Regulatory Impact Statement: A childcare tax credit – "FamilyBoost"

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing Cabinet decisions on the direction of a childcare tax credit to support parents who have children in early childhood education.
Advising agencies:	Inland Revenue
Proposing Ministers:	Finance and Revenue
Date finalised:	12 March 2024

Problem Definition
The assumed policy problem is that the cost of early childhood education (ECE) is high relative to families' incomes. It is anticipated that this will result in some families being unable to afford some ECE hours, restricting the parent's ability to work and for the child to participate in ECE, or resulting in pressure on other types of family spending to maintain ECE hours. This may decrease parental labour market participation, ECE participation rates and families' income adequacy. It is anticipated that without government intervention, the problem will continue to worsen as the current high inflation environment and trends in the price measures for the ECE sector may result in ECE costs continuing to increase compared to incomes.

Executive Summary
The Government has indicated that it would like to alleviate the increasingly high cost of ECE relative to income by implementing a new childcare tax credit linked to childcare expenditure by 1 July 2024. The preferred parameters of the childcare tax credit, named FamilyBoost, was part of the National party's pre-election documents. The new tax credit sits alongside a package of changes outlined in coalition documents that would increase after-tax incomes through increases to tax credits and increases to tax thresholds. The Government has outlined the primary objective of implementing a childcare tax credit is to directly increase the incomes of families who have children in ECE. Administering a childcare tax credit as outlined in pre-election documents requires access to fees information that is linked to individual parents or caregivers, the children in their care, and to their family income for a broad segment of society. Currently no government agency has this fees information. There are two options for progressing the tax credit: • Option 1 – develop a basic refund model that requires the fees information to be supplied from parents or caregivers, with a 1 July 2024 effective date, or, • Option 2 – similar model but extend the implementation date by approximately two to three years to create information flows from ECE providers to the government on

individual fee payments, making the product automated from the parents' perspectives.

The primary trade-off between these two options is the date the product can be implemented by, and the level of effort required by potential recipients and the ECE sector.

Option 1 can be implemented quickly to provide prompt support but would place the onus on families to submit invoices on a regular basis to receive the childcare tax credit. Placing the onus on families could reduce the take-up of the tax credit, reducing the support received by eligible families. It also requires the ECE providers to update their invoices to ensure they are in the correct format for Inland Revenue to provide the tax credit. This option could be progressed with the intention of continuous improvements over time to reduce the burden on parents and align it closer to option 2. However, there is a risk that the basic model will be entrenched, with high compliance costs placed on parents and no replacement model ever designed and implemented.

Option 2 does not provide short-term benefit to parents as it would take longer to implement but would greatly reduce the compliance costs on parents, resulting in higher take-up than option 1. Administratively, option 2 would be more efficient for Inland Revenue to administer over the long run despite initial higher capital costs, s 9(2)(g)(i) [redacted]. However, this option has the risk that ECE providers may be unable to update their systems to create information flows of fees data to Inland Revenue and therefore the model is not feasible for some ECE providers and parents.

The best option depends on the Government's objectives and the resulting weighting given to the individual criteria. For example, if providing prompt support is the priority, a quicker implementation time would be preferred.

Limitations and Constraints on Analysis

Inland Revenue's ability to do a comprehensive policy analysis of this issue is constrained by the lack of publicly available ECE fees data, the pre-existing settings on the policy parameters, and time constraints.

The Government has indicated that providing prompt support to families facing cost of living pressures, through targeted assistance with ECE costs, is the priority. Therefore, it has directed Inland Revenue to implement "FamilyBoost", a childcare tax credit to increase the incomes of families who have children in ECE, by 1 July 2024. This has constrained the analysis to policy alternatives to "FamilyBoost" as outlined in the pre-election documents and precludes alternative policy options such as direct subsidies to providers and wider "care of child" financial support payments. Part of the Government's outlined policy parameters was for Inland Revenue to be the administrator of the payment. This further limited the scope of policy options that were considered to those that only Inland Revenue could implement.

In addition to policy design constraints, the lack of comprehensive ECE fees data from any government agency has required Inland Revenue to make assumptions about the severity of the policy problem and the factors causing it, as well as the impact of different options. This makes it difficult for any government agency to provide advice on how effective existing or new interventions are on the overall affordability of ECE. The lack of fees data also impacts the practicability of a tax credit linked to childcare expenditure.

