

A comprehensive Guide to Tax-Free
Childcare and Childcare Vouchers Schemes

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A comprehensive guide to Tax-Free Childcare

The Tax-Free Childcare scheme, which was first announced in 2013, is due to be implemented in early 2017.

Despite being in the pipeline for so long very few parents have an understanding of what the scheme involves, or even that it will be introduced at all.

This guide aims to clear up any confusion and explain all the key features of Tax-Free Childcare, and perhaps most importantly help you decide if it will benefit your family financially.

The guide is split in to eight sections:

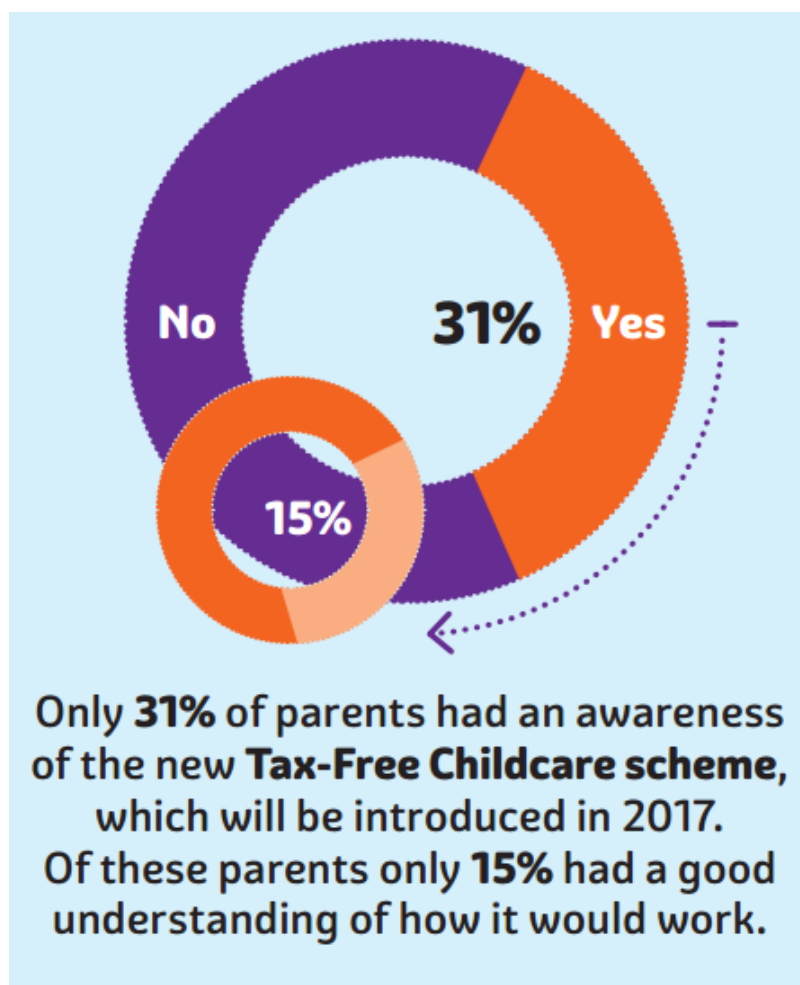
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1. Context

Tax-Free Childcare was first announced in the 2013 Budget as part of Government measures to help families with the cost of childcare. It was initially expected to roll out in 2015 but due to delays the scheme will now not be introduced until early 2017.

An exact implementation date is yet to be announced.

During summer 2016 Employers For Childcare asked 6,000 local parents about their understanding of Tax-Free Childcare. Our findings showed that only 31% of parents had an awareness of Tax-Free Childcare, and of these only 15% could say they had a good understanding of how the scheme would work.



2. Overview of Tax-Free Childcare

What is Tax-Free Childcare?

The Tax-Free Childcare scheme will allow eligible working families to claim 20% of their childcare costs, up to £2,000 per child per year, or £4,000 for a child with a disability, from the Government.

