full-time and the woman to stay at home, yet 33% of couples already have this arrangement, suggesting that there is room for public policy to increase female employment by making it easier for women to work.

The report's author, James Plunkett, said: "Female employment has been absolutely critical in raising living standards for families on low to middle incomes in the past generation. Now that growth is stalling and the reality is there's nothing lining up to replace it."

-reprinted from the Observer

**Related link:** The missing million: The potential for female employment to raise living standards in low to middle income Britain <sup>[2]</sup>

**Region:** Europe <sup>[3]</sup>

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