Inland Revenue has not been able to undertake any consultation with the public due to time constraints and Budget secrecy conventions, despite the potential for significant compliance costs on the ECE sector and parents in implementing a childcare tax credit. This means that in preparing advice on options for implementing a childcare tax credit, we have made assumptions about:

- the ability of the ECE sector to make changes to implement the tax credit,
- the take-up rate by potentially eligible parents, and,
- the impact the tax credit would have on family incomes and ECE costs.

To assist in mitigating risks and verifying assumptions, we are requesting a Budget secrecy waiver to consult as soon as possible with the ECE sector. If the ECE sector is unable to make the changes necessary to implement the tax credit, officials will provide further advice to the Government on alternatives. The take-up rate of the policy depends on the option selected but will be monitored during the implementation and educational support provided to encourage take-up. Lastly, if either of the policy options considered in this paper are implemented, Inland Revenue will have some access to fees data (supplied either by parents or ECE providers) alongside income data, which can inform the Government of the tax credit's effect on ongoing ECE costs and family income adequacy. This would be a part of the post-implementation review. It may also support understanding of the impacts of wider government investment in the ECE sector.

Responsible Manager(s) (completed by relevant manager)

Maraina Hak

Policy Lead

Inland Revenue

s 9(2)(a)

12 March 2024

Quality Assurance (completed by QA panel)

Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	*The Quality Assurance panel from Inland Revenue has reviewed the "A child care tax credit – "FamilyBoost"" regulatory impact statement (RIS) prepared by Inland Revenue and considers that the information and analysis summarised in the RIS partially meets the quality assurance criteria. This is because the scope of the options analysis has been constrained by the lack of time to fully consider other options given the directive by the Government to provide the benefit through a tax credit mechanism. A comprehensive analysis of those other options outlined in the RIS may have provided a more appropriate option.* *In addition, the panel considered that the problem definition could be clearer but given the direction, assumptions and limitations*

	imposed on the analysis there is limited scope to further define the problem the policy is addressing. *Consultation with the sector has not been undertaken. The RIS would have benefited from feedback from consultation, including the views of the stakeholders on the options considered in the RIS.*

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. The assumed policy problem is that the cost of early childhood education (ECE) is high relative to families' incomes. The following section provides context on the ECE sector and future outlook on ECE affordability.
2. The 2022 Early Childhood Education Census showed that there were just over 181,000 children attending licensed early childhood services. Children attended for an average of 21.6 hours per week. Participation rates are highest for 3- and 4-year-olds, where 80% and 84% of children in the respective age groups were attending ECE in 2022. There were 4,597 licensed services operating at the time of the Census.[1]
3. Existing regulatory systems are in place to support families with childcare costs. These range from universal and specific ECE supports, such as childcare subsidies, to broader income adequacy payments that contribute towards the cost of raising children, such as the Family tax credit and Best Start tax credit. These supports have different policy rationales, including increasing workforce participation, increasing ECE attendance rates, providing a greater range of choice for parents (both in where to send their children and whether to send them to ECE at all), and alleviating child poverty by supporting income adequacy through direct payments.
4. Childcare supports are administered by several different agencies, including the Ministry of Education (MoE), the Ministry of Social Development (MSD) and Inland Revenue (IR). Support is provided either direct to the parent or direct to the service provider.
5. Each form of support targets a slightly different group and objective, with different eligibility requirements. People may be eligible for one or more of these supports. Examples of the supports include:
   - The ECE Subsidy. A universal subsidy paid directly to ECE providers for all children attending the ECE service with a daily limit of 6 hours per day and a weekly limit of 30 hours per week.
   - 20 Hours ECE Subsidy. A subsidy paid directly by MoE to ECE providers based on the number of children enrolled. The 20 hours covered by this subsidy replace the first 20 hours of the ECE subsidy. Associated with this funding are restrictions that specify parents cannot be charged fees for the 20 hours.
   - The Childcare Subsidy. Administered by MSD and paid directly to the ECE service provider for children up to the age of six of low- to middle-income families[2]. This subsidy is normally paid for up to nine hours of ECE a week if the parent(s) are not working, studying or training[3] and up to fifty hours a week if the parent(s) are working, disabled, or meet other conditions required by MSD.
   - Donations Tax Credit. Individuals can claim 33 percent of donations up to the amount of their taxable income. ECE payments can be claimed if they are

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1 Some of the census information was very recently updated for 2023 data. The total number of children in ECE has increased.