Who is eligible to join the Tax-Free Childcare scheme?

For a family to be eligible, both parents will have to be in employment, working over 16 hours a week and earning between £115 per week and £100,000 per year.

Self-employed parents will also be eligible to join.

The scheme will be available to parents of children up to the age of 12 (or age 17 for children with disabilities).

How will Tax-Free Childcare work in practice?

You will have to register for an online childcare account. HMRC will check that you are eligible to join the scheme.

For every £8 you pay into your account, the Government will give you £2, up to a maximum of £2,000 per year per child (i.e. you would need to put in £8,000 for the Government to top up your account with £2,000).

Parents will be able to pay into their account at any time and receive the top up. Other people, such as family, friends and employers, can also pay into the account. Payments can be made directly to the childcare provider through the online account.

If you have more than one child in childcare you will need to open an account for each child.

The amount you save with Tax-Free Childcare will be dependent on your childcare costs.

When will it be available?

Tax-Free Childcare will roll out on a phased basis, allowing the youngest children to enter first. All families should be able to access the scheme by the end of 2017.

3. FAQs

Below are a list of the most commonly asked questions from parents regarding Tax-Free Childcare.

Will all childcare providers be able to accept payment through Tax-Free Childcare?

Yes, all childcare providers registered in the UK will be able to accept payments through Tax-Free Childcare. Each childcare provider must register with HMRC to accept payment from parents. Only those who register will be able to accept payment. Childcare providers were invited to register with HMRC during 2016, however they can still register once the scheme is introduced to parents, but it can take up to 12 weeks to fully register.

Can cross-border workers join the scheme?

Eligibly criteria states that parents employed in the UK will be eligible, this extends to those living in Ireland and working in Northern Ireland. However, you must be using a childcare provider who is registered in the UK.

Are there any circumstances where a family will be eligible for Tax-Free Childcare if one parent is working and the other is not working?

Both parents must be working. However, if one of you meets the work requirements and other is incapacitated (i.e disabled or looking after someone with a disability) you will be able to claim Tax-Free Childcare in certain circumstances. For example, parents claiming Incapacity Benefit, Carer's Allowance and Contributory Employment and Support Allowance (ESA) will be deemed eligible for the scheme, provided the other parent is also eligible.

Can I use Tax-Free Childcare alongside other forms of help with childcare costs?

No, Tax-Free Childcare cannot be used in conjunction with either Childcare Vouchers or Tax-Credits (including both Child Tax Credit or Working Tax Credit). This is different to the Childcare Voucher scheme which can be used in conjunction with Tax Credits.

Can I switch between Childcare Vouchers and Tax-Free Childcare?

You will be able to switch between the schemes until the Childcare Voucher scheme closes to new entrants in April 2018. At this point only those using the Childcare Voucher scheme will be able to keep using it. If you leave the scheme or are not a member at this point you will no longer be eligible.

How will Tax-Free Childcare affect my Tax Credits?

You cannot claim both Tax-Free Childcare and Tax Credits. If you join the Tax-Free Childcare scheme your Tax Credits will be terminated and you will remain ineligible while you are still a member of the scheme. This affects both Child Tax Credit and Working Tax Credit. None of the guidance issued about Tax-Free Childcare for parents or childcare providers mentions this impact so if you claim Tax Credits it is important you are aware of this before considering joining Tax-Free Childcare. You can claim Childcare Vouchers and Tax Credits simultaneously.

Will my family be financially better off on Childcare Vouchers or Tax-Free Childcare?

This will depend on each family's individual circumstances, you can find more information in Section 5.

Any other questions?

If you have any other questions you can contact our Family Benefits Advice Service on 0800 028 3008. Our team can offer free, confidential and impartial advice based on your circumstances and carry out 'better-off' calculations which will help you to work out how you will be financially better off.

4. Tax-Free Childcare and Childcare Providers

Childcare providers have an important role to play in offering Tax-Free Childcare, if they are not registered with HMRC to accept payments through the scheme you will not be able to pay them using the scheme.