2 Families are eligible if they earn less than:
$2,144 before tax a week with 1 dependent child
$2,450 before tax a week with 2 dependent children
$2,756 before tax a week with 3 or more dependent children.

3 Policy responsibility for the 9-hours component of Childcare Subsidy sits with Oranga Tamariki

optional and go to general funds and the service is an approved donee organisation/charity.

- Working for Families (WFF) tax credits, including the Family tax credit, In-work tax credit and Best Start tax credit. This programme is administered by Inland Revenue and MSD and provides a direct payment to families with children, including those in the early childhood age group. Best Start is targeted to parents with children aged 0 to 3 years old.

6. These above payments are periodically increased in value, either by automatic adjustment or periodic review. The exception to this is the Donations Tax Credit, which is set at a fixed proportion of charitable spending and will automatically reflect any increased donations on childcare but is limited to a fixed proportion of taxable income earned.

7. It should be noted that due to a lack of reliable access to fees data it is currently difficult for any government agency to provide advice on how effective the above interventions are in reducing ECE costs for parents and caregivers.

Future outlook on ECE affordability

8. It is anticipated that without Government intervention, the current high inflation environment and trends in the price measures for the ECE sector may result in ECE costs continuing to increase.

9. Other factors for the increase in ECE costs may include lack of fees transparency resulting in inefficient markets (from information asymmetries), increasing operating costs, and demand exceeding the supply of ECE centres in some locations. Additionally, there are non-monetary regulations in place for the ECE sector which can increase the cost of delivery.

10. The recent repeal of the planned extension of 20 Hour ECE to 2-year-olds also reduces future support to some families to meet ECE costs.

11. If ECE costs do rise, an increasing number of families may no longer be able to afford some ECE hours. This may restrict their ability to work or could result in pressure on other types of family spending to maintain ECE hours, consequently reducing families' income adequacy, work incentives and/or ECE participation rates.

Limitations on Policy Analysis

12. As providing prompt support to families facing cost of living pressures, through targeted assistance with ECE costs, is a priority, the Government has directed Inland Revenue to implement a childcare tax credit by 1 July 2024 to increase the incomes of families who have children in ECE.

13. This, alongside standard policy limitations such as time constraints and lack of available data, has constrained Inland Revenue's ability to do a comprehensive policy analysis. This section expands on those limitations and the impact they have had on the policy analysis.

Lack of fees data

14. Comprehensive fees data is not available from either MSD or MoE:

- MoE has an existing mechanism called the Early Learning Information collection (ELI), which collects attendance data and systems which store each child's name, date of birth and National Student Number (NSN). However, MoE does not collect any fees data from families or providers. MoE had received funding in Budget 2023 to construct a system through which providers would report their standard fee rates to the Ministry. This system has not yet been implemented and would not provide granular detail on individual families' fees, including what portion of those fees are covered by other government supports.

- MSD holds comprehensive fees information for a small population, including the portion of the fee that is covered by other government support. However, this data is only held for recipients of the Childcare Subsidy (35,000 recipients for the 2022/23 year), therefore is not representative, and is collected via a manual process that places a high administrative burden on families, ECE providers and MSD staff. This process is not easily scalable.

15. Without comprehensive fees data, it is difficult for any government agency to determine the severity of ECE costs on families (including trends for the future), the factors that increase ECE costs (e.g., operational costs, impact of government regulation on the sector), and the efficacy of current and future government interventions in reducing ECE costs for parents and caregivers.

16. Instead, Inland Revenue has had to make assumptions about the severity of the policy problem and find alternative ways to feasibly implement a tax credit linked to childcare expenditure without easy access to current fees data.

Policy design limitations

17. The Government has requested a new tax credit, "FamilyBoost", that prioritises the following parameters:

    - direct payment to eligible parents on a household basis,
    - the payment be proportional to parents' actual childcare costs up to a capped amount per household,
    - the maximum payment be abated according to household income,
    - a regular payment,
    - administered by Inland Revenue, and,
    - implementable by 1 July 2024 to address current cost of living pressures.

18. These parameters define the set of options officials can examine in this analysis, meaning some significantly different alternatives to those proposed in this paper have not been considered in detail. Instead, the scope of policy options presented to Ministers have been limited to variations of direct tax credits that Inland Revenue can administer to increase incomes of families utilising ECE.

19. If there had been more scope and time available to do a comprehensive options analysis, Inland Revenue (alongside other agencies) would have considered a wider range of policy options to address the problem, including:

- reducing ECE fees through a direct subsidy to providers,
- regulatory price controls or changes to reduce the impact of other regulatory systems that increase operational costs for providers (e.g., play space requirements), or
- increases to incomes of families utilising ECE through other government support and/or wage growth.

20. This options analysis would include considering whether other agencies would be better suited to implement a new or expanded existing support instead of Inland Revenue.

Lack of public consultation

21. We have not been able to undertake any consultation with the public at this stage of the policy process due to time constraints and budget secrecy conventions, despite the potential for significant compliance costs on the ECE sector and parents in implementing a childcare tax credit. For example, depending on the tax credit model selected, parents may either be required to periodically upload invoices (with ECE

providers being required to ensure those invoices are in the correct format), or ECE providers will be required to share fees data directly with the government.

22. s 9(2)(g)(i) [redacted] Therefore, it will be particularly crucial to consult with the ECE sector to determine the compliance costs associated with implementing a childcare tax credit, but especially regarding the cost of sharing fees data, and whether the ECE sector will support and are able to take up those necessary systems changes to do so.

What is the policy problem or opportunity?

23. The Government has indicated that they would like to increase the incomes of families who have children in ECE. As such, we have assumed the underlying policy problem is that the costs of early childhood education are high relative to families' incomes.

24. This assumption is supported by OECD research[4] that has identified that couples pay 37% of their income towards childcare in New Zealand. This is high both in absolute terms and relative to the OECD average (13% of couple's income), including to countries such as Australia (22% of couple's income) and United Kingdom (25% of couple's income).

25. The only available analysis on ECE affordability Inland Revenue could find is from MSD which reviewed the Childcare Subsidy and therefore only covered lower-income families' ECE affordability. The report indicated that ECE affordability has declined for low-income families because of the Childcare Subsidy not being adjusted to reflect inflation. However, a lack of availability of data on ECE fees over time prevents the analysis from being able to quantify this cost, and the analysis is only applicable to low or low-middle income families who are eligible (or would be if thresholds had been adjusted to reflect inflation) for the Childcare Subsidy.

26. Beyond this analysis, Inland Revenue does not have supporting evidence to back up the OECD data or to define the severity of the policy problem.

Implications of the assumed policy problem:

27. High ECE costs relative to income are likely to have implications for decreasing parental labour market participation, ECE participation rates and families' income adequacy. For example, a family may be unable to afford some ECE hours, restricting the parent's ability to work and for the child to participate in ECE, or resulting in pressure on other types of family spending to maintain ECE hours. Alternatively, even if

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4 Assumes full-time, centre-based care for two children aged two and three, and after any benefits designed to reduce the gross childcare fees. Due to data quality issues, the fees information that the OECD is believed to be using in their assessment is from 2013, with adjustments for inflation and other macroeconomic trends. Consequently, this figure may not be reliable.

See OECD (2023), Net childcare costs (indicator). doi: 10.1787/e328a9ee-en (Accessed on 16 November 2023) families can afford ECE, they may still be incentivised to not work if the ECE fees exceed the net income gained from working.

28. Inland Revenue does not have data available to support the implications of high ECE costs relative to income on families in New Zealand on income adequacy or various participation measures.

Impacts of high ECE costs relative to income on population groups

29. High ECE costs relative to income disproportionately affects women, Māori and Pasifika, lower-income and rural population groups.

30. Women are disproportionately impacted by high ECE costs as they are more likely to take time out of the labour force to care for children, including as sole parents.[5] This impacts on a woman's long run labour market outcomes and increasing the gender wage gap. Therefore, any policy intervention to improve accessibility of childcare is more likely to benefit women by increasing work incentives, especially policy interventions that are targeted towards second earners or solo parents.