How will childcare providers receive payments through Tax-Free Childcare?

In order for parents to use Tax-Free Childcare to pay their childcare provider, the provider must register with HMRC.

During the latter months of 2016, HMRC contacted all regulated or approved childcare providers and asked them to register to accept payments of Tax-Free Childcare from HMRC.

HMRC intended childcare providers to sign up before the scheme goes live for parents next year. However, providers can sign up at any time, but it could take up to 12 weeks for registration to be processed.

How will payments work?

Similar to the Childcare Voucher scheme, parents will pay their childcare provider through their online Tax-Free Childcare account. The payment will be made directly into the childcare provider's bank account.

Can all childcare providers register?

Only regulated or approved childcare providers will be eligible to receive payments through Tax-Free Childcare. HMRC will check a provider's details with the regulator before registering them for Tax-Free Childcare payments.

5. How does Tax-Free Childcare compare to Childcare Vouchers?

The following table shows the difference between the Childcare Voucher scheme and Tax-Free Childcare...

Comparison between Childcare Vouchers and Tax-Free Childcare

	Childcare Voucher scheme	Tax-Free Childcare scheme
Savings	Each parent can save up to £933 each per year. Employers also save on Employer's National Insurance.	Parents can claim £2 for every £8 spent on childcare, up to £2,000 per year for each child (i.e. in order to claim £2,000 you would need to put £8,000 in your account), or £4,000 for a child with a disability. There are no savings for employers.
Age of children	Childcare Vouchers can be used for children up to the 1st September following their 15th birthday (or 1st September following their 16th birthday if disabled).	Tax-Free Childcare will be available to parents of children under the age of 12 (or under the age of 17 for children with disabilities).
Registered childcare	Can only be used to pay for registered childcare.	Can only be used to pay for registered childcare.
Earners in a family	Either or both earners in the family can use Childcare Vouchers.	Families can only claim the new childcare tax saving if both parents are working . Couples with only one working parent will be excluded.
Maximum income cap	There is no cap on the maximum income a family can have to claim Childcare Vouchers, although the amount a parent can save is dependent on the tax bracket they fall into.	For a family to be eligible both parents must be working and earning at least the equivalent of 16 hours at the National Living Wage (from 1 April 2016) per week and a maximum of £100,000 per year.
Availability	Only available to parents if their employer offers the scheme.	The scheme will be available to all employees, provided they meet the above criteria.
Self-employed parents	Self-employed parents are not eligible to join the scheme.	The new scheme will be open to self-employed parents.
Implementation date	The Childcare Voucher scheme will remain open to April 2018. After this date it will close to new entrants. Only those who are already using the scheme will be able to continue using Childcare Vouchers post April 2018.	Tax-Free Childcare will be available from early 2017. The scheme will roll out on a phased basis, allowing families with younger children to enter the scheme first. All families will be able to access the scheme by the end of 2017.

6. How to work out if you will be better off on Tax-Free Childcare

If you are already a member of the Childcare Voucher scheme you will need to work out if Tax-Free Childcare is a better option for your family. This section will help you decide what is best for your circumstances.

Step one: Understanding how both schemes operate

How the Childcare Voucher scheme works

The Childcare Voucher scheme operates through your employer. You are able to sacrifice a certain amount of money each month (or each week if you are paid weekly) from your gross salary which is free of tax and National Insurance Contributions.

Your employer deducts the amount from your salary and it is made available in your online Childcare Voucher account, where you can make payments directly to your childcare provider(s).

Each month a basic rate tax payer can sacrifice up to £243, which results in a tax saving of £77.76 (£933.12 annually). Higher rate tax payers can sacrifice up to £124 per month, making a saving of £52.08 (£624.96 annually). Both parents can use Childcare Vouchers, therefore if two basic rate tax payers join the scheme they will make an annual saving of £1,866.24.