31. Research indicates that payment for childcare when children are at 4 or 5 years old varies by ethnicity. Survey data by Growing Up in New Zealand (Aotearoa's largest longitudinal study of child health and wellbeing) shows that "76 percent of families overall pay for care, with paying for care high among Europeans (78%) and Asians (77%), and lower among Māori (67%) and Pasifika (61%)".[6] This means any government support targeted at alleviating ECE costs will provide a reduced benefit to Māori and Pasifika families due to these two groups being less likely to pay for childcare, either due to ECE subsidies covering the cost already, lower ECE participation, or greater participation in informal/non-cash-based childcare.

32. A reduced benefit will also apply to wider groups of parents who have low or no fees. This extends to lower income households (who are likely more eligible for other subsidies) and rural groups (who may have limited geographic access to childcare options). Alternatively, any policy intervention to reduce ECE costs relative to income may increase uptake if cost is a barrier to these groups for accessing childcare, although we are uncertain of the impact of cost on ECE participation.

What objectives are sought in relation to the policy problem?

33. There are several potential objectives that a childcare tax credit could accomplish which will inform which of the potential options is preferred.

34. The Government has outlined the primary objective of "FamilyBoost" as directly increasing the incomes of families who have children in ECE (targeted by level of household income with full abatement at $180,000 household income).

35. Other potential objectives of a childcare tax credit include:

- Decreasing the amount payable for childcare costs
- Greater fee transparency in the ECE sector
- Increasing ECE participation
- Improving children's educational and/or development outcomes
- Increasing labour market participation rates

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5 82.4 percent of single parent households are led by women, and 91 percent of Sole Parent Support recipients are women (Ministry for Women).

6 See Sin, I. (2022). How do childcare experiences differ by ethnicity and for families with previous childcare access issues? Motu Economic and Public Policy Research. https://www.motu.nz/assets/Uploads/Use-of-childcare-after-access-issues-note-FINAL.pdf

36. These alternative objectives have not been a consideration in assessing options to implement a childcare tax credit, but it is likely that these will be impacted by achieving the primary objective nonetheless.

37. Alongside the primary objective of increasing incomes of families who have children in ECE, we have designed policy options within the parameters of the following secondary objectives:

- is timely and feasible to be implemented,
- aligns as closely as possible with the Government's policy proposal, and,
- minimises cost to government and compliance burden on parents.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

38. The criteria which will be used to compare options are:

- Increases in the income of eligible families
- Potential to promote fee transparency
- Compliance costs for providers (including ECE centres and student management system providers)
- Compliance costs for parents/caregivers
- Administrative costs
- Fiscal cost to the government
- Time required for implementation

What scope will options be considered within?

39. The scope is limited to the parameters requested by the Government for the "FamilyBoost" tax credit. In addition, the administration of a childcare tax credit (if proportional to ECE expenditure) requires access to fees information that is linked to individual parents or caregivers, the children in their care, and to their family income.

40. While Inland Revenue has some of the data required to administer a childcare tax credit (i.e., income data and bank account information for some potential recipients), other essential data is held by ECE providers and parents (i.e., ECE fee payments and enrolment/attendance details, relationship and household details).

41. Other agencies (MoE and MSD) also receive some of the necessary data, but not enough to implement "FamilyBoost" by 1 July 2024.

- MoE receive enrolment and attendance data for individual children from providers, but this does not include fees information. The child is also not linked to the parent in the MoE data set and neither MoE nor the ECE providers hold household income information.

- MSD are provided with some fees information from ECE providers and income information from parents for the Childcare Subsidy (35,000 recipients across 2022/23), but this is limited to fees information for lower-income families, and the information is manually collected and not easily scalable to cover the target group for "FamilyBoost". In comparison to MSD, Inland Revenue has wider access to individual income information and an existing family's data set linking a significant number of children to parents for WFF tax credits and Child Support.

42. Without current access to the fees data, the scope of policy options has been further limited to variations of direct payments that Inland Revenue can feasibly administer using known data sources and interactions, to increase incomes of families using ECE.

43. Implementing a product that meets the parameters set out by the Government will require new legislation and regulation and cannot be implemented within the Commissioner of Inland Revenue's existing powers. As such, there is not a non-regulatory option available.

What options are being considered?

44. The three options being considered are:

- Status Quo – do nothing
- Basic refund model using parents to supply fees information, delivered by 1 July 2024
- Detailed refund model using ECE providers data, extending timeline for implementation

Option 1 – status quo

45. Under the status quo, ECE costs would remain high, or would potentially continue to increase relative to the income families earn in New Zealand. Support would continue to be provided through Inland Revenue, MoE and MSD through existing subsidy products or through broad income support payments such as WFF payments, which are periodically adjusted by CPI. There would be some increase in after-tax income for families through the periodic adjustments to WFF tax credits, s 9(2)(f)(iv) [redacted]

Option 2 – Basic refund model using parents to supply fees information, delivered by 1 July 2024

46. Option 2 is a childcare tax credit that is expected to be effective from 1 July 2024, but relies on parents or caregivers to submit invoices directly to Inland Revenue via myIR every 3 months. Inland Revenue would then calculate the refund based on their most recent income information. Parents are expected to be able to receive payments from October 2024 onwards. The calculation of these refunds would be final upon submission of the invoice and would not be adjusted if more recent income information becomes available. Consequently, parents should not incur debt and there would be no "square-up" process when assessing annual income tax returns.

47. This model uses information Inland Revenue already holds and minimises the additional information required to deliver a payment. New information sharing systems and agreements to collect and pass on fees information would not be required to be developed by MoE or ECE providers. ECE providers may need to update their systems to ensure fee invoices meet minimum required standards. s 18(c)(i) [redacted] This approach is a variation of the current donations tax credit model, with the additional complication that ECE costs are ongoing, and income is combined for couples rather than based on individual income.

Option 3 – Detailed refund model using ECE providers data, extending timeline for implementation

48. Option 3 would extend the timeline for implementation by two to three years to allow the childcare tax credit to be automatically calculated based on data collected from ECE providers, reducing the compliance burden on parents and aligning it with the policy proposed by the Government.

49. Extending the timeline is necessary as the original policy outline of "FamilyBoost" has several features that cannot be delivered without extensive system changes for Inland Revenue, the MoE, and ECE providers – the most significant feature being creating information flows directly from ECE providers to Inland Revenue to reduce parent's compliance costs.

50. We consider it would take two to three years to consult with the sector, design, build and test relevant systems to ensure the data is high quality, secure, reliable and timely before the implementation of this childcare tax credit model. Internal consultation at Inland Revenue indicates that onboarding new providers to use gateway services (that is, enabling their software to interact directly with IR systems via a suite of application

programming interfaces) takes approximately nine months. Officials would need to consult with the ECE sector to determine precisely how long this would take and what alternatives would be required for providers that do not use software. Testing would be required to ensure the data sent in is correct, reliable and able to be correctly matched to the registered parent.

51. Allowing time for better information-sharing options to be developed between departments and ECE providers would be more efficient in the long term and reduce the burden on parents. s 9(2)(g)(i) [redacted] improve the integrity of the claims and reduce the immediate fiscal cost of the proposal. It also reduces the risk of entrenching a less effective solution with high compliance costs for parents and caregivers.

52. Option 3 would allow for in-depth consultation with the ECE sector s 9(2)(g)(i) [redacted]. This may result in a further consideration by officials of the other options post-consultation. Delaying implementation would also push out the benefit of this payment for parents and is less timely in relation to the current cost-of-living pressures.

How do the options compare to the status quo?

	Option One – Status Quo	Option Two – Basic refund model	Option Three – Extend timeline for implementation
Increase the income of eligible families	0	+ +	+ +
Potential to promote fee transparency	0	+	+ +
Compliance costs for providers	0	-	- -
Compliance costs for customers	0	- -	-
Administrative costs [7]	0	- -	- -
Fiscal cost to the government	0	- -	- -
Time required for implementation	0	-	- -
Overall assessment	0	- -	- -

[7] The administrative costs include both capital and operational costs.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

53. Option 1 (Status Quo) provides no extra support to parents and therefore does not address the problem. It also has no administrative cost, compliance burden or fiscal cost.

54. Options 2 and 3 have different trade-offs but effectively deliver similar net outcomes. Those trade-offs essentially are the date the product can be implemented by (and therefore a tax credit provided) and the level of effort required by potential recipients/providers.

55. Option 2 (basic refund model) can be implemented by 1 July 2024 providing prompt support to parents, but places compliance costs on families to submit invoices to receive the childcare tax credit which could reduce take-up of this policy, also reducing the support available for eligible families. It also requires the ECE providers to update their invoices to ensure they are in the correct format for Inland Revenue to provide the tax credit. This option would have a reduced capital cost to implement, but higher operational costs than Option 3. Option 2 could be progressed with the intention of continuous improvements to integrity checks and some customer experience over time to align it closer to Option 3, or to run until the systems described in Option 3 are built. However, there is the risk that this option could be entrenched, with high compliance costs placed on parents.