Each parent sacrifices up to £243 of their salary (tax and NIC free)

Childcare provider paid through parent's online account

Each parent saves up to £933 per year

2 parents = £1,866

How the Tax-Free Childcare scheme will work

For every 80p you pay into your account, the Government will give you 20p, up to a maximum of £2,000 per year per child.

Unlike Childcare Vouchers, the amount you save with Tax-Free Childcare will be dependent on your childcare costs. To receive the full £2,000 benefit from Tax-Free Childcare you must have childcare costs of £10,000 per child per year.

To draw a comparison between the two schemes, a couple sacrificing the maximum Childcare Voucher amount each year will effectively pay £5,832 into their online account to put towards the cost of childcare. The saving they make each year through the Childcare Voucher scheme is £1,866.

A couple adding the same amount (£5,832) into their Tax-Free Childcare account will receive a top up of £1,166 from the Government, £700 less than with Childcare Vouchers.

Step 2: Working out your savings

Childcare Vouchers

If both parents are Basic Rate Tax Payers and sacrificing £486 between them, the maximum annual saving is £1,866.24. You will make a 32% saving on the amount you sacrifice.

For example: Mark and Sally pay £450 for childcare each month for their daughter Liz. Both of their employers offer the Childcare Voucher scheme.

They each sacrifice £225 per month each and make a 32% saving of £72 each. Their joint annual saving is £1,728.

Tax-Free Childcare

Parents can receive help with 20% of their childcare costs up to a maximum of £2,000 per year per child. Parents receive a 20% top up on the value they put into their Tax-Free Childcare account.

For example: Mark and Sally pay £450 for childcare each month for their daughter Liz. They only need to pay 80% of their childcare costs and therefore add £360 to their Tax-Free Childcare account each month. The Government tops the account up by £90. Annually they will make a saving of £1,080.

In the scenario above Mark and Sally are better off using the Childcare Voucher scheme.

7. Examples

Example 1

Amanda and Bill pay £90 a week (£390 per month) for an afterschool club for their son Freddie. Both parents are working and meet the eligibility criteria for both Childcare Vouchers and Tax-Free Childcare.

Childcare Vouchers – Amanda and Bill split the childcare bill between themselves and both sacrifice £195 each from their monthly salary as Childcare Vouchers. They both make a saving of £62.40 per month, their joint monthly saving is £124.80.

Tax-Free Childcare – Through Tax-Free Childcare the Government will give Amanda and Bill 20% of their childcare bill. Each month the Government will top-up their childcare account by £78.

The couple are better off using Childcare Vouchers by £46.80 per month.

Example 2

Peter and Jan have two children, Ella, who is in full-time childcare, and Jack, who attends an afterschool club. The childcare bill for Ella is £168 per week (£728 per month), for Freddie it is £90 per week (£390 per month). Their total monthly childcare bill is £1,118. Both parents meet the eligibility criteria for both Childcare Vouchers and Tax-Free Childcare.

Childcare Vouchers – Through Childcare Vouchers Peter and Jan can each sacrifice a total of £243 from their salary. They both sacrifice the full amount and make a monthly saving of £155.52.

Tax-Free Childcare – Through Tax-Free Childcare the couple will be able to claim 20% of each child's childcare bill. For Ella they can claim £145.60 per month and for Jack they can claim £78 per month. Their total monthly saving will be £223.60.

The couple are better off using Tax-Free Childcare by £68 per month.

Example 3

Alex and Chris pay for part-time childcare for their daughters Victoria and Sue, the bill is £200 per week. Alex is employed and eligible for Childcare Vouchers, Chris does not work.

Childcare Vouchers – Alex sacrifices his full Childcare Voucher entitlement, £243 per month. He makes a saving of £77.76 per month.

Tax-Free Childcare – Because Chris is not in employment the couple are not eligible for Tax-Free Childcare.

The couple are better off on Childcare Vouchers by £77.76 per month.

Example 4

Molly pays for childcare for her son Dan, her monthly childminding bill is £650. She works full time.