56. Option 3 (extend timelines) does not provide short-term benefit to parents as it would take longer to implement but will greatly reduce the compliance costs on parents, resulting in higher take-up than Option 2. Administratively, this option would be more efficient for Inland Revenue to administer over the long run despite initial high capital costs, and s 9(2)(g)(i) . However, this depends on whether there is proper consultation and risk management, as Option 3 does increase the providers' compliance costs, s 9(2)(g)(i)

57. Determining the best option depends on the weighting given to the individual criteria or any other objective and criteria considered relevant but not mentioned in the table. An overall positive proposal would be if the gains from the option far exceed the costs associated. To illustrate, if the Government wants to provide quick support to families with children in ECE, criteria regarding time required to implement and increasing the incomes of eligible families who have children in ECE will hold more weight. However, it should be noted that this comes with significant cost to the Government both fiscally, and to cover the administrative costs imposed on Inland Revenue.

What are the marginal costs and benefits of the option?

Option 2 – Refund Model

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of option 2 compared to taking no action			
Regulated groups *(ECE sector – including ECE providers and student management system providers)*	One-off cost to ensure invoices align with Inland Revenue's requirements to provide the tax credit to parents. This is more likely to impact smaller providers.	Low	Low
Regulators *(Inland Revenue)*	One-off cost to develop a new tax credit and ongoing operational costs to support the policy.	High	Medium
Others (parents receiving the payment)	Ongoing cost for parents to register and provide fees invoices every quarter.	Medium	Low
Total monetised costs		To be confirmed	
Non-monetised costs		Medium	Medium
Additional benefits of option 2 compared to taking no action			
Regulated groups *(ECE sector – including ECE providers and student management system providers)*	Potential increased demand for services (subject to availability).	Low	Low
Regulators *(Inland Revenue)*	N/A	N/A	N/A
Others (parents receiving the payment)	Receive a payment to alleviate the cost of ECE relative to income in the short-term.	Medium	High
Total monetised benefits		To be confirmed	
Non-monetised benefits		Low	Low

58. The impacts of the non-monetised costs and benefits have been determined through Inland Revenue's previous operational experience with social policy products, with large assumptions made on the costs for parents and the ECE sector.

59. The analysis also only covers the Refund Model – (i.e., assumes that continuous improvements would not occur to align the product closer to the pre-election proposal over time). If the continuous improvements were to occur to the point that the full model becomes available, it is expected that ECE providers would incur larger set-up costs as they amend their systems to provide fees information to Inland Revenue and compliance on parents would reduce. There would be additional costs on Inland Revenue to develop additional systems.

Option 3 – Extend the implementation timeframe

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of option 3 compared to taking no action			
Regulated groups *(ECE sector – including ECE providers and student management system providers)*	One-off cost to amending their systems to create information flows from ECE providers to Inland Revenue. Consultation is required to confirm the level of impact s 9(2)(g)(i) [redacted]	High	Low
Regulators *(Inland Revenue)*	One-off cost to develop systems to capture ECE fees information and ongoing operational costs to support the policy.	High	Medium
Others (parents receiving the payment)	One-off cost to register	Low	Low
Total monetised costs		To be confirmed	
Non-monetised costs		High	Medium
Additional benefits of option 3 compared to taking no action			
Regulated groups *(ECE sector – including ECE providers and student management system providers)*	Potential increased demand for services (subject to availability).	Low	Low
Regulators *(Inland Revenue)*	N/A	N/A	N/A
Others (parents receiving the payment)	Receive a payment to alleviate the cost of ECE relative to income in the long-term but not in the immediate future.	Medium	High
Total monetised benefits		To be confirmed	
Non-monetised benefits		Low	Low

60. The impacts of the non-monetised costs and benefits have been determined through Inland Revenue's previous operational experience with social policy products, with large assumptions made on the costs for parents and the ECE sector.

Section 3: Delivering an option

How will the new arrangements be implemented?

61. The implementation details are dependent on the option selected, and as such the following is a preliminary indication of our approach.

Implementation arrangements

62. The Government has identified Inland Revenue as the administrator of the payment. Introducing a new tax credit would have a significantly high organisational impact on Inland Revenue to support the anticipated increase in initial and ongoing customer contact.

63. The organisational impacts include systems changes (either through developing a new system or utilising an existing system as a base for the tax credit) and investment into change management/staff training to support customers and ensure compliance. Additional staff would be required to manage additional contacts and support parents. This investment includes developing education and guidance thorough the Inland Revenue website to relevant stakeholders (ECE providers, student software system providers and parents) and for customer service to assist in any queries to ensure eligible parents are aware of and can access the credit.

64. Depending on the preferred option, "FamilyBoost" could come into effect as early as 1 July 2024 (Option 2), or as late as 2026 (Option 3). The design of Option 2 has accounted for an earlier implementation date of 1 July 2024, but does give short notice to ECE providers to update their invoices and to Inland Revenue to build the tax credit. As such it comes with risks around time to deliver. Option Three allows for sufficient consultation and preparation time for all parties.

65. Consultation with the ECE sector as part of the childcare tax credit work programme presents an opportunity for discussion about improving ECE data collections more generally, either as part of, or as a complement to the implementation of a childcare tax credit.

Implementation risks

66. A detailed assessment of implementation risks is yet to be compiled as it depends on which option is to be progressed. However, any option risks adding complexity to an already complex income support system and ECE support system. This can impose a burden on parents to understand and access the various supports, including requiring parents to interact with multiple agencies. Furthermore, it affects agencies' ability to distinguish the individual and combined efficacy of income and ECE supports.

67. The other risk relevant to either option is that IT system changes pose high uncertainty due to their complexity which can extend the time it takes to build, test, and implement any new products. This means any identified timeframes are an estimate, especially when the two options are reliant on ECE providers updating their systems, either with a minor adjustment (changing their invoices to comply) or a large adjustment (supplying ECE fees information to the government). This also impacts the software providers that ECE providers use.

68. Particular to Option 2, are the risks that there will be lower take-up due to compliance costs on parents, integrity risks associated with invoices or disclosed personal incomes, the implementation date of 1 July 2024 sitting within Inland Revenue's peak period of demand resulting in reduced levels of customer support available across Inland Revenue. Finally, there is a risk that the basic refund model will become entrenched without a replacement model ever designed and implemented.

69. Option 3 carries less integrity risk (as it would be largely automated) but is reliant on ECE providers being able and willing to update their systems to create information

flows of fees data to Inland Revenue. It also relies on accuracy of data and a consistent approach to recording information. If this fails to occur, officials will reconsider the other options listed and provide updated advice.

How will the new arrangements be monitored, evaluated, and reviewed?

70. The monitoring, evaluation, and review of the arrangement is yet to be completed as it depends on the option selected, and as such the following is only a preliminary indication of our approach.

Monitoring

71. To implement either option, resourcing would be required from Inland Revenue to monitor and verify tax credit registrations, claims, and any data supporting the claim to ensure parents meet the eligibility criteria for the tax credit and are receiving the correct amount. This includes monitoring income information to ensure parents are within the household income abatement thresholds.

72. s 18(c)(i)

73. For Option 3 (extend implementation), Inland Revenue would still have to monitor the fees information received by ECE providers to ensure the information is complete and correctly assigned to parent receiving the tax credit. However, they would not need to verify individual families ECE invoices which reduces the integrity risk and administrative burden on Inland Revenue.

Evaluation and review

74. The evaluation and review of any implemented childcare tax credit would likely be led by Inland Revenue in consultation with MoE, MSD and Treasury, but the specifics of the evaluation process are yet to be determined.

75. Regardless of the option selected, fee data could be used to supplement and inform decision making about the policy and its success by enabling officials to monitor impacts on sector fees. Any data collection efforts to support a childcare tax credit would also support improved understanding of the impacts of wider government investment in the ECE sector– noting that ECE is a significant area of government expenditure (currently over $2 billion per annum)[8]. This would support the work MoE, MSD, and Treasury do regarding childcare support.

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[8] This figure comes from the 2023/24 Estimates for Vote Education.
See The Treasury New Zealand. (2023, May 18). *Vote Education - Education and Workforce Sector - Estimates of Appropriations 2023/24.* https://www.treasury.govt.nz/publications/estimates/vote-education-education-and-workforce-sector-estimates-appropriations-2023-24