Childcare Vouchers – Molly sacrificed the full Childcare Voucher amount, £243 per month and makes a saving of £77.76.

Tax-Free Childcare – Through Tax-Free Childcare Molly adds £520 to her account and claims £130 from the Government.

Molly is better off on Tax-Free Childcare by £52.24 per month.

Example 5

Rebecca and Dave both work full time and have 2 children. They pay £300 per week in registered childcare costs. Both of their employers offer childcare vouchers. Due to their household income and family circumstances they are also eligible for the childcare element of Working Tax Credits.

Childcare Vouchers - Through Childcare Vouchers Rachel and David can each sacrifice a total of £243 from their salary. They both sacrifice the full amount and make a monthly saving of £155.52.

Tax Credits – As Childcare Vouchers do not cover the full amount of childcare costs the couple claim help for the remaining £814 per month of childcare costs through the Childcare Element of Working Tax Credits. The couple receive £136.83 per month in Tax Credits.

Due to this combination of Childcare Vouchers and Tax Credits the couple receive £292.35 per month towards their childcare costs.

Tax-Free Childcare – Through Tax-Free Childcare the couple adds £1040 to their accounts and claim £260 from the Government

Rebecca and Dave are better off on a combination of Childcare Vouchers and Tax Credits by £32.35 per month.

Example 6

James and Carol are a couple paying for childcare for their disabled son Peter, who is eligible for Disability Living Allowance. Their monthly childcare bill is £758.

Both Carol and James work full time. They have no entitlement to Tax credits as their income is too high.

Childcare vouchers – Through Childcare Vouchers Carol and James can each sacrifice a total of £243 from their salary. They both sacrifice the full amount and make a monthly saving of £155.52.

Tax Free Childcare – Through Tax Free Childcare the couple will be able to claim 40% of their disabled child's childcare bill. The monthly saving will be £303.20.

The couple are better off using Tax Free Childcare by £147.68 a month.

8. Finally...Points to remember when considering joining the Tax-Free Childcare scheme

There are three points to keep in mind when considering joining the Tax-Free Childcare scheme:

1. **Make sure you work out the savings you will make on Tax-Free Childcare before joining the scheme.** The headline saving of £2,000 per child is the **maximum** amount available. In order to make this saving you will need to have **childcare costs of £10,000 per child per year**. You may be financially better off using the Childcare Voucher scheme or claiming childcare assistance through Tax Credits.
2. **Remember that you cannot claim Tax-Free Childcare in conjunction with either Childcare Vouchers or Tax Credits** (both Child Tax Credit and Working Tax Credit). The legislation behind the scheme makes provision for the automatic termination of you and your partner's Tax Credit award once you make a valid declaration of eligibility for Tax-Free Childcare. Make sure you calculate the impact this may have before joining the new scheme.
3. **Make sure you meet all of the eligibility criteria for Tax-Free Childcare before cancelling Childcare Vouchers or Tax Credits.** For example if you are in a couple do both of you meet the hours, income and employment rules? Is your childcare provider registered and have you checked if they are happy to receive payments through Tax-Free Childcare?

If you are an existing Childcare Voucher user you should also bear in mind that the scheme will close to new entrants after April 2018. After this date only those parents who are using Childcare Vouchers will be able to continue doing so. If at this point you move to Tax-Free Childcare you will be unable to join the Childcare Voucher scheme again.

9. Where to get further advice

Employers For Childcare's Family Benefits Advice Service was specifically set up to ensure families are claiming all the support available to them, particularly with the cost of childcare.

Our Advisors can provide advice and information on Tax-Free Childcare and calculate which form of financial support is best for your circumstances. Call free on 0800 028 3008.

We also have a Childcare Savings Calculator available on our website. The calculator will help you decide between Childcare Vouchers and Tax-Free Childcare. The calculator is available at

<https://www.employersforchildcare.org/parents/childcare-savings-calculator/>